



Component	Compre exam	Date	29.12.2012
Maximum Marks	40	Duration	3 hrs

I. The following are balances taken from Taj Company's books of accounts for the Year Ended December 31, 2012.

Prepare: a) Trial Balance, b) Income Statement, c) Statement of Retained Earnings d) Balance Sheet. (10 marks)

Cash	11,300	
Accounts Receivable	10,800	
Supplies	1,500	
Prepaid Insurance	2,000	
Equipment	27,000	
Retained earnings balance		4,000
Accumulated Depreciation—Equipment	5,600	
Notes Payable	15,000	
Accounts Payable	6,100	
Salaries and Wages Payable	2,400	
Interest Payable		600
Common stock (13,000 shares of \$1 each)		13,000
Patents and Copyrights	7,000	
Service Revenue		61,000
Dividends payable	2,000	
Advertising Expense	8,400	
Supplies Expense	4,000	
Depreciation Expense	5,600	
Insurance Expense	3,500	
Salaries and Wages Expense	28,000	
Interest Expense		600
Dividends declared to shareholders		2,000

II. The accounting staff had assembled the following information for the year ended December 31, 2010. Its cash and cash equivalents on Jan 1st is \$35,000 while the closing cash balance on Dec 31st is \$55,000. (10 marks)

- i. The company issued bonds payable for \$100,000 cash
- ii. Cash received from sales to customers \$870,000
- iii. Suppliers and employees were paid \$764,000 cash during the year
- iv. Marketable securities worth \$45,000 were sold for a loss of \$5000
- v. Borrowed \$45,000 by issuing short-term notes payable to banks
- vi. Paid income tax \$38,000
- vii. Loan collections during the year \$12,000
- viii. Interest and dividends received from external investments during the year amounted to \$10,000.
- ix. Repaid \$55,000 due on short term loans
- x. Paid \$28,000 interests on loans borrowed
- xi. Plant assets having a book value of \$50,000 were sold for a profit of \$25,000
- xii. Cash loaned to borrowers \$17,000

- xiii. The company purchased plant assets and paid \$160,000 for it.
- xiv. Cash paid for purchase of marketable securities \$65,000
- xv. Cash dividends declared and paid to stockholders amounted to \$40,000.
- xvi. Issued 1,000 shares of \$10 par value capital stock for cash at a price of \$50 per share
 - a. Using the above information, prepare a statement of cash flows.
 - b. Include a proper heading for the financial statement and classify the given information into the categories of operating activities, investing activities and financing activities.
 - c. Place brackets around the dollar amounts of all cash disbursements.

III. Your company is considering two projects, M and N, each of which requires an initial outlay of Rs. 50 million. The expected cash inflows from these projects are: (5 marks)

Year	Project M	Project N
1	11	38
2	19	22
3	32	18
4	37	10

If the cost of capital is 15% which project should the firm invest in according to:

- a) Payback period method
- b) Net Present Value Method

IV. During the current year, a company made cash sales of \$285,000 and credit sales of \$460,000. During the year, accounts receivable decreased by \$32,000. Compute for the current year the amounts of (a) net sales reported as revenue in the Income statement, (b) cash received from collecting accounts receivable, (c) cash received from customers.(3 marks)

V. Norman's unadjusted trial balance dated December 31, 2010 reports Income Taxes Expense of \$57,200 and Income Taxes payable of \$14,300. The company's accountant estimates that income taxes expense for the entire year ended Dec 31, 2010 is \$62,800. Determine the amount that would be reported in the adjusted trial balance as income tax expense. (2 marks)

VI. **Which ratios should be used to help answer the following questions? (3 marks)**

- (a) What portion of a company's income is distributed as dividends to shareholders?
- (b) How many dollars of net income were earned for each dollar invested by the owners?
- (c) How able is a company to meet its short term payment obligations as they fall due?

