**Financial Accounting & Analysis**

**December 2023 Examination**

**Q1. Often it happens that while running a business there is an inflow and outflow of revenues and expenses of more than one accounting period. Such transactions, which affects more than one accounting period requires adjustment. Such adjustment are reflected in the books of accounts.**

**Discuss about adjustment entries, point out the type of adjustment, which may arise in the due course of business and reflect on how adjustment entries impacts the financial statement. (10 Marks)**

**Ans 1.**

**Introduction**

In the dynamic realm of business, financial transactions are a daily occurrence, revolving around the constant inflow and outflow of revenues and expenses. However, not all of these transactions pertain exclusively to the current accounting period. Some span over multiple periods, creating the need for accurate reflection and tracking within the accounting system. This challenge is addressed through 'adjustment entries'. These entries ensure that financial statements provide a clear, fair, and comprehensive view of an entity's financial position, performance, and changes in financial position. Failure to record these adjustments can distort the financial picture of a

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Top of Form

**Q2. The revenue from operations and earnings before interest, taxes, depreciation, and amortization are distinct metrics with separate implications for our business performance. It is crucial to understand the difference between these two figures as they provide unique insights into our operational efficiency and profitability. Discuss the statement by differentiating the difference between these two terms, Revenue from operation and earnings before interest, taxes, depreciation, and amortization.**

**With the given information, prepare the statement of Profit and Loss of the company in vertical format. (10 Marks)**

|  |  |
| --- | --- |
| **Depreciation and amortisation expenses** | **295600** |
| **Purchase of stock in trade** | **10450** |
| **Employees benefit costs** | **959139** |
| **Other expenses** | **565000** |
| **Revenue from sale of product** | **5000000** |
| **Other operating revenues** | **2500000** |
| **Cost of material consumed** | **1050000** |
| **Finance cost** | **525000** |

**Ans 2.**

**Introduction**

In the realm of business finance, understanding the nuances of various financial metrics is paramount to assessing a company's health and performance. Two such pivotal metrics are the Revenue from Operations and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). While both are indicators of a company's financial performance, they serve distinct purposes and offer different insights into the operational aspects of a business. Revenue from Operations provides a snapshot of the primary business activities, reflecting the core income-

**Q3. Following is the information available for Paraam Industries Pvt Ltd for the month of August**

|  |  |
| --- | --- |
|  | **Amount** |
| **Withdrawal of cash from the bank, as on 10th August 2023** | **Rs. 200000** |
| **Balance in the business bank account as on 6th Aug 2023** | **Rs. 500000** |
| **Purchased Computer for personal use using business fund as**  **on 15th August 2023** | **Rs. 50000** |
| **Paid for school fees for the kid from the business bank**  **account as on 11th August 2023** | **Rs. 3000** |

**For the given information-**

**a) Discuss the rules in relation to debit and credit as applicable for the account type being assets, liabilities, expenses and gains. (5 Marks)**

**Ans 3a.**

**Introduction**

In the realm of accounting, the double-entry system is a foundational concept that ensures the accounting equation remains balanced, that is, assets = liabilities + equity. Every financial transaction impacts at least two accounts, and these are represented by debits and credits. The rules for debits and credits vary based on the type of account in question, be it assets, liabilities, expenses, or gains. Understanding these rules is crucial for accurate financial record-keeping and

**b) Pass journal entry for the transactions. Explain why the personal expenses and business expenses of owner are treated differently (5 Marks)**

**Ans 3b.**

**Introduction**

Journal entries are the building blocks of accounting, capturing every financial transaction of a business in a structured manner. They follow the double-entry system, ensuring that for every debit entry, there's a corresponding credit entry. A crucial aspect of maintaining accurate financial records is distinguishing between personal and business expenses, especially in entities