Dalina- 26.1.19

INSTITUTE OF MANAGEMENT STUDIES
END SEMESTER EXAMINATION (DECEMBER 2023)
MBA (FINANCIAL ADMINISTRATION) SEMESTER – I
BUSINESS ACCOUNTING

Time Allowed: 3 Hours **Max. Marks: 60**

General Instructions:

- Give necessary calculations wherever necessary.
- Sub questions of any question are to be done in continuation.
- Be neat and clean in your presentation

SECTION --- A

Note: Attempt any 1 question from this Section. Each question of this section carries 12 marks.

Q1. State whether the below mentioned statements are true or false. Give reason for your answer. No marks will be awarded if reason is not correct.

a) The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

b) Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

c) If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

d) Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

Q2. Select the correct answer. Give reason for your answer. No marks will be awarded if reason is not correct.

i. Which of the following entries is correct in respect of reserve for discounts on accounts payable?
   a. Debit accounts payable A/c. and credit P & L A/c.
   b. Debit reserve for discount on accounts payable A/c. and credit P & L A/c.
   c. Debit reserve for discount on accounts payable A/c. and credit accounts payable A/c.
   d. Debit P & L A/c. and credit reserve for discount on accounts payable A/c.
   e. Debit P & L A/c. and credit accounts payable A/c..

ii. Which of the following statement is false?
   a. Assets are to be shown in the Balance Sheet at the realizable value
   b. Decrease in the value of the asset could decrease the value of a liability
   c. A person who owes to the business is called Debtor
   d. Balance sheet discloses financial position of the business
   e. Increase in the value of one asset could reduce the value of another asset.

iii. The total sales of Ram's business during the current year are Rs. 18,00,000 and the total cost of goods available for sale during the same period is Rs. 17,20,000. If the gross profit of Ram's business is 25% on sales, the closing inventory during the current year is
   a. Rs. 3,00,000
   b. Rs. 3,70,000
   c. Rs. 4,50,000
   d. Rs. 4,30,000
   e. Rs. 4,00,000

iv. When the proposed dividend is 18%, how much amount to be transferred compulsorily to reserve account?
   a. 10 % of current years profit
   b. 2.5 % of current years profit
   c. 5 % of current years profit
   d. 7.5 % of current years profit
   e. 15 % of current years profit

SECTION – B

Note: Attempt any 4 questions from this Section. Each question carries 12 marks.

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Q3. Journalize the following transactions and post them into ledger:

1 Sept	Started business with Rs. 50,000/- and paid into bank Rs.20,000/-
2 Sept	Bought furniture for Rs. 5000/- and Machinery for Rs. 10,000/-
3 Sept	Purchased goods from Malhotra and Company Rs. 14,000
4 Sept	Sold goods for Rs. 8000
5 Sept	Goods worth Rs. 1000/- was returned to Malhotra and Company and the balance of amount due to them settled by issuing a cheque in their favour
6 Sept	Sold 20 shares of XYZ Co. at Rs. 60/- per share and paid brokerage is Rs. 20/-

Q4. From the following information prepare Trading and Profit Loss Account and Balance Sheet as on 31st March 2002

Plant and Machinery	28,800
Stock on 01/04/2001	89,680
Sundry Creditors	59,630
Sundry Debtors (including Bharat's Dishonored bill of Rs. 1000/-)	62,000
Cash in Hand	3030
Cash at Bank	18,970
Fixture and Fittings	8,970
Provision for Doubtful Debts	2500
Bills Receivable	9,500
Travelling Expenses	1,880
Repairs and Renewals	3,370
Bad Debts	3,620
Returns Inward	2,780
Sales	3,65,430
Manufacturing Wages	40,970
Purchases	2,56,590
Salaries	11,000
Rent and Taxes	5,620
Interest and Discount (Dr.)	5,870
Commission Received	5,640
Insurance (Including premium of Rs.300 p.a. paid upto 30.09.2002)	400
6% Loan Account (Cr.)	20,000
Capital	1,10,400
Drawings	10,550

Additional Information: -

- Depreciation plant and machinery by 10% and fixture and fitting 5% p.a.
- Commission earned but not received amounts to Rs. 600/-.
- Manufacturing wages include Rs. 1,200/- for erection of new machinery purchased last year.
- Charge interest on capital @6% interest on loan for the last two months is not paid.
- Stock in hand on 31st March 2002 was Rs. 1,28,960/-
- Writer off half of Bharat's dishonored bill.
- Create a provision of 5% on Sundry Debtors.

