# GUJARAT TECHNOLOGICAL UNIVERSITY MBA I - SEMESTER - I EXAMINATION – WINTER • 2014

Subject Code: 2810001

Subject Name: Accounting for Managers (AFM)

Time: 10:30 am - 01:30 pm

## **Total Marks: 70**

Date: 23-12-2014

### Instructions:

- 1. Attempt all questions.
- 2. Make suitable assumptions wherever necessary.
- 3. Figures to the right indicate full marks.
- Q1 (a) From the four alternative answers given against each of the following cases, 6 indicate the correct answer:(just state A, B, C or D)
  - 1. At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of (A) Realisation
    - (B) Accrual
    - (C) Conservatism
    - (D) None of the above
  - 2. Contingent Liability would appear
    - (A) On the liability side
    - (B) On the asset side
    - (C) As a note in Balance Sheet
    - (D) None of the above
  - **3.** AS-2 is not applicable to
    - (A) Inventories held for sale in ordinary course of business

(B) Work in progress arising in the ordinary course of business of service provider

(C) Inventories in the process of production for sale in ordinary course of business

(D) Inventories in form of material or supplies for the process of production

- **4.** Which of the following purpose is served from the preparation of Trial Balance? (A) To check the arithmetical accuracy of the recorded transactions
  - (B) To ascertain the balance of any ledger account
  - (C) To facilitate the preparation of final accounts promptly
  - (D) All of the above.
- 5. Compound journal entry contains
  - (A) More than one debit entry only
  - (B) More than one credit entry only
  - (C) More than one debit entry or more than one credit entry or both

(D) No Narrations

- 6. Identify Personal Account from the following
  - (A) Furniture A/c
  - (B) Bank of India A/c
  - (C) Rent A/c
  - (D) Investment A/c
- (b) Journalise the following transactions in the books of a trader :

(i) 1st March 2012, paid quarterly interest on borrowed amount of Rs. 20,000 at 12% p.a.

(ii) 10th March 2012, Goods destroyed by fire for Rs. 6,000, for which there is

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no insurance coverage.

(iii) 15th March 2012, Received commission for Rs 5,000.

(iv) 21 st March 2012, paid transportation charges for machinery of Rs. 1,000 and installation charges for Rs. 1,500.

- (c) A company purchased some machineries for Rs. 1, 00,000 on 1st April 2007. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September 2011, a part of machinery was sold for Rs. 14,000; the original cost of the machine was Rs. 20,000. Calculate the Profit or Loss on Sale of Machinery.
- Q2 (a) On 1st January, 2009 the Shiva Transport Company purchased a truck for Rs. 7 12, 00,000. On 1<sup>st</sup> July, 2010 this truck was involved in an accident and was completely destroyed and `Rs. 8, 00,000 was received from Insurance company as a claim. On the same date, another truck was purchased by the company for Rs. 15, 00,000. The company write off 20 percent depreciation per annum on written down

The company write off 20 percent depreciation per annum on written down value method. Prepare the truck account up to 31st March, 2011, when books are closed on 31st March every year.

(b) Who are the users of accounting information, and why do the users need 7 accounting information?

#### OR

- (b) What is Balance Sheet? Draw a pro forma in vertical shape of it. Explain its 7 significance. How does it differ from a Trial Balance?
- Q3 (a) Disha carpets sold 1,900 carpets during the year at Rs 3,400 each. It had a 7 beginning inventory on April 1, 20X2 of 200 carpets at a cost of Rs 2,300 each. The following purchases were made during the year ended march 31, 20X3:

May 20X2	400 carpets @ Rs 2,400	Sep 20X2	600 carpets @ Rs 2,700
July 20X2	500 carpets @ Rs 2,500	Feb 20X3	300 carpets @ Rs 2,800

The company incurred operating expenses of Rs. 5, 80,000 during the year. The company uses the periodic inventory system.

- 1. Prepare a schedule to compute the cost of good available for sale during the year.
- 2. Determine the ending inventory on march 31, 20X3 using the following inventory costing method
  - (a) FIFO
  - (b) LIFO
  - (c) WAC
- 3. Prepare a profit and loss account under each of the above inventory costing methods.
- Q3 (b) Discuss Income Recognition & Accrual Income (AS-9) and When can revenue 7 be recognized as per AS 9, in the case of transaction of sale of goods?

OR

Q3 (a) You are provided with the following information for a company for the year ending on a certain date :

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ending on a certain date :	
Annual Sales (all credit)	Rs. 36,00,000
Sales to Net worth	2.5 times
Total Debts to Net worth	80%
Current liabilities to Net worth	25%
Current Ratio	3:1
Inventory Turnover Ratio (based on sales)	6 times
Average collection period	40 days in a year of 360 days

Fixed Assets to Net worth	1.05 : 1
Share Capital to Reserves and Surplus	1:0.8

Prepare the Balance Sheet as on that date based on above information.

