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M.M.P.C.-04

Accounting For Managers

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By: *Anand Prakash Srivastava*

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BLOCK 5 : EMERGING ISSUES IN ACCOUNTING

Sample Preview
of the
Solved
Sample Question
Papers

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QUESTION PAPER

June – 2023

(Solved)

ACCOUNTING FOR MANAGERS

M.M.P.C.-04

Time: 3 Hours] *[Maximum Marks : 100*
(Weightage: 70%)

Note: *Answer any five questions. All questions carry equal marks.*

Q. 1. From the following Trial Balance of M/s. Bombay Trading, prepare a Trading and Profit & Loss A/c for the year ending 31st March, 2022 and also Balance Sheet as on that date:

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Capital		1,80,000
Drawings	13,000	
Land and Building	52,000	
Plant and Machinery	28,000	
Furniture and Fixtures	3,000	
Carriage on purchases	8,500	
Wages	43,000	
Salaries	9,400	
Bad debts reserves as on 1-4-2021		5,000
Sales		1,90,000
Sales return	3,600	
Bank charges	3,000	
Taxes	1,700	
Discount received		240
Purchase	80,000	
Bills Receivable	3,000	
Debtors	75,600	
Creditors		24,500
Stock (1-4-2021)	50,000	
Cash in hand	28,000	
Bank loan		2,060
Total	4,01,800	4,01,800

Make the following adjustments:

(i) **Closing stock on 31-3-2022 Rs. 16,000.**

(ii) **Provide 10% depreciation on all fixed assets.**

(iii) **Increase bad debts reserve to Rs. 8,000.**

(iv) **Outstanding salaries Rs. 600.**

(v) **Prepaid taxes Rs. 100.**

Ans. **M/s Bombay Trading**

Trading & Profit and Loss Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount
Opening Stock		50,000	Sales	1,90,000	
Purchases	80,000		*Less:* Sales Return	–3,600	1,86,400
Less: Discount Received	–240	79,760	Closing Stock		16,000
Carriage on Purchases		8,500			
Wages		43,000			
Net Profit C/f to P&L Account		21,140			
Total		**2,02,400**	**Total**		**2,02,400**

Salaries	9,400		Net profit b/d from Trading Account		21,140
Add: Outstanding salaries	600	10,000	Loss c/f to Capital Account		4,760
Provision for Bad Debts		3,000			
Bank Charges		3,000			
Depreciation					
Land & Buildings	5,200				
Furniture & fixtures	300				
Plant & Machinery	2,800	8,300			
Taxes	1,700				
Less: Prepaid Taxes	–100	1,600			
Total		**25,900**	**Total**		**25,900**

M/s Bombay Trading
Balance Sheet as at 31st March, 2022

Particulars	Sch		Amount
Sources of Funds			
Capital Account		1,80,000	
Less: Drawings		–13,000	
Less: Loss B/d		–4,760	1,62,240
Bank Loan			2,060
Total Sources of Funds			1,64,300
Application of Funds			
Fixed Assets			
Land & Building	52,000		
Less Deperciation	–5,200	46,800	
Plant & Machinery	28,000		
Less Deperciation	–2,800	25,200	
Furniture & fixtures	3,000		
Less Deperciation	–300	2,700	74,700
Current Assets, Loans & Advances			
Closing Stock		16,000	
Prepaid Taxes		100	
Sundry Debtors	75,600		
Less: Provision for Bad Debts	–8,000	67,600	
Bills Receivable		3,000	
Cash in hand		28,000	
Total Current Assets		1,14,700	
Less: Current Liabilities and Provisions			
Sundry Creditors		24,500	
Salary Payable		600	
Total Current Liabilities		25,100	89,600
Net working Capital			
Total			**1,64,300**

Notes: it is assumed that Land and Building are depreciable assets

Sample Preview
of
The Chapter

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ACCOUNTING FOR MANAGERS

BLOCK 1: ACCOUNTING : AN OVERVIEW

1 Introduction to Accounting

INTRODUCTION

Accounting has been defined in different ways by different authors and authorities. There is no unaminity among them because the concept of accounting has to be changed with the passage of time. On the basis of functions, accounting may be defined as the art of recording, classifying and summarising business transactions of a financial character and interpreting and communicating the results to the users to enable them to make decisions. Accounting is concerned with the recording of transactions which are measurable in monetary terms in such a way that analysis and interpretation of business acitivities are possible. According to the latter definition of accounting is concerned with the recording of business transactions for better management of the concern and also reporting the true financial position of the concern.