Q5 Ram, Shyam and Shiv together started a business with an initial capital of Rs 50,000. At the end of the first year, they decided to review the performance of the business. After getting the relevant information each one of them separately prepared their final accounts. The P/L A/c and Balance Sheet prepared by them is reproduced below with some missing figures. You are required to fill the missing figures.

Additional information is given below:

- The Unit-Selling price of the product is Rs. 20 per unit.
- While the sales were on credit basis, all production costs were paid for in cash as soon as the product was produced, salesman's commission was paid as soon as the product was sold, collection charges were paid as soon as the amount was collected from debtors.
- Administrative expenses were fixed (paid in cash) and were taken as 2% of sale amount assuming that total production was converted into sales.
- Total production during the year was 6250 units however only 5000 units were sold and cash had been collected for only for 3750 units.
- Salesman's commission was equal to 10% of the revenue earned by each of them.
- Collection charges were based on the number of units sold.

- Matching Principle was strictly followed by each of them.
- No depreciation was charged on fixed assets.

Ram

Revenue	?	Assets		Liabilities	
Cost of Goods Sold	50000	Cash	?	Capital	?
Gross Profit	50000	Finished Goods	?	Retained Earnings	?
Salesman Commission	?	Accounts Receivable	?		
Administrative Expense	?	Fixed asset	15000		
Collection Charges	2500				
Net Profit	?	Total	?	Total	?

Shyam

Revenue	75000	Assets		Liabilities	
Cost of Goods Sold	?	Cash	?	Capital	?
Gross Profit	?	Finished Goods	12500	Retained Earnings	?
Salesman Commission	?	Accounts Receivable	?		
Administrative Expense	?	Fixed asset	15000		
Collection Charges	?				
Net Profit	25625	Total	?	Total	?

Shiv

Revenue	125000	Assets		Liabilities	
Cost of Goods Sold	62500	Cash	8125	Capital	?
Gross Profit	?	Finished Goods	?	Retained Earnings	?
Salesman Commission	?	Accounts Receivable	?		
Administrative Expense	?	Fixed asset	15000		
Collection Charges	?				
Net Profit	?	Total	?	Total	?

Q6. Prepare a balance sheet from the following list of items, regarding the ownership interest as the missing item

L Trade payables	43,000/-
A Cash at hand	9,000/-
A Inventories of goods for resale	35,000/-
A Land and building	95,000/-
L Wages due to employees but not paid	2,000/-
A Motor car	8,000/-
L 5 Year loan from bank	20,000/-

Explain how the balance sheet will change due to each of the following transactions:

(a) The wages due to the employees are paid at 2000/-
(b) One third of the inventory of goods held for resale is destroyed by fire and there is no insurance to comver the loss
(c) Goods for resale are bought on credit at a cost of 5,000/-

SECTION – C

Q7. Read the case below and answer the questions given at the end. **(12 Marks)**

RAMPRATAP MANUFACTURING COMPANY

Ms. Arundhati a mechanical engineer from IET, DAVV, Indore, after four years of hard work succeeded in developing a catalyst convertor for four wheelers, which would increase the fuel efficiency upto 40% and also reduce the emission of CO_2. She had full confidence in its commercial value but lacked the necessary capital required to place the product into the market. She told about her product and her plan to form a company to a number of possible associates, financers and to some venture capitalists also. The project appealed to a number of individuals to whom Arundhati presented it but a positive response came from Mr. Akshay, a young venture capitalist. Mr. Akshay in her meeting with Arundhati said that he would be interested in knowing about the manner in which his capital would be deployed in the proposed company. For this he suggested Arundhati to determine the probable cost of experimentation and that of the machinery required, and also prepare for him a statement showing the estimated assets and liabilities of the proposed company when it is ready to begin its actual operations. He also demanded for a statement showing the estimated transactions, which would occur during the first year of operations. At the end of the meeting Arundhati consented to supply all the information within fifteen days.

