

service shop owner, who would be willing take up the sole selling agency of their cars and spare parts in Gujarat.

Mr Mehta applied for this agency as he was advised by his friends in business circles that such an agency would be a profitable proposition. However, he was puzzled by two conditions which were imposed in awarding this agency. According to the first condition, the agent had to obtain a certificate from his bank to the effect that a minimum balance of Rs 500,000 was maintained in the business account. Secondly, the agent was required to send to the principal, periodic statements showing the current financial position of the business and the business results in the immediate past period.

Mr Mehta was duly assigned the sole selling agency for the Gujarat on the basis of excellent reports received by the principal from local businessmen. For fulfilling the first condition, Mr Mehta saw Mr Kapoor, the Bank agent. After discussions with Mr Mehta, the Bank agent agreed to grant Mr Mehta a further loan of Rs 500,000. He asked Mr Mehta to submit a statement showing the current position of his business so that he could process the loan application. Mr Mehta mentioned that so far he had not maintained any regular accounts. the maintenance of such records required specialised knowledge which he did not possess and he felt that hiring an accountant would increase his costs which he could not afford in his competitive business situation. Mr Kapoor said that systematic accounting records would be a necessity, if Mr Mehta wanted to expand his business and fulfil the operational requirements like bank borrowing, credit purchases as well as legal requirements relating to payment of tax.

The same evening Mr Mehta saw Mr Ashok Lal, a friend who was the Chief Accountant of a local textile mill. He expressed to Mr Lal his desire to start keeping systematic accounting records and requested him to prepare for him a statement showing the assets and liabilities of his business. He also supplied to Mr Lal the necessary information to enable him to prepare the required statement. Mr Lal also explained to Mr Mehta how a "Profit and Loss Analysis" could be prepared so that Mr Mehta could more accurately measure the results of his business performance. He prepared a list of various statements that Mr Mehta should arrange to obtain periodically from his subordinates for maintaining his accounting records.

QUESTIONS

1. Mr. Mehta mentioned that
 - (i) he could not have systematic accounting records because he did not possess specialised accounting skill; and
 - (ii) keeping such records would mean increase in costs, which he could not afford. How would you respond to these comments ?
2. What information would Mr Lal require for preparing the financial statement ?
3. What items would you expect to find in the statements of financial position and profit and loss analysis relating to Mr Mehta's business ?
4. What records would Mr Mehta require to maintain for controlling his business activities ?

CASE

11 MEHTA AUTOMOBILES

In 1980, Mr. Sanat Mehta joined Standard Automobiles of Ahmedabad as a mechanic. In appreciation of his excellent work, he was soon promoted to the post of chief mechanic. Mr Mehta's professional ability, his pleasing manners and sense of responsibility endeared him to the customers of Standard Automobiles to such an extent that some of them persuaded him to commence his own automobile repair workshop. One customer, Mr Nitin Shah offered to rent a part of his godown situated in a busy street of Ahmedabad city. Another customer, Mr Mohan Kapoor, the local manager of a large bank mentioned that a loan of up to Rs 100,000 could be made available to him under the scheme for financing small business. After some discussion with members of his family, Mr Mehta decided to commence an automobile service and repairs workshop under the name of Mehta Automobiles. For this purpose, he invested Rs 50,000 from his past savings and accepted Mr Shah's and Mr Kapoor's offers. A part of the amount was deposited in the bank in the name of Mehta Automobiles.

tha
co
th
of
to
tho
fi
N
T
I
I
I

The enterprise had a good start, thanks to the patronage of some old customers of Standard Automobiles. Mr Mehta publicised his operations by displaying cinema slides in selected local cinemas and soon his workshop became well known in that area. In the beginning, Mr Mehta did all the work of the mechanic, helped by two assistants recruited at the time of the commencement of the business. Soon he added a spare parts selling section to his business as this was quite a profitable associated activity. In this, he was helped by his son Mr Rajendra Mehta who also assisted him in collection of cash from debtors.

During his service at Standard Automobiles, Mr Mehta had come to know very well some wholesalers of service materials, such as tools, stores and spare parts. This helped him in buying such material on credit. However, most of the other purchases, particularly spare parts and practically all his sales were on cash basis. Because of the relatively small extent of credit transactions, Mr Mehta had not thought of maintaining formal accounting records, as he had felt that increases in cash balance would adequately indicate the profit earned by him. All cash received was deposited in the bank account, and expenses and payments were recorded in a notebook. Mr Mehta occasionally experienced some difficulty in recording transactions which did not result in direct sales. For instance, when his personal car was overhauled, involving considerable use of his mechanics' time as well as spare parts costing about Rs. 15,000 he was not sure how it should be recorded. He finally decided that since the garage was owned by him, no adjustments need be made for this transaction.

Rapid expansion of his business compelled Mr Mehta to hire four new assistants and two mechanics. He also recruited a part-time salesman for spare parts selling. Mr Mehta continued to attend personally to purchases, collections and other administrative aspects of business. A small section of the workshop premises was set apart for office purposes. The office was simply furnished with a table, three chairs, a filing cabinet and also a telephone. Spare parts, stores, tools, etc., and other supplies which were formerly stored in a small room at his residence, were now stored in steel racks in a section of the workshop.

Mr Mehta soon came across an advertisement that appeared in the local newspaper. A well-known automobile company of Bombay was looking for a good automobiles