

Group A: Brief Answer Questions

Attempt ALL Questions:

[10×2=20]

1. What is realization concept of accounting? [CH 2]

➔ See Q.No. 4

2. Write about the accrual basis of accounting. [CH 4]

➔ See 2078 Q.No. 2

3. What are the objectives of internal control of a business? [CH 6]

➔ See 2078 Q.No. 3

4. Define the meaning of current liabilities. [CH 8]

➔ Current liabilities are obligations that are expected to be paid within one year of the balance sheet date or within the operating cycle of the business, whichever is longer. Some examples of current liabilities are creditors, notes or bills payable, bank overdraft, etc.

5. What is treasury stock? [CH 11]

➔ Treasury stock is the term that is used to describe shares of a company's own stock that it has reacquired. A company may buy back its own stock for many reasons.

6. On January 1, ABC Company borrowed Rs. 200,000 from bank by signing a 3-month, 10% notes payable. It paid the principal and interest at due date.

Required: Journal entries for issue and retirement of note.

[CH 8]

SOLUTION

Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
Jan 1	Bank a/c Dr. To Notes payable a/c (For issue of notes)		200,000	200,000
March 31	Notes payable a/c Dr. Interest a/c (200,000 × 10/100 × 3/12)..... Dr. To Bank a/c (For retirement of note)		200,000 5,000	205,000

7. You are provided the following information:

Sales = Rs. 300,000 Wages to worker = Rs. 40,000
Interest paid = Rs. 10,000 Income tax paid = Rs. 12,000
Depreciation = Rs. 30,000 Net profit = Rs. 20,000

Required: Amount of value added. [CH 14]

SOLUTION

Amount of value added = Wages to workers + Interest paid + Income tax paid + Depreciation + Net pfofit = Rs. 40,000 + Rs. 10,000 + Rs. 12,000 + Rs. 30,000 + Rs. 20,000 = Rs. 112,000

8. The following information are given:

- Started business with cash of Rs. 50,000 and machinery of Rs. 100,000.
- Salary paid Rs. 20,000 and outstanding salary was Rs. 4,000.

Required: Accounting equation.

[CH 3]

SOLUTION

Accounting Equation

S.No.	Transactions	Assets	=	Liabilities	+	Owner's Equity
	Started business with cash and machinery	150,000				150,000
	Beginning equation	150,000	=		+	150,000
	Salary paid and outstanding	-20,000		4,000		-24,000
	Final equation	130,000	=	4,000	+	126,000

9. The following transactions of the Light Company are given below:

- Jestha 8 Returned to Ram Electric Shop.
10 Fans @ Rs. 2,000 each.
3 dozen Lamps @ Rs. 500 each.
Carriage charge Rs. 2,000.
- Jestha 20 Returned 10 Heaters from ABC Electricity for Rs. 18,000.
- Jestha 30 Returned 200 Led Lights to DD Electricity Rs. 40,000.

Required: Return outward book.

[CH 3]

SOLUTION

Return Outward Book

Date	Particulars	Debit Note No.	PR	Amount	
				Details	Total
Jestha 8	Ram Electricity Shop: 10 fans @ Rs. 2,000 each 3 dozen Lamps @ Rs. 500 each			20,000 18,000 38,000	40,000
	Add: Carriage charge			2,000	
Jestha 30	DD Electricity 200 LED lights				40,000
	Total				80,000

10. The following information are given:

[CH 7]

Trial Balance

Particulars	Debit	Credit
Sundry debtors	330,000	-
Bad debts	30,000	-
Provision for doubtful debts	-	50,000

Adjustment:

- Additional bad debts to be written off Rs. 10,000.
- New provision for doubtful debts @ 5% on debtor.

Required: Provision for doubtful debt account.

SOLUTION

Provision for Doubtful Debt Account

Particulars	Rs.	Particulars	Rs.
To Bad debts (30,000 + 10,000)	40,000	By Balance b/d	50,000
To Balance c/d (5% of (330,000 - 10,000))	16,000	By Profit and loss a/c (B/F)	6,000
	56,000		56,000

12. The ABC Company sells a single product for Rs. 2 per unit and uses a periodic inventory system. The following data are available for the year. [CH 5]

Date	Transaction	Number of units	Unit Cost Rs.	Total Rs.
Baisakh 9	Beginning inventory	1,200	1	1,200
Ashad 12	Purchase	800	1.2	960
Shrawan 17	Sale	(1,300)		
Ashwin 30	Sale	(300)		
Poush 12	Purchase	600	1.3	780
Chaitra 19	Sale	(700)		

Required:

- Cost of goods sold, ending inventory and gross profit under weighted average costing method.
- Cost of goods sold, ending inventory and gross profit under FIFO method. [5+5=10]

SOLUTION

a. **Weighted average costing method:**

$$\begin{aligned} \text{Cost of goods sold} &= \text{Units sold} \times \text{WAC} \\ &= 2300 \text{ units} \times \text{Rs. } 1.1308 = \text{Rs. } 2,600 \\ \text{Cost of ending inventory} &= \text{Cost of goods available for sales} - \text{Cost of goods sold} \\ &= \text{Rs. } 940 - \text{Rs. } 2,600 = \text{Rs. } 340 \end{aligned}$$

Alternatively,

$$\begin{aligned} \text{Cost of ending inventory} &= \text{Ending inventory units} \times \text{WAC} \\ &= 300 \text{ units} \times \text{Rs. } 1.1308 = \text{Rs. } 340 \\ \text{Gross profit} &= \text{Sales revenue} - \text{COGS} \\ &= (2300 \text{ units} \times \text{Rs. } 2) - \text{Rs. } 2600 = \text{Rs. } 2,000 \end{aligned}$$

Where, weighted average cost (WAC)

$$\begin{aligned} &= \frac{\text{Cost of goods available for sales}}{\text{Units available for sales}} \\ &= \frac{\text{Rs. } 1,200 + \text{Rs. } 960 + \text{Rs. } 780}{1,200 \text{ units} + 800 \text{ units} + 600 \text{ units}} \\ &= \frac{\text{Rs. } 2,940}{2,600 \text{ units}} = \text{Rs. } 1.1308 \end{aligned}$$

b. **FIFO method**

Purchase date	Units	Rate (Rs.)	Total Cost (Rs.)
Baisakh 9	1,200	1	1,200
Ashadh 12	800	1.2	960
Poush 12	300	1.3	390
Units sold	2,300	Cost of goods sold	2,550

Alternatively,

$$\begin{aligned} \text{Cost of goods sold} &= \text{Cost of goods available for sales} - \text{Cost of ending inventory} \\ &= \text{Rs. } 2,940 - \text{Rs. } 390 = \text{Rs. } 2,550 \\ \text{Cost of ending inventory} &= \text{Cost of goods available for sales} - \text{Cost of goods sold} \\ &= \text{Rs. } 2,940 - \text{Rs. } 2,550 = \text{Rs. } 390 \end{aligned}$$

Alternatively,

$$\begin{aligned} \text{Cost of ending inventory} &= \text{Ending inventory units} \times \text{Unit cost} \\ &= 300 \text{ units} \times \text{Rs. } 1.3 = \text{Rs. } 390 \\ \text{Gross profit} &= \text{Sales revenue} - \text{Cost of goods sold} \\ &= 2,300 \text{ units} \times \text{Rs. } 2 - \text{Rs. } 2,550 = \text{Rs. } 2,050 \end{aligned}$$

13. a. A company purchased machinery on Poush 30, 2077 for Rs. 80,000 and spent Rs. 20,000 on its installation. The company charged depreciation at 15% using SLM every year. At the end of Ashwin 2079, the company sold the machinery for Rs. 90,000 and purchased new machinery for Rs. 140,000. The books are closed on 31st Chaitra every day.

Required: Machinery account for 2077 to 2079.

[CH 9] [5]

SOLUTION

Dr. Machinery Account under Straight Line Method Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
30/9/2077	To Bank a/c	100,000	31/12/2077	By Depreciation a/c (100,000×15/100× 3/12)	3,750
			31/12/2077	By Balance c/d	96,250
		100,000			100,000
1-1-2078	To Balance b/d	96,250	31/12/2078	By Depreciation a/c (100,000 × 15/100)	15,000
			31/12/2078	By Balance c/d	81,250
		96,250			96,250
1-1-2079	To Balance b/d	81,250	31/6/2079	By Depreciation a/c	7,500
31/6/2079	To Profit & loss a/c (gain)	16,250	31/6/2079	By Bank a/c (Sales)	90,000
31/6/2079	To Bank a/c	140,000	31/12/2079	By Depreciation a/c (140,000×15/100×6/12)	10,500
			31/12/2079	By Balance c/d	129,500
		237,500			237,500
1/1/2080	By Balance b/d	129,500			

- b. Differentiate between tangible and intangible assets.

[CH 9] [5]

→ The difference between tangible and intangible assets are as follows:

Basis	Tangible assets	Intangible assets
1. Meaning	The assets which can be seen, touched and felt are tangible assets.	The assets which cannot be seen, touched and felt are intangible assets.
2. Examples	Land, building, equipment, plants are some examples of tangible assets.	Patent, copyright, trademark, goodwill are some examples of intangible assets.
3. Physical existence	Tangible assets have physical existence.	Intangible assets have no physical existence.
4. Depreciation or amortized	Tangible assets are depreciated according to time.	Intangible assets are amortized according to time.
5. Liquidation	Tangible assets can be liquidated easily as they have a physical existence.	Intangible assets cannot be liquidated easily as they do not have physical existence.
6. Helpful	They are helpful in growth of the business.	They are helpful in increasing the brand value of the business.

14. a. The bank statement of a company showed a balance of Rs. 52,000 on 30th Poush 2079. However the company balance showed a different balance of Rs. 48,000. On the investigation, the following differences were noticed:
- Company issued cheque of Rs. 12,000 but during Poush only Rs. 8,000 was presented to bank for payment.
 - Deposit in transit Rs. 6,000.
 - EFT payment Rs. 1,500.
 - Customer's cheque of Rs. 3,000 was return with the bank statement marked NSF.
 - Collection of notes and interest receivable was for Rs. 8,000 and Rs. 4,000 respectively.
 - Bank charge Rs. 500 for the service provided by the bank.
 - A cheque of Rs. 10,000 was deposited by the bank. However, the amount recorded by the company was Rs. 11,000 in its statement.

Required: Bank reconciliation statement.

[CH 6] [2+3=5]

SOLUTION

Bank Reconciliation Statement
As on 30th Poush, 2079

Adjustment of Bank Statement Balance	Rs.		Adjustment of Cash Book Balance	Rs.	
Unadjusted balance		52,000	Unadjusted balance		48,000
Add: Deposit in transit	6,000		Add: Collection of notes	8,000	
Error by bank (11,000 - 1,000)	1,000		Interest on notes	4,000	12,000
		7,000			60,000
Less: Outstanding cheque	4,000	4,000	Less: EFT payment	1,500	
		59,000	NSF cheque	3,000	
			Bank charge	500	5,000
Adjusted balance		55,000	Adjusted balance		55,000

- b. Differentiate between bond and debenture.

[CH 10] [2+3=5]

→ The difference between bond and debentures are as follows:

Basis	Bond	Debenture
Meaning	Bonds are debt financial instrument issued by large corporations, financial institutions and government agencies that are secured by collaterals or physical assets.	Debenture are debt financial instruments issued by companies but they are not secured by any collaterals or physical assets.
Owner	The owner of a bond is called a bondholder.	The owner of a debenture is called a debentureholder.
Tenure	Bonds are long-term investments and their tenure is generally higher than debentures.	Debentures are generally short to medium term investments and their tenure is usually lower than bonds.
Purpose	Bonds are issued for long-term capital requirement purpose.	Debentures are generally issued for immediate capital requirement purpose.