Arundhati approached her C.A. uncle Mr. Rahul and both of them drew up the following list of data relating to the transactions of the proposed company during its period of formation and development

(a) It is proposed that a company "Rampratap Manufacturing Company" would be formed with a share capital of Rs. 6,00,000 (par value). Mr Akshay would contribute Rs. 2,00,000 cash for which he would get shares with par value of Rs. 2,80,000. The remaining shares of par value of Rs. 3,20,000 would be given to Ms. Arundhati in exchange for the patent of the product.
(b) It is estimated that an amount of Rs. 16,500 would be incurred as cost of incorporation of the company.

(c) The probable cost of machinery would be Rs. 1,00,000. This sum includes the cost of export services, installation, and other miscellaneous expenditures

(d) Expected cost of raw material is Rs. 10,000 of which Rs. 6000 will be used for experimental production

Estimated Balance Sheet as on the Date When Company Starts Operations

Assets	Rs.	Liabilities	Rs.
Cash	73,500	Share capital 6,00,000	
Raw material inventory	4,000	Less Discount 80,000	5,20,000
Machinery	1,00,000		
Incorporation cost	16,500		
Experimental costs	6,000		
Patent	3,20,000		
	5,20,000		**5,20,000**

Additional Information List:

a) Total expected sales, all in cash during the first year of operation Rs. 5,60,000.

b) Additional purchase of raw material during the year Rs. 1,80,000, all paid in cash by the end of the year.

c) A loan of Rs. 40,000 taken from the bank but repaid before the close of the year. Interest paid on this loan Rs. 1000.

d) Expected pay roll, other manufacturing and cash expenses for the operating year would amount to Rs. 2,20,000. Selling and administrative expenses will be Rs. 60,000.

e) A new machinery worth Rs. 20,000 would be purchased for cash during the year.

f) Raw material inventory at the close of the period will be Rs. 36,000.

g) No inventory of finished product at the end of the period.

h) All experimental and incorporation costs, capitalized previously are to be charged against profit of the operating year.

i) Depreciation on machinery @ 10 % on total value.

j) Dividends paid in cash Rs. 60,000

k) Purchase of building Rs. 75,000. No depreciation provided on it.

Note:- Transactions summarized above did not happen in the same sequence as indicated. There was an initial cash balance and inventory of raw materials with which the operations of the company started, products were manufactured and sales of these provided funds for financing subsequent operations. Then in turn sales of the product subsequently manufactured yielded more funds.

Questions (4 Marks Each)

Q1. Prepare a profit and loss statement covering the first year of planned Operations, and a balance sheet as on the end of the year.

Q2. Prepare a profit and loss statement covering the first year of planned operations, and a balance sheet as on the end of the year ASSUMING THAT

- No products were sold during the year, even though production continued at the level indicated in the original plan. Under such condition you are required to disregard items 1, 6, 7 and 10 from the additional information list.
- And instead of item 3 assume that a loan of Rs. 5,80,000 is obtained from the bank the loan is not repaid however an interest of Rs. 21,000 is paid during the year.

Q3. How would the profit and loss statement covering the first year of planned operations and a balance sheet as on the end of the first year look like ***ASSUMING THAT***

- Out of the total sales of Rs. 5,60,000 only 75% was cash sales.
- Out of the total purchase of raw material of Rs. 1,80,000 during the year 80% was cash purchase.
- New machine was purchased in the middle of the year and depreciation provided @ 10%.
- Provision for Income Tax @ 40%.

Other items of the additional information list remain same for question number 3.