

XLRI JAMSHEDPUR – BM

Quiz 2, Time: 120 Minutes, Weightage: 15%, Date: 14 Aug. 2015

NAME: _____

ROLL # _____

INSTRUCTIONS

This is an open book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the start of each section indicate the marks assigned for that section. In case of multiple-choice questions, you are required to pick the appropriate choice in the question paper and also work out the solution (or give reasonable explanation) in the blank space provided below or on the other side of the page.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

The Complete Question Paper is based on the Three Period Accounts Prepared by Shri Jesal Nilesh Doshi titled "Jayram Sweets"

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The company had an interesting advertisement tagline titled ...

Jayram Sweets ... Meant only for the ones with
an XLer tooth

... And taught by ... the visibly invisible teacher within us

~!~

Note: The way we assume a listed firms' published numbers to be true and fair – similarly, please assume the financial statements of the first three accounting periods of JAYRAM SWEETS to be true. In other words, please take them at par value and then go ahead and attack ... the questions below:

Please make the following adjustments and assumptions while understanding and preparing the financial statements, the ratios, and doing the analysis:

- (1) All types of discounts received and allowed (being financial in nature) are included as part of financial charges. Similar is the treatment for interest related items also.
- (2) Provision for Bad Debts (contra account) is deducted from accounts receivables in Balance Sheet.
- (3) Net Worth of JAYRAM SWEETS includes contributed capital, retained surplus, and other reserves.
- (4) Current portion (i.e., next 12 months) of the long term loan to be repaid is to be included as part of Current Liabilities.
- (5) Bank overdrafts are to be treated as part of Current Liabilities.
- (6) Only for financial ratio computations of JAYRAM SWEETS period 1, please use end of the accounting period numbers of the balance sheet instead of average for the period.

In case of multiple choice questions, your evaluation will be primarily done using this page ... hence please fill the same with the relevant choice / answer.

Question No	Answer	Question No	Answer	Question No	Answer
1		11		21	
2		12		22	
3		13		23	
4		14		24	
5		15		25	
6		16		26	
7		17		27	
8		18		28	
9		19		29	
10		20		30	

SECTION I: Financial Statement Analysis

[Each Correct answer + ½ marks; Wrong answer – ¼ marks]

Based on the above (and the soft copy of the project shared), you are required to pick the most appropriate choice from below choices:

1. The Return on Equity of JAYRAM SWEETS for PERIOD 3 (compared to PERIOD 2) is
 - (a) Going up because of increase in net profit margin
 - (b) Going up because of increase in asset utilization
 - (c) Going up because of equity multiplier (financial leverage) effect
 - (d) All of the above
 - (e) Both (a) and (b) are correct
 - (f) None of the above

2. The Return on Equity of JAYRAM SWEETS for PERIOD 2 (compared to PERIOD 1) is
 - (a) Going up because of increase in net profit margin
 - (b) Going up because of increase in asset utilization
 - (c) Going up because of equity multiplier (financial leverage) effect
 - (d) All of the above
 - (e) Both (a) and (b) are correct
 - (f) None of the above

3. The Return on Equity of JAYRAM SWEETS for PERIOD 3 (compared to PERIOD 1) is
 - (a) Going up because of increase in net profit margin

- (b) Going up because of increase in asset utilization
 - (c) Going up because of equity multiplier (financial leverage) effect
 - (d) All of the above
 - (e) Both (a) and (b) are correct
 - (f) None of the above
4. Dividend Payout ratio trends for the first three periods of JAYRAM SWEETS are:
- (a) Up
 - (b) Down
 - (c) First up and then down
 - (d) First down and then up
 - (e) No change
5. Net Working Capital trends for the first three periods of JAYRAM SWEETS are:
- (a) Up
 - (b) Down
 - (c) First up and then down
 - (d) First down and then up
 - (e) No change
6. Total Debt to Total Capital ratio trends for the first three periods of JAYRAM SWEETS are:
- (a) Up
 - (b) Down
 - (c) First up and then down
 - (d) First down and then up
 - (e) No change
7. Times Interest Covered ratio trends for the first three periods of JAYRAM SWEETS are:
- (a) Up
 - (b) Down
 - (c) First up and then down
 - (d) First down and then up
 - (e) No change
8. From shareholders perspective, the Position of JAYRAM SWEETS in Period 3 compared to Period 2 has:
- (a) Improved
 - (b) Deteriorated
 - (c) Did not change much
 - (d) Improved Drastically
 - (e) Can't say

SECTION II: Cash Flow Statement (and their analysis)