Q3 (b) Discuss Accounting for Intangible Assets (AS-26).

Q4 The Balance Sheet of Southern Real Estates Limited as on 31st March, 2011 and 14 31st March, 2012 are given below: (Rs.)

Sist March, 2012 are given below:				(KS.)	
Liabilities	31.3.2011	31.3.2012	Assets	31.3.2011	31.3.2012
Share Capital	1,97,000	2,30,000	Fixed	3,60,000	6,00,000
(ordinary, of			Assets less		
Rs. 100 each)			depreciation		
Reserves and	1,48,000	3,12,000	Investments	11,250	10,000
surplus					
Secured loan	87,000	-	Stock-in-	1,42,500	1,96,000
from Bank			trade		
Sundry	2,51,450	2,98,000	Sundry	90,700	1,40,000
Creditors			Debtors		
Provision for	65,000	1,72,000	Cash at	1,30,000	45,000
Taxation			Bank		
			Prepaid	14,000	21,000
			Expenses		
	7,48,450	10,12,000		7,48,450	10,12,000

From the records, the following further information is available :

1. Reserves and surplus position :

Balance as on 1st April, 2011	1,48,000
+ Net profit for the year	<u>1,98,500</u>
	3,46,500
– Dividend	<u>34,500</u>
	3,12,000

2. The accumulated depreciation on fixed assets as on 31.3.2012 was Rs. 1, 80,000 and as on 31.3.2011 was Rs. 1, 60,000. Machinery costing Rs. 20,000, which was depreciated to the Extent of 50% was discarded and written off in 2012. Depreciation for the year ending 31.3.2012 amounted to Rs. 30,000.

3. Investment costing Rs. 5,000 was sold during the year ending 31.3.2012 for Rs. 4,800 and Government Securities of the face value of ` 4,000 were purchased during the year for Rs. 3,750.

You are required to prepare the following :

- (i) Statement showing changes in working capital.
- (ii) Statement of sources and application of funds.

### OR

- Q4 (a) Explain the meaning and objectives of Financial Statement Analysis.
- Q4 (b) What do you understand by Trend Analysis? Explain with hypothetical example. 7
- Q5 On August 1, Disha and Vanita quit as senior executives in a mutual fund to set 14 up Moneycare Company, an investment advisory service. Each of them deposited Rs 20,000 in a bank account in the name of the company and received 2,000 shares in the company. Also, they raised an interest free loan of Rs 10,000 for the company from their friends. They rented a modest office in the city costing Rs 2,000 per month payable at the end of the month. The landlord insisted on a deposit of Rs 40,000, refundable on moneycare vacating the place, and the deposit was paid.

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The company leased two computers on a monthly rental of Rs 4,000 per computer. The rental was payable at the beginning of each month. Access to a large financial database was also secured for a fee of Rs 2,000 per month. The company appointed a secretary and an assistant. The secretary was to be paid a monthly salary of Rs 2,500 and the assistant Rs 3,500.

Business picked up gradually. During august, bill for professional services were raised for Rs 25,700 on customers who were given one month for paying the bills. However, cheques in payment of bills totalling Rs 11,300, included in the billings for august, were received from customers during the month itself. In addition, some customers who preferred to pay immediately for services received without waiting for the one month time limit gave cheques for RS 5,800, not included in the billings for august. The company purchased office supplies costing Rs 1,200 for cash. On august 29, moneycare took an advance of Rs 3,000 from a customer to cover certain out of pocket costs, but no expenses had been incurred on the customer's account before the end of the month. Interest income of Rs 320 was earned on the bank account. Office rent, computer rental, database charges, and salaries were paid as agreed. Required:

- 1. Prepare a profit and loss account for the month and a balance sheet at the end of the month.
- 2. Comment on the company's financial result for august.

OR

After completing a degree in fashion technology, Payal set up Folkwear to sell designer dresses. She invested Rs 20,000 in cash. She used Rs 6,000 to buy store equipment. The store opened for business on July 1. During the month, she paid out Rs 62,700 for merchandise and Rs 3,400 toward operating expense. Also, she withdrew Rs 11,000 for personal purposes. At the month end, she prepared the following balance sheet:

TOEKWEAK. Datance sheet as on July 51, 20AA					
Creditors	(for	Rs	Cash		16,800
merchandise)		19,600			
Payal, Capital		43,800	Debtors (for sales)		23,200
			Merchandise		17,500
			Inventory		
			Store Equipment	Rs	
				6,000	
			Less: Depreciation	<u>100</u>	<u>5,900</u>
		63,400			63,400

FOLKWEAR: Balance sheet as on July 31, 20XX

REQUIRED

- 1. Calculate for July (i) Net profit (ii) Cost of goods Sold (iii) Sales and (iv) Collection from customers.
- 2. Prepare profit and loss account for Folkwear for July 20XX.

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Q5