

<b>BITS PILANI, DUBAI CAMPUS</b> <b>International Academic City, DUBAI</b> <b>4th Year – Semester II – 2011-2012</b> <b>Course – ECON C211 – Fundamentals of Finance and Accounting</b>			
Component	<b>Comprehensive Examination</b>	Date	<b>12.06.2012</b>
Maximum Marks	<b>40</b>	Duration	<b>50 minutes</b>

**QUESTION 1: (3+2+2=7 marks)**

The following data are from Fast Foods Inc.'s 2002 annual report (\$ in millions):

Retained earnings – (beginning of year)	18,608
Revenues	15,406
Interest and other non-operating expenses	549
Provision of income taxes	670
Food and proper expense	3,917
Payroll and employee benefits	3,078
Dividends paid	298
Selling and administrative expenses	1,713
Franchise restaurants – occupancy expenses	840
Other operating expenses	3,745

Prepare the following for the year:

- I. income statement
- II. statement of retained earnings
- III. Comment on the profitability of the company. Assume the company has 10,000 shares of \$1 each.

**QUESTION 2: (8+2+1=11 marks)**

Neal & Neal Corporation's balance sheet on June 1, 2011 contained the following items:

Paid-in capital	185,000
Notes payable	21,000
Cash	22,000
Accounts payable	16,000
Merchandise inventory	29,000
Machinery and equipment	20,000
Furniture and fixtures	8,000
Land	41,000
Building	230,000
Long term debt payable	124,000
Retained earnings	4,000

The following transactions occurred in the month of June:

- (a) Purchased machinery and equipment for \$13,000 paying \$3,000 in cash and signing a 90-day note for the balance

- (b) Sold some land that was not needed for cash of \$15,000. The land was valued in the balance sheet at \$6,000
- (c) Issued capital stock for \$23,000 that was used for settlement of a particular long term debt that had become due for payment
- (d) Acquired merchandise inventory of \$100,000; pays one half in cash and owes one half on open account
- (e) Returned unsatisfactory merchandise that cost \$11,000 to be adjusted on open account
- (f) Sales on open account \$80,000; for cash \$25,000.
- (g) Merchandise carried in inventory at a cost of \$90,000 was sold as described in transaction (f)
- (h) Paid \$9,000 for 3 months rent – June, July and August.

- (i) Prepare an analysis of transactions, employing the balance sheet equation approach.
- (ii) Prepare a balance sheet as of June 30, 2011.
- (iii) Comment on the company's liquidity.

**QUESTION 3: Write the journal entries for the following transactions in the books of PC Products: (3 marks)**

1. On April 3, Computer City purchases 100 spreadsheet programs from PC Products. The cost of these programs is \$100 each. PC Products offers credit terms of 2/10, n/30.
2. On April 10, PC Products receives a cheque in settlement of the full amount payable.
3. On April 19, Computer City returns to PC Products for cash refund, five of the spreadsheet programs purchased, because these programs were not properly labeled.

**QUESTION 4: Using the given information calculate: (2 + 1 + 2 = 5 marks)**

**(a) Cash received from customers**

**(b) Inventory purchased**

**(c) Cash paid to suppliers**

- (i) The company had total sales of \$900,000, 10% of which is cash sales.
- (ii) Its accounts receivable increased from \$125,000 to \$300,000 during the year.
- (iii) It had an opening inventory balance of \$45,000 and a closing balance of \$80,000.
- (iv) The cost of goods sold during the year amounted to \$500,000.
- (v) Accounts payable for the year opened with \$60,000 and closed with \$50,000.

