

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Spring (August) 2012 Examinations

Monday, the 3rd September 2012

FUNDAMENTALS OF FINANCIAL ACCOUNTING - (S-101)

STAGE – 1

Time Allowed – 2 Hours 45 Minutes

Maximum Marks: 90

Roll No.:

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

- | | Marks |
|--|--------------|
| Q. 2 (a) (i) What do you understand by the term ‘going concern’? | 01 |
| (ii) Assume that book value of a non-current asset of a business is Rs.29,500 on December 31, 2011. It is expected that the business is going to be closed in April 2012 and in case of forced sale the asset will be sold for Rs.11,250. Will it be appropriate to keep the ‘going concern’ assumption in this case and at which amount the asset should be shown in the statement of financial position on December 31, 2011? | 02 |
| (b) Show the journal entries (with narrations) necessary to record the following transactions of August 2012: | 12 |
| Date | |
| 02 A motor vehicle was purchased on credit from Alpha Motors for Rs.500,500. | |
| 02 Hilal & Company bought office equipment on credit from Bilal & Company for Rs.23,060. | |
| 05 Mr. Arsalan, the owner of the business, took goods costing Rs.6,800 from business for personal use. | |
| 15 Mr. Hamid who owed Rs.12,800 delivered a non-current asset for the same amount in full settlement of his debt. | |
| 19 Goods for re-sale amounting to Rs.26,375 purchased on account. | |
| 24 A debt owing to business by Mansoor amounting to Rs.24,850 is written off as bad debt. | |
| 25 Office furniture bought on credit from Interwood Ltd., for Rs.31,200. | |
| 27 A piece of office furniture that was purchased from Interwood Ltd., for Rs.5,400 was returned because it was not found as per the specifications. | |
| Q. 3 (a) Differentiate between periodic and perpetual inventory systems. | 02 |

PTO

- (b) Ammad Electronics deals in various electronic items. During the month of July 2012, following transactions took place in relation to LCD monitors of a particular model:

Date	Purchases	Sales
July 2012		
01	5 units @ Rs.6,500 each	–
03	–	3 units @ Rs.8,000 each
09	4 units @ Rs.6,600 each	–
11	–	1 unit @ Rs.8,000
13	–	2 units @ Rs.8,200 each
14	6 units @ Rs.6,700 each	–
20	–	4 units @ Rs.8,200 each
28	3 units @ Rs.6,800 each	–
30	–	3 units @ Rs.8,300 each

Required:

What will be the cost of inventory as at July 31, 2012 and the cost of goods sold for the month of July 2012, using the FIFO method under perpetual inventory system? **09**

- (c) Dawood & Brothers, the wholesalers of food items, sell for both cash and credit. Following information relates to the business for the year ended December 31, 2011:

- (1) On January 1, 2011, the balance in the accounts receivable was Rs.1,455,000.
- (2) A customer who owed Rs.38,400 to the business, was declared bankrupt and could pay only Rs.12,500 in full settlement of his debt.
- (3) In addition to above bad debt, other bad debts amounted to Rs.55,850.
- (4) The balance in the accounts receivable, on December 31, 2011, was Rs.1,110,250 which required following adjustments:
 - A cheque of a customer for Rs.8,400 was dishonoured.
 - The discount allowed to a customer amounting to Rs.6,650 was wrongly credited to the accounts payable.

Dawood & Brothers maintain allowance for doubtful debts at 5% of the closing balance of accounts receivable.

Required:

For the financial year ended December 31, 2011, show the entries in the following accounts:

- (i) Allowance for doubtful accounts. **06**
- (ii) Bad debts. **03**

- Q. 4 (a)** As per IAS-38 Intangible Assets, define the following terms:

- (i) Research **01**
- (ii) Development **02**

- (b)** Prepare the required correcting journal entries for the following transactions: **06**
- (1) A personal computer purchased, for Rs.29,500 for the personal use of the owner, was treated as purchases for the business.
 - (2) Purchase of a van for Rs.833,350 was wrongly recorded as purchases for resale.
 - (3) Discount allowed amounting to Rs.850 to Mr. Abid was debited to the discount received account.
 - (4) An item of office equipment was sold for Rs.4,780 but it was wrongly considered as sales of goods. The book value of the office equipment was also Rs.4,780.
 - (5) A new machine, purchased for Rs.250,900, was debited to the machinery repairs account.
 - (6) Insurance premium paid and charged to profit and loss account during the year, included an amount of Rs.65,250 for personal house of the owner.
- (c)** The bank column of Tahseen Company's cash book showed a credit balance of Rs.2,500 on December 31, 2011 whereas the monthly bank statement showed a credit balance of Rs.14,750. The accountant of the company, while checking the cash book with the bank statement, discovered the following facts:
- (1) The bank directly received dividends of Rs.1,200 on behalf of the company.
 - (2) A debtor paid Rs.8,300 directly into the account of the company.
 - (3) Bank charges for the month amounted to Rs.150.
 - (4) An amount of Rs.350 for the subscription of a professional magazine was paid by the bank as per the standing order of the company.
 - (5) A standing order of Rs.1,000 for Tahseen's loan repayment had been paid by the bank.
 - (6) One cheque amounting to Rs.3,450 had been paid into the bank on December 31, 2011, but was not included in the bank statement.
 - (7) Two cheques drawn in favour of Shakir for Rs.7,250 and Fawad for Rs.5,450 had not been presented for payment up to December 31, 2011.

Required:

Prepare a bank reconciliation statement as at December 31, 2011. **11**

Q. 5 (a) Differentiate between depreciation and amortization. **02**

- (b)** Asif Company purchased a delivery van on January 1, 2010 for Rs.900,000. Its useful economic life was estimated to be four years, and its salvage value at the end of economic life was estimated to be Rs.100,000.

In the year 2012, a review of the economic useful life of the van was undertaken which indicated that the van could be used up to December 31, 2014 with an estimated residual value of Rs.40,000. The company uses straight-line method of depreciation.

Required:

- (i)** Determine the amount of depreciation to be charged to the income statement for the year ending December 31, 2012. **06**
- (ii)** Calculate the amount of accumulated depreciation to be included in the statement of financial position as at December 31, 2012. **01**

(c) Classify the following between 'capital' and 'revenue' expenditures in relation to People Restaurant: **06**

- (a) Fire insurance premium paid for current year.
- (b) Legal cost of collecting debts.
- (c) Purchase of delivery van.
- (d) Extension of building.
- (e) Fuel costs for delivery van.
- (f) Wages of employees.
- (g) Carriage on return outwards.
- (h) Purchase of a deep freezer.

Q. 6 The following trial balance was extracted from the books of Rashid Traders at the end of the year on December 31, 2011:

	<u>Debit</u> <u>(Rs.)</u>	<u>Credit</u> <u>(Rs.)</u>
Sales		785,825
Purchases	464,000	
Capital		57,800
Drawings	85,500	
Office furniture	14,500	
Rent	17,000	
Discount allowed	4,100	
Accounts receivable	61,580	
Office equipment	18,750	
Accounts payable		26,225
Wages & salaries	157,000	
Inventory at January 1, 2011	20,600	
Allowance for doubtful debts January 1, 2011		2,025
Miscellaneous expenses	3,075	
Bad debts written off	3,650	
Cash at bank	20,500	
Cash in hand	1,620	
	<u>871,875</u>	<u>871,875</u>

Additional Data:

- (i) Inventory on December 31, 2011, Rs.15,000.
- (ii) Wages & salaries payable on December 31, 2011, Rs.2,500.
- (iii) Rent to the extent of Rs.5,500 was prepaid on December 31, 2011.
- (iv) Accrued miscellaneous expenses on December 31, 2011 were Rs.950.
- (v) Allowance for doubtful debt is to be increased to Rs.3,025.
- (vi) Depreciation expenses for the year are as follows:
 - Office furniture 10% of book value
 - Office equipment 20% of book value

Required: Prepare the following:

- (a) Income Statement for the year ended December 31, 2011. **10**
- (b) Statement of Financial Position as at December 31, 2011. **10**

THE END