The American Accounting Association (AAA) defines accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information".

CHAPTER AT A GLANCE

OBJECTIVES AND SCOPE OF ACCOUNTING

The main objectives of accounting are:

To maintain a systematic record of business transactions

- Accounting is ready to maintain an organised record of all monetary transactions in a book of accounts.
- All transactions are logged for this purpose in a journal in chronological order, after which they are posted to the main book, which is the ledger and trial balance.

To ascertain profit and loss

- Every businessman is interested in periodically learning the net results of business operations.
- We create a "Profit & Loss Account" to show whether the company has made profits or suffered losses.

To determine the financial position

- Finding out the company's financial situation in order to assess the value of its assets and liabilities is another crucial goal.
- We prepare a "Balance Sheet" for this reason.

To provide information to various users

- Those are accounting's primary goals. is to inform the various stakeholders and interested parties.
- They can make wise financial decisions thanks to the information provided by accounts.

To assist the management

- Accounting helps management run operations efficiently by analysing financial data and providing interpretations in the form of reports.

The scope of accounting can be explained in diagrammatic form:

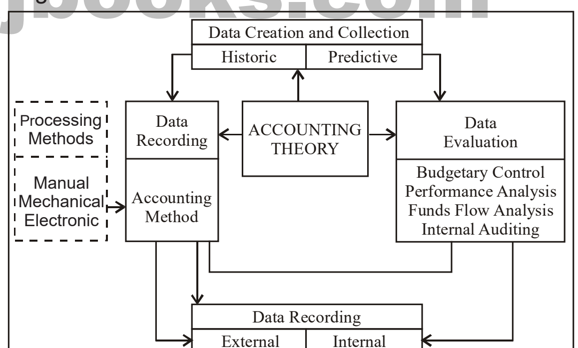

Fig. Scope of Accounting

Data Creation and Collection

This area deals with providing the raw material for the accounting. The historic data collected refers to events which have already taken place. In early times, accounting was concerned with what had happened, rather than making attempt to predict the future and prepare for it. After collecting the historic data, it is recorded in accordance with generally accepted accounting theory. According to the classification scheme, a large number for transactions are added in the books of journals and ledgers. The substantial part of the total accounting work is the recording and processing of information. The processing method of recording can be manual, mechanical or electronic.

Data Evaluation

The most important activity in accounting includes controllong the activities of business with the help of budgets and standard cost, evaluating the performance of business, analysing the flow of funds and analysing the accounting information for decision making purpose by choosing among alternative courses of action.

The Analytical and Interpretive Work of Accounting

It can be used internally or externally and may range from sharp answers to elaborate reports produced by extensive research. Research based projects include capital project analysis, financial forecasts, budgetary projections and analysis for re-organisation, takeover and mergers.

Data Reporting

Data reports are of two types – external and internal. External reporting means communication of financial information about the business to external parties like shareholders, government agencies and regulatory bodies of government. Internal reporting goes on with the communication of results of financial analysis and evaluation to management for decision-making purposes.

DEFINITION OF ACCOUNTING

The process of reporting, recording, evaluating, and summarising economic data is referred to as accounting. By giving information on the company's financial situation, the advent of accounting aids decision-makers in making wise choices.

Accounting is a system that identifies and records business transactions so that they may be compared to those of other businesses and to the performance of the business in the past.

Accounting is the "art of recording, classifying, and summarising in a meaningful way and in terms of money, transactions and events which are, at least in part, of financial character, and interpreting the results thereof," according to the American Institute of Certified Public Accountants (AICPA).

According to Robert N. Anthony, an accounting system is a way to gather, summarise, analyse, and report financial information about the organisation.

It's crucial to comprehend the following accounting concepts in order to grasp accounting well.

Economic events are those that arise as a result of a financial transaction that a corporation must make at some point in its existence. Such as the purchase of new equipment, transportation, on-site machine installation, etc.

Identification, I Measurement, Recording, and Communication: The accounting system's goal should be defined in a way that ensures the correct data is recognised, quantified, documented, and communicated to the appropriate person at the appropriate time.

Organization: This refers to the scope of the enterprise and the nature of the operations.

