

**FINAL TERM EXAMINATION**  
**Fall 2008**  
**MGT101- Financial Accounting (Session - 1)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

Wages outstanding given in the trial balance will be treated as a (an):

- ▶ Asset
- ▶ **Liability**
- ▶ Revenue
- ▶ Deferred expense

**Question No: 2 ( Marks: 1 ) - Please choose one**

Prepaid interest given in the Trial Balance will be treated as a (an):

- ▶ **Asset**
- ▶ Liability
- ▶ Revenue
- ▶ Deferred expense

**Question No: 3 ( Marks: 1 ) - Please choose one**

If company has distributable profit is Rs. 4, 90,000. Profit sharing share ratio of Mr. A, Mr. B and Mr. C is 2:3:5 respectively what will be the Profit share for Mr. C in distributable profit.

- ▶ Rs. 98,000
- ▶ Rs. 1, 47,000
- ▶ **Rs. 2, 45,000**
- ▶ Rs. 3, 43,000

**Question No: 4 ( Marks: 1 ) - Please choose one**

If the Capitals of partners are fixed then, at the end of financial year a partner's drawings are transferred to the:

- ▶ Credit side of the partner's capital account
- ▶ Credit side of the partner's current account
- ▶ Debit side of partnership bank account
- ▶ **Debit side of the partner's current account**

**Question No: 5 ( Marks: 1 ) - Please choose one**

If company has distributable profit of Rs. 490,000, Profit sharing share ratio of Mr. A, Mr. B and Mr. C is 2:3:5 respectively. What will be the share of profit for Mr. A in distributable profit?

► **Rs. 98,000**

► Rs. 147,000

► Rs. 245,000

► Rs. 343,000

**Question No: 6 ( Marks: 1 ) - Please choose one**

In which situation(s) Partnership is dissolved?

► In case of death of partner

► At the admission of new partner

► If any partner resigned from partnership

► **All of the given options**

**Question No: 7 ( Marks: 1 ) - Please choose one**

In calculating earning per share (EPS), the net profit is divided by which of the following?

► **Number of ordinary shares**

► Number of preference shares

► Paid up capital

► Authorized capital

**Question No: 8 ( Marks: 1 ) - Please choose one**

Which of the following statement is **NOT TRUE** about the limited company form of business?

► The limited company form of business allows ownership of the business to be spread amongst many people

► Shareholders can appoint professionals

► **Shareholders are personally liable for all the liabilities incurred by the business**

► Regular filing of information about the affairs of the company is a legal requirement

**Question No: 9 ( Marks: 1 ) - Please choose one**

A private limited company can commence its business:

► **Immediately on receiving a certificate of incorporation**

► Without receiving a certificate of incorporation

► Only when it receives certificate of commencement of business

► **Only when it receives both, the certificate of incorporation as well as certificate of commencement of business**

**Question No: 10 ( Marks: 1 ) - Please choose one**

An example of financing activities in the context of cash flow statement is:

- ▶ Capital expenditures on purchase of fixed assets
- ▶ Long-term deposit
- ▶ **Financial charges paid**
- ▶ **Dividend paid**

**Question No: 11 ( Marks: 1 ) - Please choose one**

A firm may earn profit during an accounting period but have less money in the bank at the end of the period than it had at the beginning. Which of the followings, on its own, could explain this?

- ▶ Not paying invoices received from creditors
- ▶ The sale of fixed assets during the period
- ▶ **An increase in trade debtors over the course of the period**
- ▶ An increase in the depreciation charge relative to the previous accounting period

**Question No: 12 ( Marks: 1 ) - Please choose one**

The primary purpose of preparing a cash flow statement for an entity is to provide information about:

- ▶ Its financial position at the end of an accounting period
- ▶ Its cash receipts and cash payments during an accounting period
- ▶ Its financial position at the start of an accounting period
- ▶ **None of the given options**

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following option(s) is **TRUE** about the Sales returns?