VII. **Identify the following statement as true or false and give your reasons: (7 marks)**

1. Creditors have a legal claim on the personal assets of the owners of a corporation if the corporation does not pay its debts.
2. Corporations may buy, own, and sell property; borrow money; enter into legally binding contracts; and sue and be sued.
3. Dividends have a permanent impact on the market price of a share.
4. Retained earnings are the total amount of cash and other assets paid in to the corporation by stockholders in exchange for capital stock.
5. Working capital is required more for capital intensive industries.
6. One of the factors in assessing the risk of a company is its capital structure.
7. Long term funds are used for capital budgeting purposes while short term funds are utilized for working capital.

The following data are available for Allen Clapp Corporation.

Net income \$200,000

Depreciation expense 40,000

Dividends paid 60,000

Gain on sale of land 10,000

Decrease in accounts receivable 20,000

Decrease in accounts payable 30,000

Net cash provided by operating activities is:

a. \$160,000. **c.** \$240,000.

b. \$220,000. **d.** \$280,000.

The following data are available for Orange Peels Corporation.

Sale of land \$100,000

Sale of equipment 50,000

Issuance of common stock 70,000

Purchase of equipment 30,000

Payment of cash dividends 60,000

Net cash provided by investing activities is:

a. \$120,000. **c.** \$150,000.

b. \$130,000. **d.** \$190,000.

The following data are available for Something Strange!

Increase in accounts payable \$ 40,000

Increase in bonds payable 100,000

Sale of investment 50,000

Issuance of common stock 60,000

Payment of cash dividends 30,000

Net cash provided by financing activities is:

a. \$90,000. **c.** \$160,000.

b. \$130,000. **d.** \$170,000.

1. Which is an example of a cash flow from an operating activity?

a. Payment of cash to lenders for interest.

b. Receipt of cash from the sale of capital stock.

c. Payment of cash dividends to the company's stockholders.

d. None of the above.

7. Items that are added back to net income in determining cash provided by operating activities under the indirect method do *not* include:

a. depreciation expense.

b. an increase in inventory.

c. amortization expense.

d. loss on sale of equipment.

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4th Year – Semester I – 2012-2013
Course – ECON C211 – Fundamentals of Finance and Accounting

Component	Test – 2 (Open book)	Date	21.11.2012
Maximum Marks	20	Duration	50 Min

Question 1: (11 marks)

Internet Consulting Service, Inc adjusts its accounts every month. Following is the company's year-end unadjusted trial balance dated December 31, 2011.

Particulars	Debit	Credit
Cash	49100	
Consulting fees receivable	23400	
Prepaid Office Rent	6300	
Prepaid Dues and subscriptions	300	
Office Supplies	600	
Equipment	36000	
Accumulated depreciation		10200
Notes payable		5000
Income Taxes payable		12000
Unearned consulting fees		5950
Capital stock (3000 shares)		30000
Retained Earnings		32700
Dividends	60000	
Consulting fees earned		257180
Salaries expense	88820	
Telephone expense	2550	
Rent expense	22000	
Income Taxes expense	51000	
Dues and Subscriptions expense	560	
Office Supplies expense	1600	
Depreciation expense	6600	
Misc expenses	4200	
Total	353030	353030

Consider the following adjustments on December 31, 2011:

1. On December 1, the company signed a new rental agreement and paid three months rent in advance at a rate of \$2100 per month.
2. Dues and subscriptions expiring during December amounted to \$50.
3. On December 31 the estimated cost of the unused office supplies was \$450.
4. Depreciation for the month is \$400. Accumulated depreciated account is created for this purpose.
5. Accrued interest on notes payable amounted to \$1200 for the full year
6. Consulting services valued at \$2850 were rendered during December to clients who had made payment in advance.