[Each Correct answer + ½ marks; Wrong answer – ¼ marks]

Please assume 'Marketable Securities' of the firm (if any) to be part of Cash and Cash Equivalents while looking at the cash flow statement and doing its analysis:

9. If the 'Statement of Cash Flow' of JAYRAM SWEETS for periods 2 and 3, the Cash Flow from Operations compared to (Capital expenditure plus Dividends) is:
- (a) More for both the periods
 - (b) Less for both the periods
 - (c) More for Period 2 Only
 - (d) More for Period 3 Only
 - (e) Equal in both the periods
10. If the 'Statement of Cash Flow' of JAYRAM SWEETS for periods 2 and 3, the Capital Expenditure compared to Depreciation is:
- (a) More for both the periods
 - (b) Less for both the periods
 - (c) More for Period 2 Only
 - (d) More for Period 3 Only
 - (e) Equal in both the periods

SECTION III: Accounting Records, Accounting Standards, & Related Analysis (Part I)

[[Each Correct answer + ½ marks; Wrong answer – ¼ marks; No attempt: – ¼ marks]

11. Ideally the unused sweet boxes in the factory floor of *Jayram Sweets* would be taken as a part of _____
- (a) Will be part of 'Cost of Goods Sold' Expense
 - (b) Will be part of 'Operating' Expense
 - (c) Raw material inventory
 - (d) Stores and spares inventory
 - (e) Will be part of 'non-operating' expense
12. The Government Grant transaction in *JAYRAM SWEETS* period 1 has been _____
- (a) Treated correctly in the journal entry
 - (b) Treated correctly in the ledgers
 - (c) Presented correctly in the balance sheet
 - (d) All of the above
 - (e) Agree with (a) and (b) only
13. The firms treatment of transaction resulting in Other Income of *JAYRAM SWEETS* period 1 is _____

- (a) Normally a correct way of recording and presenting in financial statements, if there are no conditions attached to the award
- (b) A correct way of recording and presenting in financial statements, irrespective of the conditions attached to the award
- (c) A wrong way of recording and presenting in financial statements
- (d) Can't say

14. Please look into the ledger entries related to M/s Vardhaman Traders in Page 21 of *JAYRAM SWEETS* Period I. Pick the one you agree among the following:

- (a) The closing balances of the related T-accounts are incorrect.
- (b) The journal entry is incorrect.
- (c) The ledger entry of Discount Expense a/c is incorrect
- (d) The ledger entry of Cash a/c is incorrect
- (e) None of the above

15. What is the method followed for the Inventory Valuation by *JAYRAM SWEETS* in Period 1 and does the closing Inventory balance correspond with the method followed?

- (a) FIFO, No
- (b) WAC, No
- (c) WAC, Yes
- (d) LIFO, Yes
- (e) Specific Identification, Yes

16. Please refer to the transactions no 20 and 21 dated 24th January. If the two transactions were to be transformed into a single transaction resulting in the Goods sold on Credit and Bills accepted from the party – then *JAYRAM SWEETS* would have made the following:

- (a) Ganesh Stores a/c and Cr. Sales a/c
- (b) Dr. Bill receivable a/c and Cr. Ganesh Stores a/c
- (c) Both (a) and (b) immediately
- (d) Both (a) and (b) – but at different dates depending on the time of bill discounting
- (e) None of the above

17. Please refer to the transactions no 18 and 19 dated 22nd January. If the two transactions were to be transformed into a single transaction resulting in the Goods purchase on Credit and issued a Bill to the party – then *JAYRAM SWEETS* would have made the following:

- (a) Dr. Purchase a/c and Cr. Sundry Creditors (party's name) a/c
- (b) Dr. Sundry Creditors (party's name) a/c and Cr. Bill Payable a/c
- (c) Both (a) and (b) immediately
- (d) Both (a) and (b) – but at different dates depending on the time of bill discounting
- (e) None of the above

18. What is the value of closing stock as on 31/03/2006?

- (a) Rs. 63,800
- (b) Rs. 89,600
- (c) Rs. 70,400
- (d) Rs. 1,40,595
- (e) Rs. 0

19. The transportation expense on 7th march 2006 of *Jayram Sweets* should be part of _____

- (a) Cost of inventories
- (b) Will be part of 'Marketing' Expense
- (c) Will be part of 'Administration' Expense
- (d) Finished Goods Inventory
- (e) Will be part of 'non-operating' expense

20. On 15/04/2006, payment is made for survey, ideally, what should be done with this?

- (a) Transfer to Balance Sheet and write it off over few years
- (b) Transfer to Balance Sheet only if it actually starts producing the Jalebi Mix.
- (c) Transfer to Profit and Loss statement
- (d) Treat it as income and defer it temporarily by way of a footnote to Financial Statements

21. As on 30/04/2006, "*Jayram Sweets*" wishes to recognize its Goodwill, as it is running well and has a better name than its peers. What would be your advice as an auditor of the firm in order to comply with Accounting Standards?

