(5) From the following Trial Balance of star Ltd, prepare Trading, Profit and loss A/c for the year ending 31-03-2022

Particulars	Rs	Particulars	Rs
cash at Bank	119000	capital	350000
Land & Buildings	312500	sales	496000
sundry debtors	100000	Purchase returns	7000
Furniture	72000	Dividends received	500
salaries	16200	Bills payable	2500
Advertisements	1990	creditors	15500
Bank Interest	310		
Purchases	150000		
wages	10000		
carriage Inwards	1150		
sales returns	25000		
Plant & machinery	35000		
cash in hand	8350		
Opening stock 1-4-2021	20000		
	871500		871500

Adjust the following

(i) closing stock - Rs. 250000

(ii) Provide 10% Depreciation on plant & Machinery.

Ans

Trading A/c of star Ltd
for the year ending 31-03-2022

Particulars		Amount	Particulars		Amount
To opening stock		20,000			
To purchases	150000	143000	By sales	496000	~~496000~~
(-) purchase returns	7000		(-) sales returns	25000	471000
To wages		10000	By closing stock		250000
To carriage inwards		1150			
		174150			
To Gross profit		546850			
		721000			721000

Profit & loss Account of star Ltd
for the year ending 31-03-2022

Particulars	Amount (₹)	Particulars	Amount (₹)
To salaries	16200	By Gross profit	546850
To advertisements	1990	By dividends received	500
To Bank Interest	310		
To depreciation on plant & machinery.	3500		
~~To dividends received~~			
To net profit	525350		
	547350		547350

① Compare the features of Perfect competition, Monopoly and Monopolistic Competition Market Structures.

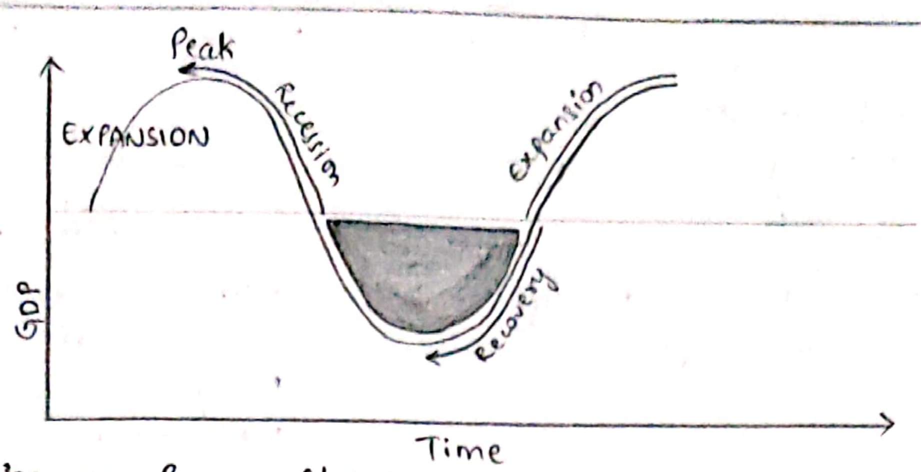
Feature	Perfect Competition	Monopoly	Monopolistic	Oligopoly
1) No. of sellers	Large Various no. of firms constitute industry.	One/Single No difference b/w firm and industry	Many sellers with small share in the market. Many firms in the industry	Few Big sellers Industry consists only few players.
2) Product	Homogeneous products which are perfect substitutes.	Unique product without close substitutes	Differentiated products which are close substitutes but not perfect substitutes	Differentiated or Homogeneous products or Both sometimes.
3) Entry & Exit restric-tions	Free Entry & Exit (No restrictions)	Strong Barriers for Entry.	Free Entry & Exit (No restrictions)	Barriers to Entry.
4) Control over price.	All sellers are price takers	Price maker	Some control over the price.	Price rigidity & Pricing decisions are interdependent
5) Profits	Super profits are in short period. Normal profits in the long period.	scope for super profits (everytime) in both periods	No super profits in the long run.	Scope for larger profits.
6) Selling cost	No selling cost	Low selling cost	high selling cost due to heavy competition	High advertise-ment cost or specialized/seasonal advertisements

② Define Business Cycle. Explain each phase in detail.

<u>Ans</u>:- <u>Business Cycles</u> :- Cyclic fluctuations in economic activity are called as business cycles or trade cycles.

» It refers to fluctuations in economic activities specially in employment, output and income, prices, profits etc.

» These phases are cyclic in nature and occur periodically in every economy.



Expansion or Boom Stage

This phase is characterized by an increase in output & employment. There is also an increase in the demand in the market, capital expenditure, sales and subsequently an increase in income & profits.

This cycle will continue till there is 100% utilization of available resources. And the production level will be at the maximum capacity. The ~~unner~~ unemployment rates will be zero with the exception of voluntary unemployment and frictional or structural employment.

In this phase both the prices and cost increase at a somewhat faster rate. But generally, the public enjoy prosperity and a higher standard of living. The growth rate will eventually deaccelerates as the economy approaches its peak.

Peak stage

This is the highest point of all the phases of business cycles. The output is maximum, and the involuntary unemployment is zero.

As the economy goes through expansion, inputs become rarer. Their demands increase and so does their prices.

This leads to an increase in the price of consumer goods as well. Income does not see a proportional increase, so, consumers have to review their expences and cut back on their consumption.

Aggregate demand in the market will stagnate. This will mark the end of the expansion phase. The growth of economy stabilizes at the peak for a short period. Then it goes in the reverse direction.

Recession Stage

In recession phase, all the economic factors, such as production, prices, saving and investment starts decreasing. Producers are unaware of decrease in the demand of products and they continue to produce goods & services. Then, the supply of products exceeds the demand.

