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MBA 3rd Semester

Q1. Why businesses record Land at its original cost, even though its of much more value then its cost. Give reasons. 3marks

Land is the long term asset which is never depreciated, rather it is appreciated in value but we donot record the appreciation in its value due to the Historical cost principle of GAAP. If we appreciate its value then our balance sheet would get out of order & would not telly. Revaluation model principle is also important here.
Therefore land is always shown at the price at which we bought it rather than its current market value.

Q2. Do inventory valuation methods affect profitability of the company? Give examples 3marks

inventory valuation methods affect reported profits of the company but as it is does not affect profits. it has the ability to influence profits. inventory valuation methods are FIFO, LIFO ,Weighted Average cost & specific identification. IAS1 deals with inventory valuation & does not allows the use of LIFIO.

in FIFO CGS comprises of oldest market price of stock while closing inventory comprises of recent market prices, in inflationary period FIFO may report lower net profits & some companies may use it as a manipulating device to gain undue tax shields.

Q4. Gul Ahmad company has Cash sales 270,000 credit sales 490,000 account receivable decreased by 320,000.
Calculate net sales reported in income statement. 2marks

my ans= 270 + 490 = 760
Calculate cash received from customers on account of account receivable. = 270 + 320 = 590 .

Q3. Is it possible that income summary reports a net loss while the cash generated from operations is a positive figure? Give example 5marks.

yes it is possible that income summary shows net loss while net cash generated from operations is a positive figure. because income summary includes all expenses while cash generated from operations exclude non cash & non operating items like depreciation , gain on sale of assets etc.we add them back while calculating the figure for profit.
income summary:

gross profit = 50,000

less expenses:

depreciation= 10,000

salaries= 19000

advertising= 17000

loss on sale of asset = 7000

net loss= (3000)

cash generated from operations :

net loss = (3000)

add back dep =10,000

add back loss = 7000

cash collected from customers= 42000

cash paid to suppliers = (32000)

net cash generated from operations = 24000

Question No: 42 (Marks: 5)
Listed below in random order are the items to be included in the balance sheet
of the Myster y Mountain Lodge at December 31, 2001:
Equipment Rs. 29,200 Buildings Rs. 450,000
Land 425,000 Owner's capital ?
Accounts payable 54,800 Cash 21,400
Accounts receivable 10,600 Furnishings 58,700
Salaries payable 33,500 Snowmobiles 15,400
Interest payable 12,000 Notes payable 620,000
Requirement:
Prepare a Balance Sheet at December 31, 2001.

Mystery Mountain Lodge
Balance Sheet
as at December 31, 2001

Particulars	Amount (Rs.)

	Current Assets:	
Cash		21,400
Accounts receivable		10,600
Snowmobiles		15,400
	Fixed Assets:	
Land		425,000
Buildings		450,000
Furnishings		58,700
Equipment		29,200
Total assets		**1,010,300**
	Liabilities:	
Interest payable		12,000
Salaries Payable		33,500
Accounts Payable		54,800
Notes Payable		620,000
	Capital:	
	Owner's capital	
	290,000	
	Total liabilities	
	1,010,300	

Question No: 29 (Marks: 3)

Assume that net income was Rs. 200,000, depreciation expense was Rs. 10,000, accounts receivable increased by Rs. 15,000, and accounts payable increased by Rs. 5,000. Calculate the cash flow from operating activities.

A. Net Cash Flow from Operating Activities 200000Rs.

Net income	**200,000**
Added back	
Deprecation	**10,000**
Increase in account receivable	**(15,000)**
Increase in Account payable	**5000**
net cash flow from OP activity	**200,000**

Question No: 32 (Marks: 5)

Patterson Company reported net income for the current year of Rs. 666,000. During the year the company's accounts receivable increased by Rs. 50,000, inventory decreased by Rs. 23,000, accounts payable decreased by Rs. 55,000, pre-paid expenses increased by Rs. 35,000, and accrued expenses payable increased by Rs. 14,000. Determine the amount of cash provided by or used for operating activities by the indirect method.

Net income	**666,000**
Accounts receivable increased	**(50,000)**
Inventory decreased	**23,000**
Pre-paid expenses increased	**(35,000)**
Accounts payable decreased	**(55,000)**
Accrued expenses payable increased	**14,000**
net cash from OP activities	**563,000**

Question No: 41 (Marks: 5)

Classify the following activities as cash flow from operating, investing and financing activities.

Payments for repurchase of company shares

Collections on loan principal and sales of other firms' debt instruments

Tax payments

Expenditure for purchase of other firms' equity instruments

Payments to suppliers for goods and services

Answer:

Payments for repurchase of company shares:

Financing activities

Collections on loan principal and sales of other firms' debt instruments:

financing activities.

