QUIZ – I [September 06, 2022]

MSC504 – Financial Accounting & Reporting [20 Marks]

The Correct Answer of each Question is indicated in red colour

Q1) Raghu earned a salary of ₹55,000 for the last week of January. He will be paid on Feb 1. The adjusting entry for Raghu's employer on Jan 31 is: [Set A –Q13]

(a) Debit Salaries & Wages Expense ₹55,000; Credit Salaries & Wages Payable ₹55,000.
(b) Debit Salaries & Wages Expense ₹55,000; Credit Cash ₹55,000.
(c) Debit Salaries & Wages Payable ₹55,000; Credit Cash ₹55,000.
(d) No entry is required.

Q2) Poliplex installed equipment on April 01,20IX at a cost of ₹ 6,00,000 with a useful life of 5 years, having the residual value of ₹ 40,000. The depreciation expense for the year ended March 31, 200X under the SYD method shall be: [Set A –Q15]

(a) ₹ 1,12,000 (b) ₹1,86,667 (c) ₹2,50,920 (d) None of the above

Ans: ₹ (6,00,000 – 40,000) * 5/15 = ₹1,86,667

Q3) If a company fails to adjust an Unearned Rent Revenue account for rent that has been recognized, what effect will this have on that month's financial statements? [Set A –Q17]

(a) Assets will be understated and revenues will be understated.
(b) Liabilities will be understated and revenues will be understated.
(c) Liabilities will be overstated and revenues will be understated.
(d) Assets will be overstated and revenues will be understated.

Q4) On November 1, 20XX, Poliplex had an Accounts Receivable balance of ₹200,000. During the month, the company made sales on account of ₹300,000. In addition, Poliplex collected ₹400,000 from customers that owed them money. On November 30, 20XX, the Accounts Receivable balance is: [Set A –Q19]

(a) ₹100,000 debit (b) ₹100,000 credit (c) ₹500,000 debit (d) ₹300,000 credit

Q5)The trial balance total from the following ledger accounts of Poliplex Company as of January 31, 20XX would be (₹ in '000s): [Set A –Q20]

Accounts Payable 1,500; Rent Expense 500; Accounts Receivable 2,500; Service Revenue 3,500; Cash 1,600; Supplies 200; Common Stock 2,200; Salaries and Wages Expense 1,000; Dividends 1,400.

(a) ₹ 9,600 (b) ₹7,600 (c) ₹8,800 (d) None of the above

Ans: Total Debit = Total Credit = ₹7,200

Q6) What will be the journal entry for the following transaction? 'Prepaid rent had a ₹1,000 normal balance prior to adjustment. By the year-end ₹700 had expired.' [Set A –Q18]

(a) debit Rent Expense and credit Prepaid Rent - ₹ 300.
(b) debit Rent Expense and credit Prepaid Rent - ₹700.
(c) debit Prepaid Rent and credit Rent Expense - ₹ 300.
(d) debit Prepaid Rent and credit Rent Expense - ₹700.

Q7) A depreciable asset has an estimated 15% residual value. At the end of its estimated useful life, the carrying amount of the asset would equal zero under which of the following depreciation methods? [Set A –Q14]

(a) SLM – Yes; WDV – No
(b) SLM – Yes; WDV – Yes
(c) SLM – No; WDV – Yes
(d) SLM – No; WDV – No

Ans: Under SLM, the Carrying amount will be the residual Value & under WDV, there will be a nominal carrying amount. So it will never be ZERO under any of the two methods. However, if the fixed asset does not have a residual value, then there is every likelihood that under SLM, the carrying amount will be zero.

Q8) Identify the statement which is wrongly stated: [Set A –Q16]

(a) Expenditures that extend the useful life, improve the quality of output, or reduce operating costs of an existing asset beyond their originally estimated levels are capital expenditures.
(b) Revenue expenditures are expensed immediately as the benefits do not last beyond that period.
(c) Income tax rules permit taxpayers to claim depreciation benefits at the prescribed rates using the WDV method.
(d) Depreciation is a process of valuation.

Q9) Poliplex, on December 31, 20X1, had assets of Rs.85,00,000 and liabilities of Rs. 69,00,000. On December 31, 20X2 the business had assets of Rs.113,00,000 and liabilities worth Rs. 77,00,000. During the year 20X2, Poliplex invested capital of Rs.26,00,000 and withdrew Rs.5,00,000. The net profit of the firm for 20X2 is: [Set A –Q12]

(a) Net profit - Rs.1,00,000 (b) Net Profit – Rs.6,00,000 (c) Net Loss – Rs.1,00,000
(d) Net loss – Rs.6,00,000

Ans: January 1, 20X2 – Capital = ₹ (85,00,000 – 69,00,000) = ₹ 16,00,000
December 31, 20X2 - Capital = ₹ (113,00,000 – 77,00,000) = ₹ 36,00,000
Net Loss = Closing Capital - [Opening capital + Addl. Investment – drawings] = ₹1,00,000

Q10) Human resources will not appear in the balance sheet according to ______ concept: [Set A –Q10]

