

(Please Write your Exam Roll No. immediately)

Roll No.

END-TERM EXAMINATION

FIRST SEMESTER [MCA] - DECEMBER 2005

Paper Code: MCA-109 **Subject: Financial Accounting**

Time: 3 Hours **(Batch – 2004 & 2005)** **Maximum Marks: 60**

Note: Attempt five questions in all, including Q. 1 which is compulsory.

- Q. 1. (a) Distinguish between the following:-
(i) Cash Discount and Trade Discount
(ii) Joint Venture and Partnership
- (b) Explain the following:-
(i) Contingent Liabilities
(ii) Finance Lease
(iii) Account Current
(iv) Self Balancing Ledger
(v) Objectives of providing Ledger
(vi) Matching of cost and revenue.
- Q. 2. What do you mean by 'normal loss' and 'abnormal loss' in consignment? How are they treated in the books of account for consignor?
- Q. 3. What do you understand by 'bank reconciliation statement'? Explain its utility as a control tool.
- Q. 4. Elucidate (clarify) the following statement:-
(a) "Agreement of trial balance is not a conclusive proof of accuracy of accounting records".
(b) "Accounting equation holds good under all circumstances".
(c) "Single entry system of book-keeping is an unscientific incomplete and defective system".
(d) "Revenue earned and cost of earning revenue should be properly identified for a period.
- Q. 5. What is diminishing balance method of depreciation? Describe its advantages and disadvantages.
- Q. 6. (a) What do you understand by the following:-
(i) Profitability Ratio
(ii) Turnover Ratio
(iii) Financial Ratio
- (b) What are the advantages and limitations of Ratio Analysis?

Q. 7. Under which major head will you classify the following item while preparing the balance sheet of the company?

- (a) Debenture
- (b) Capital Reserve Account
- (c) Public Deposits
- (d) Forfeited Shares Account
- (e) Sundry Creditors
- (f) Advances received from customer
- (g) Bills receivables
- (h) Preliminary Expenses
- (i) Goodwill
- (j) Share Premium

Q. 8. Suman Company has the following Inventory, Purchase and sales data for August :-

Inventory	August 1	100 Units @ Rs. 5
Purchase	August 5	600Units @ Rs. 6
	August 11	300 Units @ Rs. 8
	August 23	400 Units @ Rs. 9
Sales	August 9	400 Units
	August 18	500 Units
	August 28	200 Units

The physical inventory count on August 31 shows 300 units in hand. Compute the cost of inventory on hand on 31 August and cost of goods sold for August under each of the following methods:-

First In First Out

Last In First Out

- Q. 9. (a) What characteristics should an asset possess to be classified as inventory?
(b) Under what circumstances will you treat interest charges as product cost?
(c) Why the Inventory costing method is needed?

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- Q. 1. Whether the following statements are true or false. Give reasons very briefly.
- (a) Accounting period assumption show that the business has indefinite life.
 - (b) Heavy advertisement expenditure at the time of introducing a new product is a capital expenditure.
 - (c) Separate entity concept is not applicable to company.
 - (d) Profit and loss account shows the financial position of the concern.
 - (e) Rs. 2,000 paid for erecting a machine should be debited to wages account.
 - (f) Depreciation and depletion are the same thing.
 - (g) Receipts and payment account is the summary of income and expenditure.
 - (h) Buying goods for cash would increase the current ratio.
 - (i) It is generally accepted that the current liabilities should be two times the current assets.
 - (j) FIFO method of valuation of inventories is preferred rising prices.
- Q. 2. “Agreement is a trial balance is conclusive proof of accuracy of books of account”.
Comment.
- Q. 3. Rectify the following error:
- (a) Rs. 3,000 paid for purchase of furniture was posted to purchase account.
 - (b) Rs. 1,000 spend on repair of the building was debited to building account.
 - (c) Good sold to zed for Rs. 405 have been entered in the sales book as Rs. 504.
 - (d) Purchaser of goods from Pee has been wrongly passed through sales book. The amount of purchaser was Rs. 2,000.
 - (e) A sale of Rs. 2,000 made to Mr. Ram was correctly entered in the sales day book was wrongly posted to the debit of Mr. Shyam’s account.
- Q. 4. What do you mean by the term ‘Depreciation’? What are the basic features of depreciation? Discuss the causes of depreciation. Also describe any two method of providing depreciation.
- Q. 5. (a) The following items are found in the trial balance of Mr. Short on 31st December 2003.

