

**FINAL TERM EXAMINATION**  
**Fall 2008**  
**MGT101- Financial Accounting (Session - 4)**

**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**

What does a credit balance in a partner's current account represent to a business?

- ▶ Current Assets
- ▶ **Current Liability**
- ▶ Long-term liability
- ▶ Share of profit

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

Particulars	Rs.
Debentures	1, 50, 000
Equity Capital	2, 00,000
General Reserve	90, 000
Accumulated profit	60,000
<b>What is debt equity ratio</b>	<b>?</b>

- ▶ **15: 20 (or 3:4)**
- ▶ 15:24 (or 5: 8)
- ▶ 15:29
- ▶ 15:35 (or 3: 7)

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

Particulars	Rs.
Share capital of Rs. 10 each	1,000,000
Profit before tax	150,000
Taxes	10,000
<b>Earning per share</b>	<b>= ?</b>

- ▶ Rs. 1.50 per share
- ▶ **Rs. 1.40 per share**
- ▶ Rs. 1.15 per share
- ▶ Rs. 1.25 per share

**Note: Solve these papers by yourself**  
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**Question No: 5 ( Marks: 1 ) - Please choose one**

Mark up cover ratio = operating profit before financial charges ÷ ?

- ▶ Selling expenses
- ▶ Administrative expenses
- ▶ **Financial charges**
- ▶ Direct expenses

**Question No: 6 ( 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: 7 ( Marks: 1 ) - Please choose one**

Which of the following business publishes the Financial Statements?

- ▶ Sole-Proprietorship
- ▶ Partnership
- ▶ Trust
- ▶ **Public Limited Company**

**Question No: 8 ( 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: 9 ( Marks: 1 ) - Please choose one**

How dividend declared is treated in the Balance Sheet of the company?

- ▶ Provision
- ▶ **Current liability**
- ▶ Reserves and surplus
- ▶ Current assets

**Question No: 10 ( 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: 11 ( Marks: 1 ) - Please choose one**

Fixed Assets (WDV) + Working Capital =?

- ▶ Total assets employed
- ▶ Total liabilities
- ▶ Total assets
- ▶ Current assets

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

Which of the following is **TRUE** about a merchandising company?

- ▶ A merchandising company's business is to buy and sell products
- ▶ A merchandising company must use the perpetual system to account for merchandising inventory
- ▶ A merchandising company's business is to provide services
- ▶ A Sugar Mill is an example of a merchandising company

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

Capital account of sole proprietors is affected by which of the following items?

- a. Profit & Loss account
- b. Drawings account
- c. Balances of capital account

- ▶ a,b
- ▶ b,c
- ▶ a,c
- ▶ a,b,c

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

Which of the following is/are **TRUE** about the sole trader form of business?

- ▶ A sole trader is liable to pay income tax on his/her earnings
- ▶ Sole traders do not need to consult accountants
- ▶ Sole traders must register the name of their business with the Registrar of Companies
- ▶ All of the given options

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

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Which of the following is (are) characteristic(s) of Reserve?

- ▶ Its amount is generally determined by the management on the basis of the amount of profit earned.
- ▶ It is shown on liabilities side of balance sheet
- ▶ It does not affect profit or loss, since it is created after ascertaining net profit
- ▶ All of the given options

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

Which account is increased with a debit and decreased with a credit?

- ▶ Cash
- ▶ Accounts Payable
- ▶ Contributed Capital
- ▶ Retained Earnings

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

Which financial statement show what a business owes at a particular point in time?

- ▶ A cash flow statement
- ▶ The bank statement for the business
- ▶ A balance sheet
- ▶ A statement of retained earnings

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

Which of the following appears in both the Income Statement debit column and the Balance Sheet credit?

- ▶ Net income
- ▶ Net loss
- ▶ Dividends
- ▶ Retained earnings

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

The Balance Sheet item that represents the resources invested by the owner is known as:

- ▶ Accounts Receivable
- ▶ Cash
- ▶ Note Payable
- ▶ Owner's Equity

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

Which of the following is an example of operating expense?

- ▶ Purchasing operating equipment

**Note: Solve these papers by yourself**  
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- ▶ Purchasing cleaning services
- ▶ Purchasing an investment in another company
- ▶ Purchasing a computer for the accounting office

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

The main objective of financial reporting is to provide:

- ▶ Essential information to internal users of financial reports.
- ▶ Useful economic information about the business to the external parties for sound financial decisions.
- ▶ Information to internal users about the cash position of the business.
- ▶ Information to the Securities Exchange Commission (SEC).

