FACULTY OF ENGINEERING TECHNOLOGY
POSTGRADUATE DIPLOMA IN TECHNOLOGY IN INDUSTRIAL ENGINEERING – LEVEL 7
FINAL EXAMINATION – 2006/2007

029

MEM 7213 / MEP1203 – INDUSTRIAL ECONOMICS AND FINANCIAL ACCOUNTING

DATE : ***20th March 2007***
TIME : ***0930 hrs – 1230 hrs***
DURATION : ***Three (03) hours***

This question paper consists of eight (08) questions. Answer any five (05) questions. All questions carry equal marks.

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1. a) It was found that the following errors have occurred in the books of Ratne Traders during the year 2003.

   i) Wages paid to factory workers, Rs. 12,000 has been entered in administration salary account.
   ii) Raw material closing stock was valued by Rs. 20,000.
   iii) Raw materials purchases of Rs. 5,000 has not been recorded in the prime entry book.
   iv) Loan interests Rs. 75,00 has not been paid and not been recorded.

   Pass journal entries to rectify the above errors.

   b) The following information is extracted from the books of Lexo Ltd, a manufacturer of Television sets, for the year ended 31st March 2004.

	Rs.
-Stocks at 01.04.2003	120,000
-Finished goods (60 Units)	276,000
-Work in Progress	35,000
Raw Materials	732,000
Direct wages	110,000
Carriage inward	5,000
Factory Rent	44,000
Sales	1,260,000
Factory Electricity	62,000
Factory Supervision	90,000
Indirect materials	26,000
Depreciation- Machinery	24,000

Additional information:

i) Stocks as at 31.03.2004

- Raw Materials	Rs. 90,000
- Work in progress	Rs. 46,000

ii) Two Television sets were stolen from the factory and Rs. 12,000 worth of raw material was destroyed by fire during the year. No entries have been made in respect of these events.

iii) There were 78 television sets in stock at 31.03.2004.

iv) During the year 180 television sets were sold which included the opening finished goods stock of 60 television sets.

You are required to: Prepare the Manufacturing and Trading Account for the year ended 31st March 2004 showing clearly the following information.

- Cost of the Raw Materials consumed.
- Prime Cost
- Total Manufacturing Costs
- Value of closing finished goods stock based on total manufacturing cost and
- Costs of Sales.

2. a) Indicate whether the following statements are True or False. State relevant accounting concept, directly involved in each situation.

i) A transaction involving a small amount need not be recorded because of materiality.
ii) The value of monetary unit is not stable over time.
ii) Accounting standards require Notes to the Financial Statements.
iii) Accruals and prepayments are necessary because of the entity concept.
iv) Revenue should be recognized as early as possible and expenses as late as possible.
v) Accounting standards require that lower of cost and net realizable value should be used in valuing inventories.
vi) Revenue should be recognized only when the cash is received.
vii) The historical cost relates only to balance the sheet.

In answering, use a table similar to the one given below.

	True or False	Relevant accounting concept
i		
-		
viii		

b) Several commonly used accounting terms are given below.

- Net Profit
- Realization Concept
- Accrual Concept
- Revenue
- Matching Concept
- Adjustment entries
- Accounting period
- Depreciation
- Expenses
- Historical Costs
- Closing Entries
- Prudence Concept

For each of the following statements, indicate the most appropriate accounting terms given in the above list.

i The accounting concept in determining when to recognize revenue.
ii The cost of goods and services used up in the process of earning revenue.
iii The span of time covered by an income statement.
iv The accounting concept used in determining when expenses should be offset against revenue.
v The systematic allocation of the cost of a long-term asset to expense over the useful life of the assets.
vi The entries used in transferring the revenue and expenses items to income statement.
vii An increase in owner's equity as a result of earning revenue and incurring expenses.
viii Recognizing revenue when it was earned and expenses when the related goods or services are consumed in obtaining revenue.