	Rs.
Debtor	20,000
Bad Debt	500
Provision for bad & doubtful debts on 1.1.2003	800

You are to provide for additional bad debt Rs. 400; bad and doubtful debt 5% shows the treatment of above transaction in the profit and loss account and the Balance Sheet.

(b) Differentiate between outstanding expenses and prepaid expenses. How will you treat them while preparing profit and loss account and the balance sheet?

Q. 6. The following are the details of a spare part of S. R. Mills Ltd.

1.11.04	Opening Stock	50 units @ Rs. 25 per Unit
2.11.04	Purchase	100 units @ Rs. 30 per Unit
5.11.04	Issued	60 units
11.11.04	Purchase	200 units @ Rs. 40 per Unit
20.11.04	Issued	100 Units
22.11.04	Issued	100 Units
27.11.04	Purchase	150 units @ Rs. 50 per Unit
29.11.04	Issued	100 Units

Find out the value of stock on 30.11.04 using

- (a) LIFO Method
- (b) FIFO Method

Q. 7. What is meant by financial statements? What are the limitations of financial statement? Enumerate various parties interested in financial statements.

Q. 8. Under which major head will you classify the following items while preparing the Balance sheet of a company:

- (a) Debenture
- (b) Capital Reserve Account
- (c) Public Deposits
- (d) Forfeited Shares Account
- (e) Sundry Creditors
- (f) Advances received from customer
- (g) Bills receivables
- (h) Preliminary Expenses
- (i) Goodwill
- (j) Share Premium

Q. 9. (a) Distinguish between receipts and payments account and income and expenditure account.

(b) Income and expenditure account of Delhi Sports club show the amount of subscription for 2003 as Rs. 11,000. You are further given:

- Subscription unpaid on 1.1.2003 Rs. 1,000 of which Rs. 900 was received in 2003.
- Subscription paid in advance on 1.1.2003

- Subscription paid in advance at 31.12.2003	300
- Subscription for 2003 unpaid at 31.12.2003	350

Ascertain the amount of subscription of subscription received during the year 2003 to be shown in receipts and payments account.

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Time: 3 Hours

Maximum Marks: 60

Note: Attempt five questions in all, including Q. 1 which is compulsory.
All Question carry equal marks.

- Q. 1. All parts carry equal marks (one). State True/False with one reason
- Generally business transactions are described in money terms.
 - Financial Accounting facilitates management control.
 - Financial management is same as financial accounting.
 - Accounting starts from the point where book keeping ends.
 - Money does not have constant value.
 - The annual report is a document that incorporates the balance sheet and income statement.
 - Business has an indefinite life.
 - The accounting equation is a statement of equality between debit and credit.
 - Depreciation is a charge against profit.
 - The cash book functions both as a Journal and a ledger.
 - The filling of voucher in petty cash book should be in order.
 - Bank reconciliation statement shows any undue delay in the clearance of cheques.
- Q. 2. What is financial accounting? What are its objectives and limitations?
- Q. 3. Mr. A shopkeeper has prepared the following trial balance from his ledger as on 31st March, 2002.

