

POKHARA UNIVERSITY

Level: Bachelor

Semester: Spring

Year: 2021

Programme: BBA/BI/TT/BCIS

Full Marks: 100

Course: Financial Accounting I

Pass Marks: 45

Time: 3 hrs.

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

Section "A"

Very Short Answer Questions

Attempt all the questions. [10×2]

1. What is financial accounting?
2. What is the purpose of a balance sheet?
3. National company purchased a computer of Rs. 50,000 on cash and debited to purchase account. What is the rectification entry?
4. A company has Rs.60,000 supplies at the end but total amount of supplies purchased at the beginning of the month was Rs.300,000. Prepare adjusted entry for supplies expenses.
5. How can you journalize the assets when it is purchased on credit?
6. Define cash equivalents and give two examples of cash equivalents.
7. What is Business Entity Concept of Accounting?
8. What are the different items included in financing activities?
9. What is "IFRS".
10. Why company prepare worksheet?

Section "B"

Descriptive Answer Questions

Attempt **any six** questions. [6×10]

11. What are qualitative characteristics of accounting information? list out of them and explain in detail.
12. What is statement of cash flow? Explain about operating, investing and financing activities with examples.
13. Following are the transaction during the month of May a Real Service Concern.
May2: Received contribution of Rs. 300,000 from each of the three principal owners of the new business in exchange for share of stock
May8: Signed a two year promissory note at the bank and received cash of Rs. 200,000.
May11: Purchase of Rs. 20,000 was made in supplies on account. The company has 30 days to pay for the supplies.
May19: Billed a client Rs. 50,000 for service rendered by expert in helping to install new computer system.
May 21: Paid Rs. 20,000 to the local newspaper for advertising for the month of May.
May 22: Purchased the office building for Rs 2,00,000 in cash.
May26: Received cash of Rs. 40,000 for service provided in assisting a client in selecting software for its computer
May30: Paid Rs. 80,000 of salaries and wages for May.
May31: Received and paid Rs. 15,000 in gas, electricity and water bills.
Required: Prepare journal entries, T- account and trial balance
14. Helen Ortega opened a small tax-preparation service. At the end of its second year of operation, Ortega Tax Service, Inc. had the unadjusted trial balance shown below.

Ortega Tax Service, Inc.
Unadjusted Trial balance, December 31, 2020

Particulars	Debit	Particulars	Credit
Cash	3,700	Acc. Depreciation – equipment	770
Accounts receivable	1,099	Accounts payable	635
Prepaid insurance	240	Unearned tax fees revenue	219
Office supplies	780	Common stock	3,500
Office equipment	7,100	Retained earnings	3,439
Dividends	6,000	Tax fees revenue	21,926
Office salaries expense	8,300		
Advertising expense	650		
Rent expense	2,400		
Telephone expense	220		
Total	30,489		30,489

The following information is also available

- Office supplies on hand, December 31, 2020, Rs. 225.
- Insurance still unexpired, Rs. 100.
- Estimated depreciation of office equipment, Rs. 795.
- Telephone expense for December, Rs. 21, the bill was received but not recorded.
- The service for all unearned tax fees revenue had been performed by the end of the year.
- Estimated federal income taxes for the year, Rs. 2,430.

Required: a) Prepare ten column worksheet.

- If account forgets to make adjusting entries, Will net income be understated or overstated? How much?

15. The following trail balance has been extracted from books of Horizon Trading Concern for December 31, 2020.

Particulars	Debit	Particulars	Credit
Cash	30,000	Accumulated Depreciation	30,000
Trade receivable	75,000	Accumulated Depreciation	7,000
Inventory	25,000	Notes payable	60,000
Prepaid rent	12,000	Accounts payable	10,000
Investment	150,000	Accrued payroll	2,100
Equipment	200,000	Common stock 100 per Share	250,000
Furniture	35,000	Retained earnings	15,000
Franchise agreement	8,000	Unearned revenue	4,000
Goodwill	5,000	Long term bank loan	80,000
Marketable securities	15,000	Debenture	90,000
Cost of goods sold	180,000	Additional paid in capital	25,000
Advertising expenses	18,000	Sales revenue	300,000
Sales commission expenses	14,000	Gain on sale of machine	2,000
Interest expenses	6,000		
Income tax expenses	5,100		
Dividends	30,000		
Salary of office staff	50,000		
Depreciation of office equipment	13,500		
Goodwill Amortization	3,500		
Total	875,100		875,100

Required:

- Prepare multi step income statement

- b) Prepare statement of retained earnings
 - c) Prepare classified balance sheet.
16. The following information is available for Prabhu Supplier's on June 30, 2020:
- a. The balance in cash as reported on the June 30, 2020, bank statement is Rs. 25,000
 - b. Prabhu Supplier's made a deposit of Rs. 30,000 on June 30 that is not included on the bank statement.
 - c. A comparison between the canceled checks returned with the bank statement and Prabhu Supplier's records indicated that two checks had not yet been returned to the bank for payment. The amounts of the two checks were Rs. 5,000 and Rs.7,000.
 - d. The cash account on the company's books reported a balance on June 30 of Rs. 15,000
 - e. Prabhu Suppliers rents some excess storage space in one of its warehouses, and the tenant pays its monthly rent directly to the bank for deposit in Prabhu Supplier's account. The bank statement indicates that a deposit of Rs. 8,000 was made during the month of June.
 - f. Interest earned on the checking account and added to Prabhu Supplier's account during June was Rs. 450
 - g. Bank service charges were Rs. 250 for the month of June as reported on the bank statement.
 - h. A comparison between the checks returned with the bank statement and the company's records revealed that a check written by the company in the amount of Rs. 2,200 was recorded by the company erroneously as a check for Rs. 22,000.

Required:

- a) Prepare bank reconciliation for the month of June in good form.
 - b) Prepare necessary journal entries
17. Excel Trading Concern, Kathmandu prepares annual financial statement and adjusts its accounts only at the end of year. The following information is available for the year ended December 31, 2020
- a. Excel Trading Concern, Kathmandu purchased office furniture last year for Rs.50,000. The furniture has an estimated useful life of seven years and estimated salvage value Rs.8,000.
 - b. The supplies account had balance of Rs.1,500 on January 1, 2020. During 2020, Excel Trading Concern, Kathmandu added Rs. 15,000 to the account purchase of supplies during the year. A count of office supplies on hand at the end of December 31, 2020 indicates a balance of Rs.2,000.
 - c. On July 1, 2020, Excel Trading Concern, Kathmandu created a liability account, Customer deposits, for Rs.16,000. This sum represents an amount that customer paid in advance and that will be earned evenly by Excel Trading Concern, Kathmandu over an eight-month period.
 - d. Excel Trading Concern, Kathmandu rented some warehouse space on September 1, 2020, at a rate of Rs.4,000 per month. On the date, Excel Trading Concern, Kathmandu debited prepaid rent for six month's rent paid in advance.
 - e. Excel Trading Concern, Kathmandu took out a 90-days,6%, Rs. 50,000 note on November 1, 2020, with interest and principal to be paid at maturity.
 - f. Excel Trading Concern, Kathmandu operates five days per week with an average weekly payroll of Rs. 12,450. Excel Trading Concern, Kathmandu pays its employees every Thursday. December 31, 2020, is a Friday.

Required:

- a) For each of preceding situations, prepare in general journal from the appropriate adjusting entries to be recorded on 31December, 2020
- b) Assume that Excel Trading Concern, Kathmandu's accountant forgets to record the

adjusting entries on December 31, 2020. Will net income for the year be understated or overstated? By what amount?

Section "C"
Case Analysis

18. Read the case situation given below and answer the questions that follow: [20]
Global Trading Concern, Pokhara is in the process of preparing its statement of cash flows for the year ended June 30, 2020. An income statement for the year and comparative balance sheets are as follows:

Particulars	June 30, 2020
Sales revenue	Rs. 550,000
Less: Cost of goods sold	350,000
Gross margin	200,000
Less: Operating expense	55,000
General and administrative expenses	75,000
Depreciation expenses	5,000
Loss on sale of plants	135,000
Total expenses and losses	65,000
Income before interest and taxes	15,000
Less: Interest expenses	50,000
Income before taxes	17,000
Less: Tax expenses	33,000
Net income after tax	

Balance Sheet

Assets	31 Dec 2020	31 Dec 2019	Liabilities & stockholder's equity	31 Dec 2020	31 Dec 2019
Cash	31,000	40,000	Accounts payable	155,000	148,000
Accounts receivable	90,000	75,000	Other accrued liabilities	32,000	26,000
Inventory	80,000	95,000	Long term bank loan payable	8,000	10,000
Land	12,000	16,000	Common stock	100,000	130,000
Plant & equipment	250,000	170,000	Retained earnings	350,000	200,000
Acc. depreciation	750,000	600,000		258,000	232,000
	(310,000)	(250,000)			
Total assets	903,000	746,000	Total liabilities and stockholders' equity	903,000	746,000

- New plant assets were purchased during the year for Rs. 195,000 in cash.
- Land was purchased for cash.
- Plant assets were sold during the year for Rs. 25,000 in cash. The original cost of the assets sold was Rs. 45,000, and their book value was Rs. 30,000.
- Additional stock was issued for cash
- Portion of the bank loan was repaid.

Required:

- Prepare a statement of cash flows for 2020 using the direct method in the operating activities section.
- Evaluate the following statement: Whether a company uses the direct or indirect method to report cash flows from operations is irrelevant because the amount of cash flow from operating activities is the same regardless of which method is used.