Rate of interest	The bonds offer low rate of interest as they get backed by collateral of the issuing company.	The debenture offer high rate of interest as they are not backed by collateral.
Priority	In case of liquidation, the bondholders are given priority over debenture holders for repayment of capital and interest amount.	In case of liquidation, the debentureholders are given second priority over bondholders for repayment of capital and interest amount.

15. a. What is financial statement? Also, mention the objectives of financial statement.

[CH 12] [2+3=5]

➔ Financial statements are the summary reports of a company's financial transactions to a particular period. They report the end results of accounting activities during a given period of time. They provide the operating result and financial position of a company. Income statement, statement of retained earning, statement of changes in shareholders' equity and cash flow statement are the financial statements of a company.

Some objectives of financial statement are as follows:

- Provide information for decision making
- Reflect prospective cash receipts to investors and creditors
- Reflect prospective cash flows to the enterprise
- Reflect the enterprise's resources and claims to its resources

b. Differentiate between accounts receivable and note receivable.

[CH 7] [5]

➔ The difference between accounts receivable and note receivable are as follows:

Basis	Accounts Receivable	Notes Receivable
Meaning	It is the amount to be received from customers for credit sale of goods or services within the given term.	It is a written promise between maker and payee agreeing to pay principal and interest on maturity date.
Time period	It is a short-term assets.	It may be short or long-term depending on the payment schedule.
Agreement	It is a verbal and informal agreement in between the buyer and supplier. So, it does not involve a legally binding.	It is a formal written agreement between maker and payee. So, it involves a legally binding.
Interest	Interest is not chargeable on it.	Interest is charged on it.
Risk	The default risk of accounts receivable is more as it does not involve the legal status.	The default risk of notes receivable is much less due to the legal status involved.

16. Write about the disclosure required for financial statement under Nepal Financial Reporting Standard (NFRS). [CH 12] [10]

→ See TU 2078 Q.No. 16 (Chapter 2)

Group C: Long Answer Questions

Attempt any TWO:

[2×15=30]

17. The following are the transactions of a company:

- i. Started business with cash Rs. 400,000 and bank balance Rs. 50,000.
- ii. Deposited into bank Rs. 100,000.
- iii. Machinery costing Rs. 100,000 was purchased payment made by a cheque.
- iv. Purchased merchandise goods for Rs. 60,000 on account.
- v. Sold merchandise goods on account for Rs. 200,000.
- vi. Received a cheque from debtor, Rs. 190,000 after deduction of 5% discount. The cheque was banked immediately.
- vii. Paid Rs. 54,000 to creditor by issuing a cheque after deduction 10% discount.
- viii. Rs. 12,000 was paid for insurance premium.
- ix. Paid wages and salary Rs. 40,000 by issuing cheques.
- x. Paid Rs. 30,000 for rent.

Required:

- a. Journal entries. [5]
- b. T accounts (ledger) for sales, purchase, accounts receivable and accounts payable. [4]
- c. Triple column cash book. [3]
- d. Trial balance. [CH 3] [3]

SOLUTION

a.

Journal Entries

Date	Account Titles and Explanation	PR	Debit Rs.	Credit Rs.
i	Cash a/c Dr. Bank a/c Dr. To Capital a/c (For starting a business)		400,000 50,000	450,000
ii	Bank a/c Dr. To Cash a/c (For cash deposited into bank)		100,000	100,000
iii	Machinery a/c Dr. To Bank a/c (For purchase of machinery)		100,000	100,000
iv	Purchase a/c Dr. To Accounts payable a/c (For purchase of goods on account)		60,000	60,000
v	Accounts receivable a/c Dr. To Sales a/c (For sale of goods on account)		200,000	200,000
vi	Bank a/c Dr. Discount a/c Dr. To Accounts receivable a/c (For receipt of cheque from debtor after discount)		190,000 10,000	200,000
vii	Accounts payable a/c Dr. To Bank a/c To Discount a/c (For payment made to creditor after discount)		60,000	54,000 6,000
viii	Insurance premium a/c Dr. To Cash a/c (For payment of insurance premium)		12,000	12,000

ix	Wages and salary a/c Dr. To Bank a/c (For payment of wages and salary)	40,000	40,000
x	Rent a/c Dr. To Cash a/c (For payment of rent)	30,000	30,000

T- Accounts

Sales		Purchase	
	200,000 (v)	(iv) 6,000	
	200,000 (b/d)	(b/d) 6,000	

Accounts Payable		Accounts Receivable	
(vii) 54,000	60,000 (iv)	(v) 200,000	190,000 (vi)
6,000			10,000

f.

Triple Column Cash Book

Cr.

Date	Particulars	PR	Discount	Cash	Bank	Date	Particulars	PR	Discount	Cash	Bank
i	To Capital a/c			400,000	50,000	ii	By Bank a/c	C		100,000	
ii	To Cash a/c	C			100,000	iii	By Machinery a/c				100,000
vi	To Accounts receivable		10,000		190,000	vii	By Accounts payable		6,000		54,000
						viii	By Ins. premium			12,000	
						ix	By Wages a/c				40,000
						x	By Rent a/c			30,000	
							By Balance c/d			258,000	146,000
			10,000	400,000	340,000				6,000	400,000	340,000
	To Balance b/d			258,000	146,000						

Trial Balance

Account Titles	PR	Debit Rs.	Credit Rs.
Cash		258,000	-
Bank		146,000	-
Machinery		100,000	-
Purchase		60,000	-
Accounts receivable		-	-
Accounts payable		-	-
Capital		-	450,000
Sales		-	200,000
Discount		10,000	6,000
Insurance premium		12,000	-
Wages and salaries		40,000	-
Rent		30,000	-
Total		656,000	656,000

3. The balance sheet of a company for two years are given below:

[CH 13]

Liabilities	Year I	Year II
Equity share capital	900,000	1,000,000
Share premium	90,000	100,000
10% debentures	100,000	50,000
Provision for tax	20,000	30,000
Provision for dividend	10,000	20,000
Accounts payable	60,000	110,000
Profit and loss a/c	30,000	160,000
	1,210,000	1,470,000

Assets	Year I	Year II
Fixed assets	800,000	1,000,000
Inventory	100,000	150,000
Accounts receivable	190,000	150,000
Prepaid expenses	20,000	30,000
Cash	100,000	140,000
	1,210,000	1,470,000

Income Statement for the Year 2

Sales revenue		Rs. 1,100,000
Less: Cost of goods sold		710,000
Gross profit		390,000
Less: Operating expenses:		
Administrative expenses	157,000	
Depreciation	50,000	
Provision for tax	30,000	
Provision for dividend	20,000	
Interest paid	10,000	
Premium on redemption of debentures	5,000	
Total operating expenses		272,000
Net income		118,000
Add: Gain on sale of fixed assets		12,000
Retained earnings		130,000

Required: Cash flow statement.

[6+3+3+3=15]

SOLUTION

Cash Flow Statement

Particulars	Rs.	Rs.
A. Cash flow from operating activities:		
Cash collection from customers:		
Sales revenue	1,100,000	
Decrease in accounts receivable	40,000	1,140,000
Payment to supplier of goods and services:		
Cost of goods sold	(710,000)	
Increase in accounts payable	50,000	
Increase in inventory	(50,000)	(710,000)
Payment to employees and for other expenses:		
Administrative expenses	(157,000)	
Increase in prepaid expenses	(10,000)	(167,000)
Interest paid		(10,000)
Tax paid		(20,000)
Net cash flow from operating activities		233,000
B. Cash flow from investing activities		
Purchase of fixed assets	(250,000)	
Net cash flow from investing activities		(250,000)
C. Cash flow from financing activities		
Issue of equity share	100,000	
Increase in share premium	10,000	
Redemption of debenture with premium	(55,000)	
Dividend paid	(10,000)	
Net cash flow from financing activities		45,000
D. Net changes in cash balance (A - B - C)		28,000
Add: Beginning cash balance		100,000
Ending cash balance		128,000

Note: Difference in ending cash balance is due to gain on sale of fixed assets Rs. 12,000 given in question without providing the cost or sales value.

working notes:

Tax paid = Opening balance + Proviison – Closing balance
 = 20,000 + 30,000 – 3,000 = Rs. 20,000

Dividend paid = Opening balance + Proviison – Closing balance
 = 10,000 +20,000 – 20,000 = Rs. 10,000

Fixed Assets Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d.....	800,000	By Depreciation a/c	50,000
To Purchase (B/F).....	250,000	By Balance c/d	1,000,000
	1,050,000		1,050,000

note: Sales proceeds of fixed assets is not given in the question, hence gain on sale of fixed assets Rs. 12,000 is ignored.

9. a. What is double entry book-keeping system? Also write down the advantages and disadvantages of double entry book-keeping system. [CH 1] [3+5=8]

The double entry book-keeping system is a technique or a method of book-keeping which recognizes the fact that every financial transaction has two aspects. Every transaction resulting in transfer of money, goods or service must imply existence of at least two parties- one the receiver, another giver. The set of records based on this duality is called double entry system of book-keeping.

Following are the **advantages** of double entry system:

- Double entry system helps to keep a complete record
- Double Entry System helps to ascertain the result of business operation
- Double entry system helps to check an arithmetical accuracy

Following are the **disadvantages/ limitations** of double entry system:

- It is complicated system where certain rules and regulations are to be followed.
- Failure to disclose some errors: It fails to disclose the error of omission, error of principles, errors of commission, and compensating errors.

b. What is accounting? Also, explain in details about the accounting cycle.

[CH 1] [2+5=7]

Accounting is a broader term which includes recording of financial transactions, posting them into ledger accounts, summarizing the ledger balances, interpreting the results and communicating them to interested persons or institutions that are directly and indirectly related to business organization.

Accounting is a continuous process. It is a complete sequence of accounting activities. It starts with the primary entry of transaction in journal and ends with the preparation of final accounts. It includes identifying, recording, classifying, summarizing and communicating financial transactions. These business transactions are recorded in a set of books, such as journal, ledger, cash book, etc. Unless these transactions are recorded properly, a businessman will not be in a position to know where the business stands. The following figure shows the components of accounting process or cycle.



NEW MODEL QUESTION - SOLUTIONS (SET A)

Course No.: MGT 211

Full Marks: 100

Nature of the Course: Core

Pass Marks: 35

Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.

Group A: Brief Answer Questions

Attempt ALL questions:

[10×2=20]

1. What is business entity concept of accounting?

According to this concept, the business and the owner are said to have distinct identities and they should be treated as separate legal entities. This makes possible to record only the transactions of the business.

2. Write about the cash basis of accounting.

When transactions are recorded on the basis of actual flow of cash in and out of the business, it is known as cash basis of accounting. Under this method, incomes are recorded when they are received and expenses are recorded when they are paid.

3. What are the importance of internal control to a business?

Internal control can be defined as a systematic arrangement of all methods adopted to measure and safeguard its assets within organization.

Every business should have internal controls regarding its financial activities. If it is designed well, internal controls can prevent theft and fraud. They also ensure that financial statements of a business are accurate.

4. Write down the meaning of contingent liabilities.

Liabilities that may come into existence depending upon the outcome of some other event are known as contingent liabilities. Outstanding lawsuits and product warranties are common examples of contingent liabilities. A contingent liability should be accrued and presented on the balance sheet if it is possible and if the amount can be reasonably estimated.

5. What is long-lived assets?

The assets which provide benefits to the business over a long period of time are called long-lived assets. Expenditures on such assets are expected to yield benefit over a year. They are capital expenditures. Land, building, plant and machinery, furniture, etc. are the examples of long-lived assets.

