Name:________________________________ Id. No:___________________

Birla Institute of Technology and Science, Pilani
Second Semester: 2022-2023
Comprehensive Exam (Regular) – 18 May 2023
Course Name & No.: Fundamentals of Finance and Accounting (ECON F 212)
Maximum Marks: 135 (45%) Type: Open Book Duration: 3 hours

Instructions for the students (PART A) – Maximum time: 60 Minutes

1. Write your name and BITS Id No in the space provided on the top of this page
2. This ***Part A*** of the paper consists of 15 MCQs of 2 marks each and 4 short-answer type questions of 6.25 marks each. Total 55 marks.
4. Maximum time for part A is **60 minutes.**
3. There is **no negative marking** in the question paper.
4. For MCQs, write your answers in the table provided below. Answers written elsewhere or in incorrect order will not be evaluated. **Overwritten/ambiguous answers will not be evaluated.** For short answer-type, write the final answers in the space given below.

Table for MCQs

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

Write final answers for Short Answer type questions (excluding question number 4). Note: ***You must show appropriate calculations in the space provided below the respective questions:***

Q 1:
Q2:
Q3:

1. Cash inflows from investing activities may result from
    a. making loans to other companies.
    b. selling the equity securities of other firms.
    c. issuing bonds for expansion purposes.
    d. All of the choices provided in this question selections are correct.
    e. None of the choices provided in this question selections are correct.

2. On the statement of cash flows, the purchase by a dealer of delivery trucks for $150,000 cash would be classified as a(n)
    a. operating activity. b. investing activity. c. financing activity.
    d. The transaction would not appear on the statement of cash flows. e.None

3. Revenue can be recognized prior to the point of sale if
    a. the customer provides a valid promise to pay in the future.
    b. the cash has been received from the customer prior to completion of the work.
    c. the sale is contractually guaranteed.
    d. both a and c.

4. Danica's Gold, a costume jewelry manufacturer, sold $30,000 merchandise on account, terms 2/10, net/30. Danica's Gold received payment from the customer within the discount period. The amount of cash Danica's Gold received was:
    a. $30,600 b. $30,000 c. $29,400 d. $600 e. none

5. The most appropriate time for recognising bad debt expense should be:
    a. in the period in which the related sale took place.
    b. in the period in which management determines that the customer is unable to pay.
    c. when the uncollectible account is written off.
    d. when the debt is turned over to a collection agency.

6. When using the allowance method of accounting for bad debt, the entry to record the write-off of a specific account of $4,000 that has been determined to be uncollectible would be:

a.	Bad Debt Expense	4,000	
	Accounts Receivable		4,000
b.	Bad Debt Expense	4,000	
	Allowance for Bad Debts		4,000
c.	Allowance for Bad Debts	4,000	
	Bad Debt Expense		4,000
d.	Allowance for Bad Debts	4,000	
	Accounts Receivable		4,000

7. Comfy Shoes began operations on January 1. By December 31, Comfy Shoes had sales of $800,000. Eighty percent of Comfy Shoes' sales are on account. $500,000 was collected throughout the year and bad debts were estimated at $5,000. At the end of the period, net accounts receivable were:

a. $500,000 b. $480,000 c. $135,000 d. $5,000 e. none

8. The Larkin Company uses the allowance method to account for bad debt. Management became convinced that a $9,000 account receivable was uncollectible and should be written-off. Just prior to the write-off, total Accounts Receivable were $250,000 and the Allowance for Bad Debts had a credit balance of $15,000. When Larkin writes off the $9,000 uncollectible account, the effect on the net accounts receivable would be a decrease of:

a. $9,000 b. $6,000 c. $24,000

d. The net accounts receivable would not be affected. e. none

9. Marion Corporation has the following information relating to its inventory activity in 2006:

	December 31, 2006	December 31, 2005
Inventory	$25,000	$28,000

If Marion purchased $60,000 worth of inventory in 2006, what was its cost of goods sold for the year ending December 31, 2006?

a. $28,000 b. $60,000 c. $63,000 d. $92,000. e. None

10. Which system reports inventory on the balance sheet at or near current costs?

a. FIFO b. LIFO c. average cost d. specific identification

11. Which system is the best method for matching current inventory costs with current revenues?

a.FIFO b. LIFO c. average cost d. specific identification

12. On the statement of cash flows, the payment of $25,000 in income taxes would be classified as a(n)

a.operating activity. b. investing activity. c. financing activity.

d.The transaction would not appear on the statement of cash flows. e. None

13. Tommy counted an item in ending inventory twice while taking a physical count in his father's store. As a result,

a.net income will be understated.

b.beginning inventory for the next period will be understated.

c.cost of goods available for sale will be overstated.

d.cost of goods sold will be understated.

e. None of the above

14. Under the direct method, cash paid for interest and taxes are

a.shown at the bottom of the cash flow statement.

b.part of the operating activities section.

c. are disclosed in an accompanying note.

d. none of the choices provided in this question.