- (a) 30% of the Fixed Assets is maximum that can be shown as Goodwill.
- (b) Any amount bigger than that of peers so as to give a better Picture of the firm.
- (c) Also suggest that impairment losses are to be recognized immediately.
- (d) It is not possible to value its goodwill at all and hence shall not recognize it.

22. If LIFO method of inventory valuation was applied, then the quantity of inventory as on 28/02/2006 would be?

- (a) More than FIFO Method
- (b) Less than FIFO Method
- (c) Equal to FIFO Method
- (d) Can't say

23. If "Jayram Sweets" apply IFRS, the following change in accounting policy will be having a retrospective effect.

- (a) Change in useful life of the Asset
- (b) Change in provision for the slow moving inventory
- (c) Change in the percentage of provision for Bad Debts
- (d) Change in the method of inventory valuation

24. If we see the Profit and Loss Statement on 31/03/2006, which of the following error is evident?

- (a) Debit and Credit entries are not transferred at all or transferred twice
- (b) Debit is wrongly transferred as credit or vice-versa
- (c) Omission in transferring an account balance
- (d) Mistake in transferring balance of an account.

25. There are errors in the adjusted trial balance on 28/02/2006, yet the total of debit and credit is equal, how? Select the combinations.

- i) Wrong totaling of subsidiary books
 - ii) Errors in recording a transaction on the correct side of a wrong account
 - iii) Omission from both debt and credit
- (a) i), ii), iii)
 - (b) i) & ii)

(c) ii) & iii)

(d) iii) & i)

26. Had “*Jayram Sweets*” been a listed company, which of the following reports would not be a component of financial statements?

(a) Director’s report

(b) Notes to balance sheet and P&L account

(c) Statement of changes in equity

(d) Income statement

27. On 13/01/2006, plant is purchased, if the payment was made partly in equity shares and partly in debentures (instead of cash), what would be the effect on the cash flow statement:

(a) The purchase of the building should be investing cash outflow and the issuance of the shares and debentures, financing cash outflows

(b) The purchase of the building should be investing cash outflow and the issuance of the debentures financing cash outflow while the issuance of shares, investing cash outflow

(c) This does not belong to Cash Flow Statement & should be disclosed only in footnotes to financial statements

(d) Only the debentures portion should be recognized as financing cash outflow, since it has to be repaid

(e) None of the above

28. Which of the following transaction is against the *Jesal Doshi’s* own workings given on Page 6, point No. 9?

(a) Transaction no. 35, dated 18/04/2006

(b) Transaction no. 41, dated 19/03/2006

(c) Transaction no. 11, dated 06/03/2006

(d) Transaction no. 12, dated 17/01/2006

29. The following expense has increased most extraordinarily (as a % age of previous period), without indicating any reason.

(a) Purchase price

(b) Wages

(c) Electricity

(e) Transportation

(d) Interest

SECTION IV: Accounting Records, Accounting Standards, & Related Analysis (Part II)

[Each correct answer: + ½ marks]

30. Provide the correct Journal Entry for transaction dated 04/02/2006, No. 35 considering the payable being a bill of Exchange.

31. Provide the correct Journal Entry for transaction dated 03/02/2006, No. 33.

32. Is the *JAYRAM SWEETS* Period 1 Journal Entry for the provision for bad debts in Page 16 correct? If yes – please justify? If no – please justify?

33. Refer to *JAYRAM SWEETS* Page 29 and look into the Journal Entry for transaction dated 26/03/2006 – No. 55. Provide the correct journal entry:

34. Refer to *JAYRAM SWEETS* Period 2 accounting records – Is there any scope of correction to be made in Sales Day Book? Please be specific by giving an example from the entries shown.
35. Refer to *JAYRAM SWEETS* Period 3 accounting records transaction dated 15/4/2006 – Is there any scope of correction to be made? Please be specific by giving an alternative entry / account.
36. Refer to *JAYRAM SWEETS* Period 2 accounting records – Is there any scope of correction to be made in Purchase Day Book? Please be specific by giving an example from the entries shown.
37. What should be the correct Journal Entry for the wages paid on 31/01/2006?