**QUESTION 5: Comment on the following statements: (3 x 3 = 9 marks)**

1. Open ended funds serve a different purpose compared to close ended funds.
2. The Indian financial institutions have undergone massive change and development during the post independence era.
3. Small Savings form the backbone of the Indian economy

**QUESTION 6: Who am I? (0.5 x 10 = 5 marks)**

- a. I have been entrusted with the responsibility of dealing with various matters relating to the capital market. I regulate business in stock exchanges and any other securities markets and prohibit fraudulent and unfair trade practices in securities markets

- b. I am the banker's bank and provide currency and operate the clearing system for the banks. I formulate and implement monetary and credit policies.
- c. Most of my clients are institutional participants. Short term debt instruments such as T-bills, trade bills reports, commercial paper and certificate of deposit are traded in my market.
- d. I form a subset of the capital market. I mobilize savings and supply fresh or additional capital to business units. I help new corporations to raise new capital through issue of IPOs.
- e. I pool the resources of small investors and perform an intermediary function of buying and selling securities on behalf of my clients. I provide continuous supervision, analysis, investment consultancy, judicious investment decision and expert experienced professional management of portfolio at affordable costs
- f. I provide retirement benefit plan that is meant to enable self-employed people to contribute to me during their working life so as to provide security in their old age. I manage their assets and pay the benefits to them when they grow old and retire
- g. I help to protect my clients against risk of loss arising from fire, hail, automobile, ocean and inland marine, aviation, theft, loss, and so on. The premium is small in relation to the potential loss. The contract generally runs for a year or less, payment is contingent on the loss actually occurring to the client.
- h. I provide term loans for purchases of goods (producer and consumer goods) to be fractionally liquidated through contractual obligations. The title is not transferred to the buyer till he has cleared his dues and the goods are hypothecated in favor of lenders. I charge a flat rate of interest on the full loan amount and a penal rate of interest on overdue installments.
- i. I am a market place where repurchase agreement is prominent. In these transactions two parties agree to sell and purchase the same security. Under such contract, the seller sells specified securities with an agreement to repurchase the same at mutually decided future date and price.
- j. I am a financial institution whose functions are deposit acceptance, providing short term as well as long terms credit to business, providing personal, consumer, housing loans, providing cash and treasury management services, and participating in the governance of borrowing firms. I am treated as multi product financial company, or financial super markets that have diversified range of products. I am different from other traditional banks and financial institutions that have specialized functions.

\*\*\*\*\*Good Luck\*\*\*\*\*

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Component	TEST 2 – Open Book	Date	23.05.2012
Maximum Marks	20	Duration	50 minutes

**I. Give specific answers to the following questions: (0.5 x 9 = 4.5 marks)**

- a. Identify a mutual fund that is performing quite well in India.
- b. What is the maximum amount that one can deposit in one year in a Public Provident Fund?
- c. Name the statutory body that governs insurance sector in India.
- d. Which is the investment scheme that provides income tax exemption on the principal investment?
- e. Name a subsidiary of General Insurance Corporation that deals with fire insurance.
- f. Specify the type of short term deposit that is accepted by commercial banks from other banks and is repayable on demand
- g. What is the name given to an individual/institution who charges a commission for guaranteeing the success of a company's new share issue?
- h. Name an instrument under the small savings scheme that is popular in India.
- i. Which type of mutual fund does not have any redemption date?

**II. Comment on the following: (1.5 x 3 = 4.5 marks)**

- 1) RBI uses qualitative instruments or selective tools for discriminating between different uses of credit.
- 2) Today sophisticated technologies are being used in banks to improve efficiency.
- 3) The activities of Merchant Banks are different from Commercial Banks.

**III. Using the information given below, prepare a Statement of Cash Flows. (11 marks)**

- a. Include a proper heading for the financial statement and classify the given information into the categories of operating activities, investing activities and financing activities.
- b. Place brackets around the dollar amounts of all cash disbursements.
- c. Its cash and cash equivalents on Jan 1<sup>st</sup> is \$35,000 while the closing cash balance on Dec 31<sup>st</sup> is \$55,000.

Zeus Electricals Ltd. is a wholesaler of electrical goods manufactured in the US. The accounting staff had assembled the following information for the year ended December 31, 2011.