15. During a year, a company sold equipment (fixed asset) for Rs 5,000 whose original purchase price was Rs 50,000, and its current book value was Rs 25,000. The balance in the Net Equipment account after this transaction will be:

a. Rs 45,000 b. Rs 25,000 c. Rs 5,000 d. Rs 20,000 e. None of the above

Short answer type:

Q1. On July 5, Horwath Company Purchased on account a shipment of sheet steel from Northwest Steel Co. The invoice price was $195,000, F.O.B. shipping point. Shipping cost from the steel mill to Horwath's plant was $10,000, which was paid directly to the shipping company. When inspecting the shipment, the Horwath receiving clerk found several flaws in the steel. The clerk informed Northwest's sales representative of the flaws, and after some negotiation, Northwest granted an allowance of $9000.
To encourage prompt payment, Northwest grants a 2% cash discount to customers who pay their accounts within 30 days of billing. Horwath paid the proper amount on August 1.

Required:
Compute the total cost of the sheet steel acquired.

Q2. After examining the records of Hartvigsen Sightseeing, Inc., you determined the following end-of-year amounts:

	FY2006	FY2005
Sales	270,000	236,250
Accounts Receivables	68,625	58,500
Allowance for Bad debts	2,700	2,025

Your examination of the records of Hartvigsen Sightseeing Inc., Indicates that Bad Debts Expense is estimated to be $9,450 and $10,800 in 2006.

Required:

1) Determine the amount of Accounts Receivables that were actually written off during 2006.
2) Compute the amount of cash collected from customers in 2006.

Q3. Olson Corp. reported the following in the Current Assets of its Dec 31, 2012 Balance Sheet:

	12/31/12	12/31/11
Accounts Receivable, net of Provisions of \$5000 and \$ 3000, respectively for the year ending 2012 and 2011	\$54,000	\$48,000

During 2012, Olson recorded \$80,000 of Sales and wrote off \$4,000 of uncollectible accounts.
Required:

1) Determine the amount of cash collected during 2012 from sales
2) Determine the amount of Bad debt expense for 2012

Q4. Record **ALL** the journal entries at the time of selling an old machine by the company. The details are as follows: Original cost of the machine Rs 175,000, bought 5-years ago with a depreciable life of 10 years (straight-line method) at the time of purchase. The machine was sold at a loss of Rs 15,000.

Part B - To be attempted in the main answer sheet. Total Marks = 80

1. [25 marks] Sam created a working model of a new and improved commercial paint spray he had **patented**. The patent had a legal life of 16 years remaining. Sam was eager to use his patent commercially, but he had no funds of his own. Several of Sam's friends, who had used Sam's paint spray prototypes, offered to invest in a new corporation. The total initial capital of the firm was \$200,000 par value capital stock. Assume the year began on 01 Jan 20X0 and ended on 31 Dec 20X1. The other transactions undertaken by the company during the first year of its incorporation are given below:

1) In return for signing his patent to the new company (Passion Paints Ltd.), Sam would receive 60 percent of the company's capital stock. For their part, the investors would contribute $80,000 cash for a 40 per cent ownership in the company.
2) Incorporation costs, $2,500.
3) Equipment to be used in assembling the paint spray dispensers bought for cash, $85,000.
4) Out-of-pocket labor and development costs to redesign the paint spray dispenser to facilitate more efficient assembling, $25,000.
5) Component part (inventory) purchases for cash, $212,100.
6) Short-term loan from local bank, $30,000. (Loan to be repaid before the end of the year with $500 interest.)
7) Manufacturing payroll, $145,000.
8) Other manufacturing costs (excluding component part costs), $62,000.
9) Selling, general, and administration costs, $63,000.
10) Ending component parts inventory cost, $15,100.
11) Sales, $598,500 (all received in cash.)
12) All incorporation and product redesign costs are expensed as incurred.
13) Depreciation of equipment bought in transaction number 3. Sam estimated the useful life of the equipment was 10 years, and equipment cost to be depreciated using the straight-line method.
14) The patent cost is to be allocated as amortisation expense over six years, using straight-line assumption (Sam anticipated technology developments incorporating digital flow controls would significantly reduce the current product sales in about six years). Note: Amortization is to intangible assets what depreciation is to tangible assets.
15) Cash dividends, $5,000.
16) Income tax expense, $22,500 (due to be paid during the next year).
17) All amounts due to employees, suppliers, and others, except for income taxes, are paid in cash.

Required:

For the first year of company's operations: Prepare:

a. The Cash Ledger. b. The Income Statement, and c. The year-end balance sheet (report only closing balances)

Note: No individual journal entries are required. Only provide adequate answers in proper format.