Over the time, producers realize the surplus of supply when the cost of manufacturing of a product is more than profit generated. This condition firstly experienced by few industries and slowly spread to all industries.

It is considered as a small fluctuation in the market, but as the problem exists for a longer duration, producers start noticing it. Consequently, producers avoid any type of further investment in factor of production, such as labor, machinery and furniture. This leads to reduction in the prices of factor, which results in decline of demand of inputs and output.

Depression stage

It is a severe form of recession.

The negative growth rate in the economy is observed. There is a continuous decrease in demand.

It is ~~charachet~~ characterized by rise in unemployment.

The capital and money market also suffer greatly. The interest rate is at its lowest.

~~After this~~

Recovery Stage

Once the economy touches the lowest level, it happens to be the end of negativism and beginning of positivism.

This leads to the reversal of the process of business cycle.

Consequently, organizations discontinue laying off individuals and start hiring but in limited number. This marks the beginning of the recovery phase.

4. What is Financial Accounting? Explain Accounting Concepts & Conventions.

Ans:- Financial Accounting :-

Accounting is the process of recording, classifying and summarizing the financial transactions and communicating the results to the interested parties of a Business Concern.

Accounting Concepts

Accounting Concepts can be understood as the basic accounting assumption, which acts as a foundation for the preparation of financial statement of an enterprise. Indeed,, these form a basis for formulating the accounting principles, methods and procedures, to record and present the financial transactions of business.

These concepts provide an integrated structure and rational approach to the accounting process. Every financial transaction that occurs is interpreted taking into consideration the accounting concepts, which guides the accounting methods.

1) Separate Entity Concept: The concept assumes that the business enterprise is independent of its owners.

2) Money Measurement Concept: Only those transaction which can be expre--ssed in monetary terms are recorded in the books of accounts.

3) Cost concept: This concept holds that all the assets of the enterprise are recorded in the accounts at their purchase price.

4) Going Concern Concept: The concept assumes that the business will have a perpetual succession, ie, it will continue its operations for an indefinite period.

5) Dual Aspect Concept: It is the primary rule of accounting, which states that every transaction effects two accounts.

6) Realization Concept: Revenue should be recorded by the firm only when it is realized.

7) Accounting Period Concept: Financial statement should be prepared for every period, ie, at the end of the financial year.

8) Periodical Matching Concept: Revenue for the period, should match the expenses.

Accounting Convention

Accounting conventions are the practice adopted by an enterprise over a period of time, that rely on the general agreement b/w the accounting bodies and helps in assisting the accountant at the time of preparation of financial statement of the company

1. Consistency: Financial statements can be compared only when the accounting policies are followed consistently by the firm over the period. However, changes can be made only in special circumstances.

2. Full Disclosure: This principle state that the financial statement should be prepared in such a way that it fairly discloses all the material information to the users, so as to help them in taking a rational decision.

3. Conservatism: This convention states that the firm should not anticipate incomes and gains, but provide for all expenses & losses.

4. Materiality: This concept is an exception to the full disclosure convention which states that only those items to be disclosed in the financial statement which has a significant economic effect.

(7) The following are the extracts from the financial statements of a Ltd ~~limited~~ company as on 31-03-2022

Sales for the year	5,00,000
Gross profit	1,50,000
Stock	50,000
Debtors	1,00,000
Bills receivables	5000
cash in hand	15000
Bills payables	20,000
Bank overdraft	2000
Bank loan	2,00,000

Compute the

(1) current ratio (2) quick ratio (3) stock turn over ratio

(4) debtors turnover ratio & debt collection period

(5) gross profit ratio

Soln

(1) Current ratio $= \dfrac{\text{total current assets}}{\text{total current liabilities}}$

current assets

stock	50000
debtors	100000
Bills receivables	5000
cash in hand	15000
Total current assets	= ₹170,000

current liabilities

Bills payables	20000
Bank overdraft	2000
Total current liabilities	= ₹ 22000

$\therefore$ Current ratio $= \dfrac{170000}{22000} = 7.72 : 1$

(2) Quick ratio $= \dfrac{\text{Total quick assets}}{\text{Total current liabilities}}$

Quick assets = total current assets − (stock + pre-paid expenses)

= 170000 − (50000 + 0)

= 1,20,000.

$\therefore$ Quick ratio $= \dfrac{120000}{22000} = 5.45 : 1$

(3) Stock turn over ratio $= \dfrac{\text{cost of goods sold}}{\text{average stock}}$

cost of goods sold = sales - gross profit

$= 500000 - 150000 = 350000$

average stock $= \dfrac{\text{opening stock + closing stock}}{2}$

$= \dfrac{50000}{2} = 25000$

$\therefore$ Stock turn over ratio $= \dfrac{350000}{25000} = 14$ times

(4) Debtors turn over ratio $= \dfrac{\text{sales (or) credit sales}}{\text{average debtors}}$

average debtors $= \dfrac{\text{opening debtors + closing debtors}}{2}$

$= \dfrac{100000}{2} = 50000$

$\therefore$ debtors turn over ratio $= \dfrac{500000}{50000} = 10$ times

Debt collection period $= \dfrac{365 \text{ days}}{\text{debtors turn over}}$

$= \dfrac{365}{10} = 36.5 = 37$ days.

(5) Gross profit ratio $= \dfrac{\text{gross profit}}{\text{sales}} \times 100$

$= \dfrac{\cancel{150000}^{3}}{\cancel{500000}} \times 100$

$\Rightarrow$ Gross profit ratio = 30 %