

### Theoretical Questions

1. When is the revenue recognized in the income statement?
2. Briefly explain the relevant standard for revenue recognition.
3. Examine the treatment of bad debt in the financial statement.
4. Explain impact of credit sales on the financial statements.
5. Examine the accounting treatment of provision for bad and doubtful debts.
6. What is factoring?
7. Distinguish between recourse and non-recourse factoring.
8. Examine the impact of the expenses paid but not due on the financial statements.
9. What are operating expenses?
10. Explain with an example the treatment of revenue as the per proportionate completion method of revenue recognition.
11. Explain the treatment of discount to debtors in the financial statements.
12. What is the difference between debtors and bills receivables?
13. Distinguish between proportionate completion method of revenue recognition and completed service method of revenue recognition.
14. Distinguish between cash discount and trade discount.

### Numericals

1. A purchased 10 units of cell phones from UCall Ltd. The cost of each phone is Rs. 2500. UCall sent the invoice to A for Rs.25,000. The invoice mentioned that 2% discount will be allowed if the payment is made within seven days. Examine the impact on the financial statements, if the money is received after: a) four days or b) 10 days.
2. A sold goods to Mr. B for Rs. 50,000 on credit. At the end of the quarter, Mr. B was declared insolvent and could pay only 45% of the money due. Examine the impact on the financial statements.
3. A sold goods to Mr. B for Rs. 46,000. Mr B paid through SBI Credit Card.. Examine the impact on the financial statements
4. Refer to the above question. Will the treatment be different if the Mr. B makes the payment through Diners Club card.
5. A sold 100 bundles of white sheets to Mr. X. The selling price of each bundle was Rs. 200. Mr. X made the payment through the SBI Credit Card. Explain the impact on the financial statements of A.

6. Altd provides electrical installation services in the local community. The company received a large contract from the local housing community to install electric connections and provide necessary fittings and fixtures. The entire contract was for Rs. 20 lakhs. The company received 50% of the contract on the date of signing the agreement: 1<sup>st</sup> April 2005. During the first year the company completed 40% of the work. During the second year it completed 80% of the remaining work and balance during the third year. The delay was due to the delay in completing the work by the local housing board. Other expenses per year were Rs. 50,000. Show the financial statements of A ltd. for the three years.

7. Following the balance sheet of ABC ltd. as on 1<sup>st</sup> April 2006

Balance Sheet	
Capital	100000
Profit	45000
12% Loan	77000
	222000
Stock	85000
Cash	100000
Debtors	42000
Less provisions for Bad Debts	-5000
	222000

During the year , company had the following transactions:

- Sold 20% of the stock for cash: 30,000
- Sold 50% of the balance on credit to Mr. Y
- 10% of the old debtors become bad.
- Company maintains a provision of 10% of the closing debtors.

Required: Financial Statements

8. On 1<sup>st</sup> June, A ltd accepts the payments through ICICI Bank Credit card for the sale of goods worth of 100,000. The bank charges a commission of 2.5%. Examine the impact on the financial statements.
9. On 1<sup>st</sup> April 2006, started business with capital of Rs. 50,000. Other transactions during the first quarter are as follows:
- Paid insurance premium for the year = Rs. 24,000
  - Salary per month = Rs. 15,000
  - Salary paid = 30,000
  - Rent due (for the quarter) but not paid = Rs. 30,000
  - Raised 12% loan on 1<sup>st</sup> May 2006 = 100,000
  - Purchased stock on credit = 50,000

Required : Financial Statements for the quarter

10. Refer to the question no. 10. Show the financial statements for the second and third quarter. Transactions were as follows:

Second quarter

- Sold entire stock on credit = Rs. 100,000

Third quarter

- Collected 50% of the money due from the debtors.
- Mr. X one of the debtors who owes 10,000 became bad and could pay 50% of the money due. Rest was written off as a bad debt.

11. On 1<sup>st</sup> April 2006, started business with capital of Rs. 150,000. Other transactions during the first quarter are as follows:

- Paid insurance premium for the year = Rs. 24,000
- Salary for the quarter paid = Rs. 15,000
- Paid rent for the year = Rs. 60,000

Required : Financial Statements for the quarter

12. Following is the balance sheet of ABC Ltd. as on 1<sup>st</sup> April 2006.

Balance Sheet	
Capital	100000
Profit	50000
12% Loan	77000
	227000
Stock	85000
Cash	100000
Debtors	42000
	227000

During the first quarter, ABC had the following transactions:

- Sold 40% of the goods on credit to Mr. X at a profit of 20% on sales
- Other expenses per month = 4000
- Mr. X paid 50% of the money due and issued a negotiable instrument payable after three months .
- The bills receivable was discounted with bank immediately for 95%.

Show the financial statements at the end of the first quarter.

## Real Life questions

13. Following table shows the relevant financial items of Mysore Paper Mills Ltd, a listed company on the National Stock Exchange.

Expenses as % of Sales for the year ending March 07	
Cost of sales (excluding depreciation and interest)	92%
Interest	7%
Depreciation	2%
PBIT (Rs. in crores)	31
Personnel expenses (Rs. in crores)	67

Required:

- Income statement

14. Visit the web-site of the Tata Power ([www.tatapower.com](http://www.tatapower.com)) and the Tata Consultancy services ([www.tcs.com](http://www.tcs.com)) and comment on the revenue recognition policies adopted by them.

15. The following table shows the financial items of ACC Ltd.

Financial Items of ACC limited for the year ending March 2006	
	Rs. in crores
Net Operating Income	5,732
Cost of Sales	4,059
Adjusted PBDIT	1,762
Operating PBDIT	1,672
Material Consumption	1,543
Adjusted PBIT	1,501
Adjusted PBT	1,426
Selling Expenses	1,148
Adjusted PAT	1,057
Manufacturing Expenses	693
Tax Charges	369
Administrative Expenses	357
Personnel Expenses	318
Depreciation	255
Other Recurring Income	90
Financial Expenses	75
Other Write-offs	6

Required: Income statement of ACC Ltd.