

Faculty of Management Studies

University of Delhi

MBA (FT) I Accounting for Managers Paper code 6104

Time Allowed: 3 Hours

Max. Marks: 70

Instructions: Question 1 is compulsory. Attempt five questions in all. All questions carry equal marks

1. A company has maintained the following relationships in recent years:

Gross profit to net sales	40%
Net profit to net sales	10%
Selling expenses to net sales	20%
Book debts turnover	8 p.a.
Inventory turnover	6 p.a.
Quick ratio	2
Current ratio	3
Assets turnover (sales basis)	2 p.a.
Total assets to intangible assets	20
Accumulated depreciation to cost of fixed assets	1/3
Book debts to sundry creditors (for goods)	1.5
Shareholders' funds to working capital	1.6
Total debt to shareholders funds	0.5

Quick assets comprise 25% cash, 15% marketable securities and 60% book debts.

During 20x7-20x8, the company earned Rs. 1,20,000 or Rs. 4.68 per equity share; the market value of one equity share was Rs. 78. The capital consisted of equity shares issued at a premium of 10% and 12% preference shares of Rs. 100 each.

Interest was earned 17 times in 20x7-20x8: many years ago, the company had issued 10% debentures due for redemption in 20x9. During 20x7-20x8 there was no change in the level of inventory, book debts, debentures and shareholders funds. All purchases and sales were on account. Preference dividend paid in 20x7-20x8, in full, was Rs. 3,000.

You are required to prepare the balance sheet and the income statement relating to 20x7-20x8.

Comment on the performance of the company in terms of capital structure, profitability, assets efficiency and liquidity position. Tax rate is 25%. (14)

2.(a) On September 1, 20XX, Sukriti Sood set up Skin Glow as a sole proprietorship. The business engaged in the following transactions in the first month:

- Sood invested Rs10,000 cash in the business.
- Took a bank loan, Rs 30,000.
- Bought equipment for cash Rs 25,000.
- Provided services for cash, Rs 12,000.
- Paid interest on the bank loan, Rs 300.
- Bought supplies for cash, Rs 1,000.
- Paid rent, Rs 3,100.
- Paid Interest, Rs 200.
- Paid salaries, Rs 5,000.

Required : Analyze the effect of the transactions on the related asset, liability and equity items. (10)

2.(b) Who sets accounting standard in India? Why is historical cost still used in many countries. (2)

2. (c) Explain and illustrate Dupont Analysis? (2)

3.(a) The adjusted trial balance of Quick Car Service Limited is as follows:

QUICK CAR SERVICE LIMITED

Adjusted Trial Balance, December 31, 20X8

Equipment.....	18,000	
Accumulated depreciation, Equipmen.....		3600
Supplies	1900	
Trade receivables	4210	
Cash.....	1170	

Prepaid rent.....?	5100	
Unbilled revenue.....	3020	
Trade payables.....		2160
Unearned revenue		970
Salaries payable.....		1310
Share capital.....		25000
Retained earnings.....		2160
Dividends.....	3800	
Revenue from services....		20050
Salaries expense...	9720	
Supplies expense.....	2160	
Telephone expense.....	970	
Rent expense.....	2400	
Depreciation expense...	1800	
Income tax expense....	1000	
Total	55250	55250

Required: prepare 20x8 the balance sheet and profit and loss account.

(10)

- 3.(b) What is accrual accounting how it is different from cash accounting? Give examples for both. (2)
 3.(c) How financial accounting differs from management accounting? (2)

4.(a) Standard Manufacturing Company purchased a robot for its assembly operations. The cost of the robot was Rs.1.4 million. It had an estimated useful life of four years. it could be sold for an estimated Supplies 100,000 at the end of four years. Calculate the profit and loss on the disposal of the robot at the end of the second year in each of the following independent situations. Straight-line depreciation was charged.

1. It was sold for Rs.660,000.
2. It was sold for Rs 810,000.
3. It was exchanged for a different robot costing Rs 1.7 million. It was allowed Rs 910,000, and the balance was paid in cash.
4. Same as Requirement 3 except it was allowed Rs 690,000.
5. It was totally damaged in an accident. The insurer paid Rs 470,000 in full settlement.

(10)

4.(b) Why the useful life of an asset is often less than its physical life. (2)

4.(c) Explain business entity concept and accounting period concept with examples. (2)

5.(a) Sahan Company entered into the following transactions. Classify the following as operating activity, financing activity, investing activity, non-cash activity or cash management activity.

1. Paid suppliers. ✓
2. Received dividend from an associate. ✓
3. Purchased copyrights for cash. ✓
4. Issued debentures in exchange for equipment. ✓
5. Paid interest on bank overdraft. ✓
6. Converted debentures into equity shares. ✓
7. Received payments from customers. ✓
8. Purchased investments for cash. ✓
9. Paid advance to a supplier of equipment. ✓
10. Sold a 90-day Treasury bill. ✓
11. Collected instalment payments for the sale of an old plant. ✓
12. Disposed of equipment at a gain. ✓
13. Sold equipment for cash at carrying amount. ✓
14. Issued convertible debentures for cash. ✓

(7)

5.(b) The records of Watawala Company contain the following information relating to the inventory item of K 730 for October 20X6:

		Units	unit cost
Oct.	1 Beginning inventory.....	20	4
	3 Purchase	40	5
	9 Sale	10	
	14 Sale	45	
	19 Purchase	50	7
	22 sale	30	

26	purchase	20	9
28	sale	10	
31	sale	5	

Required : Using the periodic inventory system, compute the cost of ending inventory and cost of goods sold Use the FIFO and LIFO inventory costing methods. (4)

5.(c) Classify the following into tangible, intangible and financial categories with reasons: aircraft, copper mines, deposits, fishing licenses, money market funds, newspaper masthead, tax free bonds. (3)

6.(a) The statement of profit and loss of Shamsher Leather Company for the year ended March 31, 20X8 is as follows:

SHAMSHER LEATHER COMPANY	
Statement of Profit and Loss	
For the year ended March 31, 20X8	
Sales.	76900
Dividend income	300
Interest income.	200
Gain on disposal of plant.	800
total income..	78200
Cost of goods sold	58300
Depreciation expense	9500
Finance costs	900
Selling and administrative expenses	2700
Loss on sale of investments.	300
Total expenses.	71700
Profit before tax.	6500
Tax expense	2800
Profit for the period	3700

During the period, inventories increased by Rs.1,500, trade receivables (gross) decreased by Rs 2300, trade payables decreased by Rs 1,600, and income tax payable decreased by Rs 500. Selling and administrative expenses include bad debt expense of Rs 700. Trade receivables in the amount of Rs 300 were written off during the period.

Required

Present the cash flows from operating activities using the indirect method. (10)

6.(b) Haveli Company had the following investing activities during the year ended March 31, 20X7:

1. Purchased investments for cash, Rs.6,500.
2. Sold investments for cash: cost Rs 3,800; loss Rs 500.
3. Purchased a plant for cash, Rs 15,800.
4. Constructed a building for own use, Rs 7,500 (excluding capitalized interest, Rs 250).
5. Sold a plant for cash, Rs 5,200 (cost Rs 9,500; carrying amount, Rs 4,300).

Required Compute net cash flow from investing activities.

(2)

6.(c) Supra Corporation had the following financing activities during the year ended November 30, 20X9:

1. Paid dividends, Rs 1,200.
2. Redeemed debentures, Rs 4,700.
3. Repaid bank overdraft, Rs 2,100.
4. Converted debentures into equity shares, Rs 1,000.
5. Issued convertible debentures, Rs 17,000.

Required Compute net cash flow from financing activities.

(2)