- ▶ Sales returns reduce the Gross sales of the firm
- ▶ Sales returns affect the Net income of the firm
- ▶ Sales returns affect the flow of cash
- ▶ **All of the given options**

**Question No: 14 ( Marks: 1 ) - Please choose one**

The persons who sign articles and memorandum of the company and contribute in the initial share capital of the company are called:

- ▶ **Subscribers**
- ▶ Shareholders
- ▶ Managers

- ▶ Directors

**Question No: 15 ( Marks: 1 ) - Please choose one**

The charter of a company which defines the limitations and powers of the company is called:

- ▶ **The memorandum of association**
- ▶ Articles of association
- ▶ Statutory report
- ▶ Certificate of commencement

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following can offer its share to general public at large?

- ▶ A private limited company
- ▶ **A listed company**
- ▶ A partnership firm
- ▶ A trust

**Question No: 17 ( Marks: 1 ) - Please choose one**

Which of the following are the owners of a company?

- ▶ Proprietors
- ▶ Partners
- ▶ **Shareholders**
- ▶ Managers

**Question No: 18 ( Marks: 1 ) - Please choose one**

Current accounts of the partners should be opened when the capitals are:

- ▶ Normal
- ▶ Floating
- ▶ **Fixed**
- ▶ Fluctuating

**Question No: 19 ( Marks: 1 ) - Please choose one**

Rent receivable (given in trial balance) is an item of\_\_\_\_\_.

- ▶ **Balance Sheet**
- ▶ Profit & Loss Account
- ▶ Trading Account
- ▶ Both Balance Sheet and Profit & Loss Account

**Question No: 20 ( Marks: 1 ) - Please choose one**

When closing stock is given in trial balance, then it will effect:

- ▶ Trading account only
- ▶ **Balance sheet only**

*Note: Solve these papers by yourself*  
*This VU Group is not responsible for any solved content*

- ▶ Owner's equity only
- ▶ **Both Trading account and Balance sheet**

**Question No: 21 ( Marks: 1 ) - Please choose one**

Which of the following account is affected from the Drawings of cash in sole-proprietorship business?

- ▶ **Capital account**
- ▶ Shareholder account
- ▶ Liability account
- ▶ Expense account

**Question No: 22 ( Marks: 1 ) - Please choose one**

An asset is considered to be a current asset if:

- ▶ It has been bought recently and was bought new and not used
- ▶ **It can be realized in cash or sold or consumed in the business within one year**
- ▶ It is a piece of new machinery that is expected to last for at least ten years
- ▶ All of the given options

**Question No: 23 ( Marks: 1 ) - Please choose one**

General office expenses are charged to which of the following head:

- ▶ **Administrative expenses**
- ▶ Marketing expenses
- ▶ Selling expenses
- ▶ Financial expenses

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following would **NOT** be considered as a component of 'cost' of stock?

- ▶ **Salaries of selling staff**
- ▶ Transportation inward costs
- ▶ Import duties
- ▶ Purchase price

**Question No: 25 ( Marks: 1 ) - Please choose one**

A financial statement that indicates the success or failure of a business, over a period of time is called:

- ▶ A cash flow statement
- ▶ A retained earnings statement
- ▶ **An income statement**
- ▶ A balance sheet

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** correct about income tax?

- ▶ Different companies pay tax on different rates
- ▶ **It is treated as an expense and debited in Profit & Loss account**
- ▶ When financial statements are prepared, an estimate of expected tax liability is made
- ▶ It is treated as an expense and credited in Profit & Loss account

**Question No: 27 ( Marks: 1 ) - Please choose one**

Following information are extracted from books of Mr. XYZ

Particulars	Rs.
Closing value of stock	40,000
Write off Bad debts (given in adjustments)	2,400
Sundry Debtors (given in trial balance)	33,200
Provision is created on Debtors at 10%	

Identify the Total amount deducted from Sundry debtors.

- ▶ Rs. 460
- ▶ **Rs. 2,400**
- ▶ **Rs. 3,080**
- ▶ Rs. 5,480

**Question No: 28 ( Marks: 1 ) - Please choose one**

If (Amount of new provision + Amount of bad debts) < Amount of old provision then amount will be shown on:

- ▶ Debit side of P & L account
- ▶ **Credit side of P & L account**
- ▶ Asset side of Balance Sheet
- ▶ Liability side of Balance Sheet

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following rectifying entry will be recorded, if sales to Mr. "A" of Rs.336 have been debited to Mr. "B" account?

