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SARDAR PATEL UNIVERSITY  
MBA (1 Semester) EXAMINATION  
2008

Thursday, 3<sup>rd</sup> April  
3-6 pm

CC 104 – MANAGERIAL ACCOUNTING – I

Marks -60

Notes:

1. There are FIVE questions and all are compulsory.
2. The marks for each question are given against the question.
3. This is a closed book examination and answers are to be given in the answer book including the objective question.

Q-1 (a) Indicate the net effect on assets, liabilities, and owners' equity resulting from each of the following transactions: (08)

1. Capital stock was issued for \$100,000 cash.
2. Bonds payable of \$25,000 were refunded with capital stock.
3. Depreciation on plant and equipment equaled \$8,500 for the year.
4. Inventory was purchased for \$15,900.
5. \$9,400 worth of inventory was purchased on credit.
6. Inventory costing \$ 4,500 was sold for \$7,200 on credit.
7. \$ 3,500 in cash was received for merchandise sold on credit.
8. Dividends of \$3,000 were declared.
9. The declared dividends of \$3000 were paid.
10. The company declared a stock split, and replaced each outstanding share with two new shares.

Q-1 (b) Explain the going Concern concept as basic accounting concept. Is "Cost or Market value whichever is lower" a correct inventory valuation method and whether that fits in the going concern concept? (04)

Q-2 (a) Huron Corporation operates in an industry that has a high rate of bad debts. On December 31, before any year-end adjustments, the balance in Huron's Accounts Receivable account was \$750,000 and the Allowance for Doubtful Accounts had a balance of \$37,500. the year-end balance reported in the statement of financial position for the Allowance for Doubtful Accounts will be based on the aging schedule shown below. (08)

<u>Days Account Outstanding</u>	<u>Amount</u>	<u>Probability of Collection</u>
Less than 16	\$450,000	.99
16 to 30	150,000	.94
31 to 45	75,000	.80

46 to 60	45,000	.65
61 to 75	15,000	.50
Over 75	15,000	.00

Required.

- a. What is the appropriate balance for the Allowance for Doubtful Accounts on December 31
  - b. Show how accounts receivable would be presented on the balance sheet prepared on December 31?
  - c. What is the dollar effect of the year-end bad debt adjustment on the before-tax income for the year?
- Q-2 (b) Explain the business operating cycle with timing of revenue recognition and method of revenue recognition. (04)
- Q-3 (a) Draw a hypothetical balance sheet keeping in mind schedule VI under The Companies Act 1956, including any four notes to Balance Sheet you may find normally. (08)
- Q-3 (b) Explain the Materiality Concept with examples. (04)
- Q-4 (a) QED Electronics Company had the following transactions during April while conducting its television and stereo repair business. (08)
1. A new repair truck was purchased for \$19,000.
  2. Parts with a cost of \$1,600 were received and used during April.
  3. Service revenue for the month was \$33,400, but only \$20,500 was cash sales. Typically, only 95 percent of sales on account are realized.
  4. Interest expense on loans outstanding was \$880.
  5. Wage costs for the month totaled \$10,000; however, \$1,400 of this had not yet been paid to the employees.
  6. Parts inventory from the beginning of the month was depleted by \$2,100.
  7. Utility bills totaling \$1,500 were paid. \$700 of this amount was associated with March's operations.
  8. Depreciation expense was \$2,700.
  9. Selling expenses were \$1,900.
  10. A provision for income taxes was established at \$2,800, of which \$2,600 had been paid to the federal government.
  11. Administrative and miscellaneous expenses were recorded at \$4,700.

**Required:**

Prepare a detailed April income statement.

Q-4(b) Explain Income Tax Accounting (04)

Q-5 (a) Electronic Heaven, Inc., sells electronic merchandise, including a personal computer offered for the first time in September, which retails for \$695. Sales of this personal computer for the next six-month period (ending February 28) totaled \$52,125. Purchase records indicate the following on the amounts purchased and prices paid by Electronic Heaven: (08)

<b>Purchase Date</b>	<b>Units</b>	<b>Cost per Unit</b>
September 10	12	\$370
October 15	20	375
November 2	32	360
December 10	11	350
February 3	10	335

**Required**

- Prepare a statement for this personal computer showing its gross margin for the six month period ending February 28 using the FIFO, average cost and LIFO inventory methods.
- What was the gross margin percentage earned on the \$52,125 sales of this personal computer?
- If all of the purchases and sales of this personal computer were for cash, what was the net pre- tax cash flow resulting from the purchases and sales of this personal computer? Would the use of different inventory methods change the pre-tax cash flow figure you calculated?
- Assume a tax rate of 30 percent. What would be the net after-tax cash flow using different inventory methods for tax purposes?

Q-5 (b) Compare periodic and perpetual methods of Inventory valuation. (04)

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