Particular	Debit (Rs.)	Credit (Rs.)
Purchase	6,20,000	
Sales		8,30,000
Cash in hand	4,200	
Cash at Bank	24,000	
Stock of goods as on 1/4/2001	1,00,000	
Mr. A's Capital		5,77,000
Drawings	8,000	
Salaries	64,000	
Postage & Telephone	23,000	
Salesman Commission	70,000	
Insurance	18,000	
Advertising	34,000	
Furniture	44,000	

Printing & Stationary	6,000	
Motor Car	96,000	
Bad debts	4,000	
Cash Discounts	8,000	
General Expenses	60,000	
Carriage Inward	20,000	
Carriage Outwards	44,000	
Wages	40,000	
Creditor		80,000
Debtor	2,00,000	
Total	14,87,000	14,87,000

You are requested to prepare Trading and profit and loss account for the year ending 31st March, 2002 and balance sheet as on that date. You are given the following further information:-

- Cost of good in stock as on 31st March 2002 is Rs. 1,45,000.
- Mr. A has withdrawn goods worth Rs. 5,000 during the year.
- Purchases include purchase of furniture worth Rs. 10,000.
- Debtors include Rs. 5,000 bad debts.
- Creditors include a balance of Rs. 4,000 to the credit of Mr. B in respect of which it has been decided and settled with the party to pay only Rs. 1000.
- Sales include goods worth Rs. 15000 sent to Ram & Co. on approval and remaining unsold as on 31st March 1999. The cost of goods was Rs. 10,000.
- Provision for bad debts is to be created at 5% on sundry debtors.
- Depreciated furniture by 15% an motor car by 20%.
- The salesmen are entitled to a commission of 10% on total sales.

Q. 4. Write short notes on any two of the following:-

- The advantages and limitations of accounting ratio.
- Measurement of fair income.
- Income and expenditure account.
- Inventory valuation and depreciation.

Q. 5. Rathi Alloys Ltd. has drawn up the following profit and loss account for the year ended 31st March 2003 :

Debit Particulars	Rs.	Particulars	Credit Rs.
To Opening Stock	13,000	By Sales	80,000
To Purchases	40,000	By Closing Stock	19,000
To Wages	12,000		
To Unmanufacturing Expenses	8,000		
To Gross Profit	26,000		
	99,000		99,000

To Selling & Dist. Expenses	2,000	By Gross Profit	26,000
To Admn. Expenses	11,400	By Compensation for Acquisition of land	2,400
To General Expenses	600		
To Loss by fire (Furniture)	400		
To Net Profit	14,000		
	28,400		28,400

Find out the

- Gross Profit Ratio
- Operating Ratio
- Ratio of operating net profit to net sales

Q. 6. What is receipt and payment account? How will you deal with donations and legacies in final accounts of a non profit organization?

Q. 7. The following balances are extracted from the books of the branch:

Stock on 1.1.1999	39,000	Wages	8,000
Head Office (Credit)	42,000	Salaries	2,500
Sundry Debtors	15,000	Carriage and Freight	1,200
Purchases	34,500	Rent, Rates etc.	1,200
Goods received from H.O.	42,500	Office Expenses	300
Returns to H. O.	2,000	Cash in hand	350
Sales	96,000	Cash at bank	1,450
Sundry Creditor	6,000	Stock on 31.12.1999	42,600

The head office sent goods worth Rs. 7,500 to branch office on 30th December 1999, but the branch received the same on 7th January 2000. The branch remitted to head office Rs. 4,500 on 27th December 1999 but the money was received by head office on 2nd January 2002. The branch account in the head office books showed a debit balance of Rs. 54,000 on 31st December 1999. Branch plant & Machinery account appeared in the head office books at Rs. 24,000 on 31st December 1999 which was to be depreciated by 5%. Make necessary journal entries in the book of head office and the branch for reconciling their accounts. Give also journal entries to incorporate in the head office books.

Q. 8. What do you understand by depreciation? Explain sinking fund method of depreciation with example.

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Time: 3 Hours

Maximum Marks: 60

Note: Attempt any five questions including Q. 1 which is compulsory. All Question carry equal marks.