6. On January 1, Simran Company borrowed Rs. 100,000 from bank by signing a 3-month, 12% notes payable. It paid the principal and interest at due date.

Required: Journal entries for issue and retirement of note

SOLUTION

In the books of Simran Company Journal Entries

Date	Accounts Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
Jan. 1	Cash/Bank a/cDr. To Notes payable a/c (For cash received for notes payable)		100,000	100,000
March 31	Notes payable a/cDr. Interest payable a/c (100,000 × 0.12 × 3/12)Dr. To Cash/Bank a/c (For payment of notes payable and interest)		100,000 3,000	103,000

7. You are provided the following information.

Sales	= Rs.300,000	Wages to workers	= Rs.50,000
Interest received	= Rs.10,000	Income tax paid	= Rs.5,000
Cost of bought in materials and services	= Rs.180,000		
Opening stock	= Rs.20,000	Closing stock	= Rs.30,000

Required: Amount of value added.

SOLUTION

Amount of value added

$$\begin{aligned}
 &= \text{Sales} + \text{Interest received} + \text{Closing stock} - \text{Opening stock} - \text{Cost of bought in material} \\
 &= \text{Rs.}300,000 + 10,000 + 30,000 - 20,000 - 180,000 \\
 &= \text{Rs.}140,000
 \end{aligned}$$

8. The following information are given:

- Started business with cash of Rs.80,000
- Paid rent Rs.13,000 including advance rent of Rs.1,000
- Salary paid Rs.16,000 and outstanding salary was Rs.2,000

Required: Accounting equation

SOLUTION

Accounting Equation

S.No.	Transactions	Assets	=	Liabilities	+	Owner's Equity
	Started business with cash	80,000				80,000
	Beginning equation	80,000	=		+	80,000
	Paid rent including advance	1000				- 12,000
		- 13,000				
	New equation	68,000	=		+	68,000
	Salary paid and outstanding	- 16,000	=	2,000	+	- 18,000
	Final equation	52,000	=	2,000	+	50,000

9. The following transactions of the Light Company are given below:

- Jestha 5 Returned by Rama Lights
- 20 Fans @ Rs.1,500 each
 - 2 dozen Lamps @ Rs.900 each
 - Carriage charge Rs.1,000
- Less: Trade discount 10%
- Jestha 17 Returned 8 Heaters from KK Lights for Rs.20,000
- Jestha 29 Returned 300 Led Lights to Divya Lights Rs.30,000

Required: Return inward book

SOLUTION

Return Inward Book

Date	Particulars	Credit Note No.	PR	Amount (Rs.)	
				Details	Total
Jestha 5	Rama Lights				
	20 Fans @ Rs 1,500 each			30,000	
	2 Dozen Lamps @ Rs. 900 each			21,600	
				51,600	
	Less: 10% Trade discount			5,160	
	Add: Carriage charge			1,000	47,440
Jestha 17	KK Lighs				
	8 Heaters @ Rs. 2,500 each				20,000
	Total				67,440

10. The following information are given:

Trial Balance		
Particulars	Debit (Rs.)	Credit (Rs.)
Sundry Debtors	220,000	
Bad Debts	20,000	
Provision for Doubtful Debts		30,000

Adjustment:

- Additional bad debts to be written off Rs.10,000
- New provision for doubtful debts @ 10% on debtor

Required: Provision for doubtful debt account*

SOLUTION

Provision for Doubtful Debt Account					
Dr.			Cr.		
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	To Bad debts (20,000 + 10,000)	30,000		By Balance b/d ✓	30,000
	To Balance c/d [(220,000 - 10,000) × 0.10]	21,000		By Profit and loss a/c (Bal. figure)	21,000
		51,000			51,000

Group B: Short Answer Questions

Attempt any FIVE questions: .

[5x10=50]

11. The following information is provided:

Net working capital Rs.600,000 that represents Rs.300,000 inventory value
 Current liabilities Rs.200,000 Capital employed Rs.1,000,000
 Debentures Rs.400,000 Account receivable Rs.200,000
 Operating profit of the year Rs.100,000 being 10% of Sales. Income tax is 25%

Required:

- | | |
|------------------------------|-----------------------------------|
| a. Net profit after tax | b. Liquid ratio |
| c. Debt equity ratio | d. Stock turnover ratio |
| e. Average receivable period | f. Return on shareholder's equity |
| g. Net profit margin | |

[1+6x1.5=10]

SOLUTION

- a: Net profit after tax = Operating profit (1 - t)
 = 100,000 (1 - 0.25) = Rs. 75,000
- b. Liquid ratio = $\frac{\text{Quick assets}}{\text{Current liabilities}} = \frac{\text{Rs } 500,000}{\text{Rs } 200,000} = 2.5 : 1$
- c. Debt equity ratio = $\frac{\text{Long-term debt}}{\text{Shareholders' equity}} = \frac{\text{Rs } 400,000}{\text{Rs } 600,000} \times 100 = 66.67\%$
- d. Stock turnover ratio = $\frac{\text{Net sales}}{\text{Closing inventory}} = \frac{\text{Rs } 10,00,000}{\text{Rs } 300,000} = 3.33 \text{ times}$
- e. Average receivable period = $\frac{\text{Days in a year}}{\text{Receivable turnover ratio}} = \frac{360 \text{ days}}{5 \text{ times}} = 72 \text{ days}$
- Where
 Reevivable turnover ratio = $\frac{\text{Credit sales}}{\text{Average receivable}} = \frac{\text{Rs } 10,00,000}{\text{Rs } 200,000} = 5 \text{ times}$
- f. Return on shareholders' equity = $\frac{\text{NPAT}}{\text{Shareholders' equity}} \times 100$
 = $\frac{\text{Rs } 75,000}{\text{Rs } 600,000} \times 100 = 12.5\%$
- g. Net profit margin = $\frac{\text{NPAT}}{\text{Net sales}} \times 100 = \frac{\text{Rs } 75,000}{\text{Rs } 10,00,000} \times 100 = 7.5\%$

Working notes:

- i. Quick assets = Woking capital + Current liabilities - Inventory

- = Rs 600,000 + 200,000 – 300,000 = Rs. 500,000
- ii. Shareholders' equity = Capital employed – Long term debt
= Rs. 10,000,000 – 400,000 = Rs 600,000
- iii. Net Sales = Operating profit $\times \frac{100}{10}$ = 100,000 $\times \frac{100}{10}$ = Rs. 1,000,000

12. The ABC Company sells a single product for Rs.2 per unit and uses a periodic inventory system. The following data are available for the year.

Date	Transaction	Number of Units	Unit Cost (Rs.)	Total (Rs.)
Baisakh 11	Beginning inventory	1,000	1	1,000
Jesthā 16	Purchase	700	1.1	770
Shrawan 22	Sale	(1,100)		
Kartik 27	Sale	(400)		
Poush 13	Purchase	800	1.3	1,040
Falgun 15	Sale	(600)		

Required:

- a. Cost of goods sold, ending inventory and gross profit under weighted average costing method
b. Cost of goods sold, ending inventory and gross profit under FIFO method [5+5=10]

SOLUTION

a. **Weighted Average Costing Method:**

$$\begin{aligned} \text{Cost of goods sold} &= \text{Units sold} \times \text{WAC} = 2100 \text{ units} \times \text{Rs. } 1.124 \\ &= \text{Rs. } 2360.4 \end{aligned}$$

$$\begin{aligned} \text{Cost of ending inventory} &= \text{Cost of goods available for sale} - \text{Cost of goods sold} \\ &= \text{Rs. } 2810 - 2360.4 \\ &= \text{Rs. } 449.6 \end{aligned}$$

$$\begin{aligned} \text{Gross profit} &= \text{Sales revenue} - \text{Cost of goods sold} \\ &= (2,100 \text{ units} \times \text{Rs. } 2) - \text{Rs. } 2360.4 \\ &= \text{Rs. } 1839.6 \end{aligned}$$

Where

$$\begin{aligned} \text{Weighted average cost (WAC)} &= \frac{\text{Cost of goods available for sales}}{\text{Units available for sale}} \\ &= \frac{\text{Rs. } 1,000 + 770 + 1,040}{1,000 + 700 + 800 \text{ units}} \\ &= \frac{\text{Rs. } 2810}{2,500 \text{ units}} = \text{Rs. } 1.124 \end{aligned}$$

b.

FIFO Method
Units sold = 2,100 units

Purchased date	Units	Rate (Rs.)	Total costs (Rs.)
Beginning inventory	1,000	1	1,000
Jestha 16	700	1.1	770
Poush 13	400	1.3	520
Units sold	2,100	Cost of goods sold	2,290

$$\begin{aligned} \text{Now, Cost of ending inventory} &= \text{Cost of goods available for sale} - \text{Cost of goods sold} \\ &= \text{Rs. } 2,810 - \text{Rs. } 2,290 = \text{Rs. } 520 \end{aligned}$$

$$\begin{aligned} \text{Gross profit} &= \text{Sales revenue} - \text{Cost of goods sold} \\ &= (2,100 \text{ units} \times \text{Rs. } 2) - \text{Rs. } 2,290 = \text{Rs. } 1,910 \end{aligned}$$

- 13 a. A firm purchased a machine costing Rs.200,000 on 1st Baishak 2075. The useful life of the machine is 3 years with expected salvage value of Rs. 40,000. The firm decided to invest the depreciation amount to earn interest at 5% per annum. The sinking fund table shows that Rs. 0.317208 invested at 5% p.a. will give Re. 1 at the end of 3 years. At the end of 3rd year, the investments were sold for Rs. 100,000.

Required: Depreciation Fund Investment Account

SOLUTION

Annual depreciation = (Rs. 200,000 – 40,000) × 0.317208
 = Rs. 50,753

a. Dr. Depreciation Fund Investment Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31-12-2075	To Bank a/c (Investment)	50,753	31-12-2075	By Balance c/d	50,753
1-1-2076	To Balance b/d	50,753	31-12-2075	By Balance c/d	104,044
31-12-2076	To Bank a/c (50,753 + 5% of 50,753)	53,291			
		104,044			104,044
1-1-2077	To Balance b/d	104,044	31-12-2077	By Bank a/c (sales)	100,000
		104,044	31-12-2077	By Depreciation fund a/c (Loss on sales)	4044
					104,044

b. Explain the concept of accounting standard. Why is it needed? [2+3=5]

Accounting Standard

Accounting standards are common set of principles, standards and procedures. They define the basis of accounting policies and practices. They improve the transparency of financial reporting in all countries.

Need and Significance of Accounting Standard

Need and significance of accounting standard are as follows:

- 1. Uniformity in accounting:** Accounting standards help to achieve uniformity in accounting.
- 2. Improves reliability of financial statements:** Accounting Standards ensure that the statements are reliable and trustworthy.
- 3. Prevents frauds and manipulations:** Accounting standards provide the accounting principles that all entities must follow.
- 4. Comparability:** Since all organizations follow the same set of standards, their financial statements are comparable to each other.

14 a. On 1st Balsakh 2075, MG Group Stockholder' Equity category appeared as follows:

8% Preferred Stock of Rs.500 par value 1,000 shares issued and outstanding	500,000
Common stock Rs. 100 par value 15,000 shares issued and outstanding	1,500,000
Additional paid in capital – Preferred	300,000
Additional paid in capital – Common	400,000
Total contributed capital	2,700,000
Retained earnings	2,000,000
Total shareholders' equity	4,700,000

The Preferred Stock is non-cumulative and non-participating. During 2075 the following transaction occurred

- On 1st Ashwin, declared a cash dividend of Rs.80,000 on preferred stock. Paid the dividend on 1st Kartik.
- On 1st Mangsir, declared a 10% stock dividend on common stock. The current market price of the common stock was Rs.180. The stock was issued on Poush
- On 1st Magh declared a cash dividend of Rs.60 per share on the common stock; paid the dividend on 30th Magh
- On 1st Chaitra issued a 2-for-1 stock split of common stock, when the stock was selling for Rs.200 per share.

