INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall 2012 (February 2013) Examinations

Tuesday, the 26th February 2013

FUNDAMENTALS OF FINANCIAL ACCOUNTING - (AF-101)
SEMESTER – 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 Define the following :

(a) Time interval concept **02**

(b) Accrual basis **02**

(c) Business entity concept **02**

(d) Money measurement concept **02**

(e) Historical cost concept **02**

Q.3 **(a)** Karachi Electronics completed following transactions for January 2013:

Jan-01: Purchased 15 monitors on account from Mr. Jameel @ Rs.5,500 each.
Jan-05: Sold 5 monitors on credit to Ali Brothers, Rs.7,200 each.
Jan-08: One defective monitor was returned to Mr. Jameel.
Jan-12: Sold 10 power supplies on account to Wali Brothers @ Rs.200 each.
Jan-18: Ali Brothers returned one defective monitor.
Jan-23: Paid advance salary to an assistant by cheque, Rs.10,000.
Jan-27: Paid miscellaneous expenses in cash, Rs.6,000.
Jan-30: Wali Brothers paid Rs.1,800 in full settlement of Rs.2,000 by cheque.

Required:

Prepare journal entries for the above transactions. **09**

(b) Bolan Transport Company purchased ten coaches from Ching Yeng Company on January 1, 2010 at a list price of Rs. 2 million each with a salvage value of Rs.240,000 each. A trade discount of 10% was given by the seller. Bolan Transport Company incurred and paid the following:

(i) Custom duty paid on invoice price for all coaches, Rs.170,000.

(ii) Repainting on coaches @ Rs.10,000 each.

(iii) Freight charges were @ Rs.13,000 each.

Marks

The expected useful life of each coach is ten years. The company uses 15% written down value method to depreciate all coaches. On December 31, 2012, five coaches were sold for Rs.6,650,000.

Required:

(i) Compute the cost of all coaches. **03**

(ii) Prepare vehicle account. **02**

(iii) Prepare accumulated depreciation account from January 1, 2010 to December 31, 2012. **04**

(iv) Calculate loss or gain on disposal of the coaches. **02**

Q. 4 **(a)** K & K Traders have been estimating doubtful debts on a fixed percentage basis. On December 31, 2011, their allowance for doubtful debts account had a balance of Rs.2,550. On December 31, 2012, the company decided to relate the allowance for doubtful debts to the age of outstanding debts. The debts outstanding for the year ended at December 31, 2012 on age basis are as follows:

Age of debt	Accounts receivable (Rs.)	Required allowance for doubtful debts
upto 1 month	30,000	0.5%
more than 1 month upto 2 months	15,000	1.0%
more than 2 months upto 3 months	6,000	2.5%
more than 3 months	2,000	5.0%

Required:

Prepare the allowance for doubtful debts account for the year ended December 31, 2012. **06**

(b) G.J. Limited's trial balance as at December 31, 2012, failed to agree in spite of hard efforts. The credit side of trial balance was short by Rs. 65,000. In January 2013, following errors, made in 2012, were detected:

- Goods sold on account to B-JI Sons for Rs.100,000 had been debited to D-JI Sons.
- An obsolete computer system having book value of Rs.30,000 was sold for the same amount. It had been credited to sales account.
- Discount received had been under-cast by Rs.10,000.
- Discount allowed had been over-cast by Rs.15,000.
- Utility expense account had been over-cast by Rs.40,000.

Required:

(i) Pass journal entries for correcting the above errors. **05**

(ii) Draw up 'suspense account' after errors have been corrected. **02**

(iii) Calculate the corrected profit amount if the net profit had been calculated at Rs.1,965,000 for the year ended December 31, 2012. **03**

(c) The following information pertains to Khan Traders for the month of December 2012:

(i) Over draft as per bank statement, Rs.45,250.

(ii) Cheque issued for Rs.155,300 during December 2012. Bank statement shows that cheque for Rs.138,200 have been presented to the bank.

