

FINALTERM EXAMINATION
Fall 2008
MGT101- Financial Accounting (Session - 1)

Question No: 1 (Marks: 1) - Please choose one

Debenture is also named as:

- ▶ Share
- ▶ **Bond**
- ▶ Equity
- ▶ Reserve

Question No: 2 (Marks: 1) - Please choose one

A company declares a cash dividend to be paid to its stockholders next month. The effect of the transaction is to:

- ▶ **Decrease assets and liabilities.**
- ▶ Increase assets and stockholders' equity.
- ▶ Decrease assets and stockholders' equity.
- ▶ Increase liabilities and decrease stockholders' equity.

Question No: 3 (Marks: 1) - Please choose one

The beginning balance of retained earnings was Rs. 7,500. The dividends paid to stockholders' were Rs.1, 500. The ending balance of retained earnings is Rs. 5,000. What was the net income or net loss for the accounting period?

- ▶ Net loss of Rs.1, 000
- ▶ **Net income of Rs. 1,000**
- ▶ Net loss of Rs. 2,000
- ▶ Net income of Rs. 2,500

Question No: 4 (Marks: 1) - Please choose one

The net income calculated in the income statement for the accounting period is reported on:

- ▶ Bank Statement
- ▶ Statement of retained earnings
- ▶ Statement of cash flows
- ▶ **None of the given options**

Question No: 5 (Marks: 1) - Please choose one

If company has distributable profit is Rs. 4, 90,000. Profit sharing share ratio of Mr. A, Mr. B and Mr. C is 2:3:5 respectively what will be the Profit share for Mr. B in distributable profit.

- ▶ Rs. 98,000
- ▶ Rs. 1, 47,000
- ▶ Rs. 2, 45,000
- ▶ Rs. 3, 43,000

Question No: 6 (Marks: 1) - Please choose one

In which situation(s) Partnership is dissolved?

- ▶ In case of death of partner
- ▶ At the admission of new partner
- ▶ If any partner resigned from partnership
- ▶ All of the given options

Question No: 7 (Marks: 1) - Please choose one

A private limited company can commence its business:

- ▶ Immediately on receiving a certificate of incorporation
- ▶ Without receiving a certificate of incorporation
- ▶ Only when it receives certificate of commencement of business
- ▶ Only when it receives both, the certificate of incorporation as well as certificate of commencement of business

Question No: 8 (Marks: 1) - Please choose one

The balance sheet reported a beginning balance of Rs. 20,000 in Accounts Receivable and an ending balance of Rs. 15,000. Credit Sales of Rs. 200,000 were made during the year. Using this information, compute cash collected from customers.

- ▶ Rs. 215,000
- ▶ Rs. 195,000
- ▶ Rs. 200,000
- ▶ Rs. 205,000

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the most important document of the company?

- ▶ Memorandum of Association
- ▶ Articles of Association
- ▶ Prospectus
- ▶ Annual Report

Question No: 10 (Marks: 1) - Please choose one

If dividend is proposed by directors of the company @ 30% for the year, it will be calculated on:

- ▶ Capital Reserve
- ▶ Authorized share capital
- ▶ Paid up share capital
- ▶ Share premium

Question No: 11 (Marks: 1) - Please choose one

Share premium account is used for what?

- ▶ Write off Preliminary Expenses of the company.
- ▶ Write off the balance amount, in issuing shares on discount.
- ▶ Issue fully paid Bonus Shares.
- ▶ All of the given options

Question No: 12 (Marks: 1) - Please choose one

Authorized share capital is also known as:

- ▶ Registered capital
- ▶ Issued capital
- ▶ Paid up capital
- ▶ Called up capital

Question No: 13 (Marks: 1) - Please choose one

In case of fixed capital accounts, other transactions such as Drawings and Profit etc. are recorded in a separate account that is called _____.

- ▶ Fixed Capital Account
- ▶ Current Account
- ▶ Fluctuating Capital Account
- ▶ Floating Capital Account

Question No: 14 (Marks: 1) - Please choose one

A, B, C are partners. Their profit sharing ratio is equal. Capital balance on July 1st of Partner A --- Rs. 40,000 Partner B --- Rs. 30,000 and Partner C--- Rs. 20,000. Their private property of Partner A is Rs.15,000, Partner B is Rs. 7,000 and Partner C is Rs. 1,500. What is the level of their liabilities under the partnership firm?