Required: Develop the Stockholders Equity category of the 31st Chaitra 2075 balance sheet. Assume the net income for the year was Rs.300,000. [5]

SOLUTION

**Partial Balance Sheet of MG Group
as on 31st Chaitra, 2075**

Shareholders' Equity	Amount (Rs.)
8% preferred stock, Rs. 500 par, 1000 shares issued and outstanding	500,000
Common stock Rs 50 par, 33,000 shares issued and outstanding	1,650,000
Additional paid in capital – preferred	300,000
Additional paid in capital – common (400,000 + 120,000)	520,000
Total contributed capital	2,970,000
Retained earnings (Rs. 2,000,000 + 300,000 – 270,000 – 990,000 – 80,000)	960,000
Total shareholders' equity	2,010,000

Working Notes:

a. Common stock: Rs. 1,500,000 initially issued and outstanding 15,000 shares, Rs. 100 par

b. Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
Magsir 1	Retained earnings a/c Dr. To Stock dividend a/c (15,000 shares × Rs. 180 × 0.10) (For declaration of stock dividend)		270,000	270,000
Poush	Stock dividend distributions a/c Dr. To Additional paid in capital-common stock a/c To Common stock a/c (15,000 shares × Rs. 100 × 0.10) (For distribution of stock dividend)		270,000	120,000 150,000

c. Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
Magh 1	Retained earnings a/c Dr. To Dividend payable a/c (For Rs. 60 per share cash dividend distributable on common stock for 16,500 shares)		990,000	990,000
Magh 30	Dividend payable a/c Dr. To Cash a/c (For the payment of cash dividend to common shareholders)		990,000	990,000

d. No. of common stock after 2-for-1 stock split $(15,000 + 1,500) \times 2 = 33,000$

$$\text{Par value per share after 2-for-1 stock split} = \left(\frac{\text{Rs } 100}{2} \right) = \text{Rs. } 50$$

b. Explain the concept of bonds and write down the main characteristics of bond. [5]

A bond is a written unconditional promise wherein the borrower promises to pay a specific sum at a determinable future date along with interest at a stated rate and at stated dates. Bonds differ from some other forms of debt because they are placed in the hands of large number of investors rather than channeled directly to a single lender. Usually the par value of bond is Rs. 1,000 in Nepal.

The following points relate to the characteristics of bonds.

- 1. Face value:** Face or par value is the principal amount of the bond as stated on the bond certificate. This is the amount that the firm must pay at the maturity date of the bond.
- 2. Coupon payment:** The coupon payment is the specified number of rupees of interest paid in each period, generally each period of six month, on a bond. The coupon interest rate is obtained by dividing the coupon payment by the bond's par value.
- 3. Maturity date:** Maturity date is that date when the principal of bond is repaid.
- 4. Registration:** Bonds can be either registered or bearer bonds for interest and/or principal payments. The issuer maintains the records on the ownership of registered bonds, but the holder is assumed to be the owner of bearer bonds.

5. **Convertibility feature:** The convertibility feature can be added to a bond as a "sweetener" to the investor".
6. **Call provision:** A call provision gives the right to redeem the bonds prior to maturity to the issuing company under specified terms, usually at a price greater than the maturity value. The difference amount is a call premium. A firm will typically call a bond and refund it if interest rates fall substantially.

15. a. Differentiate between horizontal and vertical analysis. [5]

Financial statements such as income statement, balance sheet and cash flow statement are important statements that should be studied extensively in order to arrive at conclusion regarding the performance of the current financial year as well as to assist planning and upcoming financial year's budget. Horizontal and vertical analyses are two main types of analysis methods used for this purpose.

The key difference between horizontal and vertical analysis is that horizontal analysis is a procedure in financial analysis in which the amounts in financial statements over a certain period of time is compared line by line in order to make related decision whereas vertical analysis is the method of analysis of financial statements where each line item is listed as percentage of another item to assist decision making.

The main purpose of horizontal analysis is to compare line items to calculate the changes over time whereas the purpose of vertical analysis is to compare changes in percentage terms. Horizontal analysis becomes more useful when comparing company results with previous financial years. Vertical analysis is more useful in comparing company results with other companies.

b. Differentiate between account receivables and notes receivable [5]

Money owed by customers for purchase of goods or services on credit is known as accounts receivable. Accounts receivable is an informal, short-term payment and usually no interest.

Notes receivable is a written promissory note extending a line of credit to the other party, receivable in the future a specified date along with interest.

The key differences between accounts receivable and notes receivable are as follows:

Bases of Difference	Accounts Receivable	Notes Receivable
1. Drawer	Creditor is the drawer.	Debtor is the drawer.
2. Order and promise	It is an order to pay.	It is a promise to pay.
3. Acceptance	It needs acceptance by the drawee.	It does not need acceptance by the drawee.
4. Parties	It has three parties namely-drawer, drawee and payee.	It has two parties namely-promisor and payee.
5. Liability	Liability of the drawer arises only if the acceptor does not pay.	Promisor has the primary liability to pay.

16. Discuss in brief about the disclosures required for financial statement under Nepal Financial Reporting Standard (NFRS). [10]

ANSWER

Accounting standard Board has issued Nepal Financial Reporting standards (NFRS) in 15 July, 2014 to set common rules so that financial statement could be constant, transparent and comparable internationally. Generally, five statements- profit or loss statement, statement of other comprehensive income, statement of changes in equity, statement of financial position or balance sheet and statement of cash flows are prepared under NFRS. Each of these statements should be prepared with disclosures

or footnotes which provide explanatory details about the information presented on the statements.

A disclosure is additional information or important notes accompanied in the financial statement of the company. It is simply the explanation for activities which have significantly influenced its financial results. Accountants of the company includes disclosures or important notes relating to assets, liabilities and equity of the company in financial statement so as to make clear understanding to the users and communicate the relevant information that are not possible to include in the financial statements.

Group B: Long Answer Questions

Attempt any TWO questions:

[2x15=30]

17. Following are the transaction of a Computer Service Agency during the month of January.

- Jan 2 Received cash Rs.300,000 to start business from the owners of the company.
 Jan 8 Deposited into bank Rs.100,000
 Jan 10 Signed a two year promissory note at the bank and received cash of Rs.50,000. Interest 10% along with Rs.50,000 will be repaid at the end of two years.
 Jan 11 Purchase of supplies for Rs.30,000 on account. The company has 45 days to pay for the supplies.
 Jan 19 Billed a client Rs.100,000 for service rendered by expert in helping to install a new computer system. The client is to pay 25% of the bill upon its receipt and the remaining balance within 60 days.
 Jan 21 Paid Rs.10,000 to the advertising company.
 Jan 22 Received Rs.45,000 after deduction of 10% discount from the client billed on Jan 19
 Jan 26 Received cash of Rs.30,000 for service provided in selecting software for its computer.
 Jan 28 Purchased a computer system for Rs.50,000 in cash.
 Jan 30 Paid Rs.50,000 salaries for January and Rs.30,000 rent for February.

Required:

- a. Journal entries [5]
 b. T accounts (ledger) for income, account receivable and account payable [3]
 c. Triple column cash book [4]
 d. Trial balance [3]

SOLUTION

a.

Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
January 2	Cash a/c Dr. To Share capital a/c (For starting a business)		300,000	300,000
8	Bank a/c Dr. To Cash a/c (For cash deposited into bank)		100,000	100,000
10	Cash a/c Dr. To Notes payable a/c (For signing promissory note with bank)		50,000	50,000
11	Supplies a/c Dr. To Accounts payable a/c (For purchase of supplies on account)		30,000	30,000
19	Accounts receivables a/c Dr. Cash a/c Dr. To Service revenue a/c (For billed a client for service sended and received 25% cash)		75,000 25,000	100,000
21	Advertising expenses a/c Dr. To Cash a/c (For payment made to advertising company)		10,000	10,000
22	Cash a/c Dr. Discount a/c Dr.		45,000 5,000	

	To Accounts receivable a/c (For receipt of cash after discount from the client billed on Jan 19)		50,000
26	Cash a/c Dr. To Service revenue a/c (For cash received for service provided)	30,000	30,000
28	Machinery (Computer) a/c Dr. To Cash a/c (For purchase of computer system)	50,000	50,000
Jan 30	Salaries a/c Dr. Prepaid rent a/c Dr. To Cash a/c (For payment of salaries and rent)	50,000 30,000	80,000

T- Accounts

Service revenue	Accounts payable	Accounts receivable
75,000 (19)	30,000 (11)	(19) 75,000
25,000	30,000 (b/d)	45,000 (22)
30,000 (26)		5,000
130,000 (b/d)		(b/d) 25,000

Triple Column Cash Book

Date	Particulars	PR	Discount	Cash	Bank	Date	Particulars	PR	Discount	Cash	Bank
Jan 2	To Share capital a/c			300,000		Jan 8	By Bank a/c	C		100,000	
8	To Cash a/c	C			100,000	21	By Advertising expenses a/c			10,000	
10	To Notes payable			50,000		28	By Machinery a/c			50,000	
19	To Service revenue a/c			25,000		30	By Salaries a/c			50,000	
22	To Accounts receivable		5,000	45,000		31	By Prepaid rent a/c			30,000	
26	To Service revenue			30,000			By Balance c/d			210,000	100,000
			5,000	450,000	100,000					450,000	100,000
Feb 1	To Balance b/d			210,000	100,000						

Trial Balance

Account Titles	PR	Debit (Rs.)	Credit (Rs.)
Cash		210,000	
Bank		100,000	
Discount		5,000	
Supplies		30,000	
Accounts receivable		25,000	
Advertising expenses		10,000	
Machinery (computer)		50,000	
Salaries		50,000	
Prepaid rent		30,000	
Share capital			300,000
Notes payable			50,000
Accounts payable			30,000
Service revenue			130,000
Total		510,000	510,000

18. The balance sheet of a company for two years are given below:

Liabilities	Year 1	Year 2	Assets	Year 1	Year 2
Equity Share capital	1,000,000	1,200,000	Fixed assets	1,000,000	1,200,000
Share premium	100,000	120,000	Inventory	200,000	350,000
10% Debentures	120,000	70,000	Accounts receivable	250,000	340,000
Provision for tax	20,000	40,000	Prepaid expenses	20,000	10,000
Provision for dividend	10,000	20,000	Cash	120,000	150,000
Accounts payable	60,000	150,000			
Accumulated depreciation	250,000	280,000			
Profit and loss a/c	30,000	170,000			
	1,590,000	2,050,000		1,590,000	2,050,000

Income Statement for the Year 2

Sales revenue		Rs 1,000,000
Less: Cost of goods sold		600,000
Gross Profit		400,000
Less: Operating expenses:		
Administrative expenses	150,000	
Depreciation	50,000	
Provision for tax	40,000	
Provision for dividend	20,000	
Interest paid	12,000	
Premium on redemption of debentures	5,000	
Total operating expenses		277,000
Net income		123,000
Add: Gain on sale of fixed assets		17,000
Retained earning		140,000

Additional information

- A plant costing Rs.50,000 with an accumulated depreciation of Rs.20,000 has been sold for Rs.47,000.
- Dividend paid in year 2 Rs. 10,000.