Assets: These are the resources that an organisation owns and that enable it to make money. Assets are things that belong to the business and have economic value. For instance, equipment and machinery, furniture and fixtures, land and buildings, books, computers, cars, etc. Intangible assets, such as cash, are not visible or touchable for example Patents, goodwill, etc.

Liabilities: A liability is the financial worth of an obligation or debt that an organisation owes to another company or individual. In other terms, liabilities are debts or responsibilities that an organisation owes to others as a result of past dealings and that are paid for with its own assets. There are two types of liabilities: fixed and current. For instance, unpaid bills, debt obligations, and loans from banks and other financial entities.

Owner's Equity: One of the three essential components of a sole proprietorship's balance sheet and a key component of accounting is owner's equity.

Assets = Liabilities + Owner's Equity

Steps in Accounting Cycle

The definition of accounting can be used to infer the following qualities or traits :

Identifying financial transactions and events: Only those transactions and events that have a financial component are included. As a result, these transactions and occurrences are first identified.

Measuring the transactions: The measurements of the transactions and occurrences are made in terms of money, which is regarded as a standard unit.

Recording of transactions and classifying the transactions:

- Accounting requires the recording of financial transactions in the wrong book of accounts, such as the journal or subsidiary books.
- Transactions entered in the journals or subsidiary books of initial entry are categorised and categorised according to their type and posted in distinct accounts known as "Ledger Accounts."

Summarising the transactions:

- It entails making the classified data intelligible to the users by presenting it in a way and in the form of statements.
- It includes a balance sheet, profit and loss account, trading account, and trial balance.

Analysing and interpreting financial data: Users of financial statements can form informed decisions based on the analysis and interpretation of the company's results.

Communicating the financial data or reports to the users: The last phase in accounting is to communicate financial data to users so they may make informed decisions. This can be done by sending reports or financial data to users in a timely manner. It not only records, summarises, and classifies business data, but also analyses and interprets the findings for use in decision-making going forward.

Book keeping Vs Accounting

Bookkeeping: It is a part of accounting that entails the process of locating financial transactions that have taken place in the course of business, measuring, recording, and classifying those transactions.

Accounting: Bookkeeping finishes where accounting starts. It is a broader term that encompasses communicating to the consumers of financial statements and summarising, interpreting, and presenting the financial facts.

Accountancy: The term "accountancy" describes the systematic knowledge of accounting concepts and procedures.

Bookkeeping	Accounting
Definition	
Bookkeeping deals with identifying and recording financial transactions only.	Accounting refers to the process of summarising, interpreting and communicating the financial data of an organisation.
Decision making	
Data provided by bookkeeping is not sufficient for decision making.	Management can take important decisions based on the data obtained from accounting.
Preparation of Financial Statement	
Not done in the case of bookkeeping.	Financial statements are a part of the accounting process.
Analysis	
No analysis is required in the bookkeeping.	Accounting analysis the data and creates insights for the business.
Persons Involved	
The person concerned with bookkeeping is known as a bookkeeper.	The person concerned with accounting is known as an accountant.
Determining Financial Position	
Bookkeeping does not show the financial position of a business.	Accounting helps in showing a clear picture of the financial position of a business.
Level of Learning	
No high-level learning required.	High-level learning required for understanding and analysing accounting concepts.

Systems of Accounting

There are following two systems of recording transactions in the books of accounts:

(i) Double Entry System
(ii) Single Entry System

***(i)* Double-entry system:**

- The Dual Aspect Principle is the foundation of the double entry system.
- Every transaction consists of two parts: "a Debit" and "a Credit" of the same value.
- Both sides of the transaction are recognised and recorded by this accounting system.
- There are at least two accounts involved.
- There should be no deviation from the accounting equation.

***(ii)* Single entry system:**

- Both characteristics are not captured for every transaction under this system.
- For all transactions, either one component is recorded only or neither aspect is recorded.

Advantages of the Double-entry System of Accounting: The following are the primary advantages of the double-entry accounting method :

***(i)* Scientific system:** This system is more scientific than single-entry systems and is helpful in achieving accounting goals.

***(ii)* A complete record of the transaction:**

- Since both elements of transactions are taken into account, each and every transaction is fully recorded.
- These records make it simple to calculate profit or loss.

***(iii)* Checks arithmetical accuracy of accounts:** By creating a Trial Balance for this system, one can verify the records accuracy in terms of mathematics.

