

**TDP (Honours) 5th Semester Exam., 2020
(Held in 2021)**

**ACCOUNTING THEORY AND
MANAGEMENT ACCOUNTING
(Honours)**

SIXTH PAPER

Full Marks : 80

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

Answer eight questions, taking two from each Unit

UNIT—I

1. (a) What do you mean by Accounting Theory? Enumerate the main objectives of Accounting Theory.
(b) What are the reasons for the limited acceptance of Accounting Theory in practice? (2+5)+3=10
2. (a) State the objectives of measurement of income in accounting.

- (b) How does Transaction Approach differ from the Balance Sheet Approach to income measurement? 5+5=10

3. (a) "Accounting concepts and conventions are foundation of accounting principles." Explain.

- (b) Following are the applications of some accounting assumptions/principles. State the names of the relevant accounting assumptions/principles applied herein :

- (i) Valuation of stock at lower of cost or net realizable value
- (ii) Making provision for doubtful debts
- (iii) Appending notes to the financial statements
- (iv) Classification of assets as current assets and fixed assets
- (v) Following the WDV method of depreciating a particular asset year after year 5+5=10

UNIT—II

4. (a) "Income is considered to be earned while capital is maintained intact." Do you agree?

(b) State the reasons for distinguishing between capital and income. $6+4=10$

5. (a) Explain the principle of Historical Cost Method of valuation of tangible fixed assets.

(b) What is the necessity of valuation of assets in accounting? $5+5=10$

6. (a) Why is Balance Sheet called a connecting statement? How is it related to Profit & Loss Account?

(b) State, in brief, the different views about the nature of Balance Sheet. $5+5=10$

UNIT—III

7. (a) Define Management Accounting. Discuss the importance of management accounting for managerial decision making.

(b) Distinguish between Management Accounting and Financial Accounting. $(2+4)+4=10$

8. (a) Distinguish between Gross Working Capital and Net Working Capital.

- (b) From the following information of a manufacturing company, determine the working capital requirement :

Expected annual sales—₹ 7,20,000

Analysis of sales :

Material—60%

Expenses—35% (including labour 20%)

Profit—5%

Time lags (on average) :

Raw materials in stock—1 month

Production process—8 weeks

Credit to debtors—3 months

Credit from suppliers—1 month

Lag in payment of wages and overhead— $\frac{1}{2}$ month

Finished goods in store— $1\frac{1}{2}$ months

Cash in hand for contingencies—₹ 20,000

Assume production is carried on evenly during the year and expenses accrue similarly.

$$2+8=10$$

9. (a) What are the internal and external sources of Working Capital Financing?

- (b) From the following information extracted from the books of a manufacturing concern, compute the operating cycle in days :

Period covered—365 days	
Average period of credit allowed by suppliers—16 days	
	₹ ('000)
Average total of debtors outstanding	480
Raw materials consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of average stock maintained—	
Raw materials	320
Work-in-progress	350
Finished goods	260
	5+5=10

UNIT—IV

10. From the following information of Basak and Sons Ltd., calculate—

- (a) current ratio;
- (b) liquid ratio;
- (c) proprietary ratio;

(6)

(d) debt-equity ratio;

(e) capital gearing ratio : $2 \times 5 = 10$

	₹
Equity Share Capital	50,000
10% Preference Share Capital	70,000
Reserve and Surplus	25,000
6% Debentures	1,00,000
Bank Overdraft	80,000
Sundry Creditors	70,000
Bills Payable	25,000
Land and Building	90,000
Plant and Machinery	1,55,000
Stock	1,00,000
Debtors	60,000
Bills Receivable	10,000
Cash	5,000

11. (a) Write the utility of ratio analysis in the interpretation of financial statements.

(b) Name any two ratios measuring the liquidity position of a firm.

(c) State the limitations of ratio analysis.

$4+2+4=10$

12. From the following Balance Sheets of D. S. Group Ltd. and other particulars, prepare a statement showing the sources and application of funds :

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Liabilities	31.12.19 ₹	31.12.20 ₹	Assets	31.12.19 ₹	31.12.20 ₹
Equity Share Capital	1,00,000	1,50,000	Land & Building	60,000	60,000
8% Redeemable Preference Shares	50,000	25,000	Plant & Machinery	80,000	90,000
General Reserve	10,000	15,000	Investments	20,000	10,000
Profit & Loss A/c	12,000	20,000	Stock	25,000	40,000
Sundry Creditors	8,000	12,000	Debtors	10,000	30,000
Outstanding Liabilities	2,000	3,000	Cash	14,000	35,000
Provision for Bad Debts	2,000	4,000			
Provision for Depreciation on Plant & Machinery	10,000	13,000			
Proposed Dividend	10,000	15,000			
Provision for Taxation	5,000	8,000			
	<u>2,09,000</u>	<u>2,65,000</u>		<u>2,09,000</u>	<u>2,65,000</u>

Additional Information :

- (i) 8% Redeemable Preference Shares were redeemed at a premium of 10%
- (ii) During the year, tax and dividend were paid ₹ 6,000 and ₹ 12,000 respectively

(iii) During the year, a plant, the book value of which was ₹ 27,000 (accumulated depreciation ₹ 12,000), was sold for ₹ 5,000

(iv) An interim dividend was paid for ₹ 20,000 in the year 2020