- 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

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Component	TEST 1 – Closed Book	Date	04.04.2012
Maximum Marks	25	Duration	50 minutes

- I. Clown Around Inc. provides party entertainment for children of all ages. Account balances from the company's trial balance dated March 1, 2012 are shown below:

Particulars	Amount (in \$)
Cash	2850
Accounts receivable	900
Accounts payable	800
Capital stock	2000
Retained earnings	750
Party revenue	1350
Salaries expense	830
Party food expense	240
Travel expense	80

Clown Around Inc. engaged in the following transactions in March:

Mar 1	Paid 1200 as party hall rent for 12 months till Feb. 28, 2013.
Mar 2	Paid \$750 in partial settlement of the outstanding accounts payable reported in the trial balance dated March 1.
Mar 6	Collected \$900 in full settlement of the outstanding accounts receivable reported in the trial balance dated march 1
Mar 18	Billed sunflower child care \$175 for clown services. The entire amount is due on April 15.
Mar 20	Issued capital stock to shareholders in exchange for cash \$3000
Mar 22	Billed and collected \$480 for performing at several birthday parties
Mar 26	Paid clown salaries of \$260 for work done in march
Mar 29	Paid \$40 for travel expenses incurred in march
Mar 31	Recognize rent expense for March
Mar 31	Declared and paid \$200 dividend to the company's shareholders.

- Post each transaction in the appropriate ledger accounts. (10 marks)
- Prepare a trial balance dated March 31, 2012.(3 marks)
- Will the \$200 dividend paid on 31st March decrease the company's income? Explain. (2 marks)

**II. Comment on the following statements: (2 x 2 = 4 marks)**

- 1) Ownership securities are more preferred in India, than debt securities.
- 2) Corporate form of business organizations is advantageous as compared to partnerships.

**III. Give brief answers to the following questions: (0.5 x 12 = 6 marks)**

1. Which is the ratio that indicates how far investment has been financed by direct issues to the savers/investors?
2. What are repos and reverse repos essentially used for?
3. What is the purpose of the Securitization Act 2002?
4. Identify the type of risk the lender faces if the borrower is unable to pay up the principal and interest as promised.
5. Which is the matrix/account which shows the sources and uses of cash in the various sectors of the economy?
6. A company issues shares for Rs. 120 having a face value of Rs. 100. What is the term given to the Rs. 20 that is charged over and above the Rs. 100?
7. Before 1950, borrowing and lending rates offered by banks varied from each other – true or false?
8. Name the central bank of India before the formation of the RBI in 1935.
9. Till 1990s, the government regulated the financial sector in two ways. Name them.
10. Identify two non-banking financial services that are provided by financial intermediaries.

\*\*\*\*\*Good Luck\*\*\*\*\*

**BITS, PILANI – DUBAI CAMPUS**  
Dubai International Academic City, DUBAI  
4<sup>th</sup> Year – Semester II – 2011-2012  
Course – ECON C211 – Fundamentals of Finance & Accounting  
Quiz – 2

Name :

Date : 09.05.2012

Id No :

Duration : 20 minutes

Marks: 7

**I. Answer the following questions: (0.25 x 10 = 2.5)**

1. What are open market operations?
2. The RBI has been using two ratios as instruments of credit control. Give a one line description for both the ratios
a)
b)
3. How does monetary policy influence economic growth?
4. What is the technique through which the RBI affects the cost of credit made available to commercial banks?
5. The RBI fixes an upper limit beyond which commercial banks cannot give loans. What is this method called?
6. Every loan given by a commercial bank creates deposits that add to the money supply in the economy. This gives rise to the concept of?
7. Identify the type of deposits on which banks lend overdrafts?
8. Which is the banking innovation that had helped banks to spread the risk of lending to a huge single borrower?
9. Identify an advantage of Stockinvest to the investor.