Required: Cash flow statement by using direct method

[6+3+3+3=15]

SOLUTION

Cash Flow Statement

Particulars	Rs.	Rs.
A. Cash flow from operating activities:		
Cash collection from customers:		
Sales revenue	1,000,000	
Increase in accounts receivable	(90,000)	910,000
Payment to supplier of goods and services:		
Cost of goods sold.....	(600,000)	
Increase in inventory.....	(150,000)	
Increase in a/c payable	90,000	(660,000)
Payment to employees and for other expenses:		
Administrative expenses	(150,000)	
Decrease in prepaid expenses	10,000	(140,000)
Interest paid		(12,000)
Tax paid.....		(20,000)
Net cash flow from operating activities.....		78,000
B. Cash flow from investing activities		
Sales of fixed assets	47,000	
Purchase of fixed assets	(250,000)	
Net cash flow from investing activities		(203,000)
C. Cash flow from financing activities		
Issue of equity share capital.....	200,000	
Increase in share premium.....	20,000	
Redemption of debenture (50,000 + 5,000)	(55,000)	
Dividend paid.....	(10,000)	
Net cash flow from financing activities		155,000
D. Net changes in cash balance (A - B - C)		30,000
Add: Beginning cash balance		120,000
Ending cash balance		150,000

Working notes:

Tax paid = 20,000 + 40,000 - 40,000 = Rs. 20,000

Dividend paid = 10,000 + 20,000 - 20,000 = Rs. 10,000

Fixed Assets Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d.....	1,000,000	By Bank a/c (sales).....	47,000
To Bank (Purchase- bal. fig.).....	250,000	By Accumulated depreciation a/c ...	20,000
To P/L a/c (Gain on sales).....	17,000	By Balance c/d.....	1,200,000
	1,267,000		1,267,000

9. "Financial accounting is based on generally accepted accounting principles, which is enabled the preparation and presentation of financial statement uniformly." Discuss. [15]

Financial accounting has evolved accounting principles, concepts and conventions which are generally accepted and universally practiced. The information under financial accounting must be prepared and presented objectively. The persons or parties who rely on such information have a right to be assured that the data are free from bias and inconsistency. They want to be ensured that such information is not deliberate. Financial accounting relies on certain standards or guides that increase the objectivity of the information and they are called Generally Accepted Accounting Principles (GAAP). These principles are established by the International Financial Accounting Standard Board.

GAAP is the standard framework of guidelines for financial accounting used in any given jurisdiction. It includes the standards, conventions and rules that accountants follow in recording and summarizing and in the preparation of financial statements.

Preparation of Financial Statements

The financial statements of all businesses in a particular country/region will follow a standard format and standard accounting principles. This enables consistency and helps in effective comparison of the financial statements and financial position of different companies. The accounting principles that an organization follows depends on the regulatory and reporting requirements of the region and audience to which a business caters. Nepalese companies follow Nepal Accounting Standards, while the companies with international exposure follow International Financial Reporting Standards (IFRS).

The standards issued by the various boards, not only assist an organization in reporting the transactions correctly but also give clarifications for complex transactions faced by businesses. The standards ensure uniform accounting. These standards issued are amended from time to time keeping in mind the nuances of business.

Presentation of Financial Statements

Financial accounting is the reporting of transactions that have occurred during the financial period. A financial period can be any period. However, year-end financial statements are usually prepared for 12 months. In Nepal, a financial year is from 1st Shrawan to 31st Ashad. Some companies follow the calendar year for reporting. At the end of the said period, the organizations will present its financial statements also known as financial reporting.

Hence, financial accounting is based on generally accepted accounting principles, which is enabled the preparation and presentation of financial statement uniformly.

NEW MODEL QUESTION - SOLUTIONS (SET B)

Course No.: MGT 211

Full Marks: 100

Nature of the Course: Core

Pass Marks: 35

Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.

Group A: Brief Answer Questions

Attempt ALL questions:

[10x2=20]

1. What is financial accounting?

Financial accounting is the process of preparing financial statements that companies use to show their financial performance and position to people outside the company, including investors, creditors, suppliers, and customers.

2. What is accrual concept of accounting?

When incomes and expenses are recorded as they occur, regardless of whether or not cash in hand has actually changed, it is known as accrual basis of accounting. Accrual basis of accounting provides a more accurate measure of company's profitability during accounting period and more accurate picture of a company's assets and liabilities at the end of accounting period.

3. Write about the perpetual system of inventory.

Perpetual inventory system is the way of maintaining the record of inventory in such a way that the stock on hand can be ascertained at any time. It emphasizes the day to day checking of stocks and maintains the upto date record. It is a method of recording inventory after every receipt and issue to facilitate regular checking and obviate the stock taking.

4. Write any two differences between stock dividend and stock splits.

A stock dividend is a dividend distribution in the form of additional shares to existing shareholders rather than a cash payout. A company with enough profit but weak liquidity position prefers to distribute bonus share or stock dividend.

A stock split is an increase in the number of authorized, issued and outstanding shares of stock, coupled with a proportionate reduction in the share's par value.

5. What is matching concept of accounting?

Matching principle revolves around the determination of the point of time when revenue is earned. A business firm invests money to purchase or manufacture goods for sale. To earn profit, sales have to be made. There can be no profit without realization of proceeds. This principle is important in ascertaining the exact profit earned during a period in a business concern.

6. An enterprise has total assets of Rs. 500,000 and liabilities of Rs. 300,000 at the beginning of the year. During the year, the company earned Rs. 200,000 and distributed Rs. 50,000 dividend.

Required: Equity at the end of the year

SOLUTION

Equity at the end of the year = Rs. 500,000 + 200,000 - 300,000 - 50,000 = Rs. 350,000

7. The following transactions of the company are given below:

Jestha 2 Acceptance was given to Hari for 3 months for Rs.30,000
Ashad 9 Received from Rajendra an acceptance for 1 month for Rs.8,000
Ashad 27 Discounted Rajendra's acceptance for Rs.7,900
Shrawan 25 Acceptance was given to Ram for 2 months for Rs.22,000

Required: Bills payable book

SOLUTION

Bills Payable Book of the Company

SN.	Bill No.	Date of Bill	Name of the drawer	Payee	Term Days	Date of Maturity	Amount (Rs.)	Remarks
		Jestha 2	Hari	Hari	90	Shrawan29	30,000	
		Shrawan25	Ram	Ram	60	Asoj 22	22,000	

8. ABC Company receives a one year loan from Nepal Bank Ltd., on 1st Shrawan 2075. The face value of the Note of Rs.100,000 must be repaid on 31st Ashad 2076 along with 12% interest.

Required: Journal entries to record the loan and its repayment

SOLUTION

Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
1/4/2075	Bank a/c Dr. To Notes payable a/c (For cash received for notes payable)		100,000	100,000
31/3/2076	Notes payable a/c Dr. Interest payable a/c (100,000 × 0.12) Dr. To Bank a/c (For payment of notes payable and interest)		100,000 12,000	112,000

9. Pashupati Company redeemed Rs. 100,000 face value bond issued at premium Rs. 10,000. The unamortized premium was Rs. 6,000 and the bond contains a call provision of Rs. 103.

Required: Gain or loss on early redemption of bond

SOLUTION

Calculation of gain/loss on early redemption of bond

Carrying value (Face value + Unamortized premium = Rs 100,000 + 6,000)	Rs. 106,000
Redemption price (Face value × Call provision = Rs. 100,000 × 103%)	103,000
Gain on redemption of bond	Rs. 3,000

10. Following information are given to you:

Insurance expenses	Rs.10,000	Salary	Rs.12,000
Commission received	Rs.5,000	Interest (Cr.)	Rs.7,000
Utilities	Rs.8,000	Depreciation	Rs.10,000
Supplies expenses	Rs.4,000		

Required: Closing entries

SOLUTION

Closing Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
	Commission (received) a/c Dr. Interest (received) a/c Dr. To Income summary a/c (For closing revenue accounts)		5,000 7,000	12,000
	Income summary a/c Dr. To Insurance expenses a/c To Salary a/c To Utilities a/c To Depreciation a/c To Supplies expenses a/c (For closing expenses accounts)		44,000	10,000 12,000 8,000 10,000 4,000

Group B: Short Answer Questions

Attempt any FIVE questions:

[5x10=50]

11. On 31st Chaitra 2075, Bank Statement of Citi College disclosed a balance of Rs.12,400 and Cash Book showed the balance of Rs.12,500

- Number of cheques were deposited in the bank but on 31st Chaitra, 2075, a cheque for Rs.2,000 was not credited in the Bank Statement.
- Cheques issued of Rs.6,000 but only Rs.2,000 presented before 31st Chaitra.
- Notes receivable collected by the bank Rs.1,500
- Cash of Rs.4,800 deposited by the college on Chaitra was recorded by the bank as Rs.4,200.
- A cheque for Rs.3,000 received from a student was returned by the bank due to insufficient fund with the bank.

Required:

- Journal entries
- Bank Reconciliation Statement as on 31st Chaitra 2075
- Bank balance on 31st Chaitra balance sheet.

[4+5+1=10]

SOLUTION

a.

Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
c.	Bank a/cDr. To Notes receivable a/c (For notes receivable collected)		1,500	1,500
e.	Accounts receivable a/cDr. To Bank a/c (For cheque returned by bank due to NSF)		3,000	3,000

b.

Bank Reconciliation Statement as on 31st Chaitra 2075

Adjustment of Bank Statement Balance	Amount (Rs.)	Amount (Rs.)	Adjustment of Cash Book Balance	Amount (Rs.)	Amount (Rs.)
Unadjusted balance		12,400	Unadjusted balance		12,500
Add: Deposit in transit	2,000		Add: Notes collected	1,500	1,500
Error by bank	600	2,600			
		15,000			14,000
Less: Outstanding cheque	4,000	(4,000)	Less: NSF cheque	3,000	(3,000)
Adjusted balance		11,000	Adjusted balance		11,000

- The adjusted balance provided by bank reconciliation statement Rs 11,000 should be reported as bank balance on 31st Chaitra balance sheet.

12. Alpha Enterprises provides you the following information related to the inventories for April 2019. Alpha makes counting and recording of inventories items only at end of each month.

- April 1 Beginning inventory 600 units @ Rs10 each
 April 5 Purchased 800 units @ Rs.11 each
 April 12 Purchased 1,200 units @ Rs.12 each
 April 19 Sold 1,000 units @ 18 each
 April 23 Purchased 600 units @ Rs.12 each
 April 26 Purchased 220 units @ Rs.15 each
 April 30 Sold 1,200 units @ Rs.20 each

Required:

- What inventory system the Alpha is adopting? [2]
- Ending inventory and cost of goods sold under the LIFO method assuming a periodic inventory system. [6]
- Income statement showing net income, assume depreciation expenses Rs. 8,000 and other operating expenses Rs. 12,000. [2]

SOLUTION

1. Alpha is adopting periodic inventory system
2. Calculation of ending inventory and cost of goods sold under LIFO method

LIFO Method
Units on hand = 1,220 units

Purchased date	Units	Rate (Rs.)	Total costs (Rs.)
April 1 Inventory	600	10	6,000
April 5	620	11	6,820
Ending inventory	1,220	Cost of ending inventory	12,820

Low, Cost of goods sold = Cost of goods available for sale – Cost of ending inventory
= Rs. 39,700 – Rs. 12,820 = Rs. 26,880

Where Cost of goods available for sale
= 600 × 10 + 800 × 11 + 1,200 × 12 + 600 × 12 + 220 × 15
= 6,000 + 8,800 + 14,400 + 7,200 + 3,300 = Rs. 39,700

Alternatively,

Ending inventory:

April 1 : 600 units @ Rs. 10 = Rs. 6,000
April 5 : 620 units @ Rs. 11 = Rs. 6,820
Cost of ending inventory = Rs. 12,820

Cost of goods sold:

April 26 : 220 units @ Rs. 15 = Rs. 3,300
April 23 : 600 units @ Rs. 12 = Rs. 7,200
April 12 : 1,200 units @ Rs. 12 = Rs. 14,400
April 5 : 180 units @ Rs. 11 = Rs. 1,980
Cost of goods sold = Rs. 26,880

Income Statement

Particulars	Amount (Rs.)
Sales revenue (18,000 + 24,000)	42,000
Less: Cost of goods sold	26,880
Gross profit	15,120
Less: Operating expenses:	
Depreciation expenses	8,000
Other operating expenses	12,000
Net loss	(4,880)

3. a. ABC Company bought a machine, expected to render 72,000 hours of service for Rs.380,000. Its transportation and installation cost are 10,000 each with salvage value of Rs.40,000. It has been estimated that the time requires for manufacturing a finished product is 2 machine hour per unit

During first 3 years, the company manufactured the goods as under

Year	1	2	3
Output in units	9,000	10,000	11,000

Required: Machinery account for 3 years

[5]

SOLUTION

Dr.