- ▶ Partner A—Rs. 40,000, Partner B---- Rs. 30,000, Partner C – 20,000
- ▶ Partner A—Rs. 40,000, Partner B---- Rs. 30,000, Partner C – 21,500
- ▶ Partner A—Rs. 40,000, Partner B---- Rs. 37,000, Partner C – 20,000
- ▶ Partner A—Rs. 55,000, Partner B---- Rs. 37,000, Partner C – 21,500

Question No: 15 (Marks: 1) - Please choose one

Which of the following item will be shown on debit side of capital account of sole proprietor?

- ▶ Cash
- ▶ Drawings
- ▶ Debtors
- ▶ Profit

Question No: 16 (Marks: 1) - Please choose one

Which of the following journal entry will be recorded, if cash is drawn by a Proprietor?

- ▶ Proprietor's drawings a/c (Dr.) and Cash a/c (Cr.)
- ▶ Cash a/c (Dr.) and Proprietor's drawings a/c (Cr.)
- ▶ Proprietor's Capital (Dr.) and Proprietor's drawings a/c (Cr.)
- ▶ Proprietor's drawings (Dr.) and Proprietor's Capital a/c (Cr.)

Question No: 17 (Marks: 1) - Please choose one

An asset is considered to be a current asset if:

- ▶ It has been bought recently and was bought new and not used
- ▶ It can be realized in cash or sold or consumed in the business within one year
- ▶ It is a piece of new machinery that is expected to last for at least ten years
- ▶ All of the given options

Question No: 18 (Marks: 1) - Please choose one

Which of the following appears in both the Income Statement debit column and the Balance Sheet credit?

- ▶ Net income
- ▶ Net loss
- ▶ Dividends
- ▶ Retained earnings

Question No: 19 (Marks: 1) - Please choose one

General office expenses are charged to which of the following head:

- ▶ Administrative expenses
- ▶ Marketing expenses
- ▶ Selling expenses
- ▶ Financial expenses

Question No: 20 (Marks: 1) - Please choose one

Consider the following table:

	Financial statement item	Classification
A.	Inventory	Current asset
B.	Tangible assets	Non-current asset
C.	Accrued expenses	Current asset
D.	Bonds payable	Long-term liabilities

Identify the row above, showing an INCORRECT financial-statement classification?

- ▶ Row A
- ▶ Row B
- ▶ Row C
- ▶ Row D

Question No: 21 (Marks: 1) - Please choose one

Short-term investments include all of the following EXCEPT:

- ▶ A bond receivable intended to be sold within one year
- ▶ Frequently traded securities
- ▶ A stock investment in the General Electric Company intended to be sold within one year
- ▶ A shares investment in the Coca-Cola Company intended to be held for several years

Question No: 22 (Marks: 1) - Please choose one

The figure of cash received from debtors can be located either from cash book or:

- ▶ Debtor's Control Account
- ▶ Balance Sheet
- ▶ Profit & Loss Account
- ▶ Bills Payable Account

Question No: 23 (Marks: 1) - Please choose one

It is supposed that on 31st December, 2007, the sundry debtors are amounted to Rs. 40,000. On the basis of past experience, it is estimated that 10% of the sundry debtors are doubtful. Actual bad debts are Rs. 1600. What amount of new provision for doubtful debts will be credited in profit & loss account

- ▶ Rs. 3,600
- ▶ Rs. 4,000
- ▶ Rs. 1,600
- ▶ Rs. 2,400

Question No: 24 (Marks: 1) - Please choose one

When one or both aspects of a transaction are recorded in the wrong class or category of account, this is called:

- ▶ Error of principle
- ▶ Error of omission
- ▶ Error of commission
- ▶ Error of original entry

Question No: 25 (Marks: 1) - Please choose one

Which of the following account will be credited when a typewriter is sold that has been used in the office?