**II. Internet Consulting Services Inc. has to make adjustments to its implicit transactions for the month of December. Identify the accounts that need to be adjusted and the amount that would be debited and credited on December 31<sup>st</sup>. (Example: Debit ---, Credit ---, Amount ---) (0.5 x 9 = 4.5)**

10. On December 1<sup>st</sup>, the company signed a new rental agreement and paid three months rent in advance at a rate of \$2,100 per month. What are the entries on Dec 1<sup>st</sup> and Dec 31<sup>st</sup>?

**DEC 1 -**

**DEC 31 -**

11. Equipment purchased in the first week of Jan for \$36,000. Its useful life has been estimated to be 60 months from the date of acquisition. How is depreciation, for the month of December, accounted for?

12. The company had borrowed \$5000 loan repayable in 6 months from the bank on Oct 15th at 6% interest p.a. How is the interest adjusted for the month of December?

13. Consulting services valued at \$2850 had been rendered to clients during the month. They had made full advance payment on November 10th.

**NOV. 10**

**DEC. 31**

14. Salaries earned by the employees but not paid for December amount to \$1700.

15. The firm had taken up a 3 month contract starting from November worth \$25,000, amount becomes payable only on successful completion. It had rendered consulting services worth \$11,000 upto Dec 31.

16. Income tax expense for the year is estimated to be \$56,000. The company had made advance tax worth \$30,000 and would pay the balance amount to the IT Department on Jan 15 next year.

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**Dubai International Academic City, DUBAI**  
**4<sup>th</sup> Year – Semester II – 2011-2012**  
**Course – ECON C211 – Fundamentals of Finance & Accounting**  
**Quiz – 1**

Name :

Date : 14.03.2012

Id No :

Duration : 20 minutes

Marks: 8

**I. Read the following transactions and say how it would affect the Balance Sheet Equation. Under the appropriate column headings mark 'Increase' and/or 'Decrease': (4.75 marks)**

Transactions	Assets	Liabilities	Owners' equity
Received rent from a tenant to whom building premises have been let out on lease			
Borrowed money from a bank			
Sold land for cash at a price in excess of cost			
Purchased computer on credit			
The owner invested cash in the business			
A customer pays up for his credit purchases			
Returned for credit some of the office furniture previously purchased on credit but not yet paid for			
Paid insurance in advance for next year			
Depreciation charged to factory plant			

**II. Read the case and answer the questions that follow it: (0.25 x 8 = 2)**

On March 31, 2011 when United Technologies International Inc. closed its books of accounts for the financial year, the company had an issued capital of 9,000 shares having a par value of \$10. It had additional paid in capital of \$36,000. Market price of the share was \$20. To modernize its plant, the company decided to issue another 9,000 shares in August 2011 at a price of \$15 per share. Sunil, a stock market investor, subscribed towards the new issue and purchased 1000 shares. In March 2012, the company's net profits after tax were 45,000 and it declared a 10% dividend.

1. At the end of the fiscal year in 2011, what is the company's paid-in share capital?
2. What was the average price paid by the original shareholders for the company's stock?
3. If Sunil had purchased the shares from the New York Stock Exchange which market would he be dealing in?
4. Sunil would be liable only to the extent of his shareholding in the company. He enjoys this benefit due to which characteristic present in company form of organizations?
5. Calculate the amount that Sunil will receive as dividend.
6. Sunil has invested in shares to earn two types of returns. One is called dividend yield. What is the other?
7. What is the term given to the profits remaining with the company after payment of dividends?
8. In 2007, the company offered its shares to the general public for the very first time. What is this first issue called?

**III. Answer the following questions: (0.25 x 5 = 1.25)**

9. Give one factor that affects interest rates in an economy.
10. The market dealing in short term financial claims such as treasury bills & commercial paper is referred to as?
11. Give an example for a financial intermediary.
12. Name the financial regulatory body in India that monitors business in the stock exchange and capital markets.
13. What is the main function of a financial market?

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