



(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7103

Roll No.

M.B.A.

(Only for the candidates Admitted/Readmitted in the session 2008-09)

(SEM. I) EXAMINATION, 2008-09
ACCOUNTING & FINANCIAL ANALYSIS

*Time : 3 Hours]**[Total Marks : 100*

Note : The question paper contains three parts. All parts are compulsory.

PART - I**20×1=20**

- 1 (i) Which of the following equations properly represents a derivation of the fundamental accounting equation ?
- (a) Assets + liabilities = owner's equity.
 (b) Assets = owner's equity
 (c) Cash = assets.
 (d) Assets - liabilities = owner's equity.
- (ii) Retained earnings will change over time because of several factors. Which of the following factors would explain an increase in retained earnings ?
- (a) Net loss
 (b) Net income
 (c) Dividends
 (d) Investments by stockholders.

Attempt all questions on this part :

- 3 Explain the utility of accounting principles in financial accounting. Discuss any five principles with examples.

OR

- 3 What is trial balance ? Explain the errors which are not disclosed by trial balance.
- 4 What is the need for providing depreciation ? Explain the factors which determine the amount of depreciation.

OR

- 4 Write short notes on :
- (a) Revenue and capital expenditure
 (b) Trade marks and copyright
 (c) Profit and loss appropriation account.

- 5 Explain the significance of the following ratios in financial analysis :

- (i) Inventory turnover
 (ii) Acid-test ratio
 (iii) Debtors turnover ratio
 (iv) Price-earning ratio.

OR

- 5 Differentiate horizontal and vertical analysis. Using data of question number two, do the horizontal analysis of ABC company.

- 6 What is the utility of preparing cash flow statement when it is prepared from the balance sheet and profit and loss a/c only ? Differentiate fund flow statement and cash flow statement.

OR

- 6 Write down the proforma for preparing cash flow statement as suggested by Indian accounting standard (using backward method for cash from operations).



Rs. 20,000 was purchased. On 1st July 2002 the machine purchased on 1 Jan, 2000 was sold for Rs. 28,600 and on the same date a new machine was purchased at a cost of Rs. 40,000. Depreciation was provided annually on 31st Dec., at the rate of 10% p.a. on WDV method. In 2003 the company decided to change the method of depreciation from WDV to straight line method @ 5% p.a. Prepare the machinery account for the first four calendar years.

OR

- (a) Capital employed Rs. 2,00,000, working capital Rs. 40,000, cost of goods sold Rs. 6,40,000, gross profit Rs. 1,60,000. Calculate fixed assets turnover ratio.
- (b) Total Assets Rs. 5,00,000, Tax rate 50%, Net profit before interest and tax Rs. 80,000, Current liabilities Rs. 2,00,000, Interest on long-term, debt @ 15% Rs. 30,000. Calculate return on shareholder's funds.

OR

- 2 (B) From the following balance sheet, prepare fund flow statements for XYZ Co. :

Liabilities	19x1	19x2	Assets	19x1	19x2
Share capital	1,10,000	1,10,000	Goodwill	22,000	22,000
Gen. reserve	14,000	18,000	Building	40,000	36,000
Profit and Loss a/c	16,000	13,000	Plant	37,000	36,000
Sundry creditors	8,000	5,400	Investments	10,000	11,000
Bills payable	1,200	800	Stock	30,000	23,400
Provision for taxation	16,000	18,000	Bills receivable	2,000	3,200
Provision for doubtful debts	400	600	Debtors	18,000	19,000
			Cash at Bank	6,600	15,200
	1,65,600	1,65,800		1,65,600	1,65,800

Additional Information :

- (i) Depreciation charged to plant Rs. 4,000.

- (ii) Provision for taxation of Rs. 19,000 was made during the year.
- (iii) Interim dividend of Rs. 8,000 was paid during the year.

OR

Prepare the cash flow statement of ABC company

Liabilities	19x1	19x2	Assets	19x1	19x2
Equity share capital	3,00,000	4,50,000	Goodwill	1,15,000	90,000
9% preference share capital	1,50,000	1,00,000	Land & Building	2,00,000	1,70,000
General reserve	40,000	70,000	Plant	80,000	2,00,000
Profit and loss a/c	30,000	48,000	Sundry debtors	1,80,000	2,20,000
Proposed dividend	42,000	50,000	Stock	75,000	1,09,000
Provision for taxation	40,000	50,000	Bills receivable	20,000	30,000
Sundry creditors	55,000	33,000	Cash in hand	15,000	10,000
Bills payable	20,000	16,000	Investment (short time)	10,000	8,000
Prov. for doubtful debt	18,000	20,000			
	6,95,000	8,37,000		6,95,000	8,37,000

Additional Information :

- (a) Rs. 45,000 was provided for tax during 19x2
- (b) Depreciation charged on plant, land and building amounted to Rs. 10,000 and Rs. 20,000 respectively.
- (c) Plant purchased during the year was paid partly by issuing fully paid equity shares of Rs. 1,00,000 and the balance was paid in cash.
- (d) An interim dividend of Rs. 20,000 was paid during the year.