- ▶ Cash Account
- ▶ Sales Account
- ▶ Purchase Account
- ▶ Office Equipment Account

Question No: 26 (Marks: 1) - Please choose one

Which of the following rectifying entry will be recorded, if sales to Mr. "A" of Rs.336 have been debited to Mr. "B" account?

- ▶ A's account (Dr.) and B's account (Cr.)
- ▶ B's account (Dr.) and A's account (Cr.)
- ▶ Sales account (Dr.) and B's account (cr.)
- ▶ B's account (Dr.) and Sales account (Cr.)

Question No: 27 (Marks: 1) - Please choose one

Goods purchased from "Mr. A" for Rs. 2,000 passed through the sales book. The rectification of error will result in:

- ▶ Increase of gross profit
- ▶ Decrease of gross profit
- ▶ Remains constant and no effect on net profit
- ▶ There is no relation between goods purchased and gross profit

Question No: 28 (Marks: 1) - Please choose one

Which of the following account(s) will be affected, while rectifying the error of sales to Rahim Rs. 336 posted to his account as Rs. 363?

- ▶ Sales account
- ▶ Rahim's account
- ▶ Cash account
- ▶ Both sales and Rahim's Account

Question No: 29 (Marks: 1) - Please choose one

Control account tells about:

- ▶ Picture collectively instead of individually
- ▶ Details of loyal clients
- ▶ Customer attitude of payments
- ▶ Complete history of transactions of business clients

Question No: 30 (Marks: 1) - Please choose one

Which of the following subsidiary book(s) is (are) maintained for debtors control account?

- ▶ Sales Day Book
- ▶ Sales Return
- ▶ Debtors Ledger
- ▶ All of the given options

Question No: 31 (Marks: 1) - Please choose one

Which of the following entry will be recorded when the Bad Debts are recovered?

- ▶ Cash account (Dr.) & Bad Debts recovered account (Cr.)
- ▶ Accounts Receivable account (Dr.) & Bad Debts recovered account (Cr.)
- ▶ Bad debts recovered account (Dr.) and Profit & Loss account (Cr.)
- ▶ Provision for doubtful debts account (Dr.) & Cash account (Cr.)

Question No: 32 (Marks: 1) - Please choose one

If the (New provision + Bad debts) > Amount of old provision then resulting figure will be shown at:

- ▶ Debit side of Profit & Loss Account
- ▶ Credit side of Profit & Loss Account
- ▶ Asset side of Balance Sheet
- ▶ Liability side of Balance Sheet

Question No: 33 (Marks: 1) - Please choose one

Which of the following would be deducted from Sundry Debtors in Balance Sheet?

- ▶ Bad debts (Trial balance item)
- ▶ Old provision for doubtful debts
- ▶ New provision for doubtful debts
- ▶ Both Bad debts (given in adjustment) and new provision for doubtful debts

Question No: 34 (Marks: 1) - Please choose one

Which of the following option is TRUE about the characteristic(s) of Bad Debt?

- ▶ It is a definite loss to the business
- ▶ It is not shown in Balance Sheet
- ▶ No provision is necessary for it
- ▶ All of the given options

Question No: 35 (Marks: 1) - Please choose one

Which one of the following transactions will cause the balance in Mr. Terry's Cash Book to be greater than his Bank Statement balance?

- ▶ A cheque is drawn but not yet presented at the bank for payment
- ▶ The bank has not yet notified to Mr. Terry about a dishonored cheque
- ▶ A credit transfer into Terry's Bank Account
- ▶ A cheque payment of Rs.101 is recorded in the Cash Book as Rs.110

Question No: 36 (Marks: 1) - Please choose one

Consider the following data:

Particulars	Rs.
Assets	?
Owner's equity	1,50,000
Liabilities	1,00,000

- ▶ Rs. 49,000
- ▶ Rs. 55,000
- ▶ Rs. 50,000
- ▶ Rs. 2, 50,000

Question No: 37 (Marks: 1) - Please choose one

Accounting is the language of:

- ▶ Business
- ▶ School
- ▶ Proprietor
- ▶ Management

Question No: 38 (Marks: 1) - Please choose one

Which of the following account balance is shown on credit side of Trial Balance? (It is assumed that all account balances are shown on normal balance)

