Faculty of Management Studies
University of Delhi
Accounting for Managers
MBA (FT) Paper code 6104

Time Allowed: 3 Hours **Max. Marks: 70**

Instructions:
Attempt 5 questions in all. All questions carry equal marks

Q1. On January 1 20XX, Atika Sharma set up Smart Analytics Company, investing Rs. 1,00,000 in share capital. The activities of the business resulted in the following revenues and expenses for 20XX: revenues and services, Rs. 1,08,000; office rent, Rs. 13,100; electricity, Rs. 9,000; salaries, Rs. 12,300; cloud storage, Rs. 3,600. the following were the assets and liabilities of the business on December 31, 20XX: equipment, Rs. 80,000; supplies, Rs. 14,500; trade receivables, Rs. 13,000; cash, Rs.3,900; rent deposit, Rs. 1,00,000; long-term loan payable, Rs. 44,000; trade payables, Rs. 9,200. During the year, the company paid a dividend of Rs. 16,800 and Ms. Sharma made a further equity investment of Rs. 5,000 in the business. Prepare the 20XX balance sheet and statement of profit and loss. (14)

Q2. On January 1, 20XX, Ajay Joshi set up Fly-by-Night Delivery Company. The following transactions took place during the first month:

(a) Joshi invested Rs. 10,000 cash in the company's share capital.

(b) Bought a car for cash, Rs. 8,000.

(c) Filled petrol for Rs. 1,000 on payment of Rs. 800; balance to be paid in two weeks.

(d) Received advance payment from a customer, Rs. 1,000.

(e) Bought office supplies on credit, Rs. 3,000.

(f) Received cash for services provided, Rs. 8,000.

(g) Billed customers for services, Rs. 6,200.

(h) Paid office rent, Rs. 4,000.

(i) Paid the amount due in (c).

(j) Collected payment from customers billed in (g), Rs. 4,900.

(k) Provided services to the customer in d).

Required

i. Analyze the effect of the transactions on the related asset, liability and equity items.
ii. Calculate the profit for January 20XX. (14)

Q3. Ganesh Carpets sold 190 carpets during the year at Rs. 3,400 each. It had a beginning inventory on April 1, 20X2 of 20 carpets at a cost of Rs. 2,300 each. The following purchases were made during the year ended March 31, 20X3:

May 20X2 40 carpets @ Rs. 2,400

July 20X2 50 carpets @ Rs. 2,500

September 20X2 60 carpets @ Rs. 2,700

February 20X3 30 carpets @ Rs. 2,800

The company incurred operating expenses of Rs. 58,000 during the year. It uses the periodic inventory system.

Required

i. Prepare a schedule to compute the cost of goods available for sale during the year.
ii. Determine the ending inventory on March 31, 20X3 using (a) FIFO, (b) LIFO and (c) WAC.
iii. Prepare a statement of profit and loss under each of the above inventory costing methods. (14)

Q4. Joshi Company took up the expansion of its plant in 20X7. The costs incurred in this project and collected in the Plant Expansion Project account are as follows:

Land Rs. 1,500,000

Parking lots and driveways 60,000

Commission paid to estate agents 30,000

Clearing and levelling the land 10,500

Construction of building 1,968,000

Fences 45,000

Architects' fees for building and land improvements (90 per cent for building) 57,000

Purchase price of machinery 1,590,000

Installing machinery 2,10,000

Freight inward on machinery 12,000

Trial production runs 17,000

Lawyers' fees for title search and other services 20,000

Registering transfer of title to land 1,50,000

Repairing a wall that was damaged in handling the machinery 6,000

Additional electrification work in building 40,000

Development charges payable to the city corporation 25,000

Required : Prepare a statement classifying the items into these categories: Land, Land Improvements, Building, and Equipment. (14)

Q 5. Comment on the followings;

(i) Lakshita Limited (LL) is engaged in manufacturing leather products. Its factory is located at Topsia in Kolkata. The state government, as a policy, has decided to shift leather units to the outskirts of the city and has developed a leather complex. In order to comply with the government's directive, LL has decided to shift its manufacturing facility to the leather complex.

Required: The company proposes to allocate relocation cost to items of PP&E in proportion to their respective carrying amount. However, it is also open to the alternative accounting of capitalizing the relocation cost as a separate item of intangible assets.

(ii) Nandini Cables Limited (NCL) imported equipment to produce cables. After installation, the equipment could not produce cables of intended quality and size. NCL started negotiating with the supplier to rectify or replace the equipment. This turned into a long-drawn dispute. In order to mitigate the financial loss, the firm started producing and marketing sub-quality cables, until a settlement with the supplier could be reached. The production and sale of sub-standard wires resulted in loss because the direct cost of production was higher than the sales realization.

Required: Explain the loss caused till the equipment was rectified. Could the company produce the intended product (standard wire)?

(iii) Firoza Limited (FL) manufactures an exclusive herbal fairness cream which is marketed by a multinational company under its own brand name at a premium over the average price of other fairness creams available in the market. The management has estimated the normal capacity at 100,000 units. In 2009, FL. could produce only 60,000 units of the product as it could not procure the required quantity of herbs. During the year, production of herbs was low due to climatic conditions. The fixed production overheads incurred during the year was Rs. 10,00,000.

Required: Calculate the amount of fixed production overheads to be assigned to each unit produced during 2009 to calculate the cost of sales and cost of inventories held by FL at the balance sheet date.

(iv) Keya Limited (KL) is a retailer. It has several retail stores across the country. The company negotiates prices with suppliers and places orders centrally. Suppliers deliver goods at central warehouses. Each city, which has more than one retail store, has warehouse. Stores in a city place order on the central warehouse for replenishment of stock twice a week.

KL seeks your advice on how to calculate the cost of inventories in different stores at the balance sheet date. It provides the following information about an item, which is one among the fast-moving items:

Average purchase price per unit	Rs. 100
Average transportation cost per unit charged by suppliers	Rs. 2
Average transportation cost per unit charged by local transporters for transporting goods from the central warehouse	Rs. 2
Average warehousing cost per unit	Rs. 3
Average lease rent (of the retail store) per unit	Rs. 4

Required: Advise KL on what cost should be included in the 'cost of the item' to be used for valuation of the stock held at the balance sheet date.

(14)

Q 6.(i) A Ltd. has provided the following information related to its plant and machinery account.

(Rs. '000)

	Year 2018	Year 2019
Gross book value at the end of the year	100	140
Accumulated depreciation at the end of the year	20	34
Additional Information:		
1. Loss on sale of plant and machinery		01
2. Depreciation charged during the year		16
3. Purchase of new machinery during the year		45

Required: Calculate the fund generated in 2019 from the sale of the old item of plant and machinery and the fund flow from the sale of old items of plant and machinery. (7)

Q6 (ii). The statement of Profit and Loss of Delhi Ltd. For the year 20X5 is presented as follows:

Amount (Rs. '000)

Sales		5,000
Less: Materials consumed	1,000	
Manufacturing expenses	2,000	
Administration and selling expenses	750	
Depreciation	250	
Amortization of patent	150	
Preliminary expenses	100	
Loss on sale of equipment	50	4,300
Operating profit		700
Add: Dividend received		100
		800
Less: Income tax		200
Net Profit		600

Required: Calculate the fund from operation for the year 20X5. (7)