

**Jagan Institute of Management Studies**  
**End-Term Examination, September, 2016**  
**Trimester I – PGDM (IB) 2016-18**

***Financial Accounting***  
***ET\_IB\_FA\_2109***

Time: 3 Hrs.

M. Marks: 70

**INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.**

- Q 1** Comment on any **FOUR** of the following:
- a) Accounting is a language of business.
  - b) Revenue is an income of a recurring nature from any source.
  - c) Trial Balance forms the basis for preparing financial statements.
  - d) Anticipate no profits but provide for all possible losses.
  - e) Discount columns of the cash book are not balanced.
  - f) Trade discount is allowed on sale of goods while cash discount is allowed on the payment of money. **16**
- Q 2** Distinguish between any **FOUR** of the following:
- a) Income Statement and Position Statement.
  - b) Depreciation, Depletion and Amortization.
  - c) Errors of Omission and Error of Commission
  - d) Periodical and Perpetual system of Inventory Valuation.
  - e) Liquidity and Solvency Ratios.
  - f) Interest on capital and Interest on drawings. **12**
- Q 3** a) Balances shown in the Bank Pass book should tally with balances of cash book of the business. Do you agree? If not, give reasons in your support. **2**
- b) Purchases of a certain product during March 2016 are set out below:
- |         |                       |
|---------|-----------------------|
| March 1 | 100 units @ Rs. 1,000 |
| 12      | 100 units @ Rs. 980   |
| 15      | 50 units @ Rs. 960    |
| 20      | 100 units @ Rs. 940   |
- Sales during the month were as follows:
- |          |           |
|----------|-----------|
| March 10 | 80 units  |
| 14       | 100 units |
| 30       | 90 units  |
- No opening inventories.  
You are required to determine the value of closing stock for March, under different valuation methods, viz, FIFO, LIFO and Weighted Average Cost. **10**

- Q 4** a) Discuss the utility of Cash Flow Analysis. **3**
- b) From the following particulars taken on 31<sup>st</sup> December, 2015, you are required to prepare a Bank Reconciliation Statement to reconcile the bank balance shown in the Cash Book with that of the balance shown in the Pass Book:
- i) Balance as per Pass Book on 31<sup>st</sup> December 2015, Overdraft Rs.10,027.
  - ii) Four cheques drawn on 31<sup>st</sup> December but not cleared till January: Rs. 1200, Rs.10,021, Rs.980 and Rs.1,130.
  - iii) Interest of Rs.510 on Overdraft not entered in the Cash Book.
  - iv) Three cheques were received on 30<sup>th</sup> December and entered in the bank column of the cash book but not lodged in the bank for collection till 3<sup>rd</sup> January 2016; Rs.11,600, Rs.21,000, and 20,080.
  - v) Cost of cheques book, pass book, etc. Rs.150 entered twice erroneously in the cash book in November.
  - vi) A bill receivable for Rs.2500 due on 29<sup>th</sup> December 2015 was passed to the bank for collection on 28<sup>th</sup> December 2015 and was entered in cash book forthwith whereas the proceeds were credited in the pass book only in January 2016.
  - vii) Chamber of Commerce subscription Rs.100 paid by bank on 1<sup>st</sup> December 2015 had not been entered in the Cash Book.
  - viii) Bank Charges of Rs.50 had been debited in the Pass Book twice erroneously. **9**
- Q 5** a) Explain the role of ratio analysis in the interpretation of Financial Statements. Examine the limitations of ratio analysis. **4**
- b) Pass journal entries to rectify the following errors:
- i) A purchase amounting to Rs.10,000 made to staff members was recorded in the purchases book.
  - ii) Wages paid to workers for installing a machinery Rs.7500, were debited to wages account.
  - iii) Goods sold to Prem for Rs.1700 were returned by him, but no entry was passed in the books.
  - iv) A bill receivable for Rs.20,000 accepted by Vimal was recorded in bills payable book.
  - v) An item of Rs.58,550 paid for purchase of new Computers for accounts department has been wrongly passed through Purchases book.
  - vi) Rs. 5700 paid for repairs to motor-car was debited to the motor-car account as Rs.1700.
  - vii) An amount of Rs.20,000 withdrawn by the proprietor for his personal use has been debited to trade expenses account.
  - viii) The periodical total of sales return book was cast short by Rs.100. **8**

**Q 6 a)** Discuss the relevance of IFRS. Throw some light on the convergence of Indian Accounting Standards with IFRS. 2

**b)** X Ltd. purchased on 1<sup>st</sup> January 2011 certain machinery for Rs.1,94,000 and spent Rs. 6,000 on its erection. On 1<sup>st</sup> July 2011 additional machinery costing Rs.1,00,000 was purchased. On 1<sup>st</sup> July 2013 the machinery purchased on 1<sup>st</sup> January 2011 became obsolete and was auctioned for Rs.1,00,000 and on the same date, new machinery was purchased at a cost of Rs. 1,50,000. Depreciation was provided annually on 31<sup>st</sup> December at the rate of 10% per annum on the original cost of machinery. No depreciation need to be provided when a machinery is sold or auctioned, for that part of the year in which sale or auction took place. In 2014, however, the company changed the method of providing depreciation and adopted the method of writing off 15% p.a. on the written down value on the balance as appeared in machinery account on 1.1.2014. Show the machinery account for the calendar years 2011 to 2014. 10

**Q 7** From the following Trial Balance of Shri Shanti Prasad, as on 31st March 2016, prepare the Trading and Profit & Loss A/c and Balance Sheet.

<b>Dr. Balances</b>	<b>(Amount) Rs.</b>	<b>Cr. Balances</b>	<b>(Amount) ) Rs.</b>
Plant And Machinery	2,00,000	Capital Account	8,00,000
Manufacturing Wages	3,45,000	Sundry Creditors	4,45,600
Salaries	1,58,500	Bank Loan	1,50,000
Furniture	1,00,000	Purchase returns	17,400
Freight On Purchase	18,600	Sales	25,08,500
Freight On Sales	21,400	Provision for Doubtful Debts	20,000
Buildings	2,40,000		
Manufacturing Expenses	95,000		
Insurance And Taxes	42,500		
Goodwill	2,50,000		
General Expenses	82,000		
Factory Fuel And Power	12,800		
Sundry Debtors	7,82,000		
Factory Lighting	9,500		
Stock (31 <sup>st</sup> March 2015)	3,42,000		
Motor Car	1,20,000		
Purchases	10,20,000		
Sales Returns	31,000		

Bad Debts	14,000		
Interest And Bank Charges	4,000		
Cash At Bank	42,000		
Cash In Hand	11,200		
	<b>39,41,500</b>		<b>39,41,500</b>

Following further information was given:

- i) Stock in hand on 31<sup>st</sup> March 2012 was value at Rs.3,05,000.
- ii) Depreciate Plant and Machinery by 10% p.a., Furniture by 5% p.a. and Motor Car by Rs.Rs.10,000.
- iii) Create provision for doubtful debts at 5% on Sundry Debtors.
- iv) Create provision for discount on Debtors at 2% p.a.
- v) Further Bad Debts were found to be Rs.5,000.
- vi) A commission of 1% on the gross profit is to be provided to Works Manager.
- vii) Good were sent for approval costing Rs.50,000, were returned by customer. Selling Price of these goods was Rs.70,000 and considered as Sales.
- viii) General Manager is to be allowed a commission @2% on the net profit after charging such commission.
- ix) Salary Rs.50,000 is due, Insurance is prepaid to the extent of Rs.2,000.

18

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