

**K.J. Somaiya Institute of Management Studies & Research**

Course: MHRDM – I Sem. Exam

Sub: Financial and Cost Accounting for Management

Date of Exam: 20<sup>th</sup> Nov., 2017

Time: 3 Hrs.

Marks: 50

- Note:
1. Section A compulsory (20 Marks)
  2. Solve Any Three Questions from Section B (10 Marks)
  3. Use of scientific calculator is allowed by no financial calculator or mobile phone.

**SECTION A**

**Question No. 1**

Analyze the financial statements of HCL Technologies Limited and Zensar Technologies Limited who are the competitors in IT sector. Share price of HCL is Rs.873.05 and of Zensar it is Rs.924.95 per share as on 31<sup>st</sup> March, 2017. Analysis need to be carried on the following parameters:

1. Liquidity Position (Compute Current Ratio, Quick Ratio and Current Cash Debt Coverage)
2. Long Term Solvency Position (Compute Debt-Equity Ratio and Cash Debt Coverage)
3. Profitability Position (Compute EBIT Margin, Net Profit Margin, ROA and ROE)
4. Turnover Ratios (Compute Inventory and Debtors Turnover along with Days)
5. Market Ratios (Compute EPS and P/E)

**Detail financial statements are available at the end of the question paper.** Provide the detail interpretation.

**SECTION B**

**Question No.2**

Analyze the following transactions:

1. On January 3, 2017, one of the factory machines was sold for its book value, Rs.38660. This machine was recorded on the books at Rs.312330 with accumulated depreciation of Rs.273670.
2. Chris purchased a property with a building and parking lot for \$1700000. An appraiser valued the components of the property if purchased separately as follows:

Land	\$600000
Land improvements	300000
Building	900000
Total	1800000

3. DT Company has created a new software application for PCs. Its costs during R&D were \$250000. Its costs after the working program was developed were \$175000. Although the company's copyright may be amortized over 40 years, management believes that the product will be viable for only five years. How should the costs be accounted for? At what value will the software appear on the balance sheet after one year?
4. KT Manufacturing purchased land next to its factory to be used as parking lot. The expenditure incurred by the company were as follows:
  - Purchase price \$300000
  - Broker's fees \$24000
  - Title search and other fees \$2200
  - Demolition of a cottage on the property \$8000
  - General grading of property \$4200
  - Paving parking lots \$40000
  - Lighting parking lots \$32000
  - Signs for property lots \$6400

Determine the amounts that should be debited to the land account and land improvement account.

5. A new machine with cost of \$56060 was purchased. The company paid \$41660 cash and received a trade-in allowance of \$14400 on a used piece of machine. The used machine could have been sold

MHRDM – 2017-20 Batch– I Sem. End Term Exam

outright for not more than \$12100. It had cost \$24000 new, and accumulated depreciation on it was \$10400, making net book value \$13600. Assume exchange in different class of asset.

**Question No.3**

Analyze the following transactions:

1. LC Corporation issued 16000 shares of its \$1 par value common stock in exchange for land that had a fair market value of \$100000. Prepare the journal entries necessary to record the issuance of the stock for the land under each of these conditions:
  - (A) The stock was selling for \$7 per share on the day of the transaction, and
  - (B) Management attempted to place a value of the common stock but could not do so.
2. Sole company purchased 2000 shares of its own \$2 par value common stock for \$20 per share, the current market price.
3. ELM Corporation secured authorization from the state for 200000 shares of \$10 par value common stock. It has 80000 shares issued and 70000 shares outstanding. On June 5, the board of directors declared a \$0.25 per share cash dividend to be paid on June 25 to stockholders of record on June 15. Prepare journal entries to record these events.
4. BU Company is authorized to issue 100000 shares of common stock. On August 1, the company issued 5000 shares at \$25 per share. Prepare journal entries to record the issuance of stock for cash under each of the following alternatives:
  - (A) The stock has a par value of \$25,
  - (B) The stock has a par value of \$10.