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

The figure of cash received from debtors can be located either from cash book or:

- ▶ Debtor's Control Account
- ▶ Balance Sheet
- ▶ Profit & Loss Account
- ▶ Bills Payable Account

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

Consider the following data and identify the amount which will be shown in profit & loss account.

Particulars	Rs.
Bad debts	3,500
Provision for doubtful debts (old)	6,000
Current year's provision (new)	1,500

- ▶ Rs. (1,000)
- ▶ Rs. 1,000
- ▶ Rs. (5,000)
- ▶ Rs. 5,000

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

Consider the following data and identify the amount which will be shown in profit & loss account.

Particulars	Rs.
Bad debts	1,600
Provision for doubtful debts (old)	2,000
Current year's provision (new)	1,000

- ▶ Rs. 600

- ▶ Rs. 1,600
- ▶ Rs. 2,000
- ▶ Rs. 2,600

**Question No: 25 ( 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: 26 ( Marks: 1 ) - Please choose one**

Which of the following account(s) will be affected, while rectifying the error of a purchase return of Rs.200 to Mr. "A" entered in sales book instead of purchase return book?

- ▶ A's account only
- ▶ Sales account only
- ▶ Purchase returns account and sales account
- ▶ Purchases account only

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

A receipt of cash Rs. 10,000 from Mr. Bilal is recorded as Rs. 1,000. What amount will be adjusted in rectifying entry?

- ▶ Rs. 1,000
- ▶ Rs. 9,000
- ▶ Rs. 10,000
- ▶ Rs. 11,000

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

If provision is created for doubtful debts, which of the following entry will be passed to record bad debts in control account?

- ▶ Bad debts (Dr) and Debtors Control A/c (Cr)
- ▶ Provision for doubtful debts (Dr) and Debtors Control A/c (Cr)
- ▶ Provision for doubtful debts (Dr) and Debtors A/c (Cr)
- ▶ Debtors Control A/c (Dr) and Provision for doubtful debts (Cr)

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

Which of the following is a detailed record of an individual account in case of large business?

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- ▶ Control Account
- ▶ **Subsidiary Ledger**
- ▶ Balance Sheet
- ▶ Trial Balance

**Question No: 30 ( 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: 31 ( Marks: 1 ) - Please choose one**

Which of the following is an item of a creditors control account?

- ▶ Cash sales
- ▶ Credit sales
- ▶ **Credit purchase**
- ▶ Cash purchases

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

In which of the following condition(s) **DEBT** is regarded as **BAD**.

- ▶ Bankruptcy of the debtor
- ▶ Disappearance of debtor's business
- ▶ Failure of repeated attempt to collect the debt
- ▶ **All of the given options**

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

Which of the following best describes unpresented cheques?

- ▶ Cheques received on behalf of the business by the bank
- ▶ **Cheques drawn but yet to be recorded in the bank records**
- ▶ Cheques issued by the bank not recorded in business records
- ▶ Cheques received but yet to be recorded in the bank records

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

The following balance and discrepancies were found on 31 March 2008:

Particulars	Rs.
Cash book balance (Dr)	5 000
Unpresented cheques	1 000
Uncredited cheques	500

**Note: Solve these papers by yourself**  
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The Bank Statement balance on 31 March 2008 should be:

- ▶ Rs. 5 500 (Dr)
- ▶ Rs. 5 500 (Cr)
- ▶ Rs. 4 500 (Dr)
- ▶ Rs. 4 500 (Cr)

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

Consider the following data:

Particulars	Rs.
Assets	?
Owner's equity	1,50,000
Liabilities	1,00,000

- ▶ Rs. 49,000
- ▶ Rs. 55,000
- ▶ Rs. 50,000
- ▶ Rs. 2, 50,000

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

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

Furniture	Rs. 90,000
Cash	Rs.1, 00, 000
Debtors	Rs.10, 000
Other Assets	Rs. 1,000
Owner's equity	Rs. 90, 000

- ▶ Rs. 2, 01,000 liabilities
- ▶ Rs. 1, 11, 000 liabilities
- ▶ Rs. 2, 90, 000 liabilities
- ▶ Rs. 2, 91, 000 liabilities

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

Accountancy covers which of the following area(s):

- ▶ Book-keeping
- ▶ Accounting
- ▶ Auditing
- ▶ All of the given options

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

\_\_\_\_\_ is the detail of transaction in one's account provided by the bank.

