

FINAL TERM EXAMINATION
Fall 2008
MGT101- Financial Accounting (Session - 4)

Question No: 1 (Marks: 1) - Please choose one

Wages outstanding given in the trial balance will be treated as a (an):

- ▶ Asset
- ▶ **Liability**
- ▶ Revenue
- ▶ Deferred expense

Question No: 2 (Marks: 1) - Please choose one

What does a credit balance in a partner's current account represent to a business?

- ▶ Current Assets
- ▶ **Current Liability**
- ▶ Long-term liability
- ▶ Share of profit

Question No: 3 (Marks: 1) - Please choose one

| Particulars | Rs. |
|----------------------------------|------------|
| Debentures | 1, 50, 000 |
| Equity Capital | 2, 00,000 |
| General Reserve | 90, 000 |
| Accumulated profit | 60,000 |
| What is debt equity ratio | ? |

- ▶ **15: 20 (or 3:4)**
- ▶ 15:24 (or 5: 8)
- ▶ 15:29
- ▶ 15:35 (or 3: 7)

Question No: 4 (Marks: 1) - Please choose one

| Particulars | Rs. |
|------------------------------|------------|
| Share capital of Rs. 10 each | 1,000,000 |
| Profit before tax | 150,000 |
| Taxes | 10,000 |
| Earning per share | = ? |

- ▶ Rs. 1.50 per share
- ▶ **Rs. 1.40 per share**
- ▶ Rs. 1.15 per share
- ▶ Rs. 1.25 per share

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Question No: 5 (Marks: 1) - Please choose one

Mark up cover ratio = operating profit before financial charges ÷ ?

- ▶ Selling expenses
- ▶ Administrative expenses
- ▶ **Financial charges**
- ▶ Direct expenses

Question No: 6 (Marks: 1) - Please choose one

In calculating earning per share (EPS), the net profit is divided by which of the following?

- ▶ **Number of ordinary shares**
- ▶ Number of preference shares
- ▶ Paid up capital
- ▶ Authorized capital

Question No: 7 (Marks: 1) - Please choose one

Which of the following business publishes the Financial Statements?

- ▶ Sole-Proprietorship
- ▶ Partnership
- ▶ Trust
- ▶ **Public Limited Company**

Question No: 8 (Marks: 1) - Please choose one

The primary purpose of preparing a cash flow statement for an entity is to provide information about:

- ▶ Its financial position at the end of an accounting period
- ▶ **Its cash receipts and cash payments during an accounting period**
- ▶ Its financial position at the start of an accounting period
- ▶ None of the given options

Question No: 9 (Marks: 1) - Please choose one

How dividend declared is treated in the Balance Sheet of the company?

- ▶ Provision
- ▶ **Current liability**
- ▶ Reserves and surplus
- ▶ Current assets

Question No: 10 (Marks: 1) - Please choose one

Which of the following option(s) is **TRUE** about the Sales returns?

- ▶ Sales returns reduce the Gross sales of the firm
- ▶ Sales returns affect the Net income of the firm
- ▶ Sales returns affect the flow of cash
- ▶ All of the given options

Question No: 11 (Marks: 1) - Please choose one

Fixed Assets (WDV) + Working Capital =?

- ▶ Total assets employed
- ▶ Total liabilities
- ▶ Total assets
- ▶ Current assets

Question No: 12 (Marks: 1) - Please choose one

Which of the following is **TRUE** about a merchandising company?

- ▶ A merchandising company's business is to buy and sell products
- ▶ A merchandising company must use the perpetual system to account for merchandising inventory
- ▶ A merchandising company's business is to provide services
- ▶ A Sugar Mill is an example of a merchandising company

Question No: 13 (Marks: 1) - Please choose one

Capital account of sole proprietors is affected by which of the following items?

- a. Profit & Loss account
- b. Drawings account
- c. Balances of capital account

- ▶ a,b
- ▶ b,c
- ▶ a,c
- ▶ a,b,c

Question No: 14 (Marks: 1) - Please choose one

Which of the following is/are **TRUE** about the sole trader form of business?