- Q. 1. State whether the following statements are true or false. Give Reasons
- Going Concern Concept up the time frame for which the performance is to be measured and financial position is to be appraised.
 - Profit / Loss = Closing Capital + Additional Capital – Drawing – Opening Capital
 - Goods were sold to Ram Rs. 1,000 on 1.1.2011, Ram paid Rs. 950 on account. Ram's account should be credited with Rs. 1000.
 - Purchase of a fixed assets on credit is recorded in the Journal Paper.
 - Current ratio represents the profitability position of a company.
 - Adjustment entries always affect profit and loss A/c and the balance sheet simultaneously.

- Q. 2. The following is the Trial Balance of M/s Nitin Computers as on 31st March 2001.

	Rs		Rs.
Plant & Machinery	5,40,000	Telephone	13,500
Office Furniture	66,000	Insurance	33,000
Opening Stock	5,20,000	Advertisement	1,16,500
Motor Wares	1,60,000	General Expenses	70,000
Debtors	5,17,000	Bad debts	85,000
Cash in hand	64,000	Discount Allowed	1,25,000
Cash at bank	1,25,000	Capital	16,60,000
Wages : Factory	56,000	Sales	48,96,000
Office	20,000	Bills Payable	1,16,000
Purchase	38,60,000	Creditors	3,80,000
Closing Stock	5,75,000	12% Bank Loan	2,00,000
Bills Receivable	1,32,000	Provisions for	85,000
		doubtful debt	
Return Inwards	1,53,000	Return Outwards	1,15,000
Drawing	1,30,000	Discount Received	97,000
Rent	1,20,000		
Factory Lighting	60,000		

The following adjustment are to be made:

- Stock as on March 31, 2001 has an estimated market value of Rs. 60,000.
- Stock lost by fire during the year amount to Rs. 45,000 against which insurers paid Rs. 34,000. The receipt was credited to Sales account.
- Rent due, but not paid as on March 31, 2001 amounted to Rs. 20,000.

- (iv) Three monthly factory lighting and heating due but not paid worked out to be Rs. 3,000.
- (v) Insurance paid in advance amounted to Rs. 1000.
- (vi) Depreciation @ 10% is required to be written off on plant and machinery, 55 on furniture and 255 on motor van.
- (vii) Written off further bad debts is to be increased to Rs. 30,000.
- (viii) The bank loan was contracted on July 1, 2000 you are required to prepare the profit and loss A/c for the year ended March 31, 2001 and also the balance sheet as on March 31, 2001. Show the working notes wherever required.

Q. 3. On July 1, 1991 Gopal purchases the second hand machinery Rs. 20,000 and spent Rs. 3000 on re-conditioning and installing it. On January 1, 1992 the firm purchased new machinery worth Rs. 12,000. On June 30, 1993, the machinery purchased on January 1, 1992 was sold for Rs. 8,000. On July 1, 1993 fresh machinery was purchased for this machinery to be made as follow :

July 1, 1993	Rs. 5,000
June 30, 1994	Rs. 6,000
June 30, 1995	Rs. 5,500

Payments in 1994 and 1995 include interest Rs. 1,000 and Rs. 500 respectively. The company writes off the depreciation @ 10% pa on the original cost. The account is closed every year on 31st March. Show the machinery account for three year ending 31, March 1994.

Q. 4. (a) Calculate by FIFO method of inventory valuation, the cost of goods sold and value of ending inventory from the following data.

		Units	Price
Jan 1	Opening Stock	1500	20
Feb 2	Purchased	750	25
March 15	Purchased	600	22
March 15	Sold	1800	-
April 10	Sold	750	-
May 15	Purchased	600	25
June 10	Sold	750	-

(b) Compare the FIFO and LIFO method of stock valuation with the reference to their effect on pricing of issues of goods, valuation of closing stock and profits during a period of rising prices.