(a) Accrual (b) Going concern (c) Money measurement (d) Periodicity

Q11) Poliplex, On January 1 - year 1, acquires for Rs.1.5 million a new piece of machinery with an estimated useful life of 10 years. The machine has a camshaft costing Rs.3,50,000 that must be replaced every five years. Continued operation of the machine requires an inspection costing Rs.1,50,000 every four years. The company uses the straight-line method of depreciation. What is the depreciation expense for year 1? [Set A –Q11]

(a) Rs.1,85,000 (b) Rs.2,22,500 (c) Rs.2,07,500 (d) Rs.1,50,000

Ans: Cost of original machine = [15,00,000 – (3,50,000 + 1,50,000)] = Rs.10,00,000
(i) Depreciation (SLM) of original machine = Rs.1,00,000 (10,00,000/10)
(ii) Depreciation (SLM) of Camshaft = Rs. 70,000 (3,50,000/ 5)

(iii) Depn (SLM) on inspection as part of cost = Rs. 37,500 (1,50,000/ 4)
(iv) Depreciation Expense for the year = [(i) + (ii) + (iii)] = Rs.2,07,500

Q12) As of January 1, 20XX, Poliplex had a balance in its retained earnings account of ₹100,000. During the year Poliplex had revenues of ₹80,000 and expenses of ₹45,000. In addition, the business paid cash dividends of ₹20,000. What is the balance in Retained Earnings on December 31, 20XX for Poliplex? [Set A –Q9]

(a) ₹100,000 (b) ₹115,000 (c) ₹135,000 (d) ₹155,000

Hint: Opening RE + Net Profit - Dividend = Closing RE

Q13) Companies not disclosing an immanent bankruptcy would violate the: [Set A –Q1]

(a) Money measurement concept (b) Business entity concept
(c) Going concern concept (d) Periodicity concept

Q14) A firm has reported a profit of ₹1,47,000 for the year ended 31-3-2022 after taking into consideration the following items: [Set A –Q7]

(i) The cost of an asset ₹23,000 has been taken as an expense
(ii) The firm anticipated a profit of ₹12,000 on the sale of an old furniture
(iii) Salary of ₹7,000 outstanding for the year has not been taken into account.
(iv) An asset of ₹85,000 was purchased for ₹75,000 and was recorded in the books at ₹85,000.

What is the correct amount of profit to be reported in the books?

a) ₹1,47,000 b) ₹ 1,51,000 c) ₹1,63,000 d) ₹1,41,000

Ans: Profit is an outcome of income & expense matching.

For the first item, the profit should be increased by ₹23,000 (as by mistake an expense of ₹23,000 was shown, which reduced net profit) = (+) ₹23,000

For the second item, by mistake, the profit is increased by ₹12,000 in anticipation, which now should be reduced as there is no actual profit for the business = (-) ₹12,000

For the third item, there is a salary expense of ₹ 7,000, which was not recorded. Now, such an expense would reduce profit by ₹ 7,000 = (-) ₹ 7,000

The fourth item does not have any bearing on Income Statement as the transaction neither reflects an expense nor a revenue.

So, by virtue of the first three transactions, the profit of ₹ 1,47,000 will be now increased by a net of ₹ 4,000; thereby the correct reported profit should be ₹ 1,51,000.

Q15) Assets are recorded at their original purchase price according to the: [Set A –Q2]

(a) Money measurement assumption (b) Cost benefit assumption
(c) Going concern assumption (d) Historical cost assumption

Q16) Given the data below for a firm in its first year of operation, determine net income under the accrual basis of accounting. [Set A –Q8]

Revenue recognized ₹19,000; Accounts receivable ₹3,000; Expenses incurred ₹7,250; Accounts payable (related to expenses) ₹750; Supplies purchased with cash ₹1,800.

(a) ₹11,750 (b) ₹14,000 (c) ₹9,500 (d) ₹12,200

Ans: ₹ 19,000 (actual revenue) - ₹ 7,250 (Actual expenses) = Income ₹ 11,250

Q17) On Aug. 15, Poliplex made the following transaction - Real estate commissions billed to the client amount to ₹ 48,000. The appropriate journal entry should be: [Set A –Q3]

(a) Debit Cash, Credit Service Revenue
(b) Debit Service Revenue, Credit Unearned Revenue
(c) Debit Receivable, Credit Service Revenue
(d) No journal entry as there is no transaction

Q18) Which of the following statement is correct? [Set A –Q6]

Sl. No	Transactions	Effect on Assets	Effect on Liabilities
a	We paid creditor by cheque	- Bank	- Creditors
b	Debtor paid us ₹90,000 by cash	+ Cash	+ Debtors
c	Mr.X lends us ₹5,90,000 by cheque	+ Bank	- Loan from X
d	Purchased goods on credit	+Inventory	+ Capital

Q19) -------------------- assumption states that existing liabilities will be paid on maturity: [Set A –Q4]

(a) Business entity (b) Going concern (c) Monetary unit (d) Periodicity

Q20) Ind AS will apply to: [Set A –Q5]

(a) Only consolidated financials
(b) Both consolidated and standalone financials of the company
(c) Only standalone financials
(d) optional