- ▶ A sole trader is liable to pay income tax on his/her earnings
- ▶ Sole traders do not need to consult accountants
- ▶ Sole traders must register the name of their business with the Registrar of Companies
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

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Which of the following is (are) characteristic(s) of Reserve?

- ▶ Its amount is generally determined by the management on the basis of the amount of profit earned.
- ▶ It is shown on liabilities side of balance sheet
- ▶ It does not affect profit or loss, since it is created after ascertaining net profit
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

Which account is increased with a debit and decreased with a credit?

- ▶ Cash
- ▶ Accounts Payable
- ▶ Contributed Capital
- ▶ Retained Earnings

Question No: 17 (Marks: 1) - Please choose one

Which financial statement show what a business owes at a particular point in time?

- ▶ A cash flow statement
- ▶ The bank statement for the business
- ▶ A balance sheet
- ▶ A statement of retained earnings

Question No: 18 (Marks: 1) - Please choose one

Which of the following appears in both the Income Statement debit column and the Balance Sheet credit?

- ▶ Net income
- ▶ Net loss
- ▶ Dividends
- ▶ Retained earnings

Question No: 19 (Marks: 1) - Please choose one

The Balance Sheet item that represents the resources invested by the owner is known as:

- ▶ Accounts Receivable
- ▶ Cash
- ▶ Note Payable
- ▶ Owner's Equity

Question No: 20 (Marks: 1) - Please choose one

Which of the following is an example of operating expense?

- ▶ Purchasing operating equipment

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- ▶ Purchasing cleaning services
- ▶ Purchasing an investment in another company
- ▶ Purchasing a computer for the accounting office

Question No: 21 (Marks: 1) - Please choose one

The main objective of financial reporting is to provide:

- ▶ Essential information to internal users of financial reports.
- ▶ Useful economic information about the business to the external parties for sound financial decisions.
- ▶ Information to internal users about the cash position of the business.
- ▶ Information to the Securities Exchange Commission (SEC).

Question No: 22 (Marks: 1) - Please choose one

The figure of cash received from debtors can be located either from cash book or:

- ▶ Debtor's Control Account
- ▶ Balance Sheet
- ▶ Profit & Loss Account
- ▶ Bills Payable Account

Question No: 23 (Marks: 1) - Please choose one

Consider the following data and identify the amount which will be shown in profit & loss account.

| Particulars | Rs. |
|------------------------------------|-------|
| Bad debts | 3,500 |
| Provision for doubtful debts (old) | 6,000 |
| Current year's provision (new) | 1,500 |

- ▶ Rs. (1,000)
- ▶ Rs. 1,000
- ▶ Rs. (5,000)
- ▶ Rs. 5,000

Question No: 24 (Marks: 1) - Please choose one

Consider the following data and identify the amount which will be shown in profit & loss account.

| Particulars | Rs. |
|------------------------------------|-------|
| Bad debts | 1,600 |
| Provision for doubtful debts (old) | 2,000 |
| Current year's provision (new) | 1,000 |

- ▶ Rs. 600

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- ▶ Rs. 1,600
- ▶ Rs. 2,000
- ▶ Rs. 2,600

Question No: 25 (Marks: 1) - Please choose one

Which of the following rectifying entry will be recorded, if sales to Mr. "A" of Rs.336 have been debited to Mr. "B" account?

- ▶ A's account (Dr.) and B's account (Cr.)
- ▶ B's account (Dr.) and A's account (Cr.)
- ▶ Sales account (Dr.) and B's account (Cr.)
- ▶ B's account (Dr.) and Sales account (Cr.)

Question No: 26 (Marks: 1) - Please choose one

Which of the following account(s) will be affected, while rectifying the error of a purchase return of Rs.200 to Mr. "A" entered in sales book instead of purchase return book?

- ▶ A's account only
- ▶ Sales account only
- ▶ Purchase returns account and sales account
- ▶ Purchases account only

Question No: 27 (Marks: 1) - Please choose one

A receipt of cash Rs. 10,000 from Mr. Bilal is recorded as Rs. 1,000. What amount will be adjusted in rectifying entry?