**Note: Solve these papers by yourself**  
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► **Bank statement**

- Bank reconciliation statement
- Income statement
- Financial statement

**Question No: 39 ( 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: 40 ( Marks: 1 ) - Please choose one**

Consider the following inventory record:

Date	Item	Quantity	Cost/Unit Rs.	Total Rs.
Jan. 2	Beginning inventory	10	10	100
Mar. 4	Purchase	35	11	385
May 8	Purchase	40	12	480
Nov. 3	Purchase	20	13	260
De31	Merchandise available	105		1,225

85 units were sold, Use the FIFO method of inventory costing and determine the cost of goods sold.

- Rs. 1,225
- Rs. 1,015
- **Rs. 965**
- Rs. 992

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

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All the costs incurred on the incomplete assets up to the balance sheet date must be transferred to:

- ▶ Capital account
- ▶ Capital work in progress account
- ▶ Relevant asset account
- ▶ Owner's equity account

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

Cost of asset	Rs. 1,00,000
Life of asset	5 years
Depreciation for each year	Rs. 15,000
Sale price after 5 years	Rs.50,000
Book value of Asset after 5 years	?

- ▶ Rs.25, 000
- ▶ Rs. 75,000
- ▶ Rs. 15,000
- ▶ Rs. 1, 00,000

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

Direct materials costs	Rs.70,000
Direct labor costs	30,000
Manufacturing overhead costs	60,000
conversion cost	?

- ▶ Rs. 20,000
- ▶ Rs.40, 000
- ▶ Rs.90, 000
- ▶ Rs.160, 000

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

Which of the following shows summary of a company's financial position at a specific date?

- ▶ Profit & Loss Account
- ▶ Cash Flow Statement
- ▶ Balance Sheet
- ▶ Income & Expenditure Account

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

Bank book is part of:

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- ▶ Voucher
- ▶ General Journal
- ▶ General Ledger
- ▶ Trial Balance

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

Which of the following are the components of General Ledger?

- 1) Title of account
  - 2) Amount of transaction
  - 3) Date of transaction
- ▶ (1) & (2) only
  - ▶ (2) & (3) only
  - ▶ (1) & (3) only
  - ▶ (1), (2) & (3)

**Question No: 47 ( 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: 48 ( Marks: 1 ) - Please choose one**

Vehicles which are used to supply finished products are called business \_\_\_\_\_.

- ▶ Tangible assets
- ▶ Intangible assets
- ▶ Capital
- ▶ Liabilities

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

The basic accounting principle/concept according to which Business is independent from its owner(s) is known as:

- ▶ Separate Entity Concept

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- ▶ Matching Concept
- ▶ Going Concern Concept
- ▶ Materiality Concept

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

Shares for which amount is paid by public are called \_\_\_\_\_ shares.

- ▶ **Paid up**
- ▶ Authorized
- ▶ Bonus shares
- ▶ All are correct options

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

**10 % Debentures of Rs. 80,000 are shown in trial balance. How it will be shown in financial statements? Also mention why a company issues debentures.**

Answer:

10% Debentures of Rs. 80000 is shown the Owners Equity pr liability Side of Balance sheet.

Debentures are issued under the common seal of the company and debentures are an instrument for obtaining the loan from the general public. Company also paid mark up on debentures which generally equal to the market rate.

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

Following information is extracted from the books of Arfan Ltd as on December 31<sup>st</sup>, 2007.

Particulars	Cost	Depreciation rate	Accumulated Depreciation On 01-01-2007
Vehicles 01-01-2007	1,90,000	10%	10,000
Building 01-01-2007	4,00,000	20%	12,500
Furniture & Fixture 01-01-2007	4,15,000	15%	34,500
Land 01-01-2007	1,58,000	--	---

**You are required to calculate Written down value of each asset and show working of complete depreciation for the year ending on December 2007.**

Particulars	Cost			Rate	Accumulated Depreciation			WDV
	As At 1-1-2007	Addition/deletion	As At 31 <sup>st</sup> -12-2007		As At 1-1-2007	For The Year	As At 31 <sup>st</sup> -12-2007	
Vehicles	190000	0	190000	10%	10000	19000	29000	161000
Building	400000	0	400000	20%	12500	80000	92500	307500

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Furniture	415000	0	415000	15%	34500	62250	96750	318250
Land	158000	0	158000	0	0	0	0	158000
<b>Total</b>	<b>1163000</b>	<b>0</b>	<b>1163000</b>		<b>57000</b>	<b>161250</b>	<b>218250</b>	<b>944750</b>

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

**Prepare Profit and Loss Account for the year ending 31<sup>st</sup> December 2007 from the Trial Balance and adjustments of MS Company given below:**

