NAME: BILAL AHMAD

ID: 14654

COURSE TITLE: INTRODUCTION TO FINANCIAL ACCOUNTING

INSTRACRER: MS MARIUM SALEEM

SEMESTER; 3RD

DEPARTMENT: BBA

DATE OF SUBMITION: 26 JUNE 2020

**Q1. Choose the correct option.**

1. **ANS:** Errors of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are the types of errors which do not affect a trial balance.
2. Omission ,commission
3. Commission, miscast in subsidiary books
4. Omission, posting a wrong amount to the ledger
5. Principle, miscast in subsidiary books

ANS: A) Omission, commission

1. An error of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is caused by a lack of knowledge of accounting principles.
2. Omission
3. Commission
4. Principle
5. Original entry

ANS: C) Principle

1. If a transaction is so recorded that the account to be debited is credited and the account to be credited is debited, both with the correct amount then it is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. Miscast in subsidiary account
3. Complete reversal of entries
4. Error in original entry
5. Error of principle

ANS: B) Complete reversal of entries

1. When a trial balance is found out of agreement at the end of a period, it is usual to open a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and to place the difference in trial balance to this account.
2. Subsidiary account
3. Ledger account
4. Suspense account
5. Rectification account

ANS: C) Suspense account

1. Cash receipts recorded by the depositor but that reached the bank too late to be included in the bank statement for the current month are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. Outstanding checks
3. NSF checks
4. Deposits in transit
5. None of the above

ANS: C) Deposits in transit

6. Cash payments to acquire investments or plant assets are included in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activity of a cash flow statement.

(a) Operating

(b) Investing

(c) Financing

(d) None of the above

ANS: (B) Investing

7. Payments of interest and income taxes received are included in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activity of a cash flow statement.

(a) Operating

(b) Financing

(c) Investing

(d) Both operating and financing

ANS: (C) Investing

8. Each month the bank provides the depositor with a statement of the depositor’s account called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

(a) Bank statement

(b) Statement of cash flow

(c) Income statement

(d) Balance sheet

ANS: (D) Balance sheet

9. The cash flows mentioned in the statement of cash flow are grouped into \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ major categories.

(a) Three

(b) Four

(C) Two

(d) Five

ANS: (A) Three

1. The first step in preparing a bank reconciliation statement is to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. Compare deposits listed on bank statement with the deposits shown in the accounting records.
3. Arrange paid checks in sequence by serial numbers
4. Add credit memoranda issued by bank
5. There are no steps to be followed

ANS: (D) There are no steps to be followed

Q2. The accounting staff of XYZ Company has assembled the following information for the year ended December 31, 2017: ….

ANS: **Using this information, prepare a statement of cash flows.**

Cash at January 1 $70,000

Operating activity

Cash received from customers $800,000

Interest and dividend received $30,000

Cash paid to suppliers and employees (500,000)

Interest paid (15,000)

Income taxes paid (40,000)

Net cash from operation $275,000

Investing activities

Processed from sale of plant assets (20,000)

Cash paid to acquire plant assets (10,000)

Collection of loan (excluding interest) 12,000

Loan made to borrowers (7,000)

Nat cash flow from investing activities $15,000

Financing activities

Dividend paid (50,000)

Proceed from short term borrowing 25,000

Net cash flow from financing activities (525,000)

Net income in cash $3, 35,000

Q3. (a)List the reasons for normal differences between balance as per bank records and accounting records of a company.

ANS: (A) Normal Differences between Bank Records and Accounting Records:

The balance shown in a monthly bank statement seldom equals the balance appearing in the depositor’s accounting records. Certain transactions recorded by the depositor may not have been recorded by the bank. Most common examples;

•Outstanding Checks (Checks issued and recorded by the company but not yet presented to the bank for payment)

•Deposits in Transit (Cash Receipts recorded by the depositor that reached the bank too late to be included in the bank statement for the current month)

 In addition, certain transactions appearing in the bank statement may not have been recorded by the Depositor. Most common examples;

•Service Charges.

•Charges for depositing NSF (Not Sufficient Funds) Checks.

•Credits for Interest Earned.

•Miscellaneous Bank charges and credits.

BALANCE AS PER BANK RECORD: A schedule explaining any differences between the balance shown in the bank statement and the balance shown in the depositor’s accounting records.

Steps in Preparing a Bank Reconciliation;

1. Compare deposits listed in the bank statement with the deposits shown in the accounting records. Any deposits not yet recorded by the bank are deposits in transit and should be added to the balance shown in the bank statement.