Q. 5. XYZ Ltd. had a branch at Calcutta. Goods are invoiced to the branch at cost plus 25%. Branch has been instructed to send all cash daily to the head office. All expenses are paid by the head office except petty expenses which are met by the branch manager.

From the following particulars, Prepare the Branch Account in te books of the head office.

	Rs.
Opening Stock	2,500
Closing Stock	3,500
Opening Sundry Debtor	1,400
Closing Sundry Debtor	1,800
Cash sales for the year	10,800
Credit sales for the year	7000
Goods invoiced from the head office	18,200
Expenses paid by the head office	1,640
Expenses paid by the branch	120
Cash submitted to the head office	15,000
Furniture purchased by the branch manager.	1,200

Q. 6. Prepare Receipt and payment accounts and income and expenditure A/c of City Club for the year ended 31st March 2000 from the following particulars -

Subscriptions collected (including Rs. 4,000 for 1998)	30,000
Donation Received (not to capitalized)	2,000
Subscription outstanding at the end of the year	6,000
Rent paid	1,800
Purchase of furniture at the beginning of the year	1,000
Purchased of sports equipment	2,500
Purchases of magazine and newspaper	1,200
Sale of old furniture at the beginning of the year	500
Opening cash balances and bank balance	6,800
Instrument purchased	4,000
Interest on Investment received	1,000
Bank Charges	20
Postage, telegrams and telephones	1,800
Printing and stationary	1,000
Printers bill	500
Entrance fees	1,400
Legacies received	2,000
Honorary secretary allowances (including Rs. 2000 for last year)	1,800
Outstanding allowances (Honorary Secretary)	300

Q. 7. Differentiate between (any four)

- (a) Capital expenditure and Revenue expenditure
- (b) Trial Balance and Balance sheet
- (c) Periodic and perceptual method of inventory.
- (d) Fund flow statement and Balance sheet
- (e) Liquidity and solvency ratios.

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**Note: Attempt any five questions including Q. 1 which is compulsory.
All Question carry equal marks.**

- Q. 1. Give the right answer giving atleast one reason in support for you choice. (True/False)
- (a) Depreciation is a charge against profit.
 - (b) All possible expenses and losses should be provided for but expected income and gains should be ignored.
 - (c) Balance sheet shows the financial position at a point of time.
 - (d) Which of the following accounting equation is correct?
 A-Capital = Total Assets – (Debenture + Loans)
 B-Capital = Total Assets – (All Internal and external liabilities)
 - (e) Acid test measures the correct economic position of an undertaking.
 - (f) Window dressing of Balance sheet serves the interest of investors.
 - (g) Timely publication of Annual Accounts is highly important.
 - (h) Miscellaneous Expenditure (to the extent not written off) is an item of assets.
 - (i) Double entry system is the only scientific system of book-keeping.
 - (j) Companies should charge depreciation irrespective of use of machines.
 - (k) Goodwill is an intangible asset.
 - (l) Expenditure incurred on installation of an asset is a capital expenditure.

Q. 2. Prepare a Trading and Profit and Loss account for the year ended on 31st March 2001 and Balance sheet on that date from the ledger balances and other information as below:-

	Rs		Rs.
Stock (1-4-1999)	1, 05,000	Sales	6,75,000
Purchases	1, 75,000	Purchase Returns	15,000
Sales Returns	15,500	Interest on Investments	1,500
Carriage Inwards	7,500	Creditors	60,500
Manufacturing Exp.		Bills Payable	22,000
including wages	1,45,000	Capital	2,50,000
Salaries	35,000	Loans	50,000
Rent of Building	30,000		
Insurance Premium	750		
Advertising Expenses	2,500		
General Expenses	1,500		
Bad Debts	2,500		
Stationary & Printing	5,500		
Commission to Salesman	3,750		
Interest on loan	4,500		

Land & Buildings	1, 96,000	
Plant & Machinery	2, 25,000	
Furniture & Fixtures	25,000	
Debtors	28,000	
Stock in trade	35,000	
Bills Receivable	15,000	
Cash Balances	15,000	
	-----	-----
	10, 74,000	10, 74,000
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Other information:-

- (i) Unsold stock , Rs. 60,500
- (ii) Provide 5% for Bad & Doubtful Debts.
- (iii) Charge depreciation on Plant & Machinery @ 10% and on furniture @ 20%
- (iv) Outstanding rent Rs. 6,000.
- (v) Accrued Interest Rs. 1,500
- (vi) Tax payable Rs. 15,000.