2. [10 Marks] The Gardner Pharmacy uses the periodic inventory method. In its most recent fiscal, 2010, Gardner had a beginning inventory of $50,000; gross purchases of $167,000; freight-in of $4,000; purchases returned to suppliers totalling $8,000; and ending inventory of $77,500. Assuming sales of $325,000, other expenses (excluding taxes) of $95,000, and a tax rate of 30 per cent, prepare an income statement for the year. **Note:** *Include the detailed computation of the cost of goods sold amount within the income statement.*

3. [20 Marks] The account balances for ABC Ltd. are given below in the table. The balance are for a given financial year, but it is unadjusted. The data for adjustments are given below the table.

Account	Balances ($)		Account	Balances ($)
Cash and cash equivalents	1,19,115.00		Prepaid insurance	38,250.00
Accounts receivable	1,62,500.00		Accounts payable	1,18,180.00
Merchandise inventory	7,00,680.00		Notes payable	1,43,000.00
Store equipment	2,15,000.00		Selling expense	24,900.00
Accumulated depreciation, store equipment	37,300.00		Sales commission	1,05,750.00
Supplies inventory	15,475.00		Sales revenues	7,16,935.00
Miscellaneous general expenses	31,000.00		Allowance for uncollectible account	3,500.00
Sales discounts	6,220.00		Bad debt expense	3,500.00
Interest expense	9,300.00		Common stock	3,00,000.00
Tax expense	9,600.00		Retained earnings	1,22,375.00

Adjustments data:

a. Cost of merchandise sold, $302,990.
b. Depreciation on store equipment, $12,750.
c. Supplies inventory ending balance, $5,210.
d. Expired insurance, $4,660.
e. Interest accrued on notes payable, $3,730.
f. Sales salary earned but not paid to employees, $3,575.
g. Interest earned on savings accounts, but not recorded, $390.
h. Some accounts receivables were written off, $2000.
i. After the entry h, reversal of write-off was $800.

Required: Prepare the adjusted trial balance for ABC Ltd. Show only the final closing balances. If required, you can create new accounts. No need to write journal entries or individual ledger accounts.

4. [25 Marks] You are provided with the following data on ABC Ltd. Answer the questions that follow:

Balance Sheet (in $)						
	2015	2014			2015	2014
Current assets				Current liabilities		
Cash and cash equivalents	$ 131	$ 157		Accounts payable	$ 519	$ 485
Marketable securities	$ -	$ 75		Accrued expenses payable	247	401
Accounts receivable	716	668		Total current liabilities	$ 766	$ 886
Inventories	641	663				
Other operating assets	92	78				
Total current assets	$ 1,580	$ 1,641				
Fixed assets				Long-term liabilities		
Property, plant, and equipment	$ 4,148	$ 3,179		Long-term debt	1,179	1,148
Less accumulated depreciation	1,340	1,092		Total long-term liabilities	$ 1,179	$ 1,148
Net property, plant, and equipment	$ 2,808	$ 2,087				
Intangible assets	784	709		Stockholders equity		
Total fixed assets	$ 3,592	$ 2,796		Preferred stock	$ 21	$ 21
				Common equity	728	779
				Accumulated retained earnings	2,478	1,603
				Total equity (common + preferred)	$ 3,227	$ 2,403
Total assets	$ 5,172	$ 4,437		Total liabilities and shareholders equity	$ 5,172	$ 4,437

Income Statement (in $)	
Sales	$ 7,557
Cost of goods sold	4,456
Selling, general, and administrative	848
Depreciation	248
Operating income	$ 2,005
Other income	75
Earnings before Interest and Taxes	$ 2,080
Interest expense	242
Pretax income	$ 1,838
Taxes	570
Net income	$ 1,268

Additional information, which is ALREADY recorded in the statements given above:
Other operating assets also include pre-paid insurance for the next 3 years starting 2016. The company paid $9 as pre-paid insurance at the end of year 2015, and it was included in other operating asset account.
During the year, the company sold fixed assets for cash having a book value of $429 at a profit of $70. This profit was recorded as other income. Also, during the year the company purchased fixed assets worth $1,398 by paying cash.
During the year 2015, company bought $75 worth of intangible assets in exchange for $70 worth of marketable securities, and by paying cash for the rest.
The remaining marketable securities were sold at a profit of $5 (recorded as other income).
It is assumed that there is no depreciation or amortization on intangible assets and they are reported at cost of acquisition.

Required: Based on the data given answer the following questions. There is no need to assume anything beyond what is already given.
a. Starting with Net Income calculate the operating cash flows.
b. Prepare a detailed statement of cash flows showing sources or uses of cash flows under operating, investing, and financing activities. Refer to the format discussed in the class or given in the textbook. Use the direct method for computing the operating cash flows.

****