

BITS PILANI, DUBAI CAMPUS

FIRST SEMESTER 2011- 2012

Course Code: ECON C211 **FOURTH YEAR (ELECTIVE)**

Date: 07-1-2012

Course Title: Fundamentals of Finance and Accounting

Max Marks: 80

Duration: 3 Hours

COMPREHENSIVE EXAM

Note : Answer Part A and Part B in separate Answer Books

PART A (40 Marks)

Question 1: (15+5=20)

Part A and Part B are transactions (including both cash and non-cash transactions) that took place during the year 2011 in Adrian Toys Inc. prepare a statement of cash flows for 2011 to show the net cash inflow (outflow) for the year.

A. The following transactions must first be taken into consideration for preparation of cash flow statement:

1. The company had total sales of 900,000, 10% of which is cash sales.
2. Its accounts receivable increased from 125,000 to 300,000 during the year.
3. It had an opening inventory balance of 45,000 and a closing balance of 80,000.
4. The cost of goods sold during the year amounted to 500,000.
5. Accounts payable for the year opened with 60,000 and closed with 50,000.

Using the above information calculate: (2+1+2 = 5 marks)

- (a) Cash received from customers
- (b) Inventory purchased
- (c) Cash paid to suppliers

B. The following were additional transactions that would enable you to prepare the cash flow statement. Separately calculate (positive or negative) balance that arises from each of the above activities before you arrive at the final net cash flow figure / closing balance Your schedule must have the following three sections: (15 marks)

- (d) cash flows from operating activities
 - (e) cash flows from financing activities
 - (f) cash flows from investing activities
6. Cash on hand as on the first day of the financial accounting period 25,000
 7. Proceeds from sale of investments 42,000
 8. Purchased delivery trucks for credit 49,000
 9. Proceeds from the sale of old plant and machinery valued at 22,000 (2,000 is profit made from sale)
 10. Income tax paid 12,000
 11. Prepaid rent for toy showroom 12,000

12. Damaged goods returned by customers, amount to be adjusted in next month's shipment of goods 2,000
13. Interest receipt from bank deposits 7,000
14. 10% Depreciation on existing plant and machinery valued at 45,000.
15. Repurchased capital stock 2,26,000
16. Paid dividends to shareholders 25,000
17. Issue of 8% secured debentures 400,000
18. Interest paid on secured debentures 36,000
19. Accrued Interest payable on bank overdraft 22,000
20. Repaid bank loans 28,000

Question 2: Choose the most appropriate answer for each question. (1 x 10 = 10)

- a. 'Gifts & You' purchased a truck for \$12,000, making a down payment of \$5,000 cash and signing a \$7,000 note payable due in 60 days. As a result of this transaction (i) total assets increase by \$12,000 or (ii) Total liabilities increased by 7,000
- b. A transaction caused a \$15,000 decrease in both total assets and total liabilities. This transaction could have been: (i) Collection of a \$15,000 account receivable or (ii) Repayment of a \$15,000 bank loan
- c. Which of the following would never be reported in the cash flow statement as an outflow? (i) Depreciation (ii) Income tax
- d. Which of the following would you expect to find in a correctly prepared income statement? (i) Revenues earned during the period (ii) Cash outflows during the period
- e. Which of the following is correct about a company's balance sheet? (i) It is an expansion of the basic accounting equation (ii) it helps to calculate the earnings for the year.
- f. Services worth \$5,400 have already been rendered to a client company but they have not been billed during the year. Identify which of the following adjustments are correct in the next year when the amount is received: (i) Unearned fee revenue is decreased (ii) Fee revenue in income statement is increased
- g. Which of the following accounts would not appear in the trial balance of a company: (i) Unearned revenue (ii) Dividends payable
- h. A company has not recorded \$500 of unpaid wages earned by her secretary during late December. As a part of adjustment to its December financial statement, it must (i) Increase wages expense (ii) Decrease cash balance
- i. An income statement gives information relating to: (i) Contributions by the owner during the period (ii) Expenses incurred to earn revenues for that period
- j. On August 1, a company leased office space and paid \$10,000 as rent in advance for 2 months, August and September. Which of the following effects will hold well as a result of adjustments for September? (i) Assets balance will decrease (ii) Income will increase

Question 3: Answer the following questions: (1 x 10 = 10)

- a) In the balance sheet, prepaid insurance is a specific example of?
- b) The statement that aids in verifying clerical accuracy and in preparing financial statements is called?
- c) Income earned when cost of goods sold is deducted from sales revenue is called?
- d) Name one ratio that is used by investors to assess the profitability of the firm.
- e) Name the book of original entry that is used for recording transactions as soon as they take place.
- f) The statement of retained earnings is used to make adjustment relating to which expense?
- g) Which is the ratio that is used by creditors to measure the capacity of a firm to meet its short term obligations?
- h) Balance earnings ploughed back into the business after paying dividends is termed as?
- i) Patents and copyrights of a company will be classified as?
- j) A bank overdraft is an example of?

