

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program:PGDM, 1st Trimester (Batch 2017-2019)

Subject: Financial Accounting
(End Term Examination)

Maximum Marks: 60

Duration: 3 hours

Date: 21st September, 2016.

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

Given that financial statements are based on accounting which itself is a set of conventions, why is so much reliance placed on financial statements as a representation of reality?

Question 2

Rakhi's Espresso Cart sells coffee, pastries, and mineral water at the Market Mall. Last year, Rakhi leased a coffee cart and opened her business. She initially felt that cash flows were a useful measure of her performance. The cart's owner is now running a competitive coffee cart on the next block. Rakhi has heard about accrual accounting and is hoping to develop a better measure of her performance this year.

1. Rakhi paid Rs.5,200 for a coffee cart, which she expects to use for the next four years.
2. She purchased coffee pots, cups, and other supplies at a cost of Rs.2,000 and paid cash. Half of these supplies will be replaced each year.
3. Electricity and gas costs averaged Rs.40 per month.
4. Rakhi started and ended the year with negligible amounts of coffee beans and mineral water.
5. Each month, Rakhi was paid a salary of Rs.500 to cover personal living expenses.
6. Last year, Rakhi purchased a three-year insurance policy for liability and related incidents costing Rs.1,200.
7. Rakhi expects to have six really good months of sales revenue during the summer and six slower months. Based on last year, her purchases of coffee, pastries, and mineral water during the peak months averaged about Rs.2,000 each month. During the slower months, these items cost about Rs.1,400 each month.
8. During peak months, Rakhi generally collected Rs.4,500 each month, and during slower months she collected Rs.3,000.

Required

Construct a single-step income statement for Rakhi's Espresso Cart for the next year.

Question 3

BERKELEY PLAYHOUSE

Balance Sheet September 30, 2005

| Assets | | Liabilities & Owners Equity | |
|---------------------|---------|-----------------------------|--------|
| Cash | 21,900 | Liabilities | |
| Accounts Receivable | 132,200 | Accounts Payable | 6,000 |
| Props and Costumes | 3,000 | Salaries Payable | 29,200 |
| Theatre Building | 27,000 | Total Liabilities | 35,200 |
| Lighting Equipment | 9,400 | Owners Equity | |
| Automobile | 15,000 | Helen Berkely, Capital | 50,000 |
| Total | 208,500 | Total | 85,200 |

In discussions with Berkeley and by reviewing the accounting records of Berkeley Playhouse, you discover the following facts:

1. The amount of cash, Rs.21,900, includes Rs.15,000 in the company's bank account, Rs.1,900 on hand in the company's safe, and Rs.5,000 in Berkeley's personal savings account.
2. The accounts receivable, listed as Rs.132,200, include Rs.7,200 owed to the business by Artistic Tours. The remaining Rs.125,000 is Berkeley's estimate of future ticket sales from September 30 through the end of the year (December 31).
3. Berkeley explains to you that the props and costumes were purchased several days ago for Rs.18,000. The business paid Rs.3,000 of this amount in cash and issued a note payable to Actors' Supply Co. for the remainder of the purchase price (Rs.15,000). As this note is not due until January of next year, it was not included among the company's liabilities.
4. Berkeley Playhouse rents the theater building from Kievits International at a rate of Rs.3,000 a month. The Rs.27,000 shown in the balance sheet represents the rent paid through September 30 of the current year. Kievits International acquired the building seven years ago at a cost of Rs.135,000.
5. The lighting equipment was purchased on September 26 at a cost of Rs.9,400, but the stage manager says that it isn't worth a dime.
6. The automobile is Berkeley's classic 1978 Jaguar, which she purchased two years ago for Rs.9,000. She recently saw a similar car advertised for sale at Rs.15,000. She does not use the car in the business, but it has a personalized license plate that reads "PLAHOUS."
7. The accounts payable include business debts of Rs.3,900 and the Rs.2,100 balance of Berkeley's personal Visa card.
8. Salaries payable include Rs.25,000 offered to Mario Dane to play the lead role in a new play opening next December and Rs.4,200 still owed to stagehands for work done through September 30.
9. When Berkeley founded Berkeley Playhouse several years ago, she invested Rs.20,000 in the business. However, Live Theatre, Inc., recently offered to buy her business for Rs.50,000. Therefore, she listed this amount as her equity in the above balance sheet.

Instructions

Prepare a corrected balance sheet for Berkeley Playhouse at September 30, 2005.

Question 4

As assistant controller for a small consulting firm, you are responsible for recording and posting the daily cash receipts and disbursements to the ledger accounts. After you have posted the entries, your boss, the controller, prepares a trial balance and the financial statements. You make the following entries on June 30, 1995:

| | | | |
|---------|---------------------|--------|--------|
| June 30 | Cash | 1,430 | |
| | Accounts Receivable | 1,950 | |
| | Service Revenue | | 3,380 |
| June 30 | Advertising Expense | 12,500 | |
| | Utilities Expense | 22,600 | |
| | Rent Expense | 24,000 | |
| | Cash | | 59,100 |

After you have recorded these two transactions but before you have posted them to ledger, your boss comes to you with the following request:

As you are aware the first half was not good and with bonus based on net income, there is a possibility that there may be no bonus at all. I suggest that you post the June 30 cash receipts but hold the posting of cash disbursements since in any case the checks would take a week to clear in the bank and it will not hurt anyone.

1. Explain why the controllers request will result in an increase in net income.
2. Do you agree that the action will “not hurt any one” ? Explain

Question 5

(a) An old wisdom in tennis holds that if your first serves are always good, you are not hitting them hard enough. An analogous statement in business might be that if you have no uncollectible accounts, you probably are not selling enough on credit. Comment on the validity of this statement.

(b) When are more uncollectible accounts better than fewer uncollectible accounts ?

(c) When is a higher percentage of uncollectible accounts better than a lower one ?

Question 6

For each of the following depreciable assets, determine the missing amounts

| Asset | Cost (Rs.) | Residual Value (Rs.) | Useful Life (years) | Depreciation Method | Depreciation (Year 2) |
|-------|------------|----------------------|---------------------|---------------------|-----------------------|
| A | ? | 20,000 | 5 | DDB | 24,000 |
| B | 40,000 | ? | 8 | SYD | 7,000 |
| C | 65,000 | 5,000 | ? | SL | 6,000 |
| D | 230,000 | 10,000 | 10 | ? | 22,000 |
| E | 200,000 | 20,000 | 8 | 150% DB | ? |

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