**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM IMPROVEMENT EXAMINATION, DEC-2021**

|  |  |  |  |
| --- | --- | --- | --- |
| 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 (4 Marks)**

Jindal Steels Ltd purchased heavy machinery from France on Jan 2015. The cost associated with the acquisition of the machines included the following: list price of the machine was Rs 30 lakhs; trade discount of 7.5% was offered by the vendor; custom duty Rs 1.75 lakh; freight charges paid to the shipping company amounted to Rs 1 lakh; The company had to spend Rs 3.25 lakh for the installation and testing of the machine and it was estimated that its useful life at that time was 15 years with residual value of Rs 1 lakh. However in year 2019 it is observed the machinery is fast becoming obsolete and its life is reduced to 10 years with same residual value and the company wants to show this change in depreciation from Year 2020. The company follows Straight Line Method

Assume year starts from 1st January and ends on 31st December.

a) What was the Cost of Acquisition for the Machine in Year 2015?

b) What is the Accumulated depreciation Amount till end of 2019?

c) What is the depreciation amount to be charged from Year 2020?

d) How is Straight Line Method different from Written down Value Method?

**Question 2 (4+8+2= 14 Marks)**

Family Bazaar a retail chain outlet wants to know about the profitability of individual product lines: soft drinks, fresh produce and tinned food. The store provides the following data for the current year of each product line.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Soft Drinks | Fresh Produce | Tinned Food |
| Revenue | Rs 795500 | Rs 2100600 | Rs 1209000 |
| Cost of Goods Sold | 600000 | 1500000 | 900000 |
| Cost of Bottle returned | 12000 | 0 | 0 |
| No. of Purchase Order placed | 360 | 840 | 360 |
| No. of Deliveries received | 300 | 2190 | 660 |
| Hours of shelf stocking time | 540 | 5400 | 2700 |
| Items sold | 126000 | 1104000 | 306000 |

Store also provides the following information for the current year

|  |  |  |  |
| --- | --- | --- | --- |
| Activity | Description | Total Cost(Rs) | Cost Allocation Base |
| Bottle Returns | Returning of empty bottles | 12000 | Directly to Soft drink |
| Ordering | Orders for purchase | 156000 | 1560 purchase orders |
| Delivery | Physical delivery and receipt of goods | 252000 | 3150 deliveries |
| Shelf Stocking | Stocking of goods on store and restocking | 172800 | 8640 hours of shelf stocking time |
| Customer Support | Customer Assistance | 307200 | 1536000 items sold |

Calculate the profit for each product line if

i) Family Bazaar currently allocates support cost( all costs other than cost of goods sold) to product lines on the basis of cost of goods sold on each product line

ii) Family Bazaar allocates support costs ( all costs other than cost of goods sold) to product line using an Activity Based Costing System

iii) Comment on both systems

**Question 3 (6 Marks)**

In the fourth quarter of 2020, Yash paper Mill had following net income:

Sales Rs 650000

Less Cost of Sales 300000

Gross margin 350000

Selling & Admin 250000

Income Before tax 100000

Income taxes 35000

Net Income 65000

Purchases in the fourth quarter amounted to Rs 350000

Estimated data for Yash Paper Mill for 2021 are as follows

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Quarter1 | Quarter2 | Quarter3 | Quarter4 |
| Sales | 725000 | 805000 | 875000 | 968000 |
| Cost of Sales | 350000 | 420000 | 500000 | 580000 |
| Purchases | 410000 | 450000 | 525000 | 600000 |
| Selling & Admin | 250000 | 250000 | 250000 | 250000 |

Taxes are 35% of Pretax Income and are paid in the quarter incurred .60% of Sales are collected in the quarter of sales and 40% are collected in next quarter. 80% are purchases are paid in the quarter of purchase and 20% are paid in the next quarter. Selling & Admin Expenses are paid in the quarter incurred except for Rs 10000 of depreciation included in Selling & Admin expenses. A capital expenditure of Rs 85000 is planned for fourth quarter of 2015.

Prepare cash budget for each quarter of 2021

**Question 4 (8 Marks)**

From the given business activities of Perkins Company estimate the cash flows from:

a. Financing activities and

b. Investing activities.

(a) Purchased machinery costing Rs. 5,00,000.

(b) Sold machinery with a book value of Rs. 67,000 (accumulated depreciation of Rs. 51,000) for Rs.22,000.

(c) Purchased investments for Rs. 45,000.

(d) Sold investments costing Rs. 85,000 for Rs. 92,000.

(e) Purchased machinery for Rs. 51,000 on unsecured credit.

(f) Issued at par shares for Rs. 1,50,000.

(g) Maintained Reserves and Surplus of Rs. 85,000.

(h) Converted secured debentures of Rs. 1,00,000 to equity shares at Rs.100 at par.

(i) Net profit reported for the year Rs. 2,00,000

(j) Redeemed secured debentures of Rs. 45,000 at par.

(k) Repaid unsecured loans of Rs. 5,000.

**Question 5 (8 Marks)**

Business Services Ltd. was set up on 1st April 2020. Its trail balance on 31st March 2021 was as per follows:

|  |
| --- |
| Business Services LimitedTrail Balance on March 31, 2021 |
| Buildings | 15000 |  |
| Office equipment | 12000 |  |
| Office supplies | 2140 |  |
| Trade receivables  | 1640 |  |
| Cash | 630 |  |
| Prepaid rent | 3600 |  |
| Trade payables |  | 1020 |
| Unearned revenue |  | 1600 |
| Share capital |  | 20000 |
| Dividends | 1000 |  |
| Revenue from services |  | 16870 |
| Salaries expense | 3100 |  |
| Electricity expense | 380 |  |
|  | 39490 | 39490 |

The following additional information is available:

(a) The building is expected to be useful for 10 years and the office equipment has an estimated useful life of four years. None of these assets are expected to have any salvage value.

(b) The inventory of office supplies on March 31 is Rs. 970.

(c) Services for Rs. 900 were provided to customers in January although no bills have been raised.

(d) Services for Rs. 720 were provided to customers who had made full advance payments.

(e) Salaries of staff for the second fortnight totaling Rs. 3,100 have not been paid.

Required:

1. Prepare Income statement and Balance Sheet as on March 2021.