

MMPC-004: Accounting for Managers - Assignment Solutions

1. Objectives of Preparing Financial Statements & Concepts of Income Determination

Objectives of Preparing Financial Statements:

- Provide Financial Information: Helps stakeholders understand the financial performance and position.
- Assist in Decision-Making: Investors, creditors, and management use these statements.
- Compliance with Regulations: Required by law for transparency.
- Assess Profitability & Performance: Shows revenue, expenses, and net income.
- Determine Financial Position: Shows assets, liabilities, and equity.
- Facilitate Future Planning: Helps in forecasting and setting goals.

Basic Concepts of Income Determination:

- Revenue Recognition Principle: Income is recorded when earned.
- Matching Principle: Expenses recorded in the same period as revenues.
- Accrual Basis Accounting: Recognizes revenues and expenses when they occur.
- Conservatism Principle: Accounts for losses as soon as possible.
- Consistency Principle: Same accounting methods used for comparability.

2. Cash and Cash Equivalents & Preparation of Cash Flow Statement

Cash and Cash Equivalents:

- Cash: Physical currency, bank balances, demand deposits.
- Cash Equivalents: Short-term investments with a maturity of three months or less.

Classification of Cash Flows (AS-3):

- Operating Activities: Cash flows from core business operations.
- Investing Activities: Buying/selling assets.
- Financing Activities: Equity and debt financing transactions.

Direct Method of Preparing Cash Flow Statement:

- Cash Collected from Customers
- Payments to Suppliers & Employees
- Interest & Taxes Paid
- Net Cash from Operating Activities = (Total inflows - Total outflows)

3. Annual Report and Its Contents

Annual Report: A comprehensive report detailing a company's financial performance.

Contents:

- Financial Statements: Balance Sheet, Income Statement, Cash Flow Statement.
- Directors' Report: Review of operations, future outlook.
- Auditor's Report: Independent opinion on financial accuracy.
- Management Discussion & Analysis (MD&A).
- Notes to Accounts: Additional financial disclosures.

Non-Audited Information:

- Chairman's message, Corporate governance report, Sustainability initiatives, Business strategy.

4. Human Resource Accounting (HRA) and Its Role in Decision-Making

Human Resource Accounting (HRA): The process of valuing and reporting human resources in financial statements.

Uses in Decision-Making:

- Workforce Investment: Helps determine training and hiring costs.
- Employee Productivity Analysis: Measures human capital efficiency.
- Budgeting & Cost Control: Helps in workforce-related budgeting.
- Talent Retention Strategies: Provides data on employee turnover costs.
- Improving Organizational Performance: Aligns HR policies with financial goals.

5. Profit and Sales Computation

A) Compute Profit Given:

- Sales = Rs.4,00,000
- Fixed Cost = Rs.80,000
- Break-Even Point (BEP) = Rs.3,20,000

$$\text{Profit} = \text{Sales} - \text{BEP} = \text{Rs.4,00,000} - \text{Rs.3,20,000} = \text{Rs.80,000}$$

B) Compute Sales Given:

- Fixed Cost = Rs.40,000
- Profit = Rs.20,000
- Break-Even Point (BEP) = Rs.80,000

$$\text{Sales} = \text{BEP} + \text{Profit} = \text{Rs.80,000} + \text{Rs.20,000} = \text{Rs.1,00,000}$$