

ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)
Department of Computer Science and Engineering (CSE)

SEMESTER FINAL EXAMINATION

SUMMER SEMESTER, 2018-2019

DURATION: 3 Hours

FULL MARKS: 150

Hum 4641: Accounting

Programmable calculators are not allowed. Do not write anything on the question paper.

There are **8 (eight)** questions. Answer any **6 (six)** of them.

Figures in the right margin indicate marks.

1. a) Define Cost Sheet? What is the importance of Cost Sheet?

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b)

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| | |
|---|----------------------|
| Opening stock of raw material | 12,500 |
| Purchases of raw material | 1,36,000 |
| Closing stock of raw material | 8,500 |
| Direct wages | 54,000 |
| Direct expenses | 12,000 |
| Factory overheads | 100% of direct wages |
| Office and administrative overheads | 20% of works cost |
| Selling and distribution overheads | 26,000 |
| Cost of opening stock of finished goods | 12,000 |
| Cost of Closing stock of finished goods | 15,000 |
| Profit on Selling Price | 20% |

Required:

From the above information, prepare a Cost Sheet for the period ended on 31st March, 2018.

2. a) What is Flexible Budget?

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- b) Delicious House is a family-owned restaurant that specializes in Scandinavian-style seafood. Data concerning the restaurant's monthly revenues and costs appear below (q refers to the number of meals served):

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| | Formula |
|---------------------|-----------------|
| Revenue | \$16.50q |
| Cost of ingredients | \$6.25q |
| Wages and salaries | \$10,400 |
| Utilities | \$800 + \$0.20q |
| Rent | \$2,200 |
| Miscellaneous | \$600 + \$0.80q |

Required:

- i) Prepare the restaurant's planning budget for April assuming that 1,800 meals are served.
- ii) Assume that 1,700 meals were actually served in April. Prepare a flexible budget for this level of activity.
- iii) The actual results for April appear below. Prepare a flexible budget performance report for the restaurant for April.

| | |
|---------------------|----------|
| Revenue | \$27,920 |
| Cost of ingredients | \$11,110 |
| Wages and salaries | \$10,130 |
| Utilities | \$1,080 |
| Rent | \$2,200 |
| Miscellaneous | \$2,240 |

- a) Write short notes of the following with example: 8
- Indirect Cost
 - Sunk Cost
 - Selling and Distribution Cost
 - Conversion Cost
- b) What are the differences between Financial Accounting & Cost Accounting? 7
- c) Describe Per Unit Variable Cost. Is per unit variable cost always remains same? Give your explanation with graphical example. 10
- a) Write two assumptions of CVP analysis. 5
- b) Max Company manufactures and sells a specialized cordless telephone for high electromagnetic radiation environments. The company's contribution format income statement for the most recent year is given below: 20

| | Total | Per Unit |
|-------------------------|------------------|-------------|
| Sales (20,000 units) | \$1,200,000 | \$60 |
| Less: Variable expenses | <u>900,000</u> | <u>45</u> |
| Contribution margin | 300,000 | <u>\$15</u> |
| Fixed expenses | <u>240,000</u> | |
| Net operating income | <u>\$ 60,000</u> | |

Management is willing to increase the company's profit and has asked for an analysis of a number of items.

Required:

- Compute the company's break-even point in both units and sales dollars. [Use the Formula Method]
- Refer to the original data. Assume that next year management wants the company to earn a profit of at least \$90,000. How many units will have to be sold to meet this target profit? [Use the Equation Method]
- Refer to the original data. Compute the company's margin of safety in dollar.
- Compute the company's degree of operating leverage at the present level of sales.
- Assume that through a more intense effort by the sales staff, the company's sales increase by 8% next year. By what percentage would you expect net operating income to increase?
- In an effort to increase sales and profits, management is considering the use of a higher quality speaker. The higher-quality speaker would increase variable costs by \$3 per unit, but management could eliminate one quality inspector who is paid a salary of \$30,000 per year. The sales manager estimates that the higher-quality speaker would increase annual sales by at least 20%.

- Assuming that changes are made as described above, prepare a projected contribution format income statement for the next year.
- Compute the company's new break-even point in dollars of sales. [Use the formula method]
- Would you recommend that the changes be made?

- a) What is the criterion to identify whether a business event is a transaction or not? 2
- b) What is solvency ratio? Write the formula and purpose of Acid-test ratio and Profit Margin. 5
- c) Concord Corporation's comparative balance sheets are presented below: 18

| CONCORD CORPORATION | | |
|--------------------------|-----------------|-----------------|
| Balance Sheet | | |
| December 31 | | |
| | 2018 | 2017 |
| Cash | \$ 4300 | \$ 3700 |
| Accounts receivable | 21200 | 23400 |
| Inventory | 10000 | 7000 |
| Land | 20000 | 26000 |
| Building | 70000 | 70000 |
| Accumulated depreciation | (15000) | (10000) |
| Total | <u>\$110500</u> | <u>\$120100</u> |
| Accounts payable | \$ 12370 | \$ 31100 |
| Common stock | 75000 | 69000 |
| Retained earnings | 23130 | 20000 |
| Total | <u>\$110500</u> | <u>\$120100</u> |

Concord's 2018 **income statement** included net sales of \$100,000, cost of goods sold of \$60,000, and net income of \$15,000.

Required:

Compute the following ratios for 2018.