PART B (40 Marks)

I. Differentiate between the following (2 x 2 = 4 Marks)

- a) Primary Market and Secondary Market
- b) Open ended funds and closed ended funds

II. Write short notes on the following (1 x5 = 5 Marks)

- c) Net owned funds
- d) EFTs
- e) HHI
- f) CAMELS
- g) Lead Bank Scheme

III Suggest an appropriate word which suits best for the following explanations. (1x8 =8 Marks)

- h) An agreement made between the two parties with mutual consent for the money and materials for a future date.
- i) The term to explain the buying and selling of the securities by the RBI.
- j) The type of risk covered by Insurance companies due to the natural disasters.
- k) The market where a transaction takes place in which two parties agree to sell and repurchase the same security.
- l) Privilege given to existing share holders to subscribe to the new issue of shares according to the terms and conditions of the company.
- m) Participant in the foreign exchange market who protects themselves against risk of fluctuations.
- n) The indicator of financial development which measures the total issues of primary and secondary claims in relation to the national income.
- o) Non receipt of dividend can be classified in this category of SEBI Complaints.

IV. List any two for the following (1x8=8Marks)

- i) Ratios suggested to by the Reserve Bank of India to all the commercial banks .
- ii) Small savings groups under the Non banking financial Intermediaries.
- iii) Mutual funds which traded in the stock exchange.
- iv) Main differences between scheduled bank and non scheduled bank.
- v) Types of loans given by the banks based on time frame.
- vi) Forms of business organizations with unlimited liability.
- vii) Acts brought under foreign exchange market developed though financial sector reforms.
- viii) Indicators of financial soundness of the banks.

V. Explain in detail. (3x5 =15 Marks)

1. Expansion of banking facilities is the only factor affecting the deposits in the financial markets.
2. RBI is called as Bankers Bank.
3. Finance plays an important role in economic development of the country.
4. Under what conditions do you say that financial markets as perfect?
5. Functions of Stock Exchange.

BITS PILANI, DUBAI CAMPUS
SECOND SEMESTER 2011- 2012

Course Code: ECON C211 **FOURTH YEAR (ELECTIVE)**

Date: 04-12-2011

Course Title: Fundamentals of Finance and Accounting

Max Marks: 40

Duration: 50 minutes

Weightage: 20%

Test 2 - Open Book

Pages 2

Note: Answer all questions

- I. Midwest Appliance Repair Service had the following balances on January 1, 2011.

<u>Account Particulars</u>	<u>Amount</u>
Cash	5,000
Accounts receivable	3,000
Inventory parts	2,000
Prepaid rent	2,000
Trucks	36,000
Equipment	8,000
Accounts payable	1,900
Paid-in capital	27,000
Retained earnings	22,100
Accrued wages payable	5,000

During January, the following summarized transactions occurred:

- Collected accounts receivable, \$3,000
- Rendered services to customers for cash, \$4,200
- Cost of parts used for services rendered, \$300
- Yearly depreciation, \$12,000 on trucks and \$9,600 on equipment
- Paid legal expenses, \$500
- Partly settled accrued wages by paying \$1,000
- Paid cash for truck repairs \$800
- Recognize rent expense for Jan - \$1,000
- Paid advance to supplier for purchase and supply of parts in March - \$500

You are required to prepare the following:

- Ledger postings for January - **only** for those accounts that are affected by the adjustments **(15 marks)**
- An adjusted trial balance **(5 marks)**

- II. **Suggest an appropriate word for the following explanation. (0.5 x6 =3 Marks)**
- Countries when establish fixed exchange rate system with some major currencies of the other countries.
 - An agreed upon price when two currencies will be exchanged at some future date.
 - Level of exchange rates adjusted in order to cause identical goods to cost the same amount in different countries.
 - The term to explain Government's intervention in the determination of exchange rate rather than on demand and supply.
 - The term to explain the participants of FOREX taking less amount of risk.
 - The bonds issued with the inflation taken into consideration.

- III. **State whether the following statements are True or False and Justify for the same (5 Marks)**

- Interest rates affect the exchange rate of the currency.
- Asymmetric information is the only cause for markets volatility.