- ▶ Cash account
- ▶ Furniture account
- ▶ Vehicle account

► Capital account

Question No: 39 (Marks: 1) - Please choose one

Under the reducing balance method of depreciation:

- Amount of depreciation increases every year
- Amount of depreciation remains constant for every year
- Amount of depreciation decreases every year
- None of the given options

Question No: 40 (Marks: 1) - Please choose one

Consider the following inventory record:

Date	Item	Quantity	Cost/Unit Rs.	Total Rs.
Jan. 2	Beginning inventory	10	10	100
Mar. 4	Purchase	35	11	385
May 8	Purchase	40	12	480
Nov. 3	Purchase	20	13	260
De31	Merchandise available	105		1,225

85 units were sold, Use the FIFO method of inventory costing and determine the cost of goods sold.

- Rs. 1,225
- Rs. 1,015
- Rs. 965
- Rs. 992

Question No: 41 (Marks: 1) - Please choose one

Which of the following is an example of direct materials cost?

- Polish and finishing material for chair
- A piece of wood for the production of chair
- Production worker's wages
- Depreciation expenses

Question No: 42 (Marks: 1) - Please choose one

Which of the following account will be credited, if the goods are sold on credit to Mr. Mahmood?

- ▶ Cash account
- ▶ Mr. Mahood account
- ▶ Sales account
- ▶ Purchases account

Question No: 43 (Marks: 1) - Please choose one

Which of the following account will be credited, if business sold goods for Rs.10,000 on credit?

- ▶ Cash account
- ▶ Sales account
- ▶ Accounts receivable account
- ▶ Purchases account

Question No: 44 (Marks: 1) - Please choose one

Which of the following is an example of a Current liability?

- ▶ Closing inventory
- ▶ Opening inventory
- ▶ Petty cash
- ▶ Bank overdraft

Question No: 45 (Marks: 1) - Please choose one

Which of the following is CORRECT for trading account?

- ▶ It includes cost of goods sold and all the direct expenses related to sales
- ▶ It includes cost of goods sold and all the indirect expenses related to sales
- ▶ It includes cost of goods sold and all the direct and indirect expenses
- ▶ It includes cost of goods sold and all the direct and selling, administrative expenses

Question No: 46 (Marks: 1) - Please choose one

Which of the following are the components of General Ledger?

- 1) Title of account
 - 2) Amount of transaction
 - 3) Date of transaction
- ▶ (1) & (2) only
 - ▶ (2) & (3) only
 - ▶ (1) & (3) only
 - ▶ (1), (2) & (3)

Question No: 47 (Marks: 1) - Please choose one

The original book of entry, in which all vouchers are first recorded, is called:

- ▶ General Journal
- ▶ General Ledger
- ▶ Trial Balance
- ▶ Balance Sheet

Question No: 48 (Marks: 1) - Please choose one

When a Liability is reduced or decreased, it is recorded on the:

- ▶ Right or debit side of the account
- ▶ Left or debit side of the account
- ▶ Left or credit side of the account
- ▶ Right or credit side of the account

Question No: 49 (Marks: 1) - Please choose one

According to the double entry system of book keeping, the investment of Rs.10, 000 in the business made by the owner will effect:

- ▶ Cash & Capital Account
- ▶ Cash & Expense Account
- ▶ Capital & Revenue Account
- ▶ Capital & Expense Account

Question No: 50 (Marks: 1) - Please choose one

Which of the following is non- profit organization?

- ▶ Sole proprietorship
- ▶ Partnership
- ▶ Limited company
- ▶ Trust

Question No: 51 (Marks: 5)

What is bank overdraft? Mention an example for this. Why companies have to pay mark up on it. Under which head mark up paid on overdraft is shown in financial statement.

Answer:

An **overdraft** occurs when withdrawals from a bank account exceed the available balance. In this situation a person is said to be "**overdrawn**".