- ▶ Rs. 1,000
- ▶ Rs. 9,000
- ▶ Rs. 10,000
- ▶ Rs. 11,000

Question No: 28 (Marks: 1) - Please choose one

If provision is created for doubtful debts, which of the following entry will be passed to record bad debts in control account?

- ▶ Bad debts (Dr) and Debtors Control A/c (Cr)
- ▶ Provision for doubtful debts (Dr) and Debtors Control A/c (Cr)
- ▶ Provision for doubtful debts (Dr) and Debtors A/c (Cr)
- ▶ Debtors Control A/c (Dr) and Provision for doubtful debts (Cr)

Question No: 29 (Marks: 1) - Please choose one

Which of the following is a detailed record of an individual account in case of large business?

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- ▶ Control Account
- ▶ **Subsidiary Ledger**
- ▶ Balance Sheet
- ▶ Trial Balance

Question No: 30 (Marks: 1) - Please choose one

Which of the following is shown on credit side of creditors control account?

- ▶ Bills Receivable
- ▶ Return inwards
- ▶ **Credit purchases**
- ▶ Discount allowed

Question No: 31 (Marks: 1) - Please choose one

Which of the following is an item of a creditors control account?

- ▶ Cash sales
- ▶ Credit sales
- ▶ **Credit purchase**
- ▶ Cash purchases

Question No: 32 (Marks: 1) - Please choose one

In which of the following condition(s) **DEBT** is regarded as **BAD**.

- ▶ Bankruptcy of the debtor
- ▶ Disappearance of debtor's business
- ▶ Failure of repeated attempt to collect the debt
- ▶ **All of the given options**

Question No: 33 (Marks: 1) - Please choose one

Which of the following best describes unrepresented cheques?

- ▶ Cheques received on behalf of the business by the bank
- ▶ **Cheques drawn but yet to be recorded in the bank records**
- ▶ Cheques issued by the bank not recorded in business records
- ▶ Cheques received but yet to be recorded in the bank records

Question No: 34 (Marks: 1) - Please choose one

The following balance and discrepancies were found on 31 March 2008:

| Particulars | Rs. |
|------------------------|-------|
| Cash book balance (Dr) | 5 000 |
| Unpresented cheques | 1 000 |
| Uncredited cheques | 500 |

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The Bank Statement balance on 31 March 2008 should be:

- ▶ Rs. 5 500 (Dr)
- ▶ Rs. 5 500 (Cr)
- ▶ Rs. 4 500 (Dr)
- ▶ Rs. 4 500 (Cr)

Question No: 35 (Marks: 1) - Please choose one

Consider the following data:

| Particulars | Rs. |
|----------------|----------|
| Assets | ? |
| Owner's equity | 1,50,000 |
| Liabilities | 1,00,000 |

- ▶ Rs. 49,000
- ▶ Rs. 55,000
- ▶ Rs. 50,000
- ▶ Rs. 2, 50,000

Question No: 36 (Marks: 1) - Please choose one

Find out the missing value of an Accounting Equation with the help of given data:

| | |
|----------------|---------------|
| Furniture | Rs. 90,000 |
| Cash | Rs.1, 00, 000 |
| Debtors | Rs.10, 000 |
| Other Assets | Rs. 1,000 |
| Owner's equity | Rs. 90, 000 |

- ▶ Rs. 2, 01,000 liabilities
- ▶ Rs. 1, 11, 000 liabilities
- ▶ Rs. 2, 90, 000 liabilities
- ▶ Rs. 2, 91, 000 liabilities

Question No: 37 (Marks: 1) - Please choose one

Accountancy covers which of the following area(s):

- ▶ Book-keeping
- ▶ Accounting
- ▶ Auditing
- ▶ All of the given options

Question No: 38 (Marks: 1) - Please choose one

_____ is the detail of transaction in one's account provided by the bank.

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- ▶ Bank statement
- ▶ Bank reconciliation statement
- ▶ Income statement
- ▶ Financial statement