- (c) Low gearing always means higher profits and dividends than a high geared company
- (d) Low geared companies pay high interest rates to shareholders.
- (xii) Balance of Profit & Loss appropriation account is shown in
- (a) Reserve and Surplus in Balance-sheet
- (b) Asset side of Balance sheet
- (c) Provisions in Balance sheet
- (d) Not shown in Balance sheet
- (xiii) Purchase book records
- (a) Credit purchase of goods dealt in the business
- (b) Purchases of all goods
- (c) Cash purchases
- (d) None of the above
- (xiv) Special journals are also known as
- (a) Subsidiary books
- (b) Journal proper
- (c) Specified journals
- (d) Specific journals
- (xv) On a statement of cash flows, which of the following types of activities would not be disclosed in a separate section ?
- (a) Operating activities
- (b) Investing activities
- (c) Financing activities
- (d) Contractual activities.
- (xvi) For purposes of calculating cash receipts from customers, which of the following adjustments should be made to convert accrual basis sales to cash basis sales ?
- (a) Add an increase in accounts receivable to accrual basis sales
- (b) Subtract an increase in accounts receivable from accrual basis sales

- (c) Add cash in bank to accrual basis sales
- (d) Add the change in cash to the accrual basis sales
- (xvii) Which of the following activities would generally be regarded as a financing activity in preparing a statement of cash flows ?
- (a) Dividend distribution
- (b) Proceeds from the sale of stocks of other firms
- (c) Loans made by the entity to other business
- (d) Employee's salaries and wages paid
- (xviii) Debt Equity ratio is a
- (a) Solvency ratio
- (b) Liquidity ratio
- (c) Profitability ratio
- (d) None of the above.
- (xix) Consistency principle says that
- (a) Business and proprietor are different entity
- (b) Expenses and revenues of the same period should be matched to calculate profit
- (c) Accounting procedures should not change frequently
- (d) None of the above.
- (xx) Average collection period is calculated to measure
- (a) Debt collection speed
- (b) Quality of debt
- (c) Spread of debt
- (d) Both (a) and (b).

PART - II 30 MARKS

Attempt any **one** part of the following questions. Each question carries **15** marks.

- 2 (A) On 1st January 2000 X Ltd. purchased a machine for Rs. 58,000 and spent Rs. 2,000 on its installation. On 1st July 2000, an additional machinery costing



- (iii) Which of the following would not be included on a balance sheet ?
- Accounts receivable
 - Accounts payable
 - Sales
 - Cash
- (iv) Which one of the following could be described as an 'off balance sheet asset' ?
- Purchased goodwill
 - Internally generated goodwill
 - An asset being bought on hire-purchase
 - Leasehold land
- (v) PBIT stands for :
- Profit before interest and taxation
 - Profit before income and taxation
 - Profit before income and turnover
 - Profit before interest and turnover.
- (vi) Which one of the following most closely defines 'Amortization' ?
- The depreciation of tangible fixed assets
 - The depreciation of intangible fixed assets
 - The depreciation of current assets
 - The revaluation of land and buildings.
- (vii) Which one of the following most closely defines "Goodwill" ?
- The difference between the cost of an investment in a business and the value of the net assets acquired in that business.
 - The payment made to purchase a business from its existing owner
 - The difference between what the owner thinks the business is worth and the actual value of the business's fixed assets at the time of selling that business
 - Both (b) and (c)

- (viii) Horizontal analysis is :
- The calculation of the relative weighting of components within a particular financial period
 - The comparison of the current year's figures with the previous year's figures
 - The comparison of one company's results with another company
 - The comparison of the profit and loss account with the balance sheet
- (ix) Which one of the following circumstances might cause the gross margin to increase ?
- More goods sold, but at lower prices. Cost of sales stays unchanged
 - More goods sold, at higher prices. Cost of sales stays unchanged
 - Less goods sold, but at higher prices. Cost of sales increased at the same rate as sales prices.
 - Closing stock has been materially undervalued
- (x) A company shows a dividend cover of 3 times. This means that
- Shareholders can expect to receive a dividend that is 3 times the value of their shares.
 - The year's dividends are 3 times last year's equivalents.
 - The final dividend is 3 times greater than the interim dividend
 - The amount available for dividend is 3 times the amount of the dividends.
- (xi) An advantage to shareholders in a low-g geared company is :
- High levels of borrowed money could lead to greater expansion and profit levels
 - Low levels of borrowed money mean less of an interest burden on the company and less chance of the company being unable to pay dividends

