

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 1– • EXAMINATION – WINTER 2016

Subject Code: 2810001

Date: 30/12/2016

Subject Name: Accounting for Managers

Time: 10:30 AM to 1:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 (a) Identify the letter of the choice that best completes the statement or answers the question. **6**

1. Money spent Rs.10,000 as travelling expenses of the directors on trips abroad for purchase of capital asset is-
A. Capital Expenditure B. Revenue Expenditure
C. Deferred Revenue Expenditure D. None of the above
2. Purchase of office furniture Rs.1200 has been debited to General expense account. It is -
A. Clerical Error B. Error of Principle
C. Error of Omission D. Compensating Error
3. Wages paid for erecting a machine should be debited to -
A. Repair account B. Machine account
C. Wages account D. None of the above
4. The concept of conservatism when applied to the balance sheet results in ---
A. Understatement of assets B. Overstatement of capital
C. Overstatement of assets D. None of the above
5. As per the companies act, only preference shares which are redeemable within -
A. 24 years B. 22 years
C. 30 years D. 20 years
6. Sales for the year ended amounted to Rs.10,00,000. Sales included goods sold to Mr. A for Rs.50,000 - 'at a profit of 20% on cost. Such goods are still lying in the go down at the buyer's risk.' Such goods should be treated as part of-
A. Sales B. Closing stock
C. Goods in transit D. Sales return

Q.1 (b) Explain the following terms: **04**

1. Business entity concept
2. Money measurement concept
3. Authorized share capital
4. Return on net worth (RONW)

Q.1 (c) Larsen & Toubro sought the advice of an investment advisor for deployment of surplus funds of around Rs.45 lakh in the stock market. The advisor advised to invest in Glenmark Pharma Ltd. and charged Rs.7,500 as his fee. Accordingly, LT bought 8,500 equity shares of the face value of Rs.10 each of Glenmark Pharma at Rs.520 per share from NSE through a stockbroker, Sharekhan Limited. The broker charged a brokerage of 0.50%. Determine the cost of this investment. **04**

Q.2 (a) Explain the important tools of financial statement analysis. **07**

(b) From the following data, calculate the value of closing inventory according to FIFO and LIFO on March, 31, 2014 using: **07**

- (1) Periodic inventory system and
(2) Perpetual inventory system

On March 1, stock in hand 400 units @ Rs.7.50 each.

Purchases	Units	Rs.	Issues	Units
5-Mar	600	8	3-Mar	300
15-Mar	500	9	10-Mar	500
25-Mar	400	8.5	17-Mar	400
30-Mar	300	9.5	26-Mar	500
			31-Mar	200

OR

(b) Discuss income recognition and accrual income under AS-9. **07**

Q.3 (a) Define Accounting. Explain the different branches of accounting. **07**

(b) Calculate the following ratios: **07**
(i) Gross profit ratio (ii) Net profit ratio (iii) Return on capital employed (iv) Return on Equity

Particulars	Rs.
Sales	5,20,000
Sales Tax	10,000
Return Inwards	10,000
Opening stock	10,000
Purchase	1,10,000
Closing stock	25,000
Wages	5,000
Debentures	1,00,000
Preliminary expenses	1,00,000
Preference share dividend	50,000
Interest expense	50,000
Tax expense	50,000
Operating expenses	2,00,000
Equity share capital	3,00,000
Preference share capital	2,00,000

OR

Q.3 (a) Explain the detail applicability of Accounting Standards with special reference to various levels of categories of enterprises. **07**

(b) The financial statements of Grace Corporation are as follows: **07**

GRACE CORPORATION : BALANCE SHEET, MARCH 31

PARTICULARS	2014	2013
SHAREHOLDER'S FUNDS		
Share Capital	25,000	25,000
Reserve & Surplus	11,800	8,600
	36,800	33,600
LIABILITIES		
Secured Loans	9,000	8,000
Unsecured Loans	3,000	1,000
Current Liabilities	23,300	17,100
	35,300	26,100
Total equities and liabilities	72,100	59,700
ASSETS		
Fixed Assets	32,200	26,500
Investments	2,800	4,300
Inventories	10,600	4,900
Debtors	20,900	15,600
Cash	4,400	7,000
Other current assets	1,200	1,400
Total assets	72,100	59,700

Prepare common-size balance sheet and interpret the same.

- Q.4 (a)** Write a brief note on Global Financial Reporting Standards. State any four differences between IFRS, Indian GAAPs and US GAAPs. **07**
- (b)** The following information is provided for machinery. **07**

Cost of machinery is Rs.9,00,000

Installation charges Rs.1,00,000

Rate of depreciation : 10%

- i) Determine the cost of machinery.
- ii) Determine the total accumulated depreciation till the end of year four as per SLM method of depreciation and WDV method of depreciation.
- iii) If the company followed SLM for the first four years and decides to switch over to WDV, what would be the amount of resultant surplus/deficit and treatment in income statement?