7. On Dec 31, consulting services valued at \$11,000 had been rendered to clients but not yet billed. No advance payments had been received from these clients.
 8. Salaries earned by employees but not paid as of Dec. 31 amounts to \$1,700
 9. Income tax expense for the year is estimated at \$56,000. Of this \$39,000 has been paid to tax authorities. The company plans to pay the \$17,000 remainder of its income tax liability on Jan 15, 2012.
- a) Prepare all adjustments called for by the preceding transactions by posting the journal entries to the ledger. Assume that appropriate entries were routinely made for the explicit transactions described earlier, but no adjustments have been made for the month of December. (9 marks)
 - b) Prepare an adjusted trial balance as of December 31, 2011 (2 marks)

Question 2: Give brief answers to the following questions: (0.5 x 10 = 5 marks)

- a. A business which has a long operating cycle will have high working capital requirements. True or False?
- b. Explain one way in which a bank offers indirect financing without lending loans?
- c. Which is the type of risk that is dependent on share price movements in the stock exchange?
- d. In ABC analysis what does Category A generally stand for?
- e. A security, which has a beta of 1.5, experiences greater fluctuation than the market portfolio. True or False?
- f. Name the ratio that is an acid test measure of the working capital of an organization. How is it calculated?
- g. If Stock A has a higher risk than Stock B, investors have to be induced to go for Stock A by offering a higher rate of return. What is this difference in rate of return between the two stocks called?
- h. If it takes 2 days for the cheques issued by a firm to be encashed, what kind of a float does it create?
- i. Credit terms given by a supplier to a customer states: 5/10, net 45. Explain what the statement means.
- j. As far as possible, it is advisable to have positively correlated stocks to eliminate/reduce portfolio risk – True or False?

Question 3: (4 marks)

The relevant financial information for Xavier Limited for the year ended 2011 is given below:

	Jan 1, 2011 Rs. in millions	Dec 31, 2011 Rs. in millions
Sales		80
Cost of goods sold		56
Inventory	9	12
Accounts Receivable	12	16
Accounts Payable	7	10

- (i) What is the length of the operating cycle and cash conversion cycle? Assume 365 days to a year.
- (ii) What steps can be taken to shorten the cash conversion cycle?

Consider the following information about a certain equity stock:

Price at the beginning of the year: Rs.60
Dividend paid at the end of the year: Rs. 2.40
Price at the end of the year: Rs. 69

Calculate the rate of return on this stock.

ROR: 19%

Dividend yield = 4%

Capital gains yield = 15%

- a. A firm purchases marketable securities whose maturity corresponds with its anticipated yearly dividend / tax payments. What is the motive behind holding cash called?
- b. On Dec 1 2009, a firm has inventory worth Dhs.100000. It sells the complete inventory for credit during the month; this invoice of Dhs.120000 is to be settled by the buyer on Jan. 15, 2010. On Jan 1, 2010, has its working capital position changed in any way? Why or why not?
- c. How is an operating cycle different from a cash conversion cycle?
- d. Why is commercial paper not a very popular form of financing?
- e. Stocks which have a high individual risk quotient, when combined with other stocks help to bring down the portfolio risk – true or false?
- f. Why do firm adopt factoring services?
- g. Identify an important control system that is used to estimate and assess the working capital efficiency of a firm.
- h.

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4th Year – Semester I – 2012-2013
Course – ECON C211 – Fundamentals of Finance and Accounting

Component	Test – 1 (Closed book)	Date	27.09.2012
Maximum Marks	25	Duration	50 Min

Question 1: Prepare an analysis of Nashville's transactions, employing the balance sheet equation approach (15)

On August 31, the balance sheet of Nashville Corporation showed Share Capital 13000, Cash \$9000, Accounts Receivable \$1700, Office Equipment \$6000, Accounts Payable \$3600, Inventory \$5000 and Retained Earnings \$5100. During September the following transactions occurred.

1. Paid \$2900 cash on accounts payable.
2. Paid \$8000 for insurance on September 1 for the full period ending December 31, 2012.
3. Raised additional capital stock by issue of shares worth \$10000.
4. Purchased state of the art office equipment for \$2100, paying \$800 in cash and the balance on account.
5. Earned revenue of \$6300 of which \$2500 is for cash and the balance is due in October.
6. Cost of Goods Sold in the above transaction is \$2000.
7. Purchased inventory on account for \$2000
8. Returned damaged goods worth \$200
9. Paid dividends of \$600.
10. For September paid salaries \$1700, utilities \$900 and advertising expense \$300.
11. Borrowed \$10,000 from Dubai Bank.
12. Recognized insurance expense for September.