***(iv)* Determination of profit/loss and depiction of financial position:**

- By preparing "Profit & Loss A/c," one might learn about the profit made or loss suffered under this system.
- The financial position of the company can be determined by creating a "Balance Sheet," which shows the position of assets and liabilities.

***(v)* Helpful in decision making:** The double-entry accounting method allows management and administration to make decisions based on factual information.

Applications of Accounting: The primary uses of accounting are as follows:

***(i)* Provide information about financial performance:**

- Accounting delivers accurate data on an organisation's financial performance over a specific time period.
- It offers details such as profit made or loss suffered over a period of time (through the profit and loss statement) and financial standing (via the balance sheet) at a certain moment in time.

***(ii)* Provide assistance to management:** By supplying financial data in the form of reports, accounting also helps management with strategic planning, decision-making, and control.

***(iii)* Facilitates comparative study:** By maintaining organised records and creating reports on a regular basis, accounting aids in comparison-making.

***(iv)* Helps in settlement of tax liability:** Systematic accounting records also aid in the resolution of various tax liabilities, including GST and income tax.

***(v)* Helpful in raising loan:** Banks and financial institutions lend money to the company after evaluating its financial statements.

***(vi)* Helpful in decision making:** Additionally, accounting offers helpful data to managers for deciding important matters.

***(vii)* Substitute of human memory:** Since it's challenging for a human to recall every single transaction in the Accounting is used in company to replace human memory by keeping track of all transactions and keeping all information accessible when needed.

***(ix)* Helps in the valuation of business:** Accounting assists the businessman in determining the value of the business in the event that it is closed down or dissolved because without accounting, this is not possible.

(A) Limitations

The following are some accounting's drawbacks:

***(i)* Accounting is not precise:** Accounting is inaccurate because it is frequently influenced by prejudice or subjective opinion.

***(ii)* Accounting is done on historic values of assets:** Assets historical values are used in accounting; their current market worth is not taken into account; instead, assets are recorded at their historical cost less depreciation.

***(iii)* Ignore the effect of price level changes:** Accounting statements are created using historical costs, thus they don't take inflation into account

***(iv)* Ignore the qualitative information:** Accounting records just financial transactions and ignores the qualitative information.

***(v)* Affected by window dressing:** Accounting manipulation is done to show a more favourable financial picture of the company than it actually has.

Qualitative Characteristics of Accounting Information

Accounting information has certain qualities that improve its usability and capacity to be understood:

***(i)* Reliability:** Reliability requires that the information be devoid of substantive bias and individual error. The accuracy of the accounting records cannot be prepared without dependable information.

***(ii)* Relevance:** Accounting information must be pertinent to the users' needs for decision-making in order to be valuable.

***(iii)* Understandability:** Information in financial statements should be given in a way that makes them simple to comprehend.

***(iv)* Comparability:** It must be possible to compare inside and between firms over various time frames. This means that the company's performance can be compared to both its prior performance and to that of other companies.

ACCOUNTING AS AN INFORMATION SYSTEM

Accounting includes series of activities which are linked with each other i.e. collecting, recording, analysing and evaluating the data and in the last communicating information to the users. Information has no meaning unless it is linked with a certain purpose.

Accounting as a social science can be seen as an information system as it has all the features of the system. It has its input (raw data), processes (men and equipment), and outputs (reports and information). Considering accounting as an information system, we are in a position to make some important observations. First, providing information which meets the needs of the users is the aim of the system. If we can identify the needs of the users, we can specify the nature and the character of the outputs of the system. Secondly, the output requirements determine the type of data to be selected as the inputs for processing into information output.

Several groups of people having stake in a business organisation managers, shareholders, creditors, employees, customers etc. are there. Such stake holders need following type of information:

***(i)* Shareholders and investors:** Shareholders invest their money in the business and so they are bothered about the profitability of the enterprise, the soundness of their investment and growth prospects of the enterprise.

***(ii)* Creditors:** There can be short-term creditors who provide raw materials, goods and services and long-term creditors who lent money for long period. Creditors are concerned about the credit worthiness of the enterprise and its ability to meet the credit obligation.

***(iii)* Employees:** Employees have a stake in the outcomes of the several managerial decisions. They are interested in matters related to wages, bonus, and profit sharing on adequate disclosure of relevant facts.