

# FA 01

MMS-I

Financial Accounting  
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Roll No.  
Total No. of Questions 10  
Duration (hrs): 3 hrs

Total No of printed Pages: 4  
Maximum Marks: 60

21-12-2009

## Notes:

- All questions are compulsory.
- Figures to the right indicate marks allotted to the question.
- Working notes should form part of your answer (where ever applicable).

## Question 1

(12)

The following is the trial balance of M/s Menaka enterprises for the year ended 31<sup>st</sup> March 2009. You are required to **prepare a Trading and Profit and loss account and Balance sheet**, after taking into account the adjustments given below:

Debit	Rs.	Credit	Rs.
Cash in hand	5,000	Sales	15,03,000
Cash at bank	12,000	Purchase returns	50,000
Office furniture	60,000	Sundry creditors	1,50,000
Sundry debtors	1,80,000	Discount received	20,000
Commission	17,000	Rent received	45,000
Power and fuel	60,000	Capital	2,70,000
Plant and machinery	2,40,000	Bank loan	50,000
Office expenses	20,000		
Carriage inwards	12,000		
Carriage outwards	35,000		
Interest on bank loan	2,500		
Rent rates and taxes	14,500		
Building	2,50,000		
Wages	3,00,000		
Salaries	70,000		
Opening inventory	1,20,000		
Sales returns	20,000		
Purchases	6,00,000		
Drawings	70,000		
<b>Total</b>	<b>20,88,000</b>	<b>Total</b>	<b>20,88,000</b>

## Adjustments:

- Closing inventory as on 31.3.2009 is Rs 1,80,000.
- Depreciate plant and machinery @ 10%, furniture @10% and building @ 5%.
- Salaries outstanding and power & fuel outstanding are Rs 10,000 & Rs.20,000 respectively.
- Rs. 50,000 was spent on plant and machinery at the beginning of the year but was wrongly included in wages.
- Rent received includes Rs 5,000 received in advance.
- Create provision for bad debts at 2 %.
- Interest on bank loan is 10% p.a. The loan was taken on 1<sup>st</sup> July 2008.

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**Question 2**

(4)

A number of events common to accounting function of a business entity are presented below in random order. **Re-write them as they would occur in their logical order:**

- a) Preparing balance sheet
- b) Analysing the transaction
- c) Posting from journal to ledger
- d) Occurrence of a business transaction
- e) Preparing a trial balance
- f) Balancing the ledger accounts
- g) Journalising the transaction
- h) Preparing profit and loss account.

**Question 3**

(6)

**Pass rectification entries for the following errors (with suspense account, if necessary):**

- (a) Umesh returns goods worth Rs 2,000 to Suresh. The same is passed through the purchase book of Suresh.
- (b) Rs. 860 paid to Mr. Lawyer towards legal expenses is debited to Mr Lawyer account as Rs. 680.
- (c) Rs. 3,850 paid for repairs of machinery is debited to furniture account.

**OR****Question 3**

(6)

**State giving reasons whether you would consider the following items as capital, revenue or deferred revenue expenditure:**

- a) Loss incurred due to change in exchange rate on purchase of raw material.
- b) Cost of pulling down an old factory shed, preparatory to construction of a new one.
- c) Cost of stores and spares, consumed in manufacturing machinery, for installation in own factory.

**Question 4**

(4)

Following are the application of some accounting concepts/conventions. **State with reasons the name of the relevant concept or convention**

- (i) Recording the withdrawals made by the proprietor.
- (ii) Following the WDV method of depreciating a particular asset, year after year.
- (iii) When cash is received and when cash is paid is not important.
- (iv) Valuation of closing stock at cost or market value, whichever is less.

**Question 5**

(4)

**State with reasons, whether the following statements are true or false:**

- a) Purchase book records transactions relating to credit purchase of assets.
- b) Agreement of trial balance ensures arithmetical accuracy of accounting records.
- c) Debit note is issued to the customer when he returns the goods.
- d) Net profit is a liability of the business.

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**Question 6**

(6)

Choose the right answer and justify with reasons/ example:

- i) The payment of a liability will:
  - a) Increase both assets and liabilities
  - b) Decrease assets and Decrease liabilities
  - c) Increase assets and decrease liability.
  