- IV. **Which bank is profitable from the following data, Indicate the performance indicators applied (2 Marks)**

Details	Bank A (AED)	Bank B (AED)
Advances	2,814	3,730
Assets	15,696,650	10,883,510
Net Profit	112,353	70,010
Net operating income	183,692	108,363
Share capital	1,100,000	2,200,000

- V. You are on a Tour for a holiday and travel from New York to London, next to France then to Switzerland and back to New York. When you arrive in London the exchange rate is shown as 1£ = \$1.5588, after a week you are in France the direct quotation remains the same as in London whereas the indirect quotation between euros and dollars is (€ 1.0346), In Switzerland the exchange shown is € 1.0346 per dollar and Swiss Franc (CHF) 1.5078 per dollar.

Show your calculations for the following (6 Marks)

- What will be the amount in GBP you receive when you need to exchange \$3500.
- In France to convert £600 to euros.
- In Switzerland you are left with €450 what will be the amount in local currency.
- Calculate the premium% when the spot rate is Rs. 78.10/£ and 3 month forward rate is Rs. 78.60/£.

- VI. **Give an account of institutional and legal measures taken by the New Economic Policy of 1991 under the financial sector reforms in India. (4 Marks)**

BITS, PILANI – DUBAI CAMPUS
International Academic City, DUBAI
4th Year – Semester I – 2011-2012
Course – ECON C211 – Principles of Finance and Accounting
Fundamentals

Component	Test – 1 (Closed book)	Date	9.10.2011
Maximum Marks	50	Duration	50 min

I. Goldstar communications had the following account balances on December 31, 2010.

Particulars	Amount
Building	125,000
Capital stock	200,000
Cash	37,000
Accounts payable	28,000
Land	95,000
Office equipment	51,000
Notes payable	80,000

The following transactions were carried out by Goldstar Communications during the first half of January:

- a. Sold additional stock to investors for \$35,000.
- b. Purchased land and a small office building for a total price of \$90,000 of which \$35,000 was the value of the land and \$55,000 was the value of the building. Paid \$23,000 immediately and signed a note payable for the balance.
- c. Bought several computer systems on credit for \$9,000.
- d. Obtained a loan from Capital Bank for an amount of \$20,000 by signing a promissory note.
- e. Paid \$28,000 accounts payable due as of December 31.
- f. Inventory purchased on open account for \$25,000.
- g. Paid \$12,000 as rent for 3 months – Jan, Feb, Mar.
- h. Sold goods costing 20,000 for 30,000. Half the amount was received while the other half will be received in a week's time.

Create a format to show the balance sheet equation, using the table given above as opening balance. Show the effects of these transactions on the balance sheet of Goldstar Communications for the month of January. (5 + 15 = 20 marks)

- II. Professional Couriers had the following transactions during the month of March 2011. **Prepare an income statement based on this information and calculate profit for the month (5 marks).**
1. Cash received from bank loans \$10,000
 2. Sales revenues earned during the month \$60,000
 3. Equipment purchased \$20,000
 4. Manufacturing costs & Salaries \$15,000
 5. Depreciation on equipment \$5,000

III. Suggest an appropriate term that best suits the following statements. (7 Marks)

- a) Identify the type of risk which is diversifiable and can be corrected by the individuals.
- b) The type of risk which is linked up with the fluctuation of conversion value of dollar.
- c) The type of capital market where only buying of securities takes place.
- d) Shareholder who shares the profit and loss paradigm in the organization.
- e) The unit used for the measurement of securities volatility.
- f) The interest paid by the bank when banks borrow from each other to maintain a cash reserve ratio.
- g) Privilege given to existing share holders to subscribe the new issue of shares according to the terms and conditions of the company.

IV. Answer the following. (18 Marks)

- h) **Differentiate between** Money Market and Capital Market.
- i) Stock exchange always provides marketability of securities. State whether this statement is **true or false**. Justify the same with suitable explanation
- j) **Discuss** the Market analysts' application with reference to approach of fundamental analysis for the valuation of stock.

