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MBA
MGT 105

First Semester Regular Examination – 2014

FINANCIAL ACCOUNTING FOR MANAGERS

BRANCH : MBA

QUESTION CODE : H 463

Full Marks – 70

Time : 3 Hours

*Answer Question No. 1 which is compulsory and any **five** from the rest.*

The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2 × 10
- What are the three fundamental issues financial statements answer about a business entity ?
 - What are the 3 different basis under which books of accounts of a business house can be maintained ? Which one is mandatory ?
 - Explain the principle of conservation with an example.
 - Why should the business houses pass adjustment entries ? Which principle would be deviated if these entries are not passed ?
 - An item of expenditure can be classified under any of three heads. What are these three heads ? How do you recognize the item of expenditure to fall in one head ?
 - What do you mean by amortization of Asset ? Is it different from Depreciation ?
 - What are intangible asset ? Explain the rules regarding amortization of intangible assets.
 - Explain the concepts of cash and cash equivalents.
 - Though it is mandatory to prepare Profit After Tax (PAT), the companies often prepare EVA. Why ? Why should the EVA be increased ?
 - What are short term liquidity ratios ? Explain.

P.T.O.

2. The following is the trial balance of Amit as on 31 December, 2012.

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Particulars	Dr. (Rs.)	Cr.(Rs.)
Purchases	15,000	
Debtors	20,000	
Interest earned		400
Salaries	3,000	
Sales		32,100
Purchase returns		500
Wages	2,000	
Rent	1,500	
Sales returns	1,000	
Bad debts written off	700	
Capital		12,000
Creditors		10,000
Drawings	2,400	
Provision for bad debts		600
Printing & Stationery	800	
Insurance	1,200	
Opening stock	5,000	
Office expenses	1,200	
Furniture & Fittings	2,000	
Accumulated depreciation		200
Total	55,800	55,800

Prepare the trading account and income statement for the year ended December, 2012, and the balance sheet as at that date after making the following adjustment.

- Depreciate furniture and fittings by 10% p.a. on original cost.
- Make a provision for doubtful debts equal to 5% of debtors.
- Salaries for the month of December amounting to Rs.300 was unpaid which must be provided for. The balance in the account includes Rs.200 paid in advance.
- Insurance is prepaid to the extent of Rs.200.
- Provide Rs.800 for office expenses.
- Stock valued at Rs.600 was put by Amit to his personal use.
- Closing stock was valued at Rs.6,000.

3. The balance sheet of Arihant Ltd. As at 31 December, 2012 is as follows : 10

Liabilities and Equity	Amount (Rs.)	Assets	Amount (Rs.)
Equity share capital	6,00,000	Machinery	8,40,000
General reserve	45,000	Stock	2,70,000
Profit & Loss	24,000	Debtors	75,000
Debentures	2,70,000	Bills receivable	15,000
Secured loans	30,000	Bank balance	1,50,000
Creditors	4,38,000	Prepaid expenses	90,000
Proposed dividend	30,000	Preliminary expenses	9,000
Provision for taxes	12,000		
	14,49,000		14,49,000

Additional Information

Particulars	Amount (Rs.)
	31.12.12.
Sales (credit sale is three times the cash sale)	7,20,000
Purchases	5,10,000
Purchase expenses	30,000
Office expenses	1,20,000
Sales distribution expenses	96,000

The book value of stock on 31.12.2011 was Rs.2,40,000, and its market value was Rs.2,10,000. Find out the following ratios on the basis of the information given :

- Gross profit ratio
 - Net profit ratio
 - Liquid ratio
 - Debtors' ratio (assume 360 days)
 - Debt-equity ratio
4. Ajay Sales completed its calendar year 2012 operations. The comparative balance sheet of Ajay Sales as at 31 December is as follows :

Comparative Balance Sheets of Ajay Sales

Assets	2012 (Rs.)	2011 (Rs.)
Cash	73,000	32,000
Accounts receivable	85,000	66,000
Inventories	1,80,000	1,89,000
Land	85,000	1,00,000
Equipment	2,60,000	2,00,000
Accumulated depreciation	(66,000)	(42,000)
Total	6,17,000	5,45,000

Liabilities and Shareholder's Equity	2012 (Rs.)	2011 (Rs.)
Accounts payable	44,000	47,000
Bonds payable	1,60,000	2,00,000
Equity shares (Rs. 10 par)	2,14,000	1,64,000
Retained earnings	1,99,000	1,34,000
Total :	6,17,000	5,45,000

Additional Information :

1. Net income for 2012 is Rs. 1,50,000
2. Declared and paid cash dividends of Rs. 60,000
3. Bonds payable of Rs. 40,000 were redeemed for cash of Rs. 50,000
4. Equity shares was issued for Rs. 50,000.
5. Depreciation is Rs. 24,000.
6. Sales for the year are Rs. 8,50,000.

Prepare a statement of cash flow for the year 2012 using the indirect method. 10

5 What is accounting information ? Who are the users of accounting information ? Explain the purpose for which they need these information. 10

6 Solve the following problem :

From the following transactions, indicate which accounts are affected and why, by presenting the same in a table in the form of an accounting equation in the books of Anant's firm.

- (a) Anant commenced the business with cash of Rs. 1,50,000
- (b) Goods of Rs. 40,000 purchased for cash.
- (c) Credit sale of goods to Aqua Soft Solution of Rs. 18,000.
- (d) Paid rent of Rs. 1,200.
- (e) Cash received from Aqua Soft Solution on his A/c – Rs. 7,500.
- (f) Deposited Rs. 10,000 into the bank.
- (g) Salary paid Rs. 2,500.
- (h) Machinery of Rs. 50,000 purchased for cash.
- (i) Credit purchase of goods from Fortune Electro worth Rs. 12,500.
- (j) Cash sales of Rs. 19,000.

7 "Financial Statements of a company should have the attributes of reliability and they give a True and Fair view of the state of affairs". In the context of this statement describe the regulatory environment available to check accounting frauds. 10

8 Write short notes on any two : 5×2

- (a) Creative Accounting
- (b) Responsibility Accounting
- (c) Accounting conventions
- (d) Common sized statements.