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Question Paper Code: CMB002



# INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

MBA I Semester End Examinations (Regular) - February, 2017

Regulation: IARE-R16

## FINANCIAL ACCOUNTING AND ANALYSIS

(Master of Business Administration)

Time: 3 Hours

Max Marks: 70

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Answer ONE Question from each Unit

All Questions Carry Equal Marks

All parts of the question must be answered in one place only

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### UNIT – I

1. (a) “Accounting is the language of business”-Explain the statement with its practical implications. [7 M]
- (b) “Accounting is a service activity. Its function is to provide qualitative information, Primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.” [7 M]
2. (a) “Accounting Conventions are adopted to make the financial statements clear and meaningful”. Elucidate the statement with important conventions of accounting. [8 M]
- (b) “Every business transaction has two elements OR aspects” Justify and explain the statement with suitable examples. [6 M]

### UNIT – II

3. (a) Give accounting equation for the following transactions of Hitesh for the year 2015. [8 M]
  - i. Started business with cash Rs. 18,000.
  - ii. Paid rent in advance Rs. 400.
  - iii. Purchased goods for cash Rs. 5000 and on credit Rs. 2,000.
  - iv. Sold goods for cash Rs. 4,000 (costing Rs. 2,400).
  - v. Rent paid Rs. 1,000 and rent outstanding Rs. 200.
  - vi. Bought motor-cycle for personal use Rs. 500.
  - vii. Purchased equipments for cash Rs. 500.
  - viii. Paid to creditors Rs. 600.
- (b) The Table 1 Trial Balance has been prepared wrongly. You are asked to prepare the trial balance correctly. [6 M]

Table 1

Name of accounts	Debit balance	Credit balance
Cash in hand		2,000
Purchases returns	4,000	
Wages	8,000	
Establishment expenses	12,000	
Capital	22,000	
Carriage outward		2,000
Discount received	1,200	
Commission earned	800	
Machinery		20,000
Stock		10,000
Creditors		12,000
Sales		28,000
Purchases	28,000	
Bank overdraft	14,000	
Grand total	58,000	58,000

4. (a) Ram and Shyam Bros. acquired a machine on July 1, 2014 at a cost of ₹ 70,000 and spent ₹ 5,000 on its installation. The firm writes off depreciation @ 10% on straight line method. The books are closed on December 31 every year. Show the machinery and depreciation account for three years. [6 M]
- (b) From the Table 2 Trial balance of Ravi enterprises, prepare the final accounts for the year ended 31st March, 2015: [8 M]

Table 2

Particulars	Debit (Rs)	Credit (Rs)
Land and building	50,000	
Purchases	1,10,000	
Stock	40,000	
Returns	1,500	2,500
Wages	10,000	
Salaries	9,000	
Office expenses	2,400	
Carriage inwards	1,200	
Carriage outwards	2,000	
Discounts	750	1,200
Bad debts	1,200	
Sales		2,05,000
Capital account		1,30,000
Insurance	1,500	
Commission		1,500
Plant and machinery	50,000	
Furniture and fixtures	10,000	
Bills receivable	20,000	
Sundry debtors	40,000	
Sundry creditors		25,000
Cash in hand	1,500	
Cash at bank	4,500	
Office equipment	12,000	
Bills payable		2,350
Total	3,67,550	3,67,550

Adjustments:

1. Closing stock amounted to Rs. 60, 000.
2. Outstanding liabilities; Wages Rs. 2,000 and Rent Rs. 3,000.
3. Depreciation; Land and buildings at 5%, Plant and machinery at 10%, Office equipments at 10% and Furniture and Fixtures at 10%.
4. Provide further bad debts reserve at 5% on Sundry debtors.
5. Insurance premium prepaid Rs. 200.
6. Provide interest on capital at 5%.