Question No: 39 (Marks: 1) - Please choose one

Consider the following inventory record:

| Date | Item | Quantity | Cost/Unit | Total |
|------------|-------------------|----------|-----------|----------|
| 2007Jan. 2 | Opening inventory | 100 | Rs.18.00 | Rs.1,800 |
| Mar. 4 | Purchase | 400 | 19.00 | 7,600 |
| May 8 | Purchase | 800 | 20.00 | 16,000 |
| Nov. 3 | Purchase | 500 | 21.00 | 10,500 |

Four hundred units are unsold, Use the FIFO method of inventory costing and determine the value assigned to the 400 units on hand at the end of the period.

- ▶ Rs.7, 500
- ▶ Rs.7, 978
- ▶ Rs.8, 000
- ▶ Rs.8, 400

Question No: 40 (Marks: 1) - Please choose one

Consider the following inventory record:

| Date | Item | Quantity | Cost/Unit Rs. | Total Rs. |
|--------|-----------------------|----------|------------------|--------------|
| Jan. 2 | Beginning inventory | 10 | 10 | 100 |
| Mar. 4 | Purchase | 35 | 11 | 385 |
| May 8 | Purchase | 40 | 12 | 480 |
| Nov. 3 | Purchase | 20 | 13 | 260 |
| De31 | Merchandise available | 105 | | 1,225 |

85 units were sold, Use the FIFO method of inventory costing and determine the cost of goods sold.

- ▶ Rs. 1,225
- ▶ Rs. 1,015
- ▶ Rs. 965
- ▶ Rs. 992

Question No: 41 (Marks: 1) - Please choose one

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All the costs incurred on the incomplete assets up to the balance sheet date must be transferred to:

- ▶ Capital account
- ▶ Capital work in progress account
- ▶ Relevant asset account
- ▶ Owner's equity account

Question No: 42 (Marks: 1) - Please choose one

| | |
|-----------------------------------|--------------|
| Cost of asset | Rs. 1,00,000 |
| Life of asset | 5 years |
| Depreciation for each year | Rs. 15,000 |
| Sale price after 5 years | Rs.50,000 |
| Book value of Asset after 5 years | ? |

- ▶ Rs.25, 000
- ▶ Rs. 75,000
- ▶ Rs. 15,000
- ▶ Rs. 1, 00,000

Question No: 43 (Marks: 1) - Please choose one

| | |
|------------------------------|-----------|
| Direct materials costs | Rs.70,000 |
| Direct labor costs | 30,000 |
| Manufacturing overhead costs | 60,000 |
| conversion cost | ? |

- ▶ Rs. 20,000
- ▶ Rs.40, 000
- ▶ Rs.90, 000
- ▶ Rs.160, 000

Question No: 44 (Marks: 1) - Please choose one

Which of the following shows summary of a company's financial position at a specific date?

- ▶ Profit & Loss Account
- ▶ Cash Flow Statement
- ▶ Balance Sheet
- ▶ Income & Expenditure Account

Question No: 45 (Marks: 1) - Please choose one

Bank book is part of:

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- ▶ Voucher
- ▶ General Journal
- ▶ **General Ledger**
- ▶ Trial Balance

Question No: 46 (Marks: 1) - Please choose one

Which of the following are the components of General Ledger?

- 1) Title of account
 - 2) Amount of transaction
 - 3) Date of transaction
- ▶ (1) & (2) only
 - ▶ (2) & (3) only
 - ▶ (1) & (3) only
 - ▶ **(1), (2) & (3)**

Question No: 47 (Marks: 1) - Please choose one

Which of the following is **CORRECT** about the flow of recording a transaction?

▶ **Occurrence of event – voucher—Journal—Ledger—Trial Balance—profit and loss account—Balance Sheet**

▶ Occurrence of event—Journal – voucher —Ledger—Trial Balance—profit and loss account—Balance Sheet

▶ Occurrence of event—Ledger – voucher—Journal—Trial Balance—profit and loss account—Balance Sheet

▶ Occurrence of event—Trial Balance – voucher—Journal—Ledger—profit and loss account—Balance Sheet

Question No: 48 (Marks: 1) - Please choose one

Vehicles which are used to supply finished products are called business _____.

