K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program:PGDM, 1st Trimester (Batch 2018-2020)

Subject: Financial Accounting
(End Term Examination)

Maximum Marks: 50
Duration: 3 hours

Date: 17th September, 2018.

Notes:
1. All questions carry equal marks
2. Answer all questions
3. Make suitable assumptions if required and state them
4. It is an OPEN BOOK examination and students are allowed to use ONLY OWN books, notebooks and calculators.

Question 1

On September 30, Ananya and Raj started arguing about who is better off. Raj said he was better off because he had the latest PlayStation console that he bought last year for Rs. 20,000. Ananya, on the other hand, argued that she was better off because she had Rs. 100,000 and a '75 Fiat that she bought two years ago for Rs.20,000.
Raj countered that Ananya still owed Rs. 8,000 on her car and that Raj's dad promised to buy him a Porsche if he gets a great score in his accounting class. Ananya pointed out that she inherited a collection of trading cards that she figured she could sell for about Rs. 12,000. Raj said he had Rs. 70,000 in his bank account then because he just received a Rs. 60,000 student loan. Ananya knows that Raj still owes an Rs. 5,000 installment on this term's tuition.
Ananya and Raj met again in early November. They asked how each other was doing. Ananya claimed that she'd become much more successful than Raj. She had a part-time job and earned Rs.20,000 per month. Raj laughed at Ananya because he had won Rs. 50,000 on a lottery ticket he bought in October for which the "work" was standing in line for a minute. It was just what he needed because his apartment cost Rs. 25,000 each month. Ananya, on the other hand, paid Rs. 8,000 for her share of the rent. Both Ananya and Raj had other normal living costs that total Rs. 18,000 each month.
Required:
1. Prepare a report that compares what Ananya and Raj each own and owe on September 30. Note any decisions you had to make when preparing your report. Which of the two is better off?
2. Prepare a report that compares what Ananya and Raj each earned during October. Note any decisions you had to make when preparing your report. Which of the two is more successful?

Question 2

The New Furniture Store has just begun selling a new line of inventory. Management must now decide on an inventory method to use. Method A results in higher net income and higher assets than Method B. Method A is more costly to implement. What advice would you give to the chief executive officer?

Question 3

Ajay's Finance and Collection Company has had a lot of trouble collecting its receivables recently. Discuss how each of the following circumstances might be reflected in the Allowance for Uncollectible Accounts:

1. Prem Raj has an "open" account that is always overdue. Raj makes regular payments of Rs.500 each month, but the balance in his account is always about Rs.4,000.
2. Priya purchased a car using Rs.4,000 borrowed from Ajay's. Priya has not made any payments for six months, and her overdue balance exceeds Rs.1,200.
3. Aanamika has just borrowed Rs.4,000 from Ajay's, has excellent credit references, and after borrowing the money has sent Ajay's a change-of-address notification showing a new address in Brazil.
4. Priya paid her overdue balance.
5. Prem Raj's son purchased a car using Rs.4,000 borrowed from Ajay's. He has no credit references, other than the family connections and circumstances discussed earlier. Ajay's is unable to get Perm Raj to cosign the note!
6. Priya's daughter purchased a new sound system for her house and car, using Rs.4,000 borrowed from Ajay's. She has an excellent credit history, but after purchasing the sound system, it failed; she informed Ajay's that because the seller provided no warranty, she was not going to make any payments on the defective sound system.

Question 4

Solutions Corporation, a computer vendor and consulting company, uses the accrual method of accounting. Its accounting year ends on Dec 31. The following are three of the corporation's transactions during the current year:

1. Solutions Corporation hired a contractor to remodel its sales floor. The contractor completed the remodeling on November 30. On December 15, Solutions received a Rs. 21,000 bill from the contractor. Solutions immediately contacted the contractor to contest the Rs. 8,000 labor charge included in the total bill, which Solutions claims should only be Rs. 7,000. Solutions made no payment on the bill.

2. Solutions offers a 2-year warranty on all of its computer systems. For sales of computers in the current year, it paid Rs. 11,500 to service warranties during the current tax year, and it expects to pay Rs. 12,000 to fulfill the remaining warranty obligations next year.

3. Every year, Solutions offers a series of six trade seminars from November 1 through March 31. It receives all registration fees from participants by October 1, before the

seminars begin. As of December 31, two of the six seminars are completed, and the next seminar is scheduled for January 14–15. The expenses incurred in performing the seminars are routine each year. On the first of each month from November through March, Solutions pays the Rs. 625 monthly rent for the seminar location. On September 16, Solutions signs a contract with the seminar teacher, a computers expert and excellent public speaker. The contract requires Solutions to pay the teacher Rs. 900 after each seminar, a total of Rs. 5,400. On October 3, Solutions signs a contract with a local printing company, which will provide text materials for the seminars. Solutions pays the printer Rs. 350 after each seminar's materials are delivered the day before the seminar.

How should Solutions Corporation treat these transactions? What rules apply?

Question 5

QuickServe, a chain of convenience stores, was experiencing some serious cash flow difficulties because of rapid growth. The company did not generate sufficient cash from operating activities to finance its new stores, and creditors were not willing to lend money because the company had not produced any income for the previous three years. The new controller for QuickServe proposed a reduction in the estimated life of store equipment to increase depreciation expense; thus, "we can improve cash flows from operating activities because depreciation expense is added back on the statement of cash flows." Other executives were not sure that this was a good idea because the increase in depreciation would make it more difficult to have positive earnings: "Without income, the bank will never lend us money."

Required:

What action would you recommend for QuickServe? Why?

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