- ▶ **A's account (Dr.) and B's account (Cr.)**
- ▶ B's account (Dr.) and A's account (Cr.)
- ▶ Sales account (Dr.) and B's account (cr.)
- ▶ B's account (Dr.) and Sales account (Cr.)

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following account(s) will be affected, while rectifying the error of sales Rs.100 to Mr. "A" recorded in the purchases book?

- ▶ Sales account
- ▶ Purchase account
- ▶ A's account and Sales account
- ▶ **Sales account, purchase account and A's account**

**Question No: 31 ( Marks: 1 ) - Please choose one**

Which of the following is shown on credit side of creditors control account?

- ▶ Bills Receivable
- ▶ Return inwards
- ▶ **Credit purchases**
- ▶ Discount allowed

**Question No: 32 ( Marks: 1 ) - Please choose one**

Sales are calculated by adding:

- ▶ Cash sales and cash received from debtors
- ▶ Credit sales and cash received from debtors
- ▶ **Cash sales and credit sales**
- ▶ Cash sales and credit purchases

**Question No: 33 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** based on the concept of double entry book keeping system?

- ▶ **Subsidiary Ledgers**
- ▶ Creditors Control Accounts
- ▶ Debtors Control Accounts
- ▶ **All of the given options**

**Question No: 34 ( Marks: 1 ) - Please choose one**

If Bad Debts written off are given in adjustment, then which of the following entry for bad debts written off is **CORRECT**?

- ▶ Bad debts a/c (Dr) and Trading a/c (Cr)
- ▶ **Provision for Bad and Doubtful debts a/c (Dr) and Bad debts a/c (Cr)**
- ▶ Bad debts a/c (Dr) and debtors a/c (Cr)
- ▶ Trading a/c (Dr) and Bad debts a/c (Cr)

**Question No: 35 ( Marks: 1 ) - Please choose one**

Consider the following data:

Provision created in 2006	Rs. 2,500
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**Note: Solve these papers by yourself**  
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Bad debts in 2007	Rs. 1,500
Sundry debtors on 31-12- 2007 were Rs. 40,000 and provision is created @ 5%.	
Which journal entry is Correct for the provision for doubtful debts for the year 2007.	

- ▶ Provision for doubtful debts a/c Rs. 1,000 (Dr) & Profit & Loss a/c Rs. 1,000 (Cr)
- ▶ **Profit & Loss a/c Rs. 2,000 (Dr) & Provision for doubtful debts a/c Rs. 2,000 (Cr)**
- ▶ Provision for doubtful debts a/c Rs. 2,000 (Dr) & Profit & Loss a/c Rs. 2,000 (Cr)
- ▶ **Profit & Loss a/c Rs. 1,000 (Dr) & Provision for doubtful debts a/c Rs. 1,000 (Cr)**

**Question No: 36 ( Marks: 1 ) - Please choose one**

Particulars	Rs.
Opening written down value of machine	4,00,000
Cost of machine purchased during the year	50,000
Depreciation during the year	20,000
closing written down value (WDV) of the Machines	?

- ▶ **Rs. 4, 30,000**
- ▶ Rs. 4, 50,000
- ▶ Rs. 4, 70,000
- ▶ Rs. 70,000

**Question No: 37 ( Marks: 1 ) - Please choose one**

In accounting accumulated depreciation is:

- ▶ Treated as a reserve
- ▶ **Treated as a contra asset**
- ▶ Treated as a surplus
- ▶ Treated as an expense

**Question No: 38 ( Marks: 1 ) - Please choose one**

Find out the missing value of an Accounting Equation with the help of given data:

Cash	Rs. 22,500
Debtors	Rs. 500
Total Assets	Rs. 80, 385
Accounts payable	Rs. 1,000
Total liabilities	Rs. 20,000

- ▶ **Rs. 60,385 owner's equity**
- ▶ **Rs. 61,385 owner's equity**
- ▶ Rs. 99,885 owner's equity
- ▶ Rs. 99,385 owner's equity

