

# Financial Accounting and Analysis

BBS 1<sup>st</sup> Year

## Model Question

Course No.: MGT 211

Full Marks: 100

Nature of the Course: Core

Pass Marks: 35

*Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.*

### Brief Answer Questions

(10x2=20)

1. What is business entity concept of accounting?
2. Write about the cash basis of accounting.
3. What are the importance of internal control to a business?
4. Write down the meaning of contingent liabilities.
5. What is long lived assets?
6. On January 1, Simran Company borrowed Rs. 100,000 from bank by signing a 3-month, 12% notes payable. It paid the principal and interest at due date.

**Required:** Journal entries for issue and retirement of note.

7. You are provided the following information.

Sales =	Rs.300,000	Wages to workers =	Rs.50,000
Interest received =	Rs.10,000	Income tax paid =	Rs.5,000
Cost of bought in materials and services =	Rs.180,000		
Opening Stock =	Rs.20,000	Closing Stock =	Rs.30,000

**Required:** Amount of value added.

8. The following information are given:

- Started business with cash of Rs.80,000
- Paid rent Rs.13,000 including advance rent of Rs.1,000
- Salary paid Rs.16,000 and outstanding salary was Rs.2,000

**Required:** Accounting equation

9. The following transactions of the Light Company are given below:

- Jestha 5            Returned by Rama Lights  
 20 Fans @ Rs.1,500 each  
 2 dozen Lamps @ Rs.900 each  
 Carriage charge Rs.1,000  
 Less: Trade discount 10%
- Jestha 17            Returned 8 Heaters from KK Lights for Rs.20,000
- Jestha 29            Returned 300 Led Lights to Divya Lights Rs.30,000

**Required:** Return inward book

10. The following information are given,

Trial Balance

Particulars	Debit	Credit
Sundry Debtors	220,000	
Bad Debts	20,000	
Provision for Doubtful Debts		30,000

Adjustment:

- Additional Bad Debts to be written off Rs.10000
- New Provision for Doubtful Debts @ 10% on Debtor

**Required:** Provision for doubtful debt account.

**Short Answer Questions (attempt any five)**

**(5x10=50)**

11. The following information is provided:

Net Working Capital Rs.600,000 that represents Rs.300,000 inventory value

Current Liabilities    Rs.200,000

Capital Employed    Rs.1,000,000

Debentures            Rs.400,000

Account Receivable    Rs.200,000

Operating Profit of the year Rs.100,000 being 10% of Sales

Income Tax is 25%

**Required:**

- |                         |                           |                                   |
|-------------------------|---------------------------|-----------------------------------|
| a. Net profit after tax | b. Liquid Ratio           | c. Debt Equity Ratio              |
| d. Stock Turnover Ratio | e. Average Payable Period | f. Return on Shareholder's Equity |
| g. Net Profit Margin    |                           | (1+6x1.5=10)                      |

12. The ABC Company sells a single product for Rs.2 per unit and uses a periodic inventory system. The following data are available for the year.

Date	Transaction	Number of Units	Unit Cost Rs.	Total Rs.
Baisakh 11	Beginning inventory	1,000	1	1,000
Jestha 16	Purchase	700	1.1	770
Shrawan 22	Sale	(1,100)		
Kartik 27	Sale	(400)		
Poush 13	Purchase	800	1.3	1,040
Falgun 15	Sale	(600)		

**Required:**

- Cost of goods sold, ending inventory and gross profit under weighted average costing method
- Cost of goods sold, ending inventory and gross profit under FIFO method (5+5=10)

13 a. A firm purchased a machine costing Rs.200,000 on 1st Baishak 2075. The useful life of the machine is 3 years with expected salvage value of Rs.40,000. The firm decided to invest the depreciation amount to earn interest at 5% per annum. The sinking fund table shows that Rs.0.317208 invested at 5% p.a. will give Re. 1 at the end of 3 years. At the end of 3rd year, the investments were sold for Rs. 100,000.