OR

- Q.4** Following are the balance sheets of TCS Limited for the year 2013 and 2014. **14**

Liabilities	2013	2014	Assets	2013	2014
Share Cap.	24,00,000	30,00,000	Buildings	16,00,000	15,20,000
14% Debenture	12,00,000	8,00,000	Machinery	10,00,000	14,40,000
Profit & Loss a/c	2,00,000	3,00,000	Short-term Investment	6,00,000	9,00,000
General Res.	6,00,000	7,00,000	Inventories	8,00,000	9,40,000

Creditors	9,80,000	11,20,000	Debtors	13,40,000	10,60,000
Proposed dividend	2,40,000	3,60,000	Cash at Bank	4,40,000	6,60,000
Prov. for Tax	2,00,000	2,60,000	Prepaid Exp	40,000	20,000
TOTAL	58,20,000	65,40,000	TOTAL	58,20,000	65,40,000

Additional Information:

1. Debentures were redeemed at a premium of 10%
2. Taxes paid during the year amounted to Rs.2,80,000
3. A machine (book value Rs.1,60,000) was sold for Rs.2,60,000 and new machinery worth Rs.7,20,000 was acquired during the year.

You are required to prepare statement of changes in working capital, statement showing funds from operations and statement fund flow statement.

Q.5

Gujarat Indoor Stadium Ltd. was set up on August 1, 2013. Its trial balance on August 31, 2013 is as follows; **14**

GUJARAT INDOOR STADIUM LIMITED
Trial Balance, August 31, 2013

Account	Debit	Credit
Swimming Pool	12,000	-
Tennis Court	9,600	-
Supplies	3,280	-
Debtors	2,910	-
Cash	940	-
Prepaid Insurance	1,200	-
Creditors	-	1,290
Unearned Revenue	-	2,100
Share Capital	-	15,000
Dividends	800	-
Revenue from Services	-	15,540
Salaries	2,910	-
Telephone expenses	290	-
	33,930	33,930

The following additional information is available:

- (a) The swimming pool has an estimated life of five years and the tennis court has an estimated life of eight years. Neither has any scrap value.
- (b) The inventory of supplies on August 31 is Rs.1190.
- (c) Subscription revenues of Rs.1200 is due from members who have been admitted on a provisional basis.
- (d) Unearned subscription includes an amount of Rs.300 for August.
- (e) Staff salaries for the last week totalling Rs.1290 have not been paid.
- (f) The local electricity company sent a bill for Rs.280 for August after the close of the month's transactions.

(g) Insurance premium of Rs.1200 was paid on a one year policy effective from August 1.

Prepare a profit and loss account and a balance sheet.

OR

Q.5 MICHAEL JACKSON: WAS THE KING OF POP OR PAUPER? 14

Michael Jackson, nicknamed the “King of Pop”, died in Los Angeles on June 25, 2009. The following information about his finances appeared in several newspaper reports after his death:

- Jackson owned 50 per cent in the Sony ATV music publishing joint venture that included much of the Beatles catalogue. His stake was valued at in \$500 million to \$1 billion. It has been used as collateral for multiple loans. The catalogue now has about \$300 million in loans secured against it, held by Barclays.
- The Mijac catalogue that controls publishing rights to Jackson’s recordings is worth an estimated \$50 to \$100 million. Warner Music administers the catalogue and pays Mijac several million dollars in royalties each year. Jackson’s hits are reportedly encumbered by a \$73 million loan.
- Jackson bought Neverland, the 2600-acres Santa Barbara ranch in 1988 for \$17 million and fitted with fairground rides and a zoo for a further \$35 million. Its value was estimated at \$70 to \$100 million before the singer’s death. Jackson defaulted on a loan with Fortress last year but narrowly avoided a foreclosure sale when Colony Capital bought the loan for \$22.5 million. Colony Capital had already begun a multi-million dollar refurbishment. If Neverland is opened to the public, it could be a big earner. Elvis Presle’s Graceland makes \$15 to \$20 million a year profit.
- An accountant testified in 2005 that Jackson spent \$20 million to \$30 million more than he made each year.

Required:

1. Prepare Michael Jackson’s balance sheet on June 25,2009 from the information available. You need to prepare separate balance sheets for the upper and lower range of the estimated amounts.
2. What additional information is required to prepare the balance sheet?
3. A commentator said: “**Michael Jackson lived like a king but died awash in debt**” - What do you think?
