**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FIRST TRIMESTER (Batch 2021-23)**

**END TERM EXAMINATION, OCT-2021**

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| --- | --- | --- | --- |
| Course Name | **Accounting for Business** | Course Code | **40201** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

1) Answer all the questions.

2) Laptop computer, books, any written note, paper, and mobile phones are strictly prohibited. You can carry only pen, pencil, eraser and your own scientific calculator in the examination hall. **Exchange of calculator is strictly prohibited.**

3) All questions carry adequate information to answer them appropriately. Hence don’t disturb the invigilator by asking any question.

**Question 1 (1+1+2=4 Marks)**

Luminosity Printers Limited bought a printing press on 1 April 2017 at a cost of Rs. 3 million. The management estimated the useful life of the press to be 10 years with a residual value of Rs. 200000. The machine was depreciated using SLM till 2019-20. On 1 April 2020 based upon a technical review of the press, the management incurred a cost of Rs. 500000 for overhauling the press. It is estimated that after overhauling the press will be useful for another five years and will have a residual value of Rs. 100000.

1. Discuss how the overhauling cost should be treated.
2. What is capital and revenue expenditure?
3. Will the amount of depreciation be revised. Yes/No, give reasons. If yes, calculate the revised amount.

**Question 2 (6 Marks)**

1. The costs per unit of the three products, A, B and C of a company are given below

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | A-(in Rs.) | B-(in Rs.) | C-(in Rs.) |
| Direct Material (per unit) | 20.00 | 16.00 | 18.00 |
| Direct Labour (per unit) | 12.00 | 14.00 | 12.00 |
| Variable Expenses (per unit) | 8.00 | 10.00 | 6.00 |
| Fixed Expenses (Total) | 60000.00 | 30000.00 | 32000.00 |
| Selling price | 64.00 | 60.00 | 52.00 |
| Number of Units Produced | 10,000 | 5,000 | 8,000 |

Production requirements are such that if one product is given up the production of the other can be raised by 50 %. The directors proposed that C should be given up because the contribution from the product is the lowest. Present suitable analysis of the data indicating whether the proposal should be accepted.

1. Expected manufacturing costs for Imperial data Devices are as follows: **(6 Marks)**

Variable Cost

Direct Material: Rs. 8 Per unit

Direct Labour: Rs. 3.5 Per unit

Variable Overhead: Rs. 1.8 per unit

Fixed cost per month:

Supervisory salaries: Rs. 17,000

Factory Overheads: Rs.10,500

Other factory expenses: Rs. 3,100

Estimate manufacturing costs for production level of 12,000 units and 15,000 units per month.

**Question 3 (8 Marks)**

Meditech Inc. manufactures two types of medical devices, Medform and Procel, and applies overhead on the basis of direct-labour hours. Anticipated overhead and direct-labour time for the upcoming accounting period are Rs. 7,10,000 and 20,000 hours, respectively. Information about the company’s products follows:

Medform:

Estimated Production Volume: 2500 units

Direct-material cost : Rs. 30 per unit

Direct labor per unit: 3 hours at Rs. 15 per hour

Procel:

Estimated Production Volume: 3125 units

Direct material cost: Rs.45 per unit

Direct labour per unit: 4 hours at Rs. 15 per hour

Meditech’s overhead of Rs. 7,10,000 can be identified with three major activities: order processing : Rs. 1,20,000, machine processing: Rs. 5,00,000 and product inspection: Rs. 90,000. These activities are driven by number of orders processed, machine hours worked and inspection hours respectively. Data relevant to these activities follow:

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Orders Processed | Machine Hours Worked | Inspection Hours |
| Medform | 350 | 23,000 | 4,000 |
| Procel | 250 | 27,000 | 11,000 |
| Total | 600 | 50,000 | 15,000 |

Management is very concerned about declining profitability despite a healthy increase in sales volume. The decrease in income is especially puzzling the company because the company recently undertook a massive plant renovation during which new, highly automated machinery was installed-machinery that was expected to produce significant operating deficiencies.

Required:

1. Assume the use of direct labour hours to apply overhead to production, compute the unit manufacturing costs of the Medform and Procel products if the expected manufacturing volume is attained. (1 Marks)
2. Assume the use of activity based costing, compute the unit manufacturing costs of the Medform and Procel products if the expected manufacturing volume is attained. (5 Marks)
3. Medtech’s selling prices are heavily on cost:
4. By using direct labour hours as an application base, which product is overcosted and which product is undercosted? Calculate the amount of the cost distortion for each product. (1 Marks)
5. Is it possible that overcosting (i.e., cost distortion) and the subsequent determination of selling prices are contributing to the company’s profit woes? Explain. (1 Marks)

**Question 4 (2 + 4=6 Marks)**

Sigma Company had the following investing activities during the year ended March 31, 2021

Purchased Investments Rs 65000

Redeemed Debenture Rs 4700

Sold Investments worth Rs 38000 at Loss of Rs 4000

Issued Convertible debenture Rs 17000

Purchased a plant Rs 158000

Paid Dividend Rs 1200

Constructed a building for Rs 780000

Sold a plant Rs 52000(Cost Rs 95000, Carrying Amount Rs 43000)

Repaid bank Loan Rs 2100

Converted Debenture into equity Shares Rs 11000

1. Why cash flow statement is prepared.
2. Compute cash from financing and investing activities.

**Question 5 (10 Marks)**

Navin Packaging Limited trial balance on March 31, 2021 is as follows:

|  |  |  |
| --- | --- | --- |
| **NAVIN PACKAGING LIMITED** | | |
| **Unadjusted Trial Balance,** March 31, 2021 | | |
| Particulars | Amount (Debit) | Amount (Credit) |
| Packaging equipment | 30,000 |  |
| Accumulated depreciation, Packaging equipment |  | 9,000 |
| Office equipment | 10,000 |  |
| Accumulated depreciation, Office equipment |  | 3,000 |
| Packaging supplies | 6,280 |  |
| Office supplies | 2,650 |  |
| Trade receivables | 2,170 |  |
| Cash | 8,820 |  |
| Prepaid rent | 9,600 |  |
| Bills payable |  | 2,500 |
| Trade payables |  | 1,360 |
| Unearned revenue |  | 1,800 |
| Share capital |  | 35,000 |
| Retained earnings |  | 1,350 |
| Dividends | 2,500 |  |
| Revenue from services |  | 41,260 |
| Salaries expense | 14,910 |  |
| Electricity expense | 2,340 |  |
| Advertisement expense | 4,800 |  |
| Telephone expense | 1,200 |  |
|  | 95,270 | 95,270 |

Adjustments:

(a) Estimated depreciation on packaging equipment, 3,000.

(b) Estimated depreciation on office equipment, 1,000.

(c) Inventory of packaging supplies, 2,360.

(d) Inventory of office supplies, 1,190.

(e) Services provided to clients that had been paid for in advance but not taken as revenue 1,040.

(f) Unbilled revenue, 1,390.

(g) Unpaid salaries, 970.

(h) Prepaid advertisement, 400.

(i) Unpaid telephone expense, 200.

(j) Estimated income tax expense, 1,600

From the above information, prepare Income Statement and Balance Sheet for the year ended 31st March 2021.