Question No: 52 (Marks: 10)

Income Statement of XYZ Ltd for the year ended on 30th June, 2007:

Particulars	Rs.	Rs.
Sales		500,000
Less: Cost of Goods Sold		250,000
Gross Profit		250,000
Less: Operating expenses		
Administrative expenses	110,000	
Interest expenses	20,000	130,000
Net profit before Tax		120,000
Less: Taxes		36,000
Net profit after tax		84,000

Opening Stock for the year was Rs. 60,000.

Balance Sheet of XYZ Ltd on 30th June, 2007:

Assets	Rs.
Fixed Assets	400,000
Stock	60,000
Debtors	230,000
Bills Receivable	40,000
Cash at bank	150,000
Prepaid expenses	20,000
Total	900,000
Liabilities	
Share capital	200,000
Reserves and surplus	250,000
10% Debentures	200,000
Creditors	180,000
Bills payable	70,000
Total	900,000

Calculate following ratios from the financial statement of XYZ Ltd.

1. Current Ratio
2. Acid Test Ratio
3. Stock turn over Ratio
4. Debt equity Ratio
5. Gross profit Ratio

Solution:

1: Current Ratio:

$$\begin{aligned}
 & \text{Total Assets/Total Liabilities} \\
 & = 900000/900000 \\
 & = 1
 \end{aligned}$$

2: Acid Test Ratio

$$\text{Total Assets-Stock/Total Liabilities}$$

$$\begin{aligned}
 &= 900000-60000/900000 \\
 &= 840000/900000 \\
 &= 0.933333
 \end{aligned}$$

3: Stock turn over Ratio

$$(\text{Average Stock} / \text{Cost of goods sold}) \times 365$$

$$\begin{aligned}
 \text{Average Stock} &= \text{opening stock} + \text{Closing Stock}/2 \\
 &= 60000+60000/2 \\
 &= 60000 \\
 &= (\text{Average Stock} / \text{Cost of goods sold}) \times 365 \\
 &= (60000/250000) \times 365 \\
 &= 0.24 \times 365 \\
 &= 87.4
 \end{aligned}$$

4: Debt equity Ratio

$$\text{Long term Liabilities} / \text{Equity}$$

$$\begin{aligned}
 &= 200000/200000 \\
 &= 1
 \end{aligned}$$

5: Gross profit Ratio

$$(\text{Gross Profit} / \text{Sales}) \times 100$$

$$\begin{aligned}
 &= 250000/500000 \times 100 \\
 &= 0.5 \times 100 \\
 &= 50
 \end{aligned}$$

Question No: 53 (Marks: 10)

Pass the rectifying entries to correct the following errors:

Question No: 54 (Marks: 10)

The following discrepancies were noted on comparing Cash Book with Pass Book.

- (1) The following cheques were deposited into bank on 28th March but were not collected by the bank by 31st March, (i) Rs. 500, (ii) Rs. 300, (iii) Rs. 200.
- (2) The following cheques were issued but were not presented for the payment by 31st March. (i) Rs. 200, (ii) Rs. 450 (iii) Rs. 525 (iv) Rs. 375.
- (3) The bank credited a dividend of Rs. 2,000 on 31st march but intimation was received by the trader on 5th April, 2008.
- (4) The bank credited interest of Rs. 50 on 31st March but not debited in Cash Book.
- (5) The Bank charged (debited) a commission of Rs. 100 on 31st March.
- (6) A cheque of Rs. 500 was received from customer and was entered in the bank column of Cash Book on 25th March, but was paid into the bank on 1st April.

Required: Prepare a Bank Reconciliation Statement, if the Bank balance as per Cash Book (Dr.) was Rs. 15,000 on 31st March, 2008.

Answer:

Balance as per Cash book.	Dr	15000
Less not collected Cheques. (500+300+200)	Cr	<u>1000</u>
	Dr	14000
Add UN Presented Cheques (200+450+525+375)	Dr	<u>1550</u>
	Dr	15550
Add dividend Credit by bank	Dr	<u>2000</u>
	Dr	17550
Add interest credit by bank	Dr	<u>50</u>
	Dr	17600
Less bank charges	Cr	<u>100</u>
	Dr	17500
Less Cheque received	Cr	<u>500</u>
Balance as per Bank Book	Cr	17000