Q. 3. What do you mean by Financial Statement Analysis? Explain the techniques which are used for analysis of the annual accounts of any company.

Q. 4. ABC Ltd. has drawn its balance sheet for the year ended on 31.03.2001.

Capital & Liabilities	Amount	Property & Assets	Amount
Share Capital	1,75,000	Land & Building	1,00,000
Reserve & Surplus	25,000	Plant & Machinery	75,000
Loans	90,000	Furniture & Fixtures	18,000
Creditors	45,000	Stock	95,000
Bills Payable	15,000	Debtors	35,000
Outstanding Rent	6,000	Bills Receivable	10,000
Tax Payable	15,000	Accrued Interest	2,000
		Cash balances	15,000
		Miscellaneous	21,000
		expenditure	
		(to the extent not written off)	
	-----		-----
	3,71,000		3,71,000
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You are required to calculate the following accounting ratios and comment on the Liquidity, current period and long-period solvency of the company.

(a) Liquid Ratio

- (b) Current Ratio
(c) Debt-Equity Ratio.

- Q. 5. (a) Mention the different method of inventory valuation.
(b) Prepare the statement of inventory using FIFO and LIFO methods of inventory valuation from the following information obtained from cost records of a firm.

1999

January 1	Balance 100 Units @ Rs. 15
January 10	Purchases 55 Units @ Rs. 20
January 12	Issued 200 Units
January 20	Purchases 55 Units @ Rs. 25
January 31	Issued 400 Units

- Q. 6. On 1st January 1998, X Ltd. purchased a machine for Rs. 3,60,000 and spent Rs. 15,000 on its installation. On 1st July the same year another machine costing Rs. 1, 50, 000 was added. On 1st July, 2000 the machinery which was purchased on 1st January, 1998 was discarded for Rs.1,60,000 and on the same date, a new machine was purchased for Rs. 3,00,000

Show the Machinery Account as would appear in the book of the company for the first four years if depreciation is charged at 10% per annum by straight line method.

- Q. 7. Following is the summary of cash transaction of Youngmans club, Delhi for the year ended on 31st March 2000. Prepare an Income and Expenditure Account for the year ended on 31st March 2000 and also the Balance sheet on the date.

Receipts	Amount	Payment	Amount
Cash in hand	21,500	Rent & Taxes	12,750
Entrance Fee	6,250	Salaries	14,250
Subscriptions	23,000	Electric Charges	750
Donations	16000	General Expenses	1,800
Interest	950	Books	5,150
Profit from Variety show	11,000	Office Expenses	6,000
		Investments	23,000
		Cash at Bank	9,000
		Cash in Hand	6,000
	-----		-----
	78,700		78, 700
	-----		-----

At the beginning of the year, the club had books worth Rs. 45,000 and furniture worth Rs. 8,700. Subscription in arrears on 1st April, 1999 were Rs. 900 and Rs. 1,050 on 31st March 2000 Rs. 2700 was due by way of rent in the beginning as well as at the end of the year.

Depreciate furniture by Rs. 750 and books by Rs. 4,500. On 31st March 2000, Salaries Rs. 2,500 and electric charges Rs. 500 were outstanding.

Q. 8. Write short notes on any two of the following:-

- (a) Measurement of fair income
- (b) Debtors system of Branch Accounting
- (c) Distinction between Capital and Revenue items of expenditure and income
- (d) Payroll Accounting.