Particulars	Debit Rs.	Credit Rs.
Drawings	14,000	
Capital Account		80,000
Opening Stock	55,000	
Purchases	485,000	
Sales		610,000
Sundry Debtors	80,000	
Sundry Creditors		60,500
Sales Returns	5,000	
Carriage Inwards	6,000	
<b>Salaries</b>	28,000	
Rent, Rates, Taxes	15,000	
<b>Insurance</b>	4,000	
Machinery	50,000	
Furniture	5,000	
Cash in hand	3,500	
<b>Total</b>	<b>750,500</b>	<b>750,500</b>

**Adjustments:**

- 4) Depreciate machinery and furniture @20%p.a.
- 5) Outstanding Salaries Rs. 2,000
- 6) Insurance paid in advance Rs. 500
- 7) Maintain @5% reserve for doubtful debts on debtors.
- 8) Closing Stock was valued at Rs. 60,000

Trading & Profit & Loss Account  
For the year ending 31<sup>st</sup> December 2007

Particulars	Debit Balance/Rs	Particulars	Credit Balance/Rs
Opening Stock	55000	Sales	610000
Purchases	485000	Less returns: 5000	
Carriage in	6000	Closing Stock	60000
Gross Profit	<b>119000</b>		
	<b>665000</b>		<b>665000</b>

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Salaries 28000		Gross Profit	119000
+outstanding: 2000	30000		
Rent, Rate, Taxes	15000		
Insurance 4000			
Less advance: 500	3500		
Depreciation:			
Machinery: 10000			
Furniture: 1000	11000		
Provision of bed debts	4000		
Net Profit:	<b>55500</b>		
	<b>119000</b>		<b>119000</b>

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

**What is the effect of given adjustments on Trading & Profit & Loss account and Balance Sheet?**

- Accrued Expenses or Outstanding Expenses
- Prepaid Expenses or Unexpired Expenses
- Accrued Revenue or Revenue Receivable
- Unearned Revenue or Revenue Received in Advance
- Depreciation of Asset

**1. Accrued Expenses or Outstanding Expenses**

**Trading and profit and loss account effect**

These expenses will be shown in profit and loss account under administrative expenses and will be deducted from gross profit. They will be used to calculate net profit

**Balance sheet effect**

These expenses will be shown as expense payable or accrued expenses in balance sheet as current liabilities and will be shown under current liabilities section of liabilities as they have to be paid by business..

**2. Prepaid Expenses or Unexpired Expenses**

**Trading and profit and loss account effect**

**Note: Solve these papers by yourself**  
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These will be deducted from relevant expense account to get the actual expenses for the period and that actual amount of expense will be deducted from gross profit to arrive at net profit. This amount of prepaid expenses will not be included in profit and loss account as an expense itself but its effect will be on current expenses for the period for which profit and loss is being calculated.

**Balance sheet effect**

These prepaid expenses will be shown and current assets in balance sheet and will be shown under the section of current assets in balance sheet.

**3. Accrued Revenue or Revenue Receivable**

**Trading and profit and loss account effect**

These will be added to sales in trading account in profit and loss statement and will be treated as a revenue in the calculation of gross profit by subtracting cost of goods sold from net sales. This will affect gross profit in trading account.

**Balance sheet effect**

In balance sheet this revenue will be shown under current assets as receivables from debtors and will be shown under the section of current assets of the business.

**4. Unearned Revenue or Revenue Received in Advance**

**Trading and profit and loss account effect**

This will not be added to the sales as sales is recognized when the actual services have been provided or when goods have been shipped irrespective of whether payment has been received or not. So this will not affect profit and loss account as it is still not recognized as sales/revenue.

**Balance sheet effect**

This is a liability for the company because the company has to give goods or services to the buyer for the advance payment done by the buyer and will be shown as a liability in the balance sheet under the current liability section of balance sheet. Also the same amount will be shown in the bank or cash as current asset to offset the liability because the cash or cheque has been received for goods not given or services not rendered yet.

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## **5. Depreciation of Asset**

### **Trading and profit and loss account effect**

The depreciation of asset is an operating expense for the business and will affect profit and loss account. It will be added to the administrative expense and will appear in the administrative expense section of profit and loss account and will be deducted from gross profits to arrive at net profits along with other expenses.

### **Balance sheet effect**

In balance sheet it will appear as deduction from the fixed asset as the fixed assets in balance sheet will be shown at written down value. So this will be added to previous balance of accumulated depreciation and will be deducted from the total cost of the fixed assets and will appear in the assets section under the heading of fixed asset. It might appear in notes as sometimes in balance sheet summarized figure of fixed asset at WDV will be shown. In any case it is deducted from fixed asset in balance sheet and affects the total assets side