Machinery Account

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1-1-Yr 1	To Bank a/c	390,000	31-12-Yr 1	By Depreciation a/c (9,000 units @ Rs. 9.72)	87,500
			31-12-Yr 1	By Balance c/d	302,500
		390,000			390,000
1-1-Yr 2	To Balance c/d	302,500	31-12-Yr 2	By Depreciation a/c (10,000 units @ Rs. 9.72)	97,200
			31-12-Yr 2	By Balance c/d	205,300
		302,500			302,500

1-1-Yr 3	To Balance c/d	205,300	31-12-Yr 3	By Depreciation a/c (11,000 units @ Rs. 9.72)	106,942
			31-12-Yr 3	By Balance c/d	98,380
		292,778			292,778
1-1-Yr 4	To Balance, c/d	98,380			

Working notes:

$$\text{Depreciation per machine hour} = \frac{380,000 + 10,000 - 40,000}{72,000 \text{ MH}} = \text{Rs. } 4.8611$$

$$\text{Depreciation per unit} = 4.8611 \times 2 \text{ MH} = \text{Rs. } 9.72$$

b. Differentiate between accounting and accountancy. [5]

The terms accounting and accountancy are used as synonym. However, there is a thin line of demarcation between them. Accounting is the process of recording the financial transactions and preparing financial statements and communicating them to the users. On the other hand, accountancy is a profession or subject. Accountancy is broader than accounting. It consists of bookkeeping, accounting, and auditing. In other words, it refers to a systematic knowledge of accounting.

- 14 a. During the year of 2075, XYZ Company made total sales of Rs.1,200,000 of which 70% are on credit. Company collected cash of Rs.768,000 from the open account in that year. In the year 2075 it has also wrote off Rs.20,000 as an uncollectible account. The following are balance of accounts at the end of 2074.

Account receivables Rs.200,000
 Allowance for doubtful debt Rs.18,000

Company past performance shows that 5% of its ending balance of account receivable is expected to be doubtful debt account.

Required:

- a. Journal entries for sales, collection and write-off of uncollectible accounts
 b. Estimated bad debt for 2075 based on the percentage on account receivable. Also, journalize it. [3+2=5]

SOLUTION

a. Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
Sales	Cash a/cDr.		360,000	
	Accounts receivable a/cDr.		840,000	
	To Sales revenue a/c (For sales on cash and credit)			1,200,000
Collectin	Cash a/cDr.		768,000	
	To Accounts receivable a/c (For collection of cash on accounts receivable)			768,000
Write off	Allowance or doubtful debts a/cDr.		20,000	
	To Accounts receivable a/c (For bad debt written off)			20,000

b. Calculation of Estimated Bad Debts

Particulars	Amount (Rs.)
Required balance in allowance account (5% of Rs. 252,000)	12,600
Less: Existing old balance (Cr.)	(18,000)
Add: Bad debt written off	20,000
Allowance to be made for year	14,600

Working notes:

Dr.	Accounts receivable	Cr.	Dr. Allowance for doubtful debts	Cr.
	Opening 200,000	768,000 Collection	Bad debts 20,000	18,000 Opening
	Credit sales 840,000	20,000 Written off		14,600 Allowance
	Bal. b/d 252,000			12,600 Bal. b/d

Journal Entry

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
End of 2075	Bad debts a/cDr. To Allowance for doubtful debts a/c (For estimated bad debts of the year)		14,600	14,600

b. Differentiate between capital and revenue expenditure. [5]

When the benefit of expenditure is available over a number of years, it is considered as capital expenditure and when the benefit of expenditure is likely to be available for less than one year, it is treated as revenue expenditure.

The following are the differences between capital expenditure and revenue expenditure.

Basis of Difference	Revenue Expenditure	Capital Expenditure
1. Effect	Its effect is temporary, i.e. the benefit is received within the accounting year.	Its effect is long-term, i.e. its benefit is received for a number of years in future.
2. Physical existence	It has no physical existence because it is incurred on items which are used by the business.	Generally, it has physical existence except intangible assets.
3. Frequency	It is recurring and regular and it occurs repeatedly.	It is non-recurring and irregular.
4. Treatment	The whole amount of this expenditure is shown in income statement.	A portion of this expenditure (depreciation on assets) is shown in income statement and the balance is shown in the balance sheet on asset side.
5. Effect on profit	It reduces revenue (profit) of the business.	It does not reduce the revenue of the concern.

15. "A lease is a legal contract under which one party agrees to pay rent property owned by other party", discuss. [10]

A lease is a legal contract between a lessor (owner of the property) and a lessee (user of the property). It grants the right to use specific property for a period of time in return for cash payment. Lease agreements are a popular form of financing because of their least initial cash outlay and flexibility. The renting of land and building, rental of a car at an airport are the examples of lease.

There are two types of lease. They are:

- Operating Lease:** In operating lease the lessee acquires the right to use assets for a limited period of time and is not required to record the right to use the property as assets or to record the obligation for payments as a liability. Under this lease, the lessee records the lease payments as an expense. The lessor records the payments as revenue.
- Capital lease:** The lease contract which transfers all the benefits and risks of the ownership to the lessee (user of assets) is known as capital lease. Under this lease, the leased assets represents depreciable property and records as an asset.

16. Explain the meaning of the source of documents. Also, write down the importance of source of documents. [5+5=10]

Meaning of Source of Documents

The source documents are the piece of papers, which are required to keep record of any transaction with full evidence. All accounting records have to be based on facts and carefully supported by documentary proof. These documents provide the authenticity of happening of transaction and event are known as source documents. Cash memo, invoice, cash receipt, bank cheque, debit note, credit note and payment voucher are some examples of source of documents.

Importance of Source of Documents

Source of documents play an important role in recording transactions. Some importance of source of documents are as follows:

- The source documents serve as the bases of recording the transactions.
- They validate the business transactions.
- They serve as the evidence in the court of law.
- They act as the bases for taxation
- They also provide product or service information.
- They also act as the basis for adjusting the transactions.
- They work as the future references.

Group C: Long Answer Questions

Attempt any TWO questions:

[2x15=30]

17. The ABC Company's Statement of Profit and Loss a/c and Statement of Financial Position for two years have been given below:

Statement of Profit and Loss a/c for the year 2075

Particulars	Amount (Rs.)
Sales (Including Rs.800,000 credit sales)	1,500,000
Less: Cost of goods sold	900,000
Gross profit	600,000
Less: Operating expenses	
Depreciation	300,000
Debenture premium	20,000
Interest paid	10,000
Other operating expenses	150,000
Net Income before other income	120,000
Add: Profit from sale of fixed assets (book value Rs.40,000)	20,000
Net profit	140,000

Statement of Financial Position of a company for 2074 and 2075

Capital & Liabilities	2074	2075
Share capital @ Rs.100 per share	1,200,000	1,500,000
Share premium	120,000	150,000
General reserve	40,000	60,000
10% Debenture	200,000	100,000
Account payable	160,000	240,000
Bank overdraft	230,000	160,000
Retained earnings	150,000	290,000
Total	2,100,000	2,500,000

Assets		
Fixed assets	1,500,000	2,000,000
Investment	100,000	200,000
Inventories	50,000	100,000
Account receivable	235,000	90,000
Cash	200,000	100,000
Preliminary expenses	15,000	10,000
Total	2,100,000	2,500,000

Required for 2075:

- | | |
|--------------------------------|--------------------------------------|
| a. Current ratio | b. Quick ratio |
| c. Debt to total capital ratio | d. Inventory turnover ratio |
| e. Total assets turnover ratio | f. Net profit ratio |
| g. Return on equity | h. Return on investment |
| i. Interest coverage ratio | j. Account receivable turnover ratio |
- [10×1.5=15]

SOLUTION

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\text{Rs. } 290,000}{\text{Rs. } 400,000} = 0.725:1$$

Where, Current assets = 100,000 + 90,000 + 100,000 = Rs. 290,000

Current liabilities = 160,000 + 240,000 = 400,000

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}} = \frac{90,000 + 100,000}{400,000} = 0.475:1$$

$$\text{Debt to total capital ratio} = \frac{\text{Long-term debt}}{\text{Capital employed}} \times 100 = \frac{100,000}{2,090,000} \times 100 = 4.78\%$$

Where, Shareholders' equity = 1,500,000 + 150,000 + 60,000 + 290,000 - 10,000
= Rs. 1,990,000

Long-term debt = 10% Debenture = Rs. 100,000

Capital employed/Total capital = Shareholders' equity + Long-term debt
= Rs. 1,990,000 + 100,000 = Rs. 2,090,000

$$d. \text{ Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\text{Rs. } 900,000}{\text{Rs. } 75,000} = 12 \text{ times}$$

$$e. \text{ Total assets turnover ratio} = \frac{\text{Net sales}}{\text{Total assets}} = \frac{\text{Rs. } 1,500,000}{2,500,000 - 10,000} = 0.6 \text{ times}$$

$$f. \text{ Net profit ratio} = \frac{\text{NPAT}}{\text{Net sales}} \times 100 = \frac{\text{Rs. } 140,000}{\text{Rs. } 1,500,000} \times 100 = 9.33\%$$

$$g. \text{ Return on equity} = \frac{\text{NPAT}}{\text{Shareholders' equity}} \times 100 = \frac{\text{Rs. } 140,000}{1,990,000} \times 100 = 7.04\%$$

$$h. \text{ Return on investment (Return on assets)} = \frac{\text{NPAT} + \text{Interest}}{\text{Total assets}} \times 100$$

$$= \frac{\text{Rs. } 140,000 + 10,000}{2,490,000} \times 100 = 6.02\%$$

$$i. \text{ Interest coverage ratio} = \frac{\text{EBIT}}{\text{Interest}} = \frac{\text{Rs. } 150,000}{\text{Rs. } 10,000} = 15 \text{ times}$$

Where EBIT = NPAT + Interest + Tax = Rs. 140,000 + 10,000 + 0 = Rs. 150,000

$$j. \text{ Account receivable turnover ratio} = \frac{\text{Net credit sales}}{\text{Average accounts receivable}}$$

$$= \frac{\text{Rs. } 800,000}{\text{Rs. } 162,500} = 4.922 \text{ or } 5 \text{ times}$$

$$\text{Where, Average accounts receivable} = \frac{235,000 + 90,000}{2} = \text{Rs. } 162,500$$

