

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
FIRST TRIMESTER (Batch 2021-23)
END TERM EXAMINATIONS, OCTOBER-2021

Course Name	ACCOUNTING FOR BUSINESS	Course Code	20201
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS:

- a. Attempt all questions
- b. This is a closed book exam

Qs 1 (2+2+2=6 Marks)

Vinod Batra and Sunil Batra operate as technical consultants in Mumbai. When their bookkeeper retired, Vinod decided to take over the financial aspect of the business. While updating records, Vinod was unsure about the treatment of a number of transactions.

- (a) One month before the end of the financial year April 2014 – March 2015, Vinod sent a cheque for Rs.100000 to the landlord. This was to cover the payment of rent for the next 12 months. Vinod decided not to record this payment because most of it was for the next financial year.
- (b) The company purchased a new computer for Rs.70000. However, two months after the purchase, Sunil noticed that the same computer was available in the market for Rs.34000. Now Sunil is not sure which value to record.
- (c) One of their clients sent a cheque for Rs.85000, while the amount due was Rs.66000. Vinod is not sure which figure to enter in the financial records.

Required:

Explain how Vinod should treat each of the above transactions according to the appropriate accounting concepts.

Qs 2 (5 Marks)

Spice Jet is a major airline in India. The following items are taken from the recent financial statements of the company:

1. Aircraft fuel consumed
2. Employees remuneration and benefits
3. Deferred tax liability
4. Net cash from operating activities
5. Short-term borrowings
6. Finance cost
7. Dividend paid
8. Inventories
9. Share capital
10. Repayment of term loan

Required:

Identify the financial statement – statement of profit and loss, statement of retained earnings, balance sheet, or cash flow statement – in which you would expect to see each of the items and

indicate whether it is a revenue, expense, asset, liability, equity, operating cash flow, investing cash flow, or financial cash flow.

Qs 3 (9 Marks)

Alex started a consultancy firm on April 1, 2020. The firm was engaged in providing marketing and strategic solutions to small and medium sized business units. After one year of operations Alex is unable to pay the creditor's in time, he is seriously thinking whether he should continue the business or not. He did not keep proper accounting records, however, he has kept a record of the firm's cash receipts and payments:

Alex Consultancy Solutions
Cash Receipt and Disbursements
From April 1, 2020 to March 31, 2021

	Amount (Rs)	Amount (Rs)
Receipts:		
Owner's Equity	2,00,000	
Revenue from Services	4,05,000	
Total Receipts		6,05,000
Payments:		
Rent	1,00,000	
Salaries	2,30,000	
Office Supplies	45,000	
Computer Bought	1,90,000	
Electricity	68,000	
Telephone	32,000	
Total Payments		6,65,000
Bank Overdraft		60,000

Your examination of the records of Alex reveals the following additional information:

- A client paid Rs 15,000 for marketing solutions to be provided in May 2021.
- Although Alex mainly provide services on cash basis, a client owes Rs 55,000 for a service provided for him in Dec 2020.
- In Sep 20 Alex bought four computers for Rs 1,90,000 and paid in cash, but one of the computers was for his son.
- The firm has unused office supplies of Rs 25,000.
- The firm has unpaid telephone bill of Rs 7,000.

Develop statement of profit & loss and balance sheet and advise Alex whether he should continue the business or not.

Qs 4 (3+3+4=10 Marks)

Top managers of Entertainment Plus are alarmed by their operating losses. They are considering dropping the DVD product line. Company accountants have prepared the following analysis to help make this decision:

	Total (\$)	Blu-ray Discs (\$)	DVDs (\$)
Sales revenue	437,000	301,000	136,000
Variable expenses	244,000	158,000	86,000
Contribution	193,000	143,000	50,000
Fixed expenses:			
Manufacturing	134,000	77,000	57,000
Marketing and administrative	64,000	53,000	11,000
Total fixed expenses	198,000	130,000	68,000
Operating income (loss)	(5,000)	13,000	(18,000)

Total fixed costs will not change if the company stops selling DVDs

Requirements:

1. Decide whether Entertainment Plus should discontinue the DVD product line.
2. Assume that the company can avoid \$20,000 of fixed expenses by discontinuing the DVD product line (these costs are direct fixed costs of the DVD product line). Decide whether the company should stop selling DVDs.
3. Now, assume that all \$68,000 of fixed costs assigned to DVDs are direct fixed costs and can be avoided if the company stops selling DVDs. However, marketing has concluded that Blu-ray disc sales would be adversely affected by discontinuing the DVD line (retailers want to buy both from the same supplier). Blu-ray disc production and sales would decline 10%. Decide what should the company do?

Qs 5 (10 Marks)

The accountant at Supreme audio resigned while in the midst of preparing the budget for 2021. His work papers indicated the following:

Budgeted Sales and Inventory Purchases for 2021

	Quarter 1 (Rs)	Quarter 2 (Rs)	Quarter 3 (Rs)	Quarter 4 (Rs)	Total (Rs)
Sales in 2020	256000	300000	290000	368000	1214000
Expected sales in 2021	320000				
Cost of Sales	192000				
Beginning Inventory	69500				
Ending Inventory					
Purchases					

Assumptions:

Sales will increase by 25% over 2020.

Cost of sales equals to 60% of sales.

For 2021, ending inventory should equal 35% of the cost of sales for the next quarter.

Sales in the first quarter of 2022 will be \$3,00,000.

As a Management accountant you are required to develop the sales and purchases budgets for 2021.