BITS PILANI, DUBAI CAMPUS

SECOND SEMESTER 2011- 2012

Course Code: ECON C211 **FOURTH YEAR (ELECTIVE)**

Date:21-11-2011

Course Title: Fundamentals of Finance and Accounting

Max Marks: 14

Duration: 20 minutes

Weightage: 7%

Name :

id Number :

- I. Identify the accounts that will be debited and credited for the following transactions that have taken place at Excelsior Construction Company during the month of August 2011: (0.5 x 10 = 5)

Date	Transactions	Debit	Credit
Aug 1	The company raised share capital to the extent of \$80,000		
Aug 2	Purchased supplies from CAPA materials \$14,000 due in 30 days		
Aug 3	Made cash sales revenue of \$15,000		
Aug 4	Cost of goods sold in the above transaction amounts to \$10,000		
Aug 5	Paid for utilities used in July \$200		
Aug 6	Purchased tools and equipment on account from Pioneer Hardware \$13,800		
Aug 7	Sold excess tools that was not required at cost price to Ace Company, \$1800 payable in 10 days		
Aug 8	Paid Daily Tribune \$360 for newspaper advertising to be run in Aug		
Aug 9	Purchased land for cash \$52,000		
Aug 10	Recorded cash receipt of \$1800 due from Ace Company		

- II. Draw inventory ledger account and calculate the closing balance at the end of the month. Clearly identify whether it is a debit balance or credit balance (2 marks).

P.T.O

III. Match the Column A with Column B and write the answer in Column C (7 Marks)

Column A	Column B	Column C
1. Indicator of profitability	a. Competition enhancing measures	
2. Risk weighted approach	b. Systemic policy reform	
3. Assorted investment pools of money	c. Liberalization measure	
4. capital flows	d. impact on liquidity conditions and financial stability	
5. CCIL	e. Return on Assets	
6. Financial inclusion	f. Hedge funds	
7. Floating interest rate	g. Basel accord	
8. Real Time Gross settlement	h. Financial sector reform	
9. FERA	i. financial services at an affordable cost to the vast sections	
10. Global integrated system	j. Information sharing on defaulters	
11. Credit information Bureau	k. Financial stability	
12. Herd behaviour	l. Cash reserve ratio	
13. Stress testing	m. Statutory liquid ratio	
14. Lower NPL ratio	n. Financial volatility	
	o. Financial stability	
	p. Fastest banking channel	
	q. Prudent strategy of the bank	

BITS PILANI, DUBAI CAMPUS

FIRST SEMESTER 2011- 2012

Course Code: ECON C211

FOURTH YEAR (ELECTIVE)

Date:24-10-2011

Course Title: Fundamentals of Finance and Accounting

Max Marks: 16

Duration: 20 minutes

Name: ID No:

Answer the following questions in the space given below the question: (0.75 x11 =8 .25marks)

1. Identify the ratio which indicates the relationship between financial structure and real assets structure of the economy

2. Insurance companies contribute towards the capital growth in the capital market.
(True /False)

3. The most popular term utilized for the indigenous bankers in the financial system in India at the eve of planning

4. This ratio measures total issues of secondary and primary claims in relation to the national income

5. In which category do you place these banks according to their respective registered capital amount ?

a) Bank with 2.5 Lakhs INR _____ b) Bank with 35,000 INR _____

6. Give an example of financial institution that serves

a) Small income groups _____ b) credit to the agriculture sector _____

7. Which type of volatility reduces the willingness of economic units to enter into the medium-term and long term contracts

8. When the bank gives loan and if payment of interest and or repayment of installment of principal remain unpaid for a period of two quarters or more this loan is termed by bankers as

9. Which market provides an opportunity for two parties agree to sell and purchase the same security

II. Answer the following questions in the space given below the question: (7.75 marks)

10. Balance sheet is unnecessary if both an income statement and statement of cash flows are available – true or false? (0.5)

11. Apart from revenues and expenses, an income statement also indicates the cash balance at the end of a period -- true or false? (0.5)

12. A company has sold its obsolete plant and machinery for Rs. 10000 cash which it used for paying off its creditors. This transaction will not affect its current ratio - True or false? (0.5)

13. A company spends 50,000 in purchasing store equipment and another 20,000 on advertising. Which one is called capital expenditure? (0.5)

14. What is the ratio that an investor uses to calculate return on the amount that he had invested in the shares of a company? (0.5)

15. Which is the ratio which is a stringent measure of the liquidity of a company? (0.5)

16. A company has paid Rs. 2000 as insurance in advance for the next month. Will this be categorized as a) expense, b) cash outflow, c) asset, d) liability? (1)

17. Refer to the previous question. Will this payment of Rs.2000 affect a) income statement, b) balance sheet, c) cash flow statement? (1)

18. A company's current ratio has declined in a year during which its quick ratio improved, which of the following is the most likely explanation: a) inventory is increasing, b) inventory is decreasing, c) receivables are being collected more rapidly than in the past, d) receivables are being collected more slowly than in the past (1)

19. Company A has current assets which are valued at \$50,000 more than B; hence A is more liquid than B. True or false? Give reason in one line. (1)

20. Using ratio analysis, it is difficult to predict whether the company's stock price would rise or fall over the next two weeks in the stock market – true or false (0.75)