

IIT Delhi

DMS

**B. Tech. – MSL 302 – Management Accounting & Financial Management**

Minor Test 1 – August 27, 2019

**Max Marks: 20**

**Duration: 1 hour**

1. SolarBike Firm was formed as a partnership ten years ago by three sisters-in-law: Peg McLaughlin, Terry McLaughlin, and Joanie McLaughlin. All three worked diligently to design and produce the SolarBike: an electric bicycle propelled by the sun's rays. The good news is that the bike is a big hit with environmentalists and last year's sales reached \$2 million. The bad news is that to keep up with growing demand for the bike, the firm must expand its capacity at a cost of \$1 million. Even though the firm is doing well, it's unlikely that the partnership could get the needed \$1 million in funds from a bank.

The firm's predicament was discussed at a recent partnership meeting. Not only were the three partners unwilling to lend the company any more money, but also, they voiced concern about being held responsible for their own actions as well as for all the partners' actions. Peg asked the group to consider incorporating and raising funds through the sale of stock. Joanie supported this idea, but Terry was against it.

The three partners hired you as a consultant to advise them on whether to remain as a partnership or to form a private corporation. In addition to your recommendation, you should discuss the advantages and disadvantages of both forms of organization and explain how they apply to SolarBike Company's situation. (5)

2 Identify the underlying accounting principle: (3)

- (a) Accounting does not record health of the Chief Executive of the company.
- (b) Loss suffered by owner by disposing off his personal car is not recorded in books of the firm.
- (c) The method of depreciation chosen once, should be used year after year.

3 Fill in the blanks (2)

- (a) Cost of raw materials used = Opening stock of raw materials (+) \_\_\_\_\_ (-) Closing stock of raw materials.
- (b) Sales revenue minus Cost of goods sold is \_\_\_\_\_ .

4 Indicate whether the following statements are true or false with reason (5)

- (a) Balance sheet is a flow concept.
- (b) Profit and loss account is a stock concept.
- (c) Balance sheet indicates market value of the firm's total assets.
- (d) Totals of two sides of balance sheet always tally.
- (e) All types of loans are long term liabilities.

5. Prepare Trading and Profit and Loss Account and Balance Sheet of Jagat Shah as at 31<sup>st</sup> March 2018 from the following balances: (5)

- |                            |   |
|----------------------------|---|
| Capital 190000 ✓           | Cash at Bank 26000 A                      |
| Drawings 7000 ✓            | Salaries 8000 E                           |
| Plant & Machinery 120000 A | Repairs 1900 E                            |
| Delivery Vehicle 26000 A   | Stock on 1 <sup>st</sup> April 2017 16000 |
| Sundry Debtors 36000       | Rent 4500 E                               |
| Sundry Creditors 26000     | Manufacturing Expenses 1500               |
| Purchases 20000            | Bills Payable 23500 ✓                     |
| Sales 42000                | Bad Debts 5000                            |
| Wages 8000                 | Carriage 1600                             |

Adjustments

1. Closing Stock was Rs. 16000 ✓
2. Depreciate Plant and Machinery @ 10% and Delivery Vehicle @ 15%.
3. Unpaid Rent amounted to Rs. 500.

~~219000~~  
~~109100~~