- ▶ **Tangible assets**
- ▶ Intangible assets
- ▶ Capital
- ▶ Liabilities

Question No: 49 (Marks: 1) - Please choose one

The basic accounting principle/concept according to which Business is independent from its owner(s) is known as:

- ▶ **Separate Entity Concept**

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- ▶ Matching Concept
- ▶ Going Concern Concept
- ▶ Materiality Concept

Question No: 50 (Marks: 1) - Please choose one

Shares for which amount is paid by public are called _____ shares.

- ▶ **Paid up**
- ▶ Authorized
- ▶ Bonus shares

- ▶ All are correct options

Question No: 51 (Marks: 5)

10 % Debentures of Rs. 80,000 are shown in trial balance. How it will be shown in financial statements? Also mention why a company issues debentures.

Answer:

10% Debentures of Rs. 80000 is shown the Owners Equity pr liability Side of Balance sheet.

Debentures are issued under the common seal of the company and debentures are an instrument for obtaining the loan from the general public. Company also paid mark up on debentures which generally equal to the market rate.

Question No: 52 (Marks: 10)

Following information is extracted from the books of Arfan Ltd as on December 31st, 2007.

| Particulars | Cost | Depreciation rate | Accumulated Depreciation On 01-01-2007 |
|--------------------------------|----------|-------------------|--|
| Vehicles 01-01-2007 | 1,90,000 | 10% | 10,000 |
| Building 01-01-2007 | 4,00,000 | 20% | 12,500 |
| Furniture & Fixture 01-01-2007 | 4,15,000 | 15% | 34,500 |
| Land 01-01-2007 | 1,58,000 | -- | --- |

You are required to calculate Written down value of each asset and show working of complete depreciation for the year ending on December 2007.

| Particulars | Cost | | | Rate | Accumulated Depreciation | | | WDV |
|-------------|----------------|--------------------|---------------------------------|------|--------------------------|--------------|---------------------------------|--------|
| | As At 1-1-2007 | Addition/ deletion | As At 31 st -12-2007 | | As At 1-1-2007 | For The Year | As At 31 st -12-2007 | |
| Vehicles | 190000 | 0 | 190000 | 10% | 10000 | 19000 | 29000 | 161000 |
| Building | 400000 | 0 | 400000 | 20% | 12500 | 80000 | 92500 | 307500 |

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| | | | | | | | | | |
|--------------|----------------|----------|----------------|-----|--------------|---------------|---------------|--|---------------|
| Furniture | 415000 | 0 | 415000 | 15% | 34500 | 62250 | 96750 | | 318250 |
| Land | 158000 | 0 | 158000 | 0 | 0 | 0 | 0 | | 158000 |
| Total | 1163000 | 0 | 1163000 | | 57000 | 161250 | 218250 | | 944750 |

Question No: 53 (Marks: 10)

Prepare Profit and Loss Account for the year ending 31st December 2007 from the Trial Balance and adjustments of MS Company given below:

| Particulars | Debit | Credit |
|--------------------|----------------|----------------|
| | Rs. | Rs. |
| Drawings | 14,000 | |
| Capital Account | | 80,000 |
| Opening Stock | 55,000 | |
| Purchases | 485,000 | |
| Sales | | 610,000 |
| Sundry Debtors | 80,000 | |
| Sundry Creditors | | 60,500 |
| Sales Returns | 5,000 | |
| Carriage Inwards | 6,000 | |
| Salaries | 28,000 | |
| Rent, Rates, Taxes | 15,000 | |
| Insurance | 4,000 | |
| Machinery | 50,000 | |
| Furniture | 5,000 | |
| Cash in hand | 3,500 | |
| Total | 750,500 | 750,500 |

Adjustments:

- 4) Depreciate machinery and furniture @20%p.a.
- 5) Outstanding Salaries Rs. 2,000
- 6) Insurance paid in advance Rs. 500
- 7) Maintain @5% reserve for doubtful debts on debtors.
- 8) Closing Stock was valued at Rs. 60,000