Marks

(iii) The bank statement shows the following entries (not recorded in cash book):

	Rs.
• Interest on overdraft	760
• Interest paid on fixed deposit	15,340
• Cheque of one customer was dishonoured	8,600
• Insurance premium paid by the bank as per standing instruction	17,200
• Dividend recorded by the bank	5,950

(iv) Following amounts deposited late on December 31, 2012 were not shown in the bank statement:

	Rs.
• Cheques	65,800
• Cash	35,500
Balance as per cash book	44,220

Required:

Prepare bank reconciliation statement for the month of December 2012. **09**

Q. 5 Joni Limited's accounts balances as on December 31, 2011 are presented as under:

Particulars	**(Rs. '000)**	**Particulars**	**(Rs. '000)**
Land	10,400	Share capital	10,000
Plant	3,000	8% Debentures	1,000
Inventory (January 1, 2011)	800	Retained earnings	3,000
Accounts receivable	1,200	Notes payable	300
Cash & bank	540	Accounts payable	400
Dividend paid	200	General reserves	200
Purchases	2,000	Allowance for doubtful debts	30
Preliminary expense	100	Sales revenue	5,000
General expense	100		
Salaries expense	1,200		
Bad debts expense	50		
Debenture interest paid	40		
Unexpired insurance	300		
Totals	**19,930**		**19,930**

Additional information:

(i) Unexpired insurance as at December 31, 2011, Rs. 100,000.

(ii) Six months interest on debentures is outstanding.

(iii) Provision on uncollectible is maintained at 5% of the closing balance of accounts receivable.

(iv) Write off Rs.10,000 from preliminary expense.

(v) Salaries paid in advance, Rs.50,000 and accrued salaries, Rs.150,000.

(vi) Plant should be depreciated at 10% on reducing balance method.

(vii) Closing inventory, Rs.500,000.

		Marks
Required:		
(a)	Prepare Income Statement for the year ended December 31, 2011.	**12**
(b)	Prepare Statement of Financial Position as on December 31, 2011.	**13**

Q. 6 Following balances have been extracted from the financial statements of Delux Company:

Statement of Financial Position:	**(Rs. '000)**
Accounts receivable as at December 31, 2011	240
Accounts receivable as at December 31, 2012	300
Current assets as at December 31, 2012	2,300
Current liabilities as at December 31, 2012	800
Total equity	2,500
*(**Note:** the current assets for 2012 consist of cash & bank, marketable securities, accounts receivable and inventory only)*	
Income Statement for the year ended December 31, 2012:	
Sales revenue (including 10% cash sales)	3,000
Inventory January 1, 2012	500
Inventory December 31, 2012	300
Cost of sales	1,700
Gross profit	1,300
Net profit	900

Required:

Calculate the following for the year 2012:

(a)	Gross profit ratio	**01**
(b)	Net profit ratio	**01**
(c)	Return on share holders' equity ratio	**01**
(d)	Current ratio	**01**
(e)	Acid test ratio	**02**
(f)	Inventory turn over	**02**
(g)	Accounts receivable turn over	**02**

THE END

Marks

Q.2 (a) Time interval concept:

One of the underlying principles of accounting, the time interval concept, is that financial statements are prepared at regular intervals of one year. Companies which publish further financial statements between their annual ones describe the others as 'interim statements'. For internal management purposes, financial statements may be prepared for more frequently, possibly on a monthly basis or even more often. **02**

(b) Accrual basis:

The effects of transactions and other events are recognized when occur and they are recorded in the books and reported in the financial statements of the period to which they relate. Net profit is the difference between revenues and the expenses incurred in generating those revenues, i.e. Revenues Expenses = Net Profit **02**

(c) Separate entity concept:

In accounting business is considered to be a separate entity from the owner. Owner expenses are not treated as business expense if owner spends from business cash. **02**

(d) Money measurement concept:

Only monetary transactions are entered in accounting records. No quantitative data or transactions are entered unless expressed in money. **02**

(e) Historical cost concept:

An asset is recorded at the price paid to acquire it regardless of existing price in the market. **02**

Q.3 a)