**Note: Solve these papers by yourself**  
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**Question No: 39 ( Marks: 1 ) - Please choose one**

Stock of Trading concern consists of:

- ▶ Raw material
- ▶ Work in process
- ▶ **Merchandise inventory**
- ▶ All of the given options

**Question No: 40 ( Marks: 1 ) - Please choose one**

Consider the following inventory record:

Date	Item	Quantity	Cost/Unit	Total
2007Jan. 2	Opening inventory	100	Rs.18.00	Rs.1,800
Mar. 4	Purchase	400	19.00	7,600
May 8	Purchase	800	20.00	16,000
Nov. 3	Purchase	500	21.00	10,500

Four hundred units are unsold, Use the FIFO method of inventory costing and determine the value assigned to the 400 units on hand at the end of the period.

- ▶ Rs.7, 500
- ▶ Rs.7, 978
- ▶ Rs.8, 000
- ▶ **Rs.8, 400**

**Question No: 41 ( Marks: 1 ) - Please choose one**

Particulars	Rs.
Opening stock of raw material	100,000
Closing stock of raw material	85,000
Purchases of raw material during the period	200, 000
Cost of Material Consumed	?

- ▶ Rs. 205,000
- ▶ **Rs. 215,000**
- ▶ Rs. 220,000
- ▶ Rs. 225,000

**Question No: 42 ( Marks: 1 ) - Please choose one**

In cost of goods sold statement the 'cost of goods manufactured' is equal to:

- ▶ Total factory cost + Opening work in process + Ending work in process

**Note: Solve these papers by yourself**  
**This VU Group is not responsible for any solved content**

► **Total factory cost + Opening work in process – Ending work in process**

- Total factory cost - Opening work in process + Ending work in process
- Ending work in process + Total factory cost – Opening work in process

**Question No: 43 ( Marks: 1 ) - Please choose one**

What would be the value of total factory cost, if the cost of material consumed during the month is Rs. 6,000, labor cost incurred is Rs. 2,000 and the factory over head cost is Rs. 2,500?

- Rs. 6,000
- Rs. 8,000
- Rs. 4,500
- **Rs. 10,500**

**Question No: 44 ( Marks: 1 ) - Please choose one**

Which of the following item appears in Trading Account of a business?

- Interest expenses
- **Wages and salaries**
- Depreciation expenses
- Discount Allowed

**Question No: 45 ( Marks: 1 ) - Please choose one**

If the cost of sales is Rs. 60,000, sales are Rs. 95,000 and operating expenses are Rs. 20,000 during the year, what would be the value of Gross Profit?

- Rs. 15,000
- **Rs. 35,000**
- Rs. 55,000
- Rs. 60,000

**Question No: 46 ( Marks: 1 ) - Please choose one**

Identify that which of the following particular(s) would **NOT** be shown in the format of a Cash Book?

- (1) Cheque number
- (2) Date of transaction
- (3) Amount of transaction

- **(1) only**
- (1) & (2) only
- (1) & (3) only
- (2) & (3) only

**Question No: 47 ( Marks: 1 ) - Please choose one**

The process of transferring journal entry information to the ledger is called:

- ▶ Journalizing
- ▶ **Posting**
- ▶ Balancing
- ▶ Analyzing

**Question No: 48 ( Marks: 1 ) - Please choose one**

Which one of the following is a type of General Ledger?

- ▶ Book of original entry
- ▶ **'T' Account**
- ▶ Source document
- ▶ Day book

**Question No: 49 ( Marks: 1 ) - Please choose one**

Which of the following is **CORRECT** about the flow of recording a transaction?

▶ **Occurrence of event – voucher—Journal—Ledger—Trial Balance—profit and loss account—Balance Sheet**

▶ Occurrence of event—Journal – voucher —Ledger—Trial Balance—profit and loss account—Balance Sheet

▶ Occurrence of event—Ledger – voucher—Journal—Trial Balance—profit and loss account—Balance Sheet

▶ Occurrence of event—Trial Balance – voucher—Journal—Ledger—profit and loss account—Balance Sheet

**Question No: 50 ( Marks: 1 ) - Please choose one**

Economic resources owned by a business and expected to benefit for the future operations are called:

- ▶ Expenses
- ▶ **Assets**
- ▶ Capital
- ▶ Liabilities

**Question No: 51 ( Marks: 5 )**

**Note: Solve these papers by yourself**  
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With the help of given data prepare Capital account of a sole trader and calculate closing balance of capital.