(In answering, it is sufficient to write the relevant number of each statement and indicate the accounting term in front of it)

(c) Laksiri company closes its books at 31st December each year. The Accounts Clerk of the company tells you that the following adjustments are necessary on 31 st December 2003.

i) At the end of the year 2003, it was found that stationary costing Rs 2,000 was on hand. But no entries were made in respect of this. When stationary was purchased, stationary expenses was debited and cash was credited.

ii) In December 2003, the company entered into an agreement to provide services to another firm. The company expects to earn Rs.15,000 revenue on this agreement.

iii) The initial deposit paid for a building, rented on 1st July 2003, was Rs. 100,000. The monthly rent was Rs. 10,000 out of which Rs. 5,000 per month is deducted from the initial deposit when rent is paid. All cash paid during the year had been debited to the Rent Account.

iv) As per stock records, finished goods stock on 31st December 2003 was Rs. 200,000. However physical observation revealed that goods costing Rs. 15,000 was destroyed completely.

v) The gross salaries of employees, not yet paid or recorded, amounted to Rs. 20, 000. EPF payable on these salaries amounted to Rs. 5,000 which consists of Rs 2,000 as employees contribution and Rs. 3,000 as employer contribution.

vi) Sales Rs. 200,000 and value added tax (VAT) Rs. 30,000 on sales has been credited to sales accounts.

You are required to:
i. Give adjusting journal entries for each of the above events only if it is needed.
ii. If an adjusting entry is not required, explain why.

(3) (a) What is ratio analysis ?

(b) Classify ratios into different groups.

(c) Following balances are extracted from the books of Kelum Ltd as at 31 March 2005.

			(Rs.,000)
Opening profit before interest	1,800	Rs.10 Ordinary Share Capital	2,000
Interest expenses	300	Total Reserves	400
Income tax for the year	500	Rs 10, 20% Pref. Share Account	1,000
Trading stock	200	15% Debentures	2,000
Total current assets	1,000	Total current liabilities	400

Calculate the following ratios for 2005 specifying the relevant formula.

(i) Current Ratio (ii) Quick Ratio (iii) Interest coverage ratio

(iv) Gearing ratio (v) Earning per Share

(vi) Return on capital employed

(4) The Past Students Association of a school is planning to have its annual get-together. Th organizing Committee has estimated the following revenues and costs for the event.

Revenue: It is expected that 500 persons will participate. The price of a ticket is Rs. 900/=

Variable Costs:	Per participant	Rs.
	Food and Beverages	400
	Souvenir	50
	Gift	150
		600
Fixed Costs:		
	Hall Rent	10,000
	Musical Group	8,000
	Publicity	4,000
	Decorations	2,000
	Sounds	1,000
	Other expenses	5,000
		30,000

You are required to compute the following:

(i) Contribution per participant.

(ii) Break-even point(No of Person)

(iii) Break-even Point(Rupees)

(iv) Margin of Safety (No of Persons)

(v) Compute the profit, if 500 participants attend the function.

(vi) Draw a rough sketch of a Break-even chart for the annual get-to-gather and mar the following (already computed above) on it. (Graph paper is not required)

(vii) Compute the impact on the profit calculated in (v) above, if only 400 participant attend the function.

(5) (i) Explain the difference between microeconomics and macro economics using examples.

(ii) How will the economic theory help consumer, firms and government to make rational decisions. Use examples where possible.

(6) (i) What is a market?

(ii) State the conditions that make a market perfectly competitive.

(iii) Describe the factors which cause imperfection.

(iv) "The price system cannot allocate resources efficiently when there exist social costs such as pollution". Explain this statement.

(7) i Define law of demand.

ii What is the difference between a movement along a demand curve and a shift of the demand curve?

iii What is meant by equilibrium price?

iv What might be the effect of an increase in the ownership of domestic deep freezers on the demand for perishable food products?

(8) Write brief notes on the following.

i Discounted Cash flow.

ii Consistency Principle in accounting.

iii Capital Reserves.

iv Prepayments and accruals.

v Objectives of business organization.

vi Total Utility and Marginal Utility.

vii Price elasticity of demand.

viii Kinked demand curve.

ix Opportunity Cost.

x Substitute goods and complementary goods.



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