

Birla Institute of Technology and Science, Pilani
Second Semester: 2022-2023
Mid-semester Test (Regular)

Course Name & No.: **Fundamentals of Finance and Accounting (ECON F 212)**

Maximum Marks: (90 Marks) 30% Weight-age

Duration: 90 Minutes

Date: 17 Mar 23

Type: Closed Book

1. The Montero Company, a wholesale distributor of the furnace and air conditioning equipment, began business on July 1, 2022. The following summarized transactions occurred during July, 2022: **20 Marks**

- a. Montero's stockholders contributed \$300,000 in cash in exchange for their common stock.
- b. On July 1, Montero signed a 1-year rent agreement on a warehouse, paying \$48,000 cash in advance for occupancy of 12 months.
- c. On July 1, Montero acquired warehouse equipment for \$100,000. A cash down payment of \$40,000 was made, and a note payable was signed for the balance.
- d. On July 1, Montero paid \$24,000 cash for a 2-year insurance policy covering fire, casualty, and related risks.
- e. Montero acquired assorted merchandise for \$35,000 cash.
- f. Montero acquired assorted merchandise for \$190,000 on open account.
- g. Total sales were \$205,000, of which \$30,000 were for cash.
- h. Cost of inventory sold was \$155,000.
- i. Rent expense was recognized for the month.
- j. Depreciation expense for \$2,000 was recognized for the month.
- k. Insurance expense was recognized for the month.
- l. Collected \$45,000 from credit customers.
- m. Disbursed \$80,000 to trade creditors (suppliers).

For simplicity, ignore all other possible expenses.

Required:

Prepare an income statement (single-step) for the month of July, 2022 on the accrual basis. Ignore income taxes.

2. Robert Kapela owned and managed a franchise of Ithaca Espresso Ltd. The company's balance sheet accounts had the following balances on September 1, 2010, the beginning of the fiscal year: **25 Marks**

Ithaca Espresso Ltd.

Balance sheet Accounts, September 1, 2010 (all amounts in \$)

Assets	Amount	Liabilities and Owner's Equity	Amount
Cash	13,000	Accounts Payable	40,000
Accounts Receivable	5,200	Paid-in Capital	30,000
Merchandise Inventory	77,800	Retained earnings	44,850
Prepaid Rent	4,000		
Store Equipment	21,000		
Acc. Dep. Store equipment	(6,150)		
Total Assets	114,850	Total Liabilities and Owner's Equity	114,850

Summarized transactions for September were as follows:

- Acquisitions of merchandise inventory on account, \$41,000.
- Sales for cash, \$74,250.
- Payments to creditors, \$29,000.
- Sales on account, \$3,000.
- Advertising in newspapers, paid in cash \$3,000.
- Cost of goods sold, \$45,000.
- Collections on account, \$6,000.
- Miscellaneous expenses paid in cash, \$8,000.
- Wages paid in cash, \$9,000.

- Entry for rent expense. (Rent was paid quarterly in advance, \$6,000 per quarter. Payments were due on February 1, May 1, August 1, and November 1)
- Depreciation of store equipment, \$250.

Required:

Use the balance sheet equation (Transaction Analysis format; A = L + O.E.) to show the impact of above transactions on the balance sheet equation. No need to prepare the balance sheet separately.

Note: Use the proper format and underline the closing balances under each account. You might need a larger space for this question, so preferably start this question from the left-side page.

Format: Following transaction analysis, we prepare columns for each account under assets, liabilities, and owner's equity section such as Cash, Accounts receivable, Accounts payable etc. Keep asset account columns on the left side, and liabilities and owner's equity on the right side separated by an "=". Follow the prescribed format for availing credit for the question.

3. The following unadjusted balances are provided for ABC Services Ltd. as on June 30, 20X2. You are required to prepare the adjusted trial balance (in proper trial balance format) for the company as on June 30, 20X2 after incorporating the adjustment data (*implicit transactions*) given below the table. The question contains all relevant information and you need not make any assumptions. **We will check only the final trial balance**, so in case you need to record journal entries or prepare T-accounts for solving this question, do so in rough work. The format of the trial balance should include, Account name column, Debit column, and Credit column, mention the total of debit column and credit column under the respective columns. All amounts are in Rs.

Cash	6,340	Office stationery	890	Land	48,000	Buildings	82,000	Accumulated depreciation, buildings	18,960
Accounts payable	2,550	Notes payable	58,000	Retained earnings	21,630	Salary expense	9,060	Rent expense	350
Accounts receivable	1,410	Prepaid insurance	1,900	Unearned commission revenue	2,100	Equipment	53,000	Accumulated depreciation, equipment	16,800
Paid-up capital	50,000	Service revenue	33,460	Telephone expense	120	Repairs expense	430		

Adjustment data (**for the current accounting period**, all values in Rs.):

- a. Office stationery used, 650 b. Insurance expired, 1,500 c. Depreciation on buildings and on equipment, 750 and 530 respectively d. Unearned commission revenue earned, 1,100 e. Salaries earned by employees but not yet paid, 280 f. Interest expense on notes payable for the current period, 2,600. g. commission revenue earned but not recorded and not received, 560 h. Repairs expense was erroneously charged to rent expense, 70. **25 Marks**

4. I. For a. and b. below, record **All** the relevant journal entries for the transactions/events *at the time of preparing the financial statements*. For some cases there may be more than one journal entries. If required, round-off the numbers to the nearest whole number. **20 Marks**

a. A company purchased a machine on 1 Jan, 20X1 for Rs 6,000. The estimated useful life of the machine at the time of purchase was estimated to be 3 years. The company prepares its financial statements on a quarterly basis i.e., once in every three months. Record the relevant journal entry for the second quarter of the financial year started from 01 April, 20X1.

b. For ABC Ltd. the total monthly salary expense bill for the month of May, 20X0 was Rs. 10,000, to be paid on the 3rd of the subsequent month. The company's monthly salary expense bill is likely to remain unchanged. The company prepares its financial statements on a monthly basis. Due to some internal requirements, the accounting department is asked to prepare the balance sheet as on 10th of June, 20X0.

II. In a given accounting period, there was one erroneous journal entry that led to the overstatement of total assets, understatement of a liability, overstatement of paid-up capital, and overstatement of net income. Pick from the following accounts to create the actual correct journal entry and the erroneous journal entry that led to this situation. Each journal entry must affect only two accounts (i.e. it should not be a compound journal entry). Write both the journal entries separately. Use any hypothetical amount for the entry, ensure that the journal entry is a sensible journal entry. The accounts are: a. rent payable b. rent expense c. accounts payable d. merchandise inventory e. paid-up capital. f. cash. g. accumulated depreciation, equipment. Clearly highlight the correct journal entry and the erroneous journal entry.