2. Compare checks paid by the bank with the corresponding entries in the accounting records. Any checks issued but not yet paid by the bank with the corresponding entries should be listed as outstanding checks to be deducted from the balance reported in the bank statement.

3. Add to the balance per the depositor’s accounting records any credit memoranda issued by the bank that have not been recorded by the depositor.

4. Deduct from the balance per the depositor’s records any debit memoranda issued by the bank that have not been recorded by the depositor.

5. Make appropriate adjustments to correct any errors in either the bank statement or the depositor’s accounting records.

6. Determine that the adjusted balance of the bank statement is equal to the adjusted balance in the depositor’s records.

7. Prepare journal entries to record any items in the bank reconciliation listed as adjustments to the balance per the depositor’s records.

Accounting for Marketable Securities

1. The Purchase of Investments

•Investments in Marketable Securitas are originally recorded at cost, which includes any brokerage commissions.

2. The Receipt of dividends or interest revenue

•Entries to recognize interest and dividend revenue typically involve a debit to Cash and a credit to either Interest Revenue or Dividend Revenue.

3. The Sale of Investments

•When an investment is sold, a gain or a loss often results. If an investment is sold for more than its cost basis a gain is recorded. Whereas selling an investment for an amount less than its cost basis results in a loss.

4. End-of-period adjustments

•Securities classified as available for sale are presented in the balance sheet at their current market value as the balance sheet date. The adjustment of marketable securities to their current market value requires the use of an account entitled Unrealized Holding Gain (or loss) on Investments. This account appears as a stockholders’ equity item in the balance sheet.

(b) Why does the error of commission not affect a trial balance? Give logic along with an example.

B) ANS: These types of errors occur due to the negligence of book-keeper, clerk or accountant. As **errors of commission** are often caused due to the mistake committed by the clerk, they are also called as **clerical errors**. Also known as **error of inadvertence**.

If we debit or credit an account, other than the correct account, but with the correct amount, the total debits and credits in the ledger will remain equal and hence the trail balance will not disclose the error.

We take a look at a few examples to illustrate how these errors are caused:

(A). Entering the wrong amount in the correct subsidiary book.
(b). Posting the correct amount to a wrong subsidiary book.
(c). Posting the wrong amount to the correct side of the account.
(d). Posting a correct amount to the wrong side of the account.
(e). Posting is done twice (double posting).
(f). Posting to the wrong account of the same class i.e., cash paid to B is debited to B and Bros. account.
(g). Other types of errors arising out of casting, posting, carry forwards, balancing, etc. also fall under this category.

EXAMPLE: A chick for $3,480 was received from Royal Motors but was erroneously credited to TAU Motors’ Account.



(C) ANS: **Use of Cash Flow Statement**

**1**. Since a cash flow statement is based on the cash basis of accounting, it is very useful in the evaluation of cash position of a firm.

**2.** A projected cash flow statement can be prepared in order to know the future cash position of a concern so as to enable a firm to plan and coordinate its financial operations properly. By preparing this statement, a firm can come to know as to how much cash will be generated into the firm and how much cash will be needed to make various payments and hence the firm can well plan to arrange for the future requirements of cash.

**3.** A comparison of the historical and projected cash flow statements can be made so as to find the variations and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective action.

**4.** A series of intra-firm and inter-firm cash flow statements reveals whether the firm’s liquidity (short-term paying capacity) is improving or deteriorating over a period of time and in comparison to other firms over a given period of time.

**5.** Cash flow statement helps in planning the repayment of loans, replacement of fixed assets and other similar long-term planning of cash. It is also significant for capital budgeting decisions.

**6.** It better explains the causes for poor cash position in spite of substantial profits in a firm by throwing light on various applications of cash made by the firm. It further helps in answering some intricate questions like -what happened to the net profits. Where did the profits go? Why more dividends could not be paid in spite of sufficient available profit.

**7.** Cash flow analysis is more useful and appropriate than funds flow analysis for short-term financial analysis as in a very short period it is cash which is more elegant then the working capital for forecasting the ability of the firm to meet its immediate obligations.

Q4. Shown below is the information needed to prepare a bank reconciliation for Alice Incorporation at December 31: …

Prepare a bank reconciliation statement at December 31.

ANS:

 ALICE INCORPORATION

 Bank reconciliation

 Dec, 31

Balance per bank statement …………………………..15,981

Deposit Dec, 31, not recorded by bank yet…………….4, 353

 20,334

Outstanding checks No 620……..978

 No 630……..2052

 No 641……..483 3513

Adjusted cash balance 16,821

Balance per depositor record Dec 31 17,445

NSF…………………….600

Service charge…………24

 624

 16,821

 Thank you!