**Required:** Depreciation Fund Investment Account

- Explain the concept of accounting standard. Why it is needed? (2+3=5)

14 a. On 1<sup>st</sup> Baisakh 2075, MG Group Stockholder' Equity category appeared as follows:

8% Preferred Stock of Rs.500 par value 1,000 shares issued and outstanding	500,000
Common Stock Rs.100 par value 15,000 shares issued and outstanding	1,500,000
Additional paid in capital – Preferred	300,000
Additional paid in capital – Common	400,000
<b>Total contributed capital</b>	<b>2,700,000</b>
Retained Earnings	2,000,000
<b>Total Shareholders' Equity</b>	<b>4,700,000</b>

The Preferred Stock is non-cumulative and non-participating. During 2075 the following transaction occurred

- On 1<sup>st</sup> Ashwin, declared a cash dividend of Rs.80,000 on preferred stock. Paid the dividend on 1<sup>st</sup> Kartik.

- b. On 1<sup>st</sup> Mangsir, declared a 10% stock dividend on common stock. The current market price of the common stock was Rs.180. The stock was issued on Poush
- c. On 1<sup>st</sup> Magh declared a cash dividend of Rs.60 per share on the common stock; paid the dividend on 30<sup>th</sup> Magh
- d. On 1<sup>st</sup> Chaitra issued a 2-for-1 stock of common stock, when the stock was selling for Rs.200 per share.

**Required:** Develop the Stockholders Equity category of the 31<sup>st</sup> Chaitra 2075 balance sheet. Assume the net income for the year was Rs.300,000 (5)

b. Explain the concept of bonds and write down the main characteristics of bond. (5)

15. a. Differentiate between horizontal and vertical analysis. (5)

b. Differentiate between account receivable and note receivable (5)

16. Discuss in brief about the disclosures required for financial statement under Nepal Financial Reporting Standard (NFRS). (10)

**Long Answer Questions (attempt any two) (2x15=30)**

17. Following are the transaction of a Computer Service Agency during the month of January.

Jan 2 Received cash Rs.300,000 to start business from the owners of the company.

Jan 8 Deposited into bank Rs.100,000

Jan 10 Signed a two year promissory note at the bank and received cash of Rs.50,000. Interest 10% along with Rs.50,000 will be repaid at the end of two years.

Jan 11 Purchase of supplies for Rs.30,000 on account. The company has 45 days to pay for the supplies.

Jan 19 Billed a client Rs.100,000 for service rendered by expert in helping to install a new computer system. The client is to pay 25% of the bill upon its receipt and the remaining balance within 60 days.

Jan 21 Paid Rs.10,000 to the advertising company.

Jan 22 Received Rs.45,000 after deduction of 10% discount from the client billed on Jan 19

Jan 26 Received cash of Rs.30,000 for service provided in selecting software for its computer.

Jan 28 Purchased a computer system for Rs.50,000 in cash.

Jan 30 Paid Rs.50,000 salaries for January and Rs.30,000 rent for February.

**Required:**

a. Journal entries (5)

b. T accounts (ledger) for income, account receivable and account payable (3)

- c. Triple column cash book (4)  
d. Trial Balance (3)

18. The balance sheet of a company for two years are given below:

Liabilities	Year 1	Year 2	Assets	Year 1	Year 2
Equity Share capital	1,000,000	12,00,000	Fixed assets	1,000,000	1,200,000
Share premium	100,000	120,000	Inventory	200,000	350,000
10% Debentures	120,000	70,000	Accounts receivable	250,000	340,000
Provision for tax	20,000	40,000	Prepaid expenses	20,000	10,000
Provision for dividend	10,000	20,000	Cash	120,000	150,000
Accounts payable	60,000	150,000			
Accumulated depreciation	250,000	280,000			
Profit and loss a/c	30,000	170,000			
	<b>1,590,000</b>	<b>2,050,000</b>		<b>1,590,000</b>	<b>2,050,000</b>

**Income Statement for the Year 2**

Sales revenue		Rs. 10,00,000
Less: Cost of goods sold		600,000
Gross Profit		400,000
Less: Operating expenses:		
Administrative expenses	150,000	
Depreciation	50,000	
Provision for tax	40,000	
Provision for dividend	20,000	
Interest paid	12,000	
Premium on redemption of debentures	5,000	
Total operating expenses		277,000
Net income		123,000
Add: Gain on sale of fixed assets		17,000
<b>Retained earning</b>		<b>140,000</b>

**Additional information**

- i. A plant costing Rs.50,000 with an accumulated depreciation of Rs.20,000 has been sold for Rs.47,000.  
ii. Dividend paid in year 2 Rs. 10,000.