- ii) Fixed assets are held for the purpose of:
  - a) Resale
  - b) Getting loans by mortgaging them
  - c) Use in the operations of the business
  
- iii) On sale of old furniture, the owner's equity would:
  - a) Increase
  - b) Decrease
  - c) May or may not change

**Question 7**

(6)

Following information is available in respect of raw material 'Zing'

Date	Particulars
1 <sup>st</sup> Aug	Opening balance in hand 100 units @ Rs 10 per unit
4 <sup>th</sup> Aug	Received 220 units @ Rs. 11.50 per unit
10 <sup>th</sup> Aug	Issued 150 units to production
17 <sup>th</sup> Aug	Issued 50 units to production
7 <sup>th</sup> Sept	Issued 100 units to production
12 <sup>th</sup> Sept	Received 300 units @ Rs. 12 per unit
17 <sup>th</sup> Sept	Received 150 units @ Rs. 13 per unit
23 <sup>rd</sup> Sept	Issued 130 units to production
9 <sup>th</sup> Oct	Issued 100 units to production
16 <sup>th</sup> Oct	Issued 70 units to production

Compute the cost of raw material issued and the value of closing inventory using **FIFO method OR Weighted average cost method.**

**Question 8**

(6)

Following is the Balance Sheet of Sun Shine Ltd. as on 31<sup>st</sup> March 2009:

<b>Liabilities</b>	<b>31.3.09</b>	<b>Assets</b>	<b>31.3.09</b>
Equity Share capital	9,00,000	Goodwill	70,000
Share premium	90,000	Stock	1,96,000
Outstanding expenses	34,000	Land and building	5,50,000
12% debentures	5,20,000	Preliminary exps	21,000
Bank overdraft	1,00,000	Prepaid exps	55,000
General reserve	3,21,000	Plant and machinery	7,21,600
Profit and loss a/c	2,57,000	Furniture & fixtures	2,56,400
Loan from IDBI	3,00,000	Long term investments	3,50,000
Bills payable	10,000	Marketable securities	97,000
Provision for tax	72,000	Sundry debtors	3,39,400
Creditors	1,36,000	Bills receivable	25,000
		Cash and bank balance	58,600
<b>Total</b>	<b>27,40,000</b>	<b>Total</b>	<b>27,40,000</b>

Re-arrange the above Balance Sheet as per Schedule VI Part I.

*Contd.....*

**Question 9**

(6)

Given below is the Balance Sheet of M/s Stockwell Ltd for the year ended 31<sup>st</sup> March 2009:

**Balance sheet as on 31<sup>st</sup> March 2009**

<b>Liabilities</b>	<b>31.3.09</b>	<b>Assets</b>	<b>31.3.09</b>
Equity share capital (Rs 10)	30,00,000	Land	20,00,000
12% Debentures	20,00,000	Building	30,00,000
Profit and loss a/c	15,00,000	Machinery	13,00,000
General Reserve	8,00,000	Marketable securities	3,00,000
Provision for tax	5,00,000	Debtors	14,00,000
Creditors	7,00,000	Stock	10,00,000
Proposed dividend	3,00,000	Cash and Bank balance	3,00,000
Bank overdraft	5,00,000		
<b>Total</b>	<b>93,00,000</b>	<b>Total</b>	<b>93,00,000</b>

Other information for the year ending 31<sup>st</sup> March 2009:

Sales Rs. 2,50,00,000

Gross profit 15% on sales

Net profit before interest and tax Rs. 18,00,000

Interest Rs. 2,40,000

Provision for tax Rs. 5,00,000

**Calculate:**

(a) Current Ratio

(b) liquidity ratio

(c) Stock turnover ratio (stock on 1<sup>st</sup> April 2008 was Rs. 18,00,000)

(d) Debtors turnover ratio (debtors on 1<sup>st</sup> April 2008 was Rs. 20,00,000)

(e) Proprietary ratio

(f) Return on capital employed

**OR**

**Question 9**

(6)

Briefly explain Accounting Standard 3 relating to preparation of Cash Flow Statement.

**Question 10**

(6)

**Write short notes on any two:**

a) Objectives of corporate financial reporting

b) Fundamental accounting equation

c) Advantages and disadvantages of FIFO method of inventory valuation

d) Distinction between profit and loss account and Balance Sheet