Trading & Profit & Loss Account
For the year ending 31st December 2007

| Particulars | Debit Balance/Rs | Particulars | Credit Balance/Rs |
|---------------|------------------|--------------------|-------------------|
| Opening Stock | 55000 | Sales | 610000 |
| Purchases | 485000 | Less returns: 5000 | |
| Carriage in | 6000 | Closing Stock | 60000 |
| Gross Profit | 119000 | | |
| | 665000 | | 665000 |

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| | | | |
|------------------------|---------------|--------------|---------------|
| Salaries 28000 | | Gross Profit | 119000 |
| +outstanding: 2000 | 30000 | | |
| Rent, Rate, Taxes | 15000 | | |
| Insurance 4000 | | | |
| Less advance: 500 | 3500 | | |
| Depreciation: | | | |
| Machinery: 10000 | | | |
| Furniture: 1000 | 11000 | | |
| Provision of bed debts | 4000 | | |
| Net Profit: | 55500 | | |
| | 119000 | | 119000 |

Question No: 54 (Marks: 10)

What is the effect of given adjustments on Trading & Profit & Loss account and Balance Sheet?

- a. Accrued Expenses or Outstanding Expenses
- b. Prepaid Expenses or Unexpired Expenses
- c. Accrued Revenue or Revenue Receivable
- d. Unearned Revenue or Revenue Received in Advance
- e. Depreciation of Asset

1. Accrued Expenses or Outstanding Expenses

Trading and profit and loss account effect

These expenses will be shown in profit and loss account under administrative expenses and will be deducted from gross profit. They will be used to calculate net profit

Balance sheet effect

These expenses will be shown as expense payable or accrued expenses in balance sheet as current liabilities and will be shown under current liabilities section of liabilities as they have to be paid by business..

2. Prepaid Expenses or Unexpired Expenses

Trading and profit and loss account effect

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These will be deducted from relevant expense account to get the actual expenses for the period and that actual amount of expense will be deducted from gross profit to arrive at net profit. This amount of prepaid expenses will not be included in profit and loss account as an expense itself but its effect will be on current expenses for the period for which profit and loss is being calculated.

Balance sheet effect

These prepaid expenses will be shown as current assets in balance sheet and will be shown under the section of current assets in balance sheet.

3. Accrued Revenue or Revenue Receivable

Trading and profit and loss account effect

These will be added to sales in trading account in profit and loss statement and will be treated as a revenue in the calculation of gross profit by subtracting cost of goods sold from net sales. This will affect gross profit in trading account.

Balance sheet effect

In balance sheet this revenue will be shown under current assets as receivables from debtors and will be shown under the section of current assets of the business.

4. Unearned Revenue or Revenue Received in Advance

Trading and profit and loss account effect

This will not be added to the sales as sales is recognized when the actual services have been provided or when goods have been shipped irrespective of whether payment has been received or not. So this will not affect profit and loss account as it is still not recognized as sales/revenue.

Balance sheet effect

This is a liability for the company because the company has to give goods or services to the buyer for the advance payment done by the buyer and will be shown as a liability in the balance sheet under the current liability section of balance sheet. Also the same amount will be shown in the bank or cash as current asset to offset the liability because the cash or cheque has been received for goods not given or services not rendered yet.

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5. Depreciation of Asset

Trading and profit and loss account effect

The depreciation of asset is an operating expense for the business and will affect profit and loss account. It will be added to the administrative expense and will appear in the administrative expense section of profit and loss account and will be deducted from gross profits to arrive at net profits along with other expenses.

Balance sheet effect

In balance sheet it will appear as deduction from the fixed asset as the fixed assets in balance sheet will be shown at written down value. So this will be added to previous balance of accumulated depreciation and will be deducted from the total cost of the fixed assets and will appear in the assets section under the heading of fixed asset. It might appear in notes as sometimes in balance sheet summarized figure of fixed asset at WDV will be shown. In any case it is deducted from fixed asset in balance sheet and affects the total assets side

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