**Question No.4**

Analyze the following transactions:

1. CC had assets of \$280000 and liabilities of \$120000 at the beginning of the year and assets of \$400000 and liabilities of \$140000 at the end of year. During the year, there was an investment of \$40000 in the business and the company paid dividends of \$48000. What amount of net income did the company earn during the year?
2. Tom owns and operates a minimart. Which of Tom's actions described below are business transactions? Explain why any other actions are not considered transactions.
  - a. Tom reduces the price of a gallon of milk in order to match the price offered by a competitor.
  - b. Tom pays high school student cash for cleaning up the driveway behind the market.
  - c. Tom fills his son's car with gasoline in payment for his son's restocking the vending machines and the snack food shelves.
  - d. Tom pays interest to himself on a loan he made to the business three years ago.
3. Billed a customer for services performed, \$3800.
4. Received partial payment from the customer billed in the transaction no.4.
5. Customer for whom we performed the services in transaction no.4 got insolvent and paid 60% of the balance amount.
6. Customer of MMT company deposited Rs.50000 in a State Bank of India account of MMT company, what journal entry bank and MMT company record for this transaction

**Question No.5**

Analyze the following transactions:

MHRDM – 2017-20 Batch– I Sem. End Term Exam

1. On January 13, 2015, Silverio Oil Company purchased a drilling truck for \$45000. Silverio expects the truck to last five years or 200000 miles, with an estimated residual value of \$7500 at the end of that time. During 2016, the truck is driven 48000 miles. Silverio year end is December 31. Compute the depreciation for 2012 under the:
  - (a) SLM
  - (b) Production method
  - (c) WDV
2. Agta Company currently has 250000 shares of \$1 par value common stock authorized with 100000 shares outstanding. The board of directors declared a 2-for-1 split on May 15, 2011, when the market value of the common stock was \$2.50 per share. The retained earnings balance on May 15 was \$350000. Additional paid-in capital on this date was \$10000. Prepare stockholders' equity section of the company before and after the stock split. What entry, if any, would be necessary to record the stock split?
3. PC began the year 2011 with cash of \$27950. In addition to earning net income of \$19000 and paying a cash dividend of \$9750, PC borrowed \$39000 from the bank and purchased equipment with \$62500 of cash. Also, accounts receivable increased by \$3900, and accounts payable increase by \$5850. Determine the amount of cash on hand at December 31, 2011, by preparing the statement of cash flows.
4. XY Ltd. bought patent for Rs.562500 and decided to write off for its life of 5 years. Journalize for purchase of patent and write off.

**Question No.6**

What is cost accounting? What are the objectives of the cost accounting? Explain classification of costs in brief.

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Balance Sheet (Rs. Crore)	HCL		Zensar	
	Mar-17	Mar-16	Mar-17	Mar-16
DESCRIPTION				
EQUITY AND LIABILITIES				

MHRDM – 2017-20 Batch– I Sem. End Term Exam

Share Capital	285.36	282.08	44.87	44.63
Share Warrants & Outstanding	20.27	37.70	18.34	8.68
Total Reserves	25667.66	21176.79	1064.96	902.98
Shareholder's Funds	25973.29	21496.57	1128.17	956.29
<b>Long-Term Borrowings</b>				
Secured Loans	31.24	28.16	0.25	0.77
Unsecured Loans				
Deferred Tax Assets / Liabilities	-1211.07	-1179.72	-14.94	-14.68
Other Long Term Liabilities	41.53	206.24		
Long Term Trade Payables				
Long Term Provisions	411.27	344.08	16.25	13.55
Total Non-Current Liabilities	-727.03	-601.24	1.57	-0.35
<b>Current Liabilities</b>				
Trade Payables	484.59	453.92	52.79	33.28
Other Current Liabilities	4889.11	3286.87	72.23	78.86
Short Term Borrowings		0.03	14.59	13.25
Short Term Provisions	540.88	772.17	26.59	22.25
Total Current Liabilities	5914.58	4512.99	166.21	147.63
<b>Total Liabilities</b>	<b>31160.84</b>	<b>25408.32</b>	<b>1295.94</b>	<b>1103.57</b>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Gross Block	11282.66	5585.40	170.40	139.64
Less: Accumulated Depreciation	3292.85	2769.16	68.61	34.65
Less: Impairment of Assets				
Net Block	7989.81	2816.24	101.79	104.99
Lease Adjustment A/c				
Capital Work in Progress	410.53	582.12	1.00	0.18
Intangible assets under development			1.62	1.51
Pre-operative Expenses pending				
Assets in transit				
<b>Non-Current Investments</b>	<b>3810.10</b>	<b>3502.58</b>	<b>77.66</b>	<b>4.68</b>
Long Term Loans & Advances	130.24	212.94	32.94	24.11
Other Non-Current Assets	503.83	414.42	2.79	3.34
Total Non-Current Assets	12844.51	7528.30	217.80	138.82
<b>Current Assets Loans &amp; Advances</b>				
Currents Investments	914.14	471.72	146.67	107.84
Inventories	89.93	128.56		
Sundry Debtors	4418.39	4084.53	596.31	525.22
Cash and Bank	7962.35	8662.96	60.71	86.09
Other Current Assets	958.31	540.67	262.89	230.30
Short Term Loans and Advances	3773.77	3751.74	11.56	15.30
Amt Due from firm (directors interested)				
Total Current Assets	18116.89	17640.18	1078.15	964.75
<b>Net Current Assets</b>	<b>12202.31</b>	<b>13127.19</b>	<b>911.94</b>	<b>817.12</b>
Total Current Assets Excluding Current Investments	17202.75	17168.46	931.48	856.91
Miscellaneous Expenses not written off	199.44	239.84		
<b>Total Assets</b>	<b>31160.84</b>	<b>25408.32</b>	<b>1295.94</b>	<b>1103.57</b>
Contingent Liabilities	0.63	0.63	36.90	22.54
Total Debt (Long Term Plus Short Term)	44.87	41.66	15.36	15.23
Book Value	180.50	150.45	247.32	212.32
Adjusted Book Value	180.50	150.45	247.32	212.32