### UNIT – III

5. (a) A firm maintains its stores ledger on the basis of FIFO method. Following is the summary of the receipts and issues of raw materials during the month of April 2006: [8 M]  
April 01 Opening balance 300 units @ Rs.22 per unit “ 03 Issue vide Material requisition No. 14, 150 units.  
“ 08 Purchase order No.07, 200 units @ 25 per unit.  
“ 12 Purchase order No.09, 400 units @ 23 per unit  
“ 17 Issue vide Material requisition No. 16, 500 units.  
“ 20 Issue vide Material requisition No. 18, 100 units.  
“ 23 Purchase order No. 11, 600 units @ 20 per unit.  
“ 25 Issue vide Material requisition No.26, 600 units.  
“ 28 Purchase order No.12, 200 units @ 26 per unit.  
“ 29 Issue vide Material requisition No.32, 300 units.  
“ 30 Shortage 10 units
- (b) Critically examine the different types of preference Shares. [6 M]
6. (a) What is an ordinary share? How does it differ from a preference share and debenture? Explain its most important features. [8 M]
- (b) Fashion Fabrics Ltd. issued 100000 shares of Rs. 10 each on 1st April, 2006. [6 M]  
The amount payable on these shares was as under:  
Rs 2 per share on application.  
Rs 3 per share on allotment.  
Rs 5 per share on call.  
Make necessary journal entries in the books of company.

### UNIT – IV

7. (a) “A Fund flow statement is a better substitute for an income statement” Comment. [6 M]
- (b) Table 3 is the Balance sheet of Anand and Sons. [8 M]  
During the year a machine costing Rs. 10000 (accumulated depreciation Rs. 3000) sold for Rs.5000. The provision for depreciation against Machinery as on 1.1.2015 was Rs. 25000 and on 31.12.2015 Rs. 40000. Net profit for the year amount to Rs. 45000. You are required to prepare Cash flow statement.

Table 3

Liabilities	1.1.2015 (Rs.)	31.12.2015 (Rs.)	Assets	1.1.2015 (Rs.)	31.12.2015 (Rs.)
Creditors	40000	44000	Cash	10000	7000
Mrs. A's Loan	25000	— — —	Debtors	30000	50000
Loan from Bank	40000	50000	Stock	35000	25000
Capital	125000	153000	Machinery	80000	55000
			Land	40000	50000
			Building	35000	60000
	230000	247000		230000	247000

8. (a) Discuss briefly the major classification of cash flow as per AS-3 (revised) [6 M]  
 (b) Table 4 summaries of the Balance sheet of ABC Ltd., for two years. [8 M]

Table 4

	31.12.2014	31.12.2015
Share Capital	200000	260000
P & L Account	39690	41220
Reserves	50000	50000
Sundry creditors	39500	41135
Bills payable	33780	11525
Bank overdraft	59510	— — —
Provision for taxation	40000	50000
	462480	453880
Good will	— — —	20000
Land and Building	112450	116200
Plant and Machinery	148000	144250
Stocks	111040	97370
Sundry Debtors	85175	72625
Bills receivable	2315	735
Cash	2500	2700
	461480	453880

Additional information:

- During the year ending 31.12.2015, an interim dividend of Rs. 2600 was paid.
- Income tax paid during the year amounted to Rs. 25000
- The net profit for the year before tax was Rs. 62530 You are required to prepare statement of changes on working capital, treating provision for taxation as a current liability.

#### UNIT – V

9. (a) “Financial analysis is a continuous process being applicable to every business to evaluate its past performance and current financial position” Comment. [7 M]  
 (b) From the balance sheet given in Table 5, calculate: [7 M]  
 i. Working capital  
 ii. Current Ratio

- iii. Acid test Ratio
- iv. Debt Equity Ratio
- v. Assets Proprietorship Ratio

Table 5: BALANCE SHEET OF 'X' COMPANY LTD., as on 31st December 2006

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Shareholders' fund:		Fixed assets	1,80,000
Equity share capital: 1,50,000		Current assets:	
12% Pref. share capital: 30,000		Cash in Hand: 2,000	
Reserves and surplus: <b>24,000</b>	2,04,000	Cash at bank : 4,000	
15% Debentures	48,000	Sundry Debtors: 10,000	
Bank overdraft: 12,000		Stores: 12,000	
Sundry creditors: 16,000		Stock-in-Trade: 32,000	60,000
Proposed dividend: 2,000		Preliminary expenses	48,000
Provision for taxation: <b>10,000</b>	40,000	Discount on issue of Debenture	4,000
	<b>2,92,000</b>		<b>2,92,000</b>

10. (a) Explain Du point analysis with chart [7 M]
- (b) Mention any 5 Accounting Standards. Explain the significance of Accounting Standard. [7 M]