GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR
Course: Accounting for Decision Making
Semester- I (Batch: 2022-27)
End Semester Examination: November 2022

Date: 12th Nov, 2022
Duration: 3 hours **Max. Marks: 50**

Instructions:
- Read the questions properly and write the answers in the given answer book.
- Do not write anything on the question paper.
- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Use of simple calculator other than calculator in mobile phone, any other device or gadgets is permitted.

Marks

Q.1 a) Decision accounting suffers from the limitation of a basic record. Explain. (5x2= 10)

b) Wilmar Limited produces a product which has a monthly requirement of 52,000 units of a component X. The component X is purchased at Rs. 15 per unit. For every finished product, 12 units of component X are consumed. The ordering cost is Rs. 350 per order and the carrying cost is 12% p.a. per unit.
Calculate the economic order quantity for component X.
If no supplier is ready to supply less than 52,000 units per lot, what is the extra cost the company has to incur?

OR

a) Explain the concept of 'cost unit', 'cost center' and 'cost driver'. Give examples wherever necessary.

b) In a company, weekly minimum and maximum consumption of material A are 25 and 75 units respectively. The reorder quantity as fixed by the company is 300 units. Historical data suggests that material- A is received within 4 to 6 weeks from the date of order.
Suggest : Minimum level and maximum level for Material- A

Q.2 From the following transactions extracted from the books of accounts of a manufacturing firm as on March 31, 2022, determine (a) consumption value of raw materials in the month and (b) value of closing stock as on March 31 of the current year under the (1) FIFO and (2) LIFO method of pricing issues. (10)

March	Particulars	Quantity (Units)	Rate per Unit (Rs.)
1	Opening Stock	325	8.75
5	Purchases	250	10.80
10	Issues	400	-
13	Purchases	250	10.55
13	Issues	210	-
23	Purchases	115	9.70
29	Issues	100	-

OR

a) Explain the difference between 'interest coverage' and 'debt servicing'. Give formula for calculating both the ratios. (5 Marks)

b) In services costing, 'cost unit' may be simple or composite. Explain. Assuming, you are a partner in a corporate law firm, suggest a 'cost unit' for your firm. (5 Marks)

Q.3 The following information is provided to you for Granity Ceramics Ltd. Also supplied to you is industry indicators of ratios: (10)

Balance sheet as at Dec 31, 2021

Liabilities	Amt. Rs.	*Assets*	Amt. Rs.
Share capital	13,00,000	Fixed assets: Gross block 7,55,000 Less: Accumulated depreciation 50,000 Net block	7,05,000
10% redeemable Debentures	1,30,000	Bank	2,20,000
Sundry creditors	1,65,000	Debtors	1,75,000
Payables	2,20,000	Closing stock	8,25,000
Other current liabilities	1,10,000		
	19,25,000		**19,25,000**

Statement of Profit for the year ending December 31, 2021

Sales		Rs. 27,50,000
Less: Cost of goods sold:		
Materials	Rs. 10,45,000	
Wages	6,60,000	
Factory overheads	3,24,500	20,29,500
Gross Profit		7,20,500
Less: Selling & dist. expenses		2,75,000
Less: Administrative and general Exp.		3,07,000
EBIT		1,38,500
Less: Interest		23,000
EBT		1,15,500
Less: Taxes (@ 35%		40,425
Net Profit		75,075

Calculate: 1. Current (Industry Ratio – 2.4) 2. Debtor's turnover (Industry Ratio – 8.0) 3. Inventory turnover (Industry Ratio – 9.8) 4. Assets turnover (Industry Ratio – 2.0) 5. NP (Industry Ratio – 3.3) 6. ROA (Industry Ratio – 6.6) 7. RONW (Industry Ratio – 12.4) ratios. Also show the common size statement analysis and advice on the health of the company.

Q.4 The directors of AreComm. Ltd. are worried at the deteriorating financial position of a company. The company has utilized full overdraft facility from the bank and is still not able to pay its creditors on due dates, although the profits earned are satisfactory. (10)

The following are the balance sheets as on March 31st for the recent two years:

		Previous year		*Current year*
1,00,000 equity shares of Rs. 10 each fully paid		10,00,000		10,00,000
P&L appropriation account		60,000		80,000
Overdraft from bank		1,60,000		6,00,000
Sundry creditors		2,00,000		6,00,000
		14,20,000		**22,80,000**
Land & building		3,00,000		5,00,000
Plant & machinery Less: Depreciation	5,00,000 1,20,000	3,80,000	6,00,000 1,80,000	4,20,000
Vehicles Less: Depreciation	1,16,000 56,000	60,000	1,24,000 84,000	40,000
Stock		2,20,000		7,20,000
Debtors		4,60,000		6,00,000
		14,20,000		**22,80,000**

During the year, a dividend of 10% was paid to the shareholders. On 1st April of the current year, a motorcar, which originally cost Rs.20,000, and showed a book value of Rs.10,000, was sold for Rs.16,000.

Prepare a statement showing flow of cash during the year and comment on the cash crunch experienced by the company. Also, suggest the remedial measures to bring the company out of this situation.

Q.5 The production department of Intel Limited furnished you the following information pertaining to 8000 units of pen drives produced during the year 2020-21. (10)

Particulars	Amt. Rs.
Raw materials as on 1.04.2020	35,000
Raw materials as on 31.03.2021	4,900
Purchase of materials	53,900
Productive wages	92,000
Production unit expenses	16,000
Establishment expenses	12,000
Completed stock on hand as on 1.04.2020	-
Completed stock on hand as on 31.03.2021 – 1200 Units	-
Sales	2,16,750

The department seeks your help to prepare quotation for the supply of 1,000 units to a customer. It is estimated that cost of materials will increase by 15% and cost of labour will also increase by 10%.

Prepare a statement showing the price to be quoted so as to earn the same percentage of profit on sales, as was realised in the year 2020-21, assuming that the overhead cost per unit of production will remain the same as was in the previous year.

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