PGDM 2020-22

Financial Accounting

DM 102

Trimester – I, End-Term Examination: October 2020

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously. There is internal choice in a few questions of Section A. Question of Section B are compulsory.

Sec A: Total 30 Marks: All questions are of 10 Marks each

Q1. Identify and explain any two accounting principles (**5 Marks each*2 = 10 Marks)**

a) Jack Dorsey, Evan Williams, and Biz Stone are the owners of the social communications network, *Twitter*. If they also own a personal collection of classical artifacts valued at $25,000, how would that be reflected on the company books?

b) A piece of land offered for sale at $600,000 is recognized by its purchasers as easily being worth $575,000. Upon negotiation, the buyer finally got it for $570,000. At what amount should the land be recorded in the purchaser's books?

c) A furniture manufacturer, Cathy's Antiques Inc., received the order during the year from a customer who paid $1,500 for a dining table that will be delivered in six weeks. The amount was not recorded as revenue even when the cash was received. **(CILO: 1)**

Q2 a). Operating Income of a company is Rs. 40,000, the tax rate is 30%, Rs. 5,000 is the interest expense, and gain from the sale of machinery is Rs. 10,000. There is convertible preference share capital of face value Rs. 50,000 with 9% dividends along with equity capital. No. of equity shares at the beginning of the year was 12,000. After 3 months, 8,000 more shares were issued. 3 months before the year end, 10,000 shares were bought back. You are required to

1. Calculate the EPS clearing showing the calculation of EAESH and the weighted average no. of shares.
2. Also comment on how the conversion of preference share capital would affect the DEPS. **(CILO: 2) (5 Marks)**

OR

Q2 a). A company has inventory of 15 units at a cost of $12 each on August 1. On August 5, they purchased 10 units at $13 per unit. On August 12, they purchased 20 units at $14 per unit. On August 15, they sold 30 units. **(CILO: 2) (5 Marks)**

Required:

1. Using the FIFO perpetual inventory method, what is the value of the inventory on August 15 after the sale? What is the gross profit if the selling price is $20 per unit?
2. How would the stock valuation method impact profitability?

Q2 b). A machine was purchased for $37,000 and depreciated for five years on a straight-line basis under the assumption it would have a ten-year life and a $1,000 salvage value. At the beginning of the machine's sixth year it was recognized the machine had three years of remaining life instead of five and that at the end of the remaining three years its salvage value would be $1,600. What amount of depreciation should be recorded in each of the machine's remaining three years? **(CILO: 2) (5 Marks)**

OR

Q2 b). What characteristics of Property, Plant and Equipment (PPE) make it different from Inventory or any other operational asset? Also explain, the cost rule for PPE clearly citing examples of three costs other than the purchase price that are made part of the capitalized value.

(CILO: 2) (5 Marks)

Q3. Selected year-end financial statement of Overton Corporation are presented below. Further, it was learnt that all sales were on credit; selected balance sheet amounts as at December 31, 2018 were inventory $17,400; total assets, $ 94,900; common stock $35,500 and retained earnings $ 18,800.

Income Statement	
For year Ended December 31, 2019	
Sales	$315,500
Cost of goods sold	2,36,100
Gross profit	79,400
Operating expense	49,200
Interest expense	2,200
Income before taxes	28,000
Income taxes	4,200
Net Income	$23,800

Balance Sheet			
December 31, 2019			
Assets		**Liabilities and Equity**	
Cash	6,100	Accounts payable	11,500
Short term investments	6,900	Accrued wages payable	3,300
Accounts receivable, net	12,100	Income taxes payable	2,600
Notes Receivable (Operational)	3,000	Long term notes payable	30,000
Merchandise inventory	13,500	Common stock, $5par value	35,000
Prepaid expenses	2,000	Retained earnings	35,100
Plant assets, net	73,900		
Total assets	**$117,500**	**Total liabilities and equity**	**$117,500**

Required

Comment on the Liquidity, Activity/Efficiency and Profitability/Returns of the company

(CILO 4: 10 Marks)

OR

Q3. William Beaver, a well-known professor of accounting at Stanford University has stated: **"**A temperature of 10 degrees is meaningless in isolation unless one knows whether it is being measured in Celsius or Fahrenheit scale. In a given country, a uniform temperature may be assumed." What has this analogy to do with financial statement analysis?

(CILO 4: 10 Marks)

Sec B: Total 20 Marks: Compulsory

Q4. The adjusted trail balance for Speedy Courier as of December 31, 2013, follows.

	Debit	Credit
Cash	58,000	
Accounts receivable	1,20,000	
Interest receivable	7,000	
Notes Receivable (due in 90 days)	2,10,000	
Office supplies	22,000	
Trucks	1,34,000	
Accumulated depreciation- Trucks		58,000
Equipment	2,70,000	
Accumulated depreciation- Equipment's		2,00,000
Land	1,00,000	
Accounts payable		1,34,000
Interest payable		20,000
Salaries payable		28,000
Unearned delivery fees		1,20,000
Long term notes payable		2,00,000
Common stock (capital)		15,000
Retained earnings		1,10,000
Dividends	50,000	
Delivery fees earned		6,11,800
Interest earned		34,000
Depreciation expense- Trucks	29,000	
Depreciation expense- Equipment	48,000	
Salary expense	74,000	
Wages expense	3,00,000	
Interest expense	15,000	
Advertising expense	31,000	
Office supplies expense	27,200	
Repairs expense- Trucks	35,600	
Totals	**1,530,800**	**1,530,800**

Required

1. Use the information in the adjusted trail balance to prepare (a) statement of profit and loss for the year ended December 31, 2013, (b) the statement of changes in equity for the year ended December 31,2013 and (c) the balance sheet as of December 31, 2013. **(CILO 3: 12 Marks)**

Q5. Forten Company, a merchandiser, recently completed its calendar year 2019 operations. The company balance sheet and income statement are presented below.

Income Statement		
For year Ended December 31, 2019		
Sales		5,82,500
Cost of goods sold		-2,85,000
Gross profit		2,97,500
Depreciation expense		-20,750
Salary Expense		-90,000
Rent Expense		-40,000
Loss of sale of equipment		-5,125
Interest Expense		-23,150
Income before taxes		1,39,225
Income taxes expense		-24,250
Net Income		$114,975

Balance Sheet		
December 31, 2019 and 2018		
	2019	**2018**
Assets		
Cash	49,800	73,500
Accounts receivable	65,810	50,625
Merchandise inventory	2,75,656	2,51,800
Prepaid Rent	1,250	1,875
Equipment	1,57,500	1,08,000
Accu. Depreciation- Equipment	-36,625	-46,000
Total assets	**$513,391**	**$439,800**
Liabilities and Equity		
Outstanding Salary	20,150	30,550
Accounts payable	32,991	84,125
Short term notes payable	10,000	6,000
Long term notes payable	65,000	48,750
Common stock, $5 par value	1,62,750	1,50,250
Securities Premium	37,500	-
Retained earnings	1,85,000	1,20,125
Total liabilities and equity	**$513,391**	**$439,800**

Required

1. Prepare CFO using the indirect method **(CILO 3: 8 Marks)**