**Required:** Cash flow statement by using direct method (6+3+3+3=15)

19. "Financial accounting is based on generally accepted accounting principles, which is enabled the preparation and presentation of financial statement uniformly," discuss. (15)

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#### Section A

#### Brief Answer Questions

Attempt ALL Questions

(10x2=20)

1. What is financial accounting?
2. What is accrual concept of accounting?
3. Write about the perpetual system of inventory.
4. Write any two differences between stock dividend and stock splits.
5. What is matching concept of accounting?
  
6. An enterprise has total assets of Rs. 500,000 and liabilities of Rs. 300,000 at the beginning of the year. During the year, the company earned Rs. 200,000 and distributed Rs. 50,000 dividend.

**Required:** Equity at the end of the year

7. The following transactions of the company are given below:

Jestha 2	Acceptance was given to Hari for 3 months for Rs.30,000
Ashad 9	Received from Rajendra an acceptance for 1 month for Rs.8,000
Ashad 27	Discounted Rajendra's acceptance for Rs.7,900
Shrawan 25	Acceptance was given to Ram for 2 months for Rs.22,000

**Required:** Bills Payable Book

8. ABC Company receives a one year loan from Nepal Bank Ltd. On 1<sup>st</sup> Shrawan 2075. The face value of the Note of Rs.100,000 must be repaid on 31<sup>st</sup> Ashad 2076 along with 12% interest.

**Required:** Journal entries to record the loan and its repayment.

9. Pashupati Company redeemed Rs. 100,000 face value bond issued at premium Rs. 10,000. The unamortized premium was Rs. 6,000 and the bond contains a call provision of Rs. 103.

**Required:** Gain or loss on early redemption of bond.

10. Following information are given to you:

Insurance expenses	Rs.10,000	Salary	Rs.12,000
Commission received	Rs.5,000	Interest (Cr.)	Rs.7,000
Utilities	Rs.8,000	Depreciation	Rs.10,000

Supplies expenses                      Rs.4,000

**Required:** Closing entries

### Section B

#### Short Answer Questions

**Attempt any FIVE Questions**

**[5x10=50]**

11. On 31<sup>st</sup> Chaitra 2075 Bank Statement of Citi College disclosed a balance of Rs.12,400 and Cash Book showed the balance of Rs.12,500
- Number of cheques were deposited in the bank but on 31<sup>st</sup> Chaitra, 2075, a cheque for Rs.2,000 was not credited in the Bank Statement.
  - Cheques issued of Rs.6,000 but only Rs.2,000 presented before 31<sup>st</sup> Chaitra.
  - Notes receivable collected by the bank Rs.1,500
  - Cash of Rs.4,800 deposited by the college on Chaitra was recorded by the bank as Rs.4,200.
  - A cheque for Rs.3,000 received from a student was returned by the bank due to insufficient fund with the bank.

**Required:**

- Journal entries
- Bank Reconciliation Statement as on 31<sup>st</sup> Chaitra 2075
- Bank balance on 31<sup>st</sup> Chaitra balance sheet. (4+5+1=10)

12. Alpha Enterprises provides you the following information related to the inventories for April 2019. Alpha makes counting and recording of inventories items only at end of each month.

April 1	Beginning inventory 600 units @ Rs10 each
April 5	Purchased 800 units @ Rs.11 each
April 12	Purchased 1,200 units @ Rs.12 each
April 19	Sold 1,000 units @ 18 each
April 23	Purchased 600 units @ Rs.12 each
April 26	Purchased 220 units @ Rs.15 each
April 30	Sold 1,200 units @ Rs.20 each

**Required:**

- What inventory system the Alpha is adopting? (2)
  - Ending inventory and cost of goods sold under the LIFO method assuming a periodic inventory system. (6)
  - Income statement showing net income, assume depreciation expenses Rs. 8,000 and other operating expenses Rs. 12,000. (2)
13. a. ABC Company bought a machine, expected to render 72,000 hours of service for Rs.380,000. Its transportation and installation cost are 10,000 each with salvage value of Rs.40,000. It has been estimated that the time requires for manufacturing a finished product is 2 machine hour per unit.