	Rs.
Balance b/f	550,000
Drawings	50,000
Profit & Loss (debit balance)	45,000

CAPITAL ACCOUNT			
DEBIT SIDE		CREDIT SIDE	
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
Profit and loss	45000	Balance b/f	550,000
Drawings	50,000		
<b>Balance c/f</b>	<b>455,000</b>		
<b>TOTAL</b>	<b>550,000</b>	<b>TOTAL</b>	<b>550,000</b>

**Question No: 52 ( Marks: 10 )**

**Briefly explain the financial statements prepared by the organization. Why these are important for manufacturing concern?**

**ANSWER:** The financial statements prepared by any organization are as follows:

- 1. Profit and loss account:** It shows the performance of the business in a given period. It shows the profitability of business which shows the success or failure of the business.
- 2. Balance sheet:** Balance sheet shows the position of business at a given point. It shows the resources available by the business and the resources invested by the owner and other loans.
- 3. Cash flow statements:** Cash flow statements show the generation of cash and its usage over a given period.

**IMPORTANCE OF FINANCIAL STATEMENTS FOR MANUFACTURING CONCERN:** These financial statements are important for manufacturing concern organization as they provide information related to financial affairs of the organization. The profitability and liquidity, the resources available to the company and the generation of cash and its usage over a given period which provides reasonable information to the management to take decisions.

**Question No: 53 ( Marks: 10 )**

**The comparative financial statement data for XYZ Company is given below:**

	December 31	
Assets:	2007	2006
	Rs.	Rs.

**Note: Solve these papers by yourself**  
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Cash	4,000	7,000
Accounts receivable	36,000	29,000
Inventory	75,000	61,000
Plant and equipment	210,000	180,000
Accumulated depreciation	(40,000)	(30,000)
<b>Total Assets</b>	<b>285,000</b>	<b>247,000</b>
<b>Liabilities &amp; Stockholder's equity:</b>		
Accounts payable	45,000	39,000
Common stock	90,000	70,000
Retain earnings	150,000	138,000
<b>Total liabilities &amp; Stockholder's equity</b>	<b>285,000</b>	<b>247,000</b>

**For 2007, the company reported net income as follows:**

XYZ Company  
Income Statement  
For the year ended 31<sup>st</sup> December, 2007

	Rs.
Sales	500,000
Less: Cost of goods sold	<u>300,000</u>
Gross margin	200,000
Less Operating expenses	<u>180,000</u>
Net Income	<u>20,000</u>

**Required:**

Prepare a Statement of Cash Flows if dividend of Rs. 8,000 was declared and paid during the year 2007. There were no sales of plant and equipment during the year.

**ANSWER:**

Starting balance:

<b>Net income</b>	<b>20,000</b>
Add: adjustment for non cash items	
Depreciation	38,000
Operating profit before working capital changes:	<b>58,000</b>

Working capital changes:

Add: cash	3,000
Less: accounts receivable	(7,000)
Add: accounts payable	7,000
Cash generated from operations	<b>61,000</b>
Cash flow from investing activities	

**Note: Solve these papers by yourself**

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Cash flow from financing activities:	
Common Stock	20,000
Net decrease in cash	3,000
Net cash flow	<b>78,000</b>

**Question No: 54 ( Marks: 10 )**

**Write a note on legal documents required for the formation of company.**

**ANSWER:**

**LEGAL DOCUMENTS REQUIRED FOR FORMATION OF COMPANY:**

**MEMORENDUM OF ASSOCIATION:** It contains the following information

1. Name of company.
2. Place of registered office
3. Objective
4. Amount of share capital with which company registers.

**ARTICLES OF ASSOCIATION:** It contains the following information

A document that contains all the policies and other matters necessary to run the business of the company. It is signed by all the members of the company.