# TDP (Honours) 5th Semester Exam., 2021
## ( Held in 2022 )

## 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 inductive approach to the formulation of accounting theory? Write its advantages and limitations in formulation of accounting theory.

   *(b)* How does accounting theory differ from accounting practice? (2+4)+4=10

2. *(a)* What do you mean by Generally Accepted Accounting Principles (GAAP)? Why are they generally accepted?

(b) How do you distinguish between accounting concepts and accounting conventions? (2+4)+4=10

3. (a) "Business income or profit is a residium which emerges out of matching expired cost against revenue." Explain.

(b) What is meant by deferred revenue expenditure? How does deferred revenue expenditure differ from capital expenditure? 4+(2+4)=10

UNIT—II

4. (a) What is meant by 'accounting concept of capital'? How does it differ from the 'economic concept of capital'?

(b) Write four points in regard to problems of recovery of capital. (2+4)+4=10

5. (a) What is meant by the term 'net realizable value' in case of measurement of asset?

(b) What is the meaning of the principle of conservatism in case of valuation of closing stock?

(c) What is the equation explaining the relation between assets and liabilities in entity theory? 2+4+4=10

6. (a) What is Profit & Loss Account? Write its nature.

(b) Write how far the published accounts exhibit a 'true and fair view' of the affairs of the business. (2+4)+4=10

## UNIT—III

7. (a) Write four objectives of management accounting. Write the limitations of management accounting.

(b) Distinguish between Management Accounting and Cost Accounting. (3+3)+4=10

8. (a) What is meant by permanent working capital and variable working capital? Write four importances of working capital.

(b) How do you compute—

(i) Raw Material Storing Period;

(ii) Credit Payment Period? (2+4)+4=10

9. From the following information of *ABC* Ltd., you are asked to prepare a working capital requirement forecast statement : 10

Expected monthly sales 3200 units at ₹ 100 per unit

Analysis of sales :

Raw Materials—40%
Labour—30%
Expenses—20%

Materials will stay in process for 2 weeks

Credit allowed to debtors—5 weeks

Credit allowed by creditors—1 month

Lag in payment of overhead—2 weeks

Average material storing period—3 weeks

25% of sales may be assumed against cash and cash in hand is expected to be ₹ 2,000. Assume that production is carried on evenly throughout the year. A time period of 4 weeks is equivalent to month.

UNIT—IV

10. *(a)* What is meant by ratio analysis?

*(b)* Describe the important four profitability ratios with the help of suitable example.

2+8=10

**11.** From the following information of *ABC* Ltd., you are required to calculate—

(a) Dividend Yield on Ratio;

(b) Price-earnings Ratio;

(c) Earning per Share;

(d) Cover for Preference Dividend;

(e) Cover for Equity Dividend : 2×5=10

Profit after tax (50%)—₹ 24,00,000

Market price of equity share—₹ 60

Depreciation—₹ 3,20,000

Equity share capital of ₹ 10 per share—₹ 32,00,000

12% Preference Share Capital—₹ 16,00,000

Equity dividend paid at 20%

**12.** Following are the Balance Sheets of *ABC* Ltd. for the years ending 31.12.2019 and 31.12.2020 :

| *Liabilities* | *31.12.19* ₹ | *31.12.20* ₹ | *Assets* | *31.12.19* ₹ | *31.12.20* ₹ |
|---|---|---|---|---|---|
| Equity Share @ ₹ 10 each | 50,000 | 80,000 | Fixed Assets (WDV) | 1,30,000 | 1,45,000 |
| | | | Investment | 40,000 | 55,000 |
| 8% Redeemable Preference Share | 60,000 | 40,000 | Stock | 20,000 | 25,000 |
| | | | Debtors | 10,000 | 8,000 |
| Plant Replacement Reserve | 10,000 | 8,000 | Cash | 11,000 | 7,000 |

| Liabilities | 31.12.19 ₹ | 31.12.20 ₹ | Assets | 31.12.19 ₹ | 31.12.20 ₹ |
|---|---|---|---|---|---|
| Profit & Loss A/c | 60,000 | 70,000 | Prepaid Expenses | 4,000 | 8,000 |
| 6% Debentures | — | 10,000 | Preliminary Expenses | 10,000 | 5,000 |
| Bank Loan | 10,000 | — | | | |
| Creditors | 20,000 | 30,000 | | | |
| Proposed Dividend | 5,000 | 10,000 | | | |
| Provision for Taxation | 10,000 | 5,000 | | | |
| | 2,25,000 | 2,53,000 | | 2,25,000 | 2,53,000 |

*Additional Information* :

(i) A machine costing ₹ 5,000 was sold for ₹ 500; depreciation has been charged against it ₹ 4,000

(ii) Profit from revaluation of fixed assets ₹ 5,000 was credited to Profit & Loss A/c

(iii) Preference dividend was paid before redemption in 2020, and proposed dividend of last year and also an interim dividend of ₹ 3,000 were paid in December

(iv) Preference shares were redeemed at a premium of 10% out of the proceeds of fresh issue of equity shares

(v) Provision for depreciation of fixed assets was ₹ 70,000 on 31.12.2019 and ₹ 75,000 on 31.12.2020

(vi) Plant replacement reserve was adjusted to Profit & Loss A/c

Prepare a Statement of Changes in Working Capital and a Funds Flow Statement for the year ended 31.12.2020. 5+5=10

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