- i) Current ratio.
- ii) Acid-test ratio.
- iii) Receivables Turnover
- iv) Inventory turnover.
- v) Profit margin.
- vi) Asset turnover.
- vii) Return on assets.
- viii) Return on common stockholder's equity.
- ix) Debt to total assets ratio.

- a) Towsif Ahmed, a beginning accounting student, believes that double-entry system means each transaction must be recorded twice. Is Towsif correct? Explain. 5
- b) Maya Hasan is a licensed dentist. During the first month of the operation of her business, the following events and transactions occurred. 20

April 1: Invested \$40,000 cash.

April 1: Hired a secretary-receptionist at a salary of \$600 per week payable monthly.

April 2: Paid office rent for the month \$1,000.

April 3: Purchased dental supplies on account from Smile Company \$4,000.

April 10: Provided dental services and billed insurance companies \$5,100.

April 11: Received \$1,000 cash advance from Trudy Borke for an implant.

April 20: Received \$2,100 cash for services completed and delivered to John Stanley.

April 30: Paid secretary-receptionist for the month \$2,400.

April 30: Paid \$1,600 to Smile Company for accounts payable due.

Maya uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 205 Unearned Revenue, No. 301 Maya Hasan, Capital; No. 400 Service Revenue, No. 726 Salaries Expense, and No. 729 Rent Expense.

Required:

- i) Journalize the transactions.
- ii) Post to the ledger accounts.
- iii) Prepare a trial balance on May 31, 2018.

4. a) "Efforts should be matched with accomplishments"-this statement indicates a principle of accounting. Explain the statement. 5
- b) Ken Ham started his own consulting firm, Hambone Company, on June 1, 2018. The trial balance at June 30 is shown below. 20

HAMBONE COMPANY

Trial Balance
June 30, 2018

| Accounts Title | Debit | Credit |
|--------------------------|-----------------|-----------------|
| Cash | | |
| Accounts Receivable | \$ 7,150 | |
| Supplies | 6,000 | |
| Prepaid Insurance | 2,000 | |
| Office Equipment | 3,000 | |
| Accounts Payable | 15,000 | |
| Unearned Service Revenue | | \$ 4,500 |
| K. Ham, Capital | | 4,000 |
| Service Revenue | | 21,750 |
| Salaries Expense | | 7,900 |
| Rent Expense | 4,000 | |
| | 1,000 | |
| | <u>\$38,150</u> | <u>\$38,150</u> |

In addition to those accounts listed on the trial balance, the chart of accounts for Hambone Company also contains the following accounts and account numbers: No. 158 Accumulated Depreciation—Office Equipment, No. 212 Salaries Payable, No. 244 Utilities Payable, No. 631 Supplies Expense, No. 711 Depreciation Expense, No. 722 Insurance Expense, and No. 732 Utilities Expense.

Other data:

- i) Supplies on hand at June 30 are \$600.
- ii) A utility bill for \$150 has not been recorded and will not be paid until next month.
- iii) The insurance policy is for a year.
- iv) \$2,500 of unearned service revenue has been earned at the end of the month.
- v) Salaries of \$2,000 are accrued at June 30.
- vi) The office equipment has a 5-year life with no salvage value. It is being depreciated at \$250 per month for 60 months.
- vii) Invoices representing \$1,000 of services performed during the month have not been recorded as of June 30.

Required 1: Prepare the adjusting entries for the month of June, 2018.

Required 2: Prepare an adjusted trial balance at June 30, 2018.

✓ Draw the Accounting Cycle. 4

- b) Using the following data from the comparative balance sheet of Rodenbeck Company, prepare a schedule showing the **Horizontal Analysis**. 3

| | December 31, 2018 | December 31, 2017 |
|---------------------|-------------------|-------------------|
| Accounts receivable | \$ 520,000 | \$ 400,000 |
| Inventory | \$ 840,000 | \$ 600,000 |
| Total assets | \$ 3,000,000 | \$2,500,000 |

- c) An inexperienced bookkeeper prepared the following trial balance. Prepare a **correct trial balance**, assuming all account balances are normal. 8

KWUN COMPANY

Trial Balance

December 31, 2018

| Accounts Title | Debit | Credit |
|-------------------|-----------------|-----------------|
| Cash | \$14,800 | |
| Prepaid Insurance | | \$3,500 |
| Accounts Payable | | 3,000 |
| Unearned Revenue | 2,200 | |
| P. Kwun, Capital | | 13,000 |
| P. Kwun, Drawing | | 4,500 |
| Service Revenue | | 25,600 |
| Salaries Expense | 18,600 | |
| Rent Expense | | 2,400 |
| | <u>\$35,600</u> | <u>\$52,000</u> |

- d) The following information is related to the sole proprietorship of Leonard Mac, attorney. 10

| | |
|--------------------------------|-----------|
| Legal service revenue, 2018 | \$350,000 |
| Total expenses, 2018 | 211,000 |
| Assets, January 1, 2018 | 85,000 |
| Liabilities, January 1, 2018 | 62,000 |
| Assets, December 31, 2018 | 168,000 |
| Liabilities, December 31, 2018 | 85,000 |
| Drawings—2018 | ? |

Required:

Prepare the 2018 **Owner's Equity Statement** for Leonard Mac's legal practice assuming that there is "Leonard Mac, Drawings" in 2018.