Tax payments:

Operating activities

Expenditure for purchase of other firms' equity instruments:

Financing activities

Payments to suppliers for goods and services:

Operating activities

Question No: 42 (Marks: 5)

Olympic Inc., had the following cash flows during the current year:

Cash received from customers Rs. 240,000

Interest and dividend received 50,000

Proceeds from the sale of the plant assets 330,000

Cash paid to suppliers and employees 127,000
Cash paid for the purchase of investments 45,000
Cash paid for the purchase of treasury stock 36,000

Cash inflow

Cash received from customers Rs.	**240,000**	
Interest and dividend received	**50,000**	
Proceeds from the sale of the plant assets	**330,000**	
	--------------	**620,000**

Less Cash outflow

Cash paid to suppliers and employees	**127,000**	
Cash paid for the purchase of investments	**45,000**	
Cash paid for the purchase of treasury stock	**36,000**	**208,000**
		___________
Cash flow during the year		**412,000**

Question No: 32 (Marks: 5)

Patterson Company reported net income for the current year of Rs. 666,000. During the year the company's accounts receivable increased by Rs. 50,000, inventory decreased by Rs. 23,000, accounts payable decreased by Rs. 55,000, pre-paid expenses increased by Rs. 35,000, and accrued expenses payable increased by Rs. 14,000. Determine the amount of cash provided by or used for operating activities by the indirect method.

A. **Net Cash Flow from Operating Activities 663000Rs.**

Q. Valuation of stock, FIFO and LIFO methods.

Valuation of Stock

Any manufacturing organization purchases different material through out the year. The prices of
purchases may be different due to inflationary conditions of the economy. The question is, what item
should be issued first & what item should be issued later for manufacturing. For this purpose, the
organization has to make a policy for issue of stock. All the issues for manufacturing and valuation of
stock are recorded according to the policy of the organization. Mostly these three methods are used for
the valuation of stock:

- First in first out (FIFO)
- Last in first out (LIFO)
- Weighted average

First in first out (FIFO)
The FIFO method is based on the assumption that the first merchandise purchased is the first
merchandised issued. The FIFO uses actual purchase cost. Thus, if merchandise has been purchased at
several different costs, the inventory (stock) will have several different cost prices. The cost of goods
sold for a given sales transaction may involve several different cost prices.
Characteristics
• This is widely used method for determining values of cost of goods sold and closing stock.

• In the FIFO method, oldest available purchase costs are transferred to cost of goods sold. That
means the cost if goods sold has a lower value and the profitability of the organization becomes
higher.
• As the current stock is valued at recent most prices, the current assets of the company have the
latest assessed values.
Last in first out (LIFO)
As the name suggests, the LIFO method is based on the assumption that the recently purchased
merchandise is issued first. The LIFO uses actual purchase cost. Thus, if merchandise has been
purchased at several different costs, the inventory (stock) will have several different cost prices. The
cost of goods sold for a given sales transaction may involve several different cost prices.
Characteristics
• This is alternatively used method for determining values of cost of goods sold and closing stock.
• In the LIFO method recent available purchase costs are transferred to cost of goods sold. That
means the cost of goods sold has a higher value and the profitability of the organization becomes lower.
• As the current stock is valued at oldest prices, the current assets of the company have the oldest

assessed values.

Question No: 42 (Marks: 5)
Hill Company adjusts its accounts at the end of each month. Prepare the adjusting entries required at December 31 based on the following information.
a. A bank loan had been obtained on December 1. Accrued interest on the loan at

December 31 amounts to Rs. 1,050. No interest expense has yet been recorded.
Answer

Interest Expense A/C 1050
Accrued interest A/C 1050

b. Depreciation of the office equipment is based on an estimated life of five years. The balance in the office equipment account is Rs. 24,000; no change has occurred in the account during the year.

Depreciation expense 4800

To accumulated deprecation 4800

c. Interest revenue earned on US government bonds during December amounts to Rs. 750. This accrued interest revenue has not been recorded or received as of December 31.

Interest Receivable on Bonds A/C 750
Interest Income on Bonds A/C 750

OR
accrued interest 750
interest income 750

d. On December 31, an agreement was signed to lease a truck for 12 months beginning January 1 at a rate of 35 cents per mile. Usage is expected to be 2,000 miles per month, and the contract specifies a minimum payment equivalent to 18,000 miles a year.

Accrued lease rent 630,000
Lease rent 630,000

e. The company's policy is to pay all employees up-to-date each Friday. Since December 31 fell on Monday, there was a liability to employees at December 31 for one day's pay amounting to Rs. 2,800.

Salary Expense 2800
Salary Payable 2800

Question No: 41 (Marks: 5)

On 15, 2001, ABC Company sold 1,000 printers to another company. Immediately prior to this sale, the perpetual inventory records of the company for the printers included the following cost layers.

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Total on hand 1,500 Rs. 14,100

Instructions:

Prepare a separate general entry to record the cost of printers, assuming that the company uses the following methods.

FIFO method

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Cost of sales of 1000 printers

Sale date	Quantity	Unit Cost	Total Cost
15,2001	600	Rs. 9.25	Rs. 5,550
15,2001	400	Rs. 9.50	3,800

			9,350

Cost of Printers Sold A/C 9350
Printers Inventory A/C 9350

LIFO method

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Cost of sales of 1000 printers

Sale date	Quantity	Unit Cost	Total Cost
15,2001	900	Rs. 9.50	8,550
15,2001	100	Rs. 9.25	Rs. 925

9475

Cost of Printers Sold A/C 9475
Printers Inventory A/C 9475