18. An unadjusted trial balance of a company are given below.

Particulars	Debit (Rs.)	Credit (Rs.)
Cash	300,000	
Bank	350,000	
Discount allowed	6,000	
Furniture	200,000	
Purchases	200,000	
Debtors	80,000	
Interest on loan	7,000	
Salary	60,000	
Rent	52,000	
Capital		600,000
Creditors		45,000
Discount received		10,000
Sales		500,000
12% Bank loan		100,000
	1,255,000	1,255,000

Adjustment:

- i. Closing stock Rs.50,000
- ii. Prepaid rent was Rs.4,000
- iii. Outstanding interest on bank loan was Rs.5,000
- iv. Depreciation on furniture at 25% per annum

Required:

- a. Adjusted trial balance [2]
- b. Statement of profit and loss a/c as per NFRS [4]
- c. Statement of financial position as per NFRS [4]
- d. Statement of cash flow as per NFRS [5]

SOLUTION

a. Adjusted Trial Balance

Account Titles	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
	Debit (Rs.)	Credit (Rs.)	Debit (Rs.)	Credit (Rs.)	Debit (Rs.)	Credit (Rs.)
Cash	300,000				300,000	
Bank	350,000				350,000	
Discount Allowed	6,000				6,000	
Furniture	200,000			50,000	150,000	
Purchases	200,000			200,000		
Debtors	80,000				80,000	
Interest on loan	7,000		5,000		12,000	
Salary	60,000				60,000	
Rent	52,000			4,000	48,000	
Capital		600,000				600,000
Creditors		45,000				45,000
Discount Received		10,000				10,000
Sales		500,000				500,000
12% Bank Loan		100,000				100,000

Adjustments:						
a. Closing stock			50,000		50,000	
b. Prepaid rent			4,000		4,000	
c. Outstanding interest				5,000		5,000
d. Depreciation on furniture			50,000		50,000	
e. Cost of goods sold			150,000		150,000	
Total	1,255,000	1,255,000	259,000	259,000	1,260,000	1,260,000

Note: Cost of goods sold (COGS) = Purchases – Closing stock
= 200,000 – 50,000 = Rs. 150,000

b.

Statement of Profit or Loss
For the year ended 31st, Ashadh . . .

Particulars	Notes	Amount (Rs.)
Revenue from operation	1.1	500,000
Cost of sales	1.2	(150,000)
Gross profit		350,000
Other income	1.3	10,000
Administrative expenses	1.4	(158,000)
Other expenses	1.5	(6,000)
Profit from operation		196,000
Finance costs	1.6	(12,000)
Net income		184,000

Notes:**1.1 Revenue from operation:**

Sales 500,000

1.2 Cost of sales:

Purchase 200,000

Closing stock (50,000)

150,000

1.3 Other income:

Discount received 10,000

1.4 Administrative expenses:

Salary 60,000

Rent (52,000 – 4,000) 48,000

Depreciation 50,000

158,000

1.5 Other expenses:

Discount allowed 6,000

1.6 Finance costs:

Interest on loan 7,000

Outstanding interest 5,000

12,000

c.

Statement of Financial Position
As at 31st Ashadh . . .

Particulars	Notes	Amount (Rs.)	Amount (Rs.)
Non-current assets			
Property, plant and equipment		150,000	
Intangible assets		-	
Investment property		-	
Total non-current assets			150,000
Current assets			
Cash and cash equivalent		650,000	
Trade and other receivable		80,000	
Other current assets (Prepaid rent)		4,000	
Inventories		50,000	
Total current assets			784,000

Total assets			934,000
Equity			
Capital		600,000	
Reserve (net income)		184,000	
Total equity			784,000
Liabilities			
Non-current liabilities			
12% Bank loan		100,000	
Total non-current liabilities			100,000
Current liabilities			
Outstanding interest on bank loan		5,000	
Trade and other payable (Debtors)		45,000	
Total current liabilities			50,000
Total liabilities			150,000
Total equity and liabilities			934,000

d. **Statement of Cash Flow**

Particulars	Notes	Amount (Rs.)
A. Cash flow from operating activities		
Cash receipts from customers	1.1	414,000
Cash paid to suppliers	1.2	(145,000)
Cash paid to employees and for other expenses	1.3	(112,000)
Interest paid	1.4	(7,000)
Net cash flow from operating activities		150,000
B. Cash flow from investing activities		
Acquisition of property, plant and equipment	2.1	(200,000)
Net cash flow from investing activities		(200,000)
C. Cash flow from financing activities		
Proceeds from issues of common stock	2.2	600,000
Proceeds from non-current borrowings	2.3	100,000
Net cash flow from financing activities		700,000
Net increase in cash and cash equivalent		650,000

Notes:**1.1 Cash receipt from customers:**

Sales	500,000
Debtors	(80,000)
Discount allowed	<u>(6,000)</u>
	<u>414,000</u>

1.2 Cash paid to suppliers:

Purchase	(200,000)
Creditors	45,000
Discount received	<u>10,000</u>
	<u>(145,000)</u>

1.4 Interest paid:

Interest on loan	(12,000)
Outstanding on loan	<u>5,000</u>
	<u>(7,000)</u>

2.1 Acquisition of property, plant and equipments:

Furniture	<u>(200,000)</u>
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2.2 Proceeds from issue of common stock:

Capital	<u>600,000</u>
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1.3 Cash paid to employees and for other expenses:		2.3 Proceeds from non-current borrowings:	
Salary	(60,000)	12% Bank loan	<u>100,000</u>
Rent	(48,000)		
Prepaid rent	<u>(4,000)</u>		
	<u>(112,000)</u>		

19. a. Who are the external users of accounting information? Why do they need such information? [8]

External Users of Accounting Information

Investors/shareholders, lenders, suppliers, rating agencies and security analyst, employees and trade union, customers, government, regulatory agencies, and tax authorities and the public are the external users of accounting information.

Need of Accounting Information

The accounting information is very important for the management or the decision making body of an organization. It gives management information regarding the financial position of the business, such as; profit and loss, cost and earnings, liabilities and assets, etc. The need of accounting information to the external users are discussed below.

- i. Investors/shareholders:** As chief provider of capital, investors are keen to know both the return from their investments and associated risk. Potential investors need information to judge the prospects for their investments.
- ii. Lenders:** Lenders need information about the financial stability of the borrower. They are interested in information that would enable them to determine whether their borrower has the capability to repay the loans along with the interest due on it.
- iii. Suppliers:** Suppliers also rely on the company's performance to take decision related to providing supplies on credit, possibility of bad debts and provisions for it.
- iv. Rating agencies and security analyst:** Rating agencies and security analyst need accounting information to analyze the company position.
- v. Employees and trade union:** Employees may use financial information to find out the future prospects of the company. Trade unions use financial reports to negotiate wage package, declaration of bonus, and other benefits.
- vi. Customers:** Customers have an interest in the accounting information about the continuation of company especially when they have established a long-term involvement with or are dependent on the company.
- vii. Government, regulatory agencies, and tax authorities:** Government and regulatory agencies require information to regulate the activities of the company if any. The tax authorities need accounting information of the companies to assess the amount of tax to be imposed depending on their scope and performance.
- viii. The public:** Published financial statements assist public by providing information about the trends and recent developments of the company.

b. Explain about the value added statement with its advantages.

[7]

Value added statement is a statement which shows the net added value of a **business** during certain period of time. Value added statement ascertains how much of the **total** net value was added and how it was distributed among the stakeholders in the company such as employees, government, shareholders and investors.

The followings are the major importance/advantages of value added statement:

- a. Value added statement is more useful to the workers in developing their **positive** attitude toward the business.
- b. Value added shown in value added statement can be used to measure **business** performance in better way.
- c. Based on the information provided by value added statement, reward and **punishment** system can be initiated, which may lead to increase in productivity of the organization.
- d. Economists determine the national income on the basis of added value.
- e. Value added statement provides important accounting and other information to a variety of users. Thus, it is more transparent in nature.

h) **Trial Balance**

Particulars	Debit (Rs.)	Credit (Rs.)
Cash	283,000	
Bank	670,000	
Discount	10,000	
Share capital		1,000,000
Service revenue		200,000
Accounts receivable		
Prepaid rent	30,000	
Plant and machinery	100,000	
Office supplies	45,000	
Advertising expenses	10,000	
Electricity expenses	2,000	
Salary	50,000	
Total	1,200,000	1,200,000

2. **2078 Q.No. 17** The financial transaction of a trader are provided below:

- Started business with cash Rs. 300,000 and bank balance Rs. 100,000.
- Deposited into bank Rs. 150,000.
- Purchased merchandise goods for Rs. 50,000 on account.
- Sold merchandise goods on account for Rs. 170,000.
- Received a cheque from debtor, Rs. 142,500 after deduction of 5% discount. The cheque was banked immediately.
- Paid Rs. 45,000 to creditor by issuing a cheque after deducting 10% discount.
- Rs. 13,000 was paid for insurance premium.
- Paid utilities Rs. 10,000.
- Paid office salary Rs. 26,000.
- Rent paid Rs. 18,000 through cheque.

Additional information:

- Unsold stock recorded at Rs. 20,000.
- Salaries remain unpaid amounted to Rs. 4,000.
- Insurance premium includes prepaid Rs. 1,000.

Required:

- Journal entries for the financial transactions.
- Triple column cash book.
- Ledger accounts of debtors and creditors.
- Trial balance.

[4+4+2+5]

SOLUTION

B.

Journal Entries

Date	Account Titles and Explanation	PR	Debit (Rs.)	Credit (Rs.)
a	Cash a/c Dr. Bank a/c Dr. To Capital a/c (For started business with cash and bank balance)		300,000 100,000	400,000
b	Bank a/c Dr. To Cash a/c (For cash deposited into bank)		150,000	150,000
c	Purchase a/c Dr. To Creditors a/c (For purchase of merchandise goods on account)		50,000	50,000
d	Debtors a/c Dr. To Sales a/c (For sale of merchandise goods on account)		170,000	170,000
e	Bank a/c Dr. Discount a/c Dr. To Debtors a/c (For cheque received from debtor after deduction of discount)		142,500 7,500	150,000

f	Creditors a/c Dr.	50,000	
	To Bank a/c		45,000
	To Discount a/c		5,000
	(For payment to creditor by issuing a cheque after deducting discount)		
g	Insurance premium a/c Dr.	13,000	
	To Cash a/c		13,000
	(For payment of insurance premium)		
h	Utilities a/c Dr.	10,000	
	To Cash a/c		10,000
	(For payment to utilities)		
i	Salary a/c Dr.	26,000	
	To Cash a/c		26,000
	(For payment of office salary)		
j	Rent a/c Dr.	18,000	
	To Bank a/c		18,000
	(For rent paid through cheque)		

b. Dr. Triple Column Cash Book C

Date	Particulars	PR	Discount	Cash	Bank	Date	Particulars	PR	Discount	Cash	Dr
a	To Capital a/c			300,000	100,000	b	By Bank a/c			150,000	
b	To Cash a/c	C			150,000	f	By Creditors a/c		5,000		45
c	To Debtors a/c		7,500		142,500	g	By Insurance premium a/c			13,000	
						h	By Utilities a/c			10,000	
						i	By Salary a/c			26,000	
						j	By Rent a/c				18
							By Balance c/d			101,000	329
	To Balance b/d		7,500	300,000	392,500				5,000	300,000	392
				101,000	329,500						

c. Dr. Debtors Account

Date	Particulars	Amount	Date	Particulars	Amount
d	To Sales a/c	170,000	e	By Bank a/c	142,500
				By Discount a/c	7,500
				By Balance c/d	20,000
		170,000			170,000
	To Balance b/d	20,000			