During first 3 years, the company manufactured the goods as under

Year	1	2	3
Output in units	9,000	10,000	11,000

**Required:** Machinery account for 3 years. (5)

b. Differentiate between accounting and accountancy. (5)

14 a. During the year of 2075, XYZ Company made total sales of Rs.12,00,000 of which 70% are on credit. Company collected cash of Rs.768,000 from the open account in that year. In the year 2075 it has also wrote off Rs.20,000 as an uncollectible account. The following are balance of accounts at the end of 2074.

Account Receivables Rs.200,000

Allowance for doubtful debt Rs.18,000

Company past performance shows that 5% of its ending balance of account receivable is expected to be doubtful debt account.

**Required:**

a. Journal entries for sales, collection and write-off of uncollectible accounts

b. Estimated bad debt for 2075 based on the percentage on account receivable.

Also, journalize it. (3+2=5)

b. Differentiate between capital and revenue expenditure. (5)

15. "A lease is a legal contract under which one party agrees to pay rent properly owned by other party", discuss. (10)

16. Explain the meaning of the source of documents. Also, write down the importance of source of documents. (5+5=10)

### Section C

**Long Answer Questions (attempt any two) (2x15=30)**

17. The ABC Company's Statement of Profit and Loss a/c and Statement of Financial Position for two years have been given below:

#### Statement of Profit and Loss a/c for the year 2075

Particulars	Amount (Rs.)
Sales (Including Rs.800,000 credit sales)	15,00,000
Less: Cost of goods sold	900,000
<b>Gross Profit</b>	<b>600,000</b>
Less: Operating Expenses	
Depreciation	300,000
Debenture Premium	20,000
Interest paid	10,000
Other Operating Expenses	150,000
<b>Net Income before other income</b>	<b>120,000</b>
Add: Profit from sale of fixed assets (book value Rs.40,000)	20,000
<b>Net profit</b>	<b>140,000</b>

#### Statement of Financial Position of a company for 2074 and 2075

Capital & Liabilities	2074	2075
Share Capital @ Rs.100 per share	1,200,000	1,500,000
Share Premium	120,000	150,000
General Reserve	40,000	60,000



10% Debenture	200,000	100,000
Account Payable	160,000	240,000
Bank Overdraft	230,000	160,000
Retained Earnings	150,000	290,000
<b>Total</b>	<b>2,100,000</b>	<b>2,500,000</b>
<b>Assets</b>		
Fixed Assets	1,500,000	2,000,000
Investment	100,000	200,000
Inventories	50,000	100,000
Account Receivable	235,000	90,000
Cash	200,000	100,000
Preliminary expenses	15,000	10,000
<b>Total</b>	<b>2,100,000</b>	<b>2,500,000</b>

**Required for 2075:**

- |                                |                                |
|--------------------------------|--------------------------------|
| a. Current Ratio               | b. Quick Ratio                 |
| c. Debt to Total Capital Ratio | d. Inventory Turnover Ratio    |
| e. Total Assets Turnover Ratio | f. Net Profit Ratio            |
| g. Return on Equity            | h. Return on Investment        |
| i. Interest Coverage Ratio     | j. Account Receivable Turnover |
| Ratio                          | (10x1.5=15)                    |

18. An unadjusted trial balance of a company are given below.

Particulars	Debit (Rs.)	Credit (Rs.)
Cash	300,000	
Bank	350,000	
Discount Allowed	5,000	
Furniture	200,000	
Purchases	200,000	
Debtors	80,000	
Interest on loan	7,000	
Salary	60,000	
Rent	52,000	
Capital		600,000
Creditors		45,000
Discount Received		10,000
Sales		500,000
12% Bank Loan		100,000
	<b>1,255,000</b>	<b>1,255,000</b>

**Adjustment:**

- Closing stock Rs.50,000
- Prepaid rent was Rs.4,000
- Outstanding interest on bank loan was Rs.5,000
- Depreciation on furniture at 25% per annum

**Required:**

- Adjusted Trail Balance (2)
- Statement of Profit and Loss a/c as per NFRS (4)
- Statement of Financial Position as per NFRS (4)
- Statement of Cash flow Statement as per NFRS (5)

19. a. Who are the external users of accounting information? Why do they need such information? (8)
- b. Explain about the value added statement with its advantages. (7)