Income Statement (Rs. Crore)	HCL		Zensar	
	Mar-17	Mar-16	Mar-17	Mar-16
DESCRIPTION				
INCOME :				

MHRDM – 2017-20 Batch– I Sem. End Term Exam

Operating Income	19318.31	13434.64	1282.82	1245.28
Less: Inter divisional transfers				
Less: Excise Duty				
Net Sales	19318.31	13434.64	1282.82	1245.28
EXPENDITURE :				
Stock Adjustments	38.63	-46.79		
Raw Material Consumed	123.31	162.66		
Power & Fuel Cost	233.54	167.23	11.99	11.42
Employee Cost	6843.38	4866.92	702.88	641.51
Cost of Software developments	2442.71	1800.56	72.22	52.59
Operating Expenses	344.00	265.93	52.56	55.99
General and Administration Expenses	1262.28	959.64	136.98	133.58
Selling and Marketing Expenses	9.63	1.47	7.83	10.27
Miscellaneous Expenses	168.71	121.59	21.08	31.44
Less: Expenses Capitalised				
Total Expenditure	11466.19	8299.21	1005.54	936.79
Operating Profit (Excl OI)	7852.12	5135.43	277.28	308.48
Other Income	958.87	968.83	11.68	52.74
Operating Profit	8810.99	6104.26	288.96	361.23
Interest	56.03	45.82	2.07	2.24
PBDT	8754.96	6058.44	286.89	358.99
Depreciation	478.89	276.89	33.91	34.72
Profit Before Taxation & Exceptional Items	8276.07	5781.55	252.98	324.27
Exceptional Income / Expenses				
Profit Before Tax	8276.07	5781.55	252.98	324.27
Provision for Tax	1403.38	1062.47	72.77	86.05
Profit After Tax	6872.69	4719.08	180.22	238.22
Extra items				
Adjustments to PAT		8.97		
Profit Balance B/F	16469.53	14439.07	136.47	136.63
Appropriations	23342.22	19167.12	316.69	374.85
Equity Dividend %	1200.00	800.00	120.00	120.00
Number of Shares Outstanding (Lakhs)	14,267.83	14,103.81	448.74	446.31

Cash Flow Statement (Rs. Crore)	HCL		Zensar	
	Mar-17	Mar-16	Mar-17	Mar-16
Profit Before Tax	8276.07	5781.55	252.98	324.27
Adjustment	-207.57	-532.18	33.55	18.17
Changes In working Capital	512.80	-1031.60	-68.73	-125.11
Cash Flow after changes in Working Capital	8581.30	4217.77	217.80	217.33
Interest Paid				
Tax Paid	-1586.20	-1063.47	-86.18	-77.00
Other Direct Expenses paid				
Extra & Other Item				
<b>Cash From Operating Activities</b>	6995.10	3154.30	131.62	140.33
<b>Cash Flow from Investing Activities</b>	-2643.02	-770.52	-123.75	-25.69
<b>Cash from Financing Activities</b>	-4112.17	-2698.98	-22.07	-81.39
<b>Net Cash Inflow / Outflow</b>	239.91	-315.20	-14.20	33.26
Opening Cash & Cash Equivalents	125.17	432.73	84.00	50.35
Effect of Foreign Exchange Fluctuations	-13.08	7.64	-11.06	0.40
<b>Closing Cash &amp; Cash Equivalent</b>	352.00	125.17	58.75	84.00