Question 2: Classify the following into Assets, Liabilities, Revenue, Expenses and Shareholders' Equity (0.5 x 12 = 6)

- a) Interest received
- b) Advertising
- c) Prepaid rent
- d) Raw Materials Inventory
- e) Salary Payable
- f) Travel Commission
- g) Accounts Receivables
- h) Equipment
- i) Depreciation
- j) Retained earnings
- k) Notes payable
- l) Cost of goods sold

Question 3: Answer the following questions: (1 x 4 = 4)

1. Name at least 2 important documents that constitute financial statements of an organization.
2. Explain the difference between fixed assets and current assets with examples.
3. A sole proprietorship form of business organization is more disadvantageous than a partnership firm. Comment.
4. A company registered under the Indian Companies Act suffers from continuous losses and is facing liquidation. Assets are sold for repayment of liabilities but the company still owes Rs. 2 million to a bank. A shareholder of the company has shares in the company worth Rs. 1 million apart from his palatial residence that is worth Rs. 5 million. Explain the extent to which the shareholder is responsible for this debt.



Component	Quiz – 2	Date	16.12.2012
Maximum Marks	7	Duration	20 Min
Name:		ID No:	

I. Circle the correct answer from the choices given: [0.5 x 6 = 3 marks]

- Which of the following will *not* be reported in the statement of cash flows?
 - The net change in plant assets during the year.
 - Cash payments for plant assets during the year.
 - Cash receipts from sales of plant assets during the year.
 - How acquisitions of plant assets during the year were financed.
- Which is an example of a cash flow from an investing activity?
 - Receipt of cash from the issuance of bonds payable.
 - Payment of cash to repurchase outstanding capital stock.
 - Receipt of cash from the sale of equipment.
 - Payment of cash to suppliers for inventory.
- Cash dividends paid to stockholders are classified on the statement of cash flows as:
 - operating activities.
 - investing activities.
 - a combination of (a) and (b).
 - financing activities.
- Which is an example of a cash flow from a financing activity?
 - Receipt of cash from sale of land.
 - Issuance of bond for cash.
 - Purchase of equipment for cash.
 - None of the above
- Which of the following items is reported on a cash flow statement prepared by the direct method?
 - Loss on sale of building.
 - Increase in accounts receivable.
 - Depreciation expense.
 - Cash payments to suppliers.
- The beginning balance in accounts receivable is \$44,000, the ending balance is \$42,000, and sales during the period are \$129,000. What are cash receipts from customers?
 - \$127,000.
 - \$129,000.
 - \$131,000
 - \$141,000.

II. The following T account is a summary of the cash account of Wiegman Company.

Cash (Summary Form)

Balance, Jan. 1	8,000		
Receipts from customers	64,000	Payments for goods	200,000
Dividends on stock investments	6,000	Payments for operating expenses	140,000
Proceeds from sale of equipment	36,000	Interest paid	10,000
Proceeds from issuance of bonds payable	300,000	Taxes paid	8,000
		Dividends paid	50,000
Balance Dec. 31	306,000		

What amount of net cash provided (used) by financing activities should be reported in the statement of cash flows? Show the working in the proper format. [2 marks]

III. Read and answer the following questions: [0.5 x 4 = 2 marks]

a. Give one important purpose for which capital budgeting decision is undertaken.
b. Two projects A and B are for being considered for capital budgeting purpose. Project A has a higher rate of return compare to Project B and hence has been accepted, which rejects Project B automatically. What type of projects are these?
c. What is the main difference between Net Present Value method and Pay Back Period method?
d. The success of a capital budgeting decision is dependent on how accurately future cash inflows are estimated, importance is not given to cash outflows. True or False.