

## **COMPREHENSIVE ASSIGNMENT**

A student need not have any previous experience or technical background for the preparation of this assignment.

### ***THE PROBLEM:***

You are launching into a business in the name and style of your choice. It has to be a manufacturing business. It means that your business would involve, buying materials, transforming it using plant and machinery, and selling it. Keep in mind the conditions given in this assignment. Strictly adhere to the conditions.

### ***ASSUMPTIONS AND REQUIREMENTS:***

You can make any assumption, provided they are reasonable in an actual business situation, subject to the conditions 1 to 24 (detailed below). Realistic nature of the assignment would involve factors such as volume of turnover, cost structure, type and nature of transaction. Please draw up the accounts and reports in proper form as if they were made out for a real life business.

The deadline for the assignments is 16-08-2010 (4.30 PM). Submission of the same would be done with **Ms Mary Johnny** (office is near my office room). Each days delay would lead to deduction of marks at the rate of 2 mark per day. The assignments would carry a weightage of 30% in grading. The assignments are to be completely hand written (printed submission will not be evaluated). The completed assignments are to be submitted before deadline.

### ***CONDITIONS:***

1. Date of commencement of business is to be your date of birth.

For example, if your date of birth is 10<sup>th</sup> January 1981 then your date of commencement will be 10<sup>th</sup> January.

2.1 Capital to be contributed will depend on your Roll number in the class as listed below:

- ◆ 001 to 020: Your Register/roll number multiplied by Rs 65760
- ◆ 021 to 040: Your Register/roll number multiplied by Rs 130000
- ◆ 041 to 060: Your Register/roll number multiplied by Rs 4560
- ◆ 061 to 080: Your Register/roll number multiplied by Rs 65760
- ◆ 081 to 100: Your Register/roll number multiplied by Rs 3850
- ◆ 101 to 120: Your Register/roll number multiplied by Rs 7300

So, Roll Number 1 will have a contributed capital of Rs 65,760.

2.2 Long term loans equal to maximum of 2 times the capital is available at the rate of 10% per annum. Long term loan has to be at least be equal to capital.

3. Grant from the government available to the extent of 20% of your contribution or value of fixed assets which ever are lower.

4. Fixed assets to start with will vary for the different students based on their month of birth (as per institute records) as follows:

- ◆ January - February: 21% to 30% of long term funds available
- ◆ March - April: 31% to 40% of long term funds available
- ◆ May - June: 41% to 50% of long term funds available
- ◆ July - August: 51% to 60% of long term funds available
- ◆ September to October: 61% to 70% of long term funds available
- ◆ November to December: 71% to 80% of long term funds available

5. Depreciation on monthly basis is to be computed on sum of years' digit method by all even Roll/Register number and written down value basis for all odd Roll/Register number. Life of asset can vary between 5 to 10 years for different assets.

6. All students need to have at least half of their sales as credit sales. Credit sales has to be more than six times cash sales for odd Roll/Register number. Credit sales has to be less than six times cash sales for odd Roll/Register number.

7. Credit purchase can be three times cash purchase.

8. Credit terms are as follows for different Roll numbers (there has to be some credit purchase and sale in all cases):

001 to 020: 30 days and 60 days for purchase and sales  
021 to 040: 60 days and 30 days for purchase and sales  
041 to 060: 45 days and 60 days for purchase and sales  
061 to 080: 60 days and 45 days for purchase and sales  
081 to 103: 60 days and 60 days for purchase and sales  
All others: 45 days and 45 days for purchase and sales

9. One half of the credit sale and purchase are to be against notes / bills (all exchangeable).

10. Cash balance at the end of any month is to be maximum of 7 days and minimums of 3 days cash expenses. Deployment of surplus cash on short term inter-corporate market at 6% per annum is possible.

11. All bills/ notes receivable are discounted with the bankers at 15% per annum. Bankers will discount all bills/notes receivable at 15% per annum. You can also avail of overdraft limit from the banker to the extent of 75% of unencumbered current assets.

12. 20% of the receivable will be delayed by one half of the normal credit period. (If credit period is 30 days they will be paid in only 45 days).

13. Paying on time, warrants a cash discount of 3% and delay in payments would warrant a penalty of 2% per month for the days of default in case of receivable.

14. 5% of the receivable due by more than 15 days over the credit period and 10% of the receivable due for more than 21 days over the credit period will be bad. Provisions for doubtful debts are provided at 9%.

15. Delay in meeting payable will carry penalty as in the case of receivable and similar discounts are available for paying on time.
16. Interest on long term loan is payable monthly and principal is repayable over 5 year period in monthly installments.
17. Delay in payment of principal or interest would involve penal interest of 15% of the amount in default for the period of default.
18. For Even Roll/Register Number: Sales volume will increase by 10% over the previous month, sale price will increase by 5% over the previous month and purchase price will decrease by 5% every 15 days, all reckoned on a calendar month basis.  
For Odd Roll/Register Number: Sales volume will increase by 5% over the previous month, sale price will increase by 10% over the previous month and purchase price will increase by 5% every 15 days, all reckoned on a calendar month basis.
19. All other costs will remain stable over the period.
20. Assume no gestation period. That is, the business starts operations from day one. If the date of commencement is not the first of a month then the first accounting period will be longer than a month closing the period at the end of the next complete calendar month. (Say, if you start on 15 February, your first accounting period will be closed on 31 March).
21. Municipal rates are to be paid at the rate of 1% of owners equity at the beginning of each calendar month.
22. Wage cost could 10 to 30% of sales.
23. Rental can be 5% of sales.
24. You need to have at least 2 transactions per day for 25 days in a month.

***REQUIRED:***

1. You are required to prepare the accounts of the business as if owned by you as an individual proprietorship in any name and style of your choice, with in the frame work of the conditions one through twenty-four detailed above, for three accounting periods. Minimum duration of an accounting period is a complete calendar month.
2. Prepare a precise chronological statement of all transactions.
3. Prepare journal entries for all transactions and post them to appropriate ledgers during the first accounting period.
4. For 2nd and 3rd period you may follow a cash receipts, cash payments, sales, and purchases book and a general journal along with ledger accounts.

5. Prepare a post closing trial balance, income statement and balance sheet for and or as at 31/30/28 of the month as the case may be. You have at least three financial statements.

6. Prepare a monthly statement showing compliance with the conditions specified. (Demonstrated by relationships worked out with actual accounting numbers)

**Some Frequently Asked Questions (FAQs):**

1. This seems to be a big assignment. But, I have lot of other work. How can I spare time for this assignment?

No. This is not a big/large assignment (especially after the basic concepts discussed in textbook / class are clear). And believe me, in life there are no free lunches ... at least not in this *Janma!* (personal experience ji ☺). To learn ... some effort is needed.

Also, this assignment is fairly common in most premier b-schools (from IMTs to IIMs).

2. Is there an incentive if the assignment submission is larger?

No.

3. Does this assignment need a core background of commerce?

No, it does not. It just needs your time and efforts.

4. What is the possible assignment evaluation framework? Where can I get sample assignments and related material?

Link <http://www.kakani.net/ResourcesForStudents/AssignmentFramework.htm> has assignment evaluation framework.

Two places to get sample assignment would be: (a) 'Financial Accounting for Management' by Ramachandran, online resource website: <http://www.mhhe.com/fam>; and (b) Personal website: [www.kakani.net](http://www.kakani.net).

Wish Happy Learning!

Ram