Karachi Electronics
General Journal

Date 2013	Particulars	PR	Debit	Credit	Marks
Jan 01	Purchases		82,500		0.5
	Account payable, Mr. Jameel			82,500	0.5
	(Purchases of 15 monitors @Rs.5,500 on account)				
Jan 05	Account Receivable, Ali Brothers		36,000		0.5
	Sales			36,000	0.5
	(Sale of 5 monitors on account Rs.7,200 each)				
Jan 08	Accounts payable, Mr. Jameel		5,500		0.5
	Purchases return			5,500	0.5
	(One defective monitor returned)				
Jan 12	Account receivable, Wali Brothers		2,000		0.5
	Sales			2,000	0.5
	(Sales of 10 power supplies Rs. 200 each)				
Jan 18	Sales return		7,200		0.5
	Account Receivable, Ali Brothers			7,200	0.5
	(One defective monitor returned by Ali Bros)				
Jan 23	Prepaid salary		10,000		0.5
	Bank			10,000	0.5
	(salary paid in advance by cheque)				
Jan 27	Miscellaneous expenses		6,000		0.5
	Cash			6,000	0.5
	(miscellaneous expenses by cash)				
Jan 30	Bank		1,800		0.5
	Sales discount		200		1.0
	Account receivable Wali Brothers			2,000	0.5
	(Payable made by Wali Brothers net of sales discount)				

Marks

Q.3 (b) (i) **Cost of all Coaches:**

	(Rs. '000')	Marks
List price (2,000 x 10)	20,000	0.5
Less: Trade discount (20,000 x 10%)	(2,000)	0.5
Invoice price	18,000	
Add: Additional costs:		
Excise duty and sales tax	170	0.5
Repainting of coaches	100	0.5
Freight	130	0.5
Cost of ten coaches	**18,400**	**0.5**

(ii)

Vehicle Account

2010	**(Rs.'000')**	**2010**	**(Rs.'000')**	Marks
Jan 1, Ching Yeng	18,000			
Cash (Add: Costs)	400	Dec 31, Balance C/F	18,400	**0.75**
	18,400		18,400	
2011		**2011**		
Jan Balance B/F	18,400	Dec 31, Balance C/F	18,400	**0.5**
2012		**2012**		
Balance B/F	18,400	Dec 31, Sold 5 coaches for cash	9,200	**0.75**
		Balance C/F	9,200	
	18,400		18,400	

(iii)

Accumulated Depreciation - Vehicles

2010	**(Rs.'000')**	**2010**	**(Rs.'000')**	Marks
Dec 31, Balance C/F	2,760	Dec 31, depreciation expense	2,760	**0.5**
2011		**2011**		
Dec 31,		Jan 1, Balance B/F	2,760	
Balance C/F	5,106	Dec 31, depreciation expense	2,346	**1.0**
	5,106		5,106	
2012		**2012**		
Dec 31, sold 5 coaches	3,550	Jan 1, B/F	5,106	
Balance C/F	3,550	Dec 31, depreciation expense	1,994	**1.0**
	7,100		7,100	

Marks

Working: Computation of Depreciation under WDV Method:

Cost	18,400	
Depreciation		
January – December 2010 : 18,400 x 15%	**(2,760)**	**0.5**
WDV	15,640	
Depreciation		
January – December 2011 : 15,640 x 15%	**(2,346)**	**0.5**
WDV	13,294	
Depreciation		
January – December 2012 : 13,294 x 15%	**(1,994)**	**0.5**
WDV	11,300	

(iv) **Loss or Gain on Disposal of 5 Coaches:**

Gain = sale value – book value		**0.5**
	(Rs.'000')	
WDV of 5 coaches 11,300/ 2	5,650	**0.5**
Less sold for cash	(6,650)	**0.5**
Gain on disposal	**1,000**	**0.5**

Marks

Q.4 (a)

W-1: **Computation of doubtful debts:**

Amount	Doubtful Debts	Marks
30,000 x 0.5%	Rs.150	**0.5**
15,000 x 1%	Rs.150	**0.5**
6,000 x 2.5%	Rs.150	**0.5**
2,000 x 5%	Rs.100	**0.5**
Estimated doubtful debts	**Rs.550**	**1.0**

W-2: Adjustment to previous allow for doubtful debts:

Balance b/f	2,550
Less: Allow for doubtful debts on aging analysis	(550)
Reduction in doubtful debts	**2,000**

Allow for doubtful debt account

2011		2011		
Dec 31 P& L A/c (W2)	2,000	Jan Balance b/f	2,550	**1.0 + 1.0**
Balance c/f	550			**1.0 + 0**
	2,550		2,550	

(b)(i)

G.J ltd.
General journal

Date	particulars	PR	Rs. Debit	Rs. Credit	Marks
(i)	B.JI Sons		100,000		**0.5**
	D.JI Sons			100,000	**0.5**
	To record error corrected				
(ii)	Sales		30,000		**0.5**
	Disposal account (computer)			30,000	**0.5**
	To record error corrected				
(iii)	Suspense account		10,000		**0.5**
	Discount received			10,000	**0.5**
	To record error corrected				
(iv)	Suspense account		15,000		**0.5**
	Discount allowed			15,000	**0.5**
	To record error corrected				
(v)	Suspense account		40,000		**0.5**
	Utility account			40,000	**0.5**
	To record error corrected				

Marks

(ii) **Suspense Account**

2012	Rs.	2012	Rs.	
Discount received	10,000	Balance B/F	65,000	**0.5+0.5**
Discount allowed	15,000			**0.5 + 0**
Utility account	40,000			**0.5 + 0**
	65,000		**65,000**	

(iii) **Calculation of corrected profit 2012:**

	Rs.	Rs.	
Profit before adjustment		1,965,000	
Less: Sale of non-current assets treated as sales	(30,000)		**0.5**
Add: Discount received under-cast	10,000		**0.5**
Add: Discount allowed over-cast	15,000		**0.5**
Add: Utility over-cast	40,000		**0.5**
		35,000	
Adjusted profit for the year 2012		**2,000,000**	**1.0**

(c) Bank reconciliation:

Overdraft as per bank statement	(45,250)	
Outstanding cheques (155,300 - 138,200)	(17,100)	**1.0**
Late deposit cheque	65,800	**1.0**
Cash	35,500	**1.0**
	38,950	**0.5**
Balance as per cash book	44,220	
Interest paid	(760)	**1.0**
Interest received	15,340	**1.0**
Dishonor of cheques	(8,600)	**1.0**
Interest premium	(17,200)	**1.0**
Dividend received	5,950	**1.0**
	38,950	**0.5**

Alternate Solution Q.No.4(c)

		(Rs.)	
Per bank		(45,250)	**0.5**
O/s cheque (155,300 – 138,200)		(17,100)	**1.0**
Interest on O/D		760	**1.0**
Interest on fixed deposit		(15,340)	**1.0**
Dishonored cheque		8,600	**1.0**
Insurance premium		17,200	**1.0**
Dividend credited by bank		(5,950)	**1.0**
Late deposit:	Cheque	65,800	**1.0**
	Cash	35,500	**1.0**
Per cash book		44,220	**0.5**

Marks

Q.5 (a)

Joni Ltd.
Income statement
as at December 31, 2011

					Marks
			(Rs. '000')		
Sales revenue				5,000	**0.5**
Less: Cost of sale:					
Opening inventory		800			**0.5**
Add: Purchases		2,000			**0.5**
		2,800			
Less: Closing inventory		(500)			**0.5**
Cost of goods sold				(2,300)	**0.5**
Gross profit				**2,700**	**0.5**
Less: Operating expenses:					
General expenses			100		**0.5**
Salaries expenses		1200			**0.5**
Add: Accrued salary		150			**0.5**
Less: Prepaid salary		(50)	1300		**0.5+0.5**
Bad debts expense		50			**0.5**
Add: Allow for bad Cr.		30	80		**0.5+0.5**
Depreciation expense plant (3000 x 0.1)			300		**0.5**
Interest on debenture paid	40				**0.5**
Add: Accrued	40		80		**0.5+0.5**
Preliminary expenses written off			10		**0.5**
Insurance expense (300-100)			200		**0.5**
				(2,070)	
Net profit				**630**	**0.5**

Allowance for doubtful debts

				Marks
		b/d	30	**0.5**
c/d (1,200 x 0.05)	60	Income statement bal/ fig	30	**0.5+0.5**
	60		**60**	

Marks

(b)

Joni Ltd.
Statement of Financial Position
as at December 31, 2011