Dr. Creditors Account

Date	Particulars	Amount	Date	Particulars	Amount
f	To Bank a/c	45,000	c	By Purchase a/c	50,000
	To Discount a/c	5,000			
		50,000			50,000

d. Adjusted Trial Balance

Account Titles	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
	Debit Rs.	Credit Rs.	Debit Rs.	Credit Rs.	Debit Rs.	Credit Rs.
Cash	101,000				101,000	
Bank	329,500				329,500	
Discount allowed	7,500				7,500	
Debtors	20,000				20,000	
Creditors						
Rent	18,000				18,000	
Salary	26,000		4,000		30,000	
Utilities	10,000				10,000	
Insurance premium	13,000			1,000	12,000	
Purchase	50,000				50,000	
Discount received		5,000				5,000
Sales		170,000				170,000

Capital		400,000				400,000
Adjustments:						
Unsold stock			20,000	20,000	20,000	20,000
Unpaid salary				4,000		4,000
Prepaid insurance			1,000		1,000	
Total	575,000	575,000	25,000	25,000	599,000	599,000

2077 Q.No. 17 The financial transaction of a trader are provided below:

- i. Started business with cash Rs. 300,000, which was collected by issuing the shares of Rs. 100 each.
- ii. Rs. 200,000 was deposited into bank.
- iii. An equipment costing Rs. 100,000 was purchased and payment made by a cheque.
- iv. An equipment costing Rs. 60,000 was purchased on credit.
- v. Sold goods on credit for Rs. 170,000.
- vi. Received a cheque from debtor, Rs. 135,000 after deduction of 10% discount.
- vii. Paid Rs. 47,500 to creditor after deducting 5% discount.
- viii. Rs. 15,000 was paid for electricity bill.
- ix. Paid wages Rs. 20,000 and office salary Rs. 25,000 by issuing cheques.
- x. Paid Rs. 20,000 as rent by issuing a cheque for the period.

Required:

- a. Journal entries [4]
- b. T accounts (ledger) for sales, purchase, accounts receivable and accounts payable [4]
- c. Triple column cash book [4]
- d. Trial balance [3]

SOLUTION

Journal Entries

Date	Account Titles and Explanation	PR	Debit Rs.	Credit Rs.
i	Cash a/c Dr. To Share capital a/c (For starting a business)		300,000	300,000
ii	Bank a/c Dr. To Cash a/c (For cash deposited into bank)		200,000	200,000
iii	Equipment a/c Dr. To Bank a/c (For purchase of equipment)		100,000	100,000
iv	Equipment a/c Dr. To Accounts payable a/c (For purchase of equipment on credit)		60,000	60,000
v	Accounts receivable a/c Dr. To Sales a/c (For sale of goods on credit)		170,000	170,000
vi	Bank a/c Dr. Discount a/c Dr. To Accounts receivable a/c (For receipt of cheque from debtors after discount)		135,300 15,000	150,000
vii	Accounts payable a/c Dr. To Cash a/c To Discount a/c (For payment made to creditors after discount)		50,000	47,500 2,500
viii	Electricity expenses a/c Dr. To Cash a/c (For payment of electricity bill)		15,000	15,000
ix	Wages a/c Dr. Office salary a/c Dr. To Bank a/c (For payment of wages and salary)		20,000 25,000	45,000
x	Rent a/c Dr. To Bank a/c (For payment of rent)		20,000	20,000

5. **Current liabilities:** The liabilities or obligations payable within a short period of time or one accounting year.
- Loan and borrowings:** Short-term loan, bank overdraft, etc.
 - Trade and other payable:** Accounts payable, creditors, short-term notes or bills payable, outstanding expenses, unearned revenue/income received in advance, etc.
 - Provision:** Provision for tax, proposed dividend, etc.

Theoretical Questions

Brief Answer Questions

1. Define financial statement.

- Financial statements are the summary reports of a company's financial transactions to a particular period. They report the end results of accounting activities during a given period of time. They provide the operating result and financial position of a company. Income statement, statement of retained earnings, statement of changes in shareholders' equity and cash flow statement are the financial statements of a company.

2. Write any two objectives of financial statement.

- Two objectives of the financial statements are:
- To provide the information which are useful in decision making process.
 - To help to evaluate the financial position and efficiency of the management.

3. Mention any two features of financial statement.

- Two features of financial statement of a company are:
- Financial statement shows the current position of the company in terms of assets owned and liabilities due against the company.
 - Financial statement helps to assess the operational efficiency of the management of a company.

4. List out the limitations of financial statement.

- The limitations of financial statement are:
- Provide quantitative information only
 - Historical in nature
 - Summarized reports
 - No adjustment of price level
 - No record of intangible assets
 - Personal judgments

Long Answer Questions

5. Discuss in brief about the disclosures required for financial statement under Nepal Financial Reporting Standard (NFRS).

- Accounting standard Board has issued Nepal Financial Reporting standards (NFRS) in 15 July, 2014 to set common rules so that financial statement could be constant, transparent and comparable internationally. Generally, five statements- profit or loss statement, statement of other comprehensive income, statement of changes in equity, statement of financial position or balance sheet and statement of cash flows are prepared under NFRS. Each of these statements should be prepared with disclosures or footnotes which provide explanatory details about the information presented on the statements.

A disclosure is additional information or important notes accompanied in the financial statement of the company. It is simply the explanation for activities which have significantly influenced its financial results. Accountants of the company includes disclosures or important notes relating to assets, liabilities and equity of the company in financial statement so as to make clear understanding to the users and communicate the relevant information that are not possible to include in the financial statements.

Unit - 15

Analysis of Financial Statement

General Format of a Balance Sheet

Balance Sheet of a Company as on . . .

Liabilities	Amount	Assets	Amount
Share capital:		Fixed assets:	
Equity share capital/common stock	xxx	Tangible assets:	
Pref. share capital/pref. stock	xxx	Plant and machinery /equipment	xxx
Reserve and surplus:		Land and building	xxx
Share premium	xxx	Furniture and fixtures	xxx
General reserve	xxx	Freehold premises	xxx
Capital reserve	xxx	Intangible assets:	
Retained earnings	xxx	Goodwill, trademarks	xxx
Profit and loss account (Cr. bal.)	xxx	Patent /copyright	xxx
Long-term debt:		Investment	xxx
Debenture/bond	xxx	Current assets, loans and adv:	
Loan/mortgage loan	xxx	Sundry debtors /book debt	xxx
Current liabilities and provision:		Accounts / Bills receivable	xxx
Sundry creditors	xxx	Prepaid expenses	xxx
Accounts / Bills payable	xxx	Accrued income /income receivable	xxx
Outstanding expenses	xxx	Temporary investment	xxx
Bank loan/overdraft	xxx	Marketable securities	xxx
Income received in advance	xxx	Cash in hand /bank	xxx
Provision for tax	xxx	Miscellaneous expenditure:	
Proposed/provision for dividend	xxx	Preliminary expenses	xxx
		Underwriting commission	xxx
		Discount/Loss on issue	xxx
		Profit and loss a/c (Dr. bal.)	xxx
	xxx		xxx

1. **Net worth/shareholders' equity/funds** = (Share capital + Reserve and surplus) – Miscellaneous. expenses
2. **Common shareholders' equity** = (Equity share capital + Reserve and surplus) – Miscellaneous expenses
3. **Total debt** = Long-term debt + Current liabilities and provision
4. **Permanent capital /Total capital/Total funds/Capital employed**
= Shareholders' equity + Long-term debt

Useful Formulae

1. Liquidity Ratios:

a. Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

b. Quick ratio = $\frac{\text{Quick assets}}{\text{Current liabilities}}$

2. Solvency/Leverage Ratios:

a. Debt-equity ratio = $\frac{\text{Long-term debt}}{\text{Shareholders' equity}}$ OR $\frac{\text{Total debts}}{\text{Shareholders' equity}}$

b. Debt to total capital ratio = $\frac{\text{Long-term debt}}{\text{Capital employed}}$ OR $\frac{\text{Total debt}}{\text{Total capital}}$

c. Interest coverage ratio = $\frac{\text{Net profit before interest and taxes or EBIT}}{\text{Interest}}$

d. Fixed coverage ratio = $\frac{\text{Net profit before interest and taxes}}{\text{Fixed Charges}}$

1. Turnover Ratios:

a. Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$ OR $\frac{\text{Net sales}}{\text{Closing inventory}}$

- b. Debtors turnover ratio = $\frac{\text{Net credit sales}}{\text{Average debtors}}$ OR $\frac{\text{Total sales (net)}}{\text{Closing debtors}}$
 (Accounts receivable turnover = Debtors turnover ratio)
 Average collection period = $\frac{\text{Days in a year}}{\text{Debtors's turnover ratio}}$ = $\frac{\text{Days in year} \times \text{Average debtors}}{\text{Net credit sales}}$
- c. (Accounts receivable period) = $\frac{\text{Days in a year} \times \text{Closing debtors}}{\text{Net sales}}$
- d. Fixed assets turnover ratio = $\frac{\text{Net sales}}{\text{Net fixed assets}}$
- e. Total assets turnover ratio = $\frac{\text{Net sales}}{\text{Total assets}}$ OR $\frac{\text{Net sales}}{\text{Total tangible assets}}$
- f. Capital employed turnover ratio = $\frac{\text{Net sales}}{\text{Capital employed or Permanent capital}}$

4. Profitability Ratios:

- a. Gross profit margin = $\frac{\text{Gross profit}}{\text{Net sales}} \times 100$ OR $\frac{\text{Sales} - \text{Cost of goods sold}}{\text{Net sales}} \times 100$
- b. Net profit margin = $\frac{\text{Net profit after tax}}{\text{Net sales}} \times 100$
- c. Operating ratio = $\frac{\text{Operating expenses}}{\text{Net sales}} \times 100$
- d. Return on assets = $\frac{\text{Net profit after tax} + \text{Interest expenses}}{\text{Total assets}} \times 100$
 OR, = $\frac{\text{Net profit after tax}}{\text{Total assets}} \times 100$
 OR, = $\frac{\text{Net profit after tax} + \text{Interest}}{\text{Total tangible assets}} \times 100$
- e. Return on shareholders' equity = $\frac{\text{Net profit after tax}}{\text{Shareholders' equity}} \times 100$
- f. Return on equity shareholders' fund = $\frac{\text{Earning available to equity shareholders}}{\text{Equity shareholders' fund}} \times 100$
 OR, Return on common shareholders' equity = $\frac{\text{NPAT} - \text{Preference dividend}}{\text{Equity shareholders' fund}} \times 100$
- g. Return on capital employed = $\frac{\text{Net profit after tax} + \text{Interest}}{\text{Capital employed}} \times 100$

5. Other Ratios

- a. Earning per share = $\frac{\text{Net profit after taxes} - \text{Preference dividend}}{\text{No. of common shares outstanding}}$
- b. Dividend per share = $\frac{\text{Dividend paid to equity shareholders}}{\text{No. of common shares outstanding}}$
- c. Dividend payout ratio = $\frac{\text{Dividend per share}}{\text{Earning per share}} \times 100$
- d. Dividend yield ratio = $\frac{\text{Dividend per share}}{\text{Market value per Share}} \times 100$
- e. Earning yield ratio = $\frac{\text{Earning per share}}{\text{Market value per share}} \times 100$
- f. Price earning ratio = $\frac{\text{Market value per share}}{\text{Earning per share}} \times 100$
- g. Basic earning power ratio = $\frac{\text{Net profit before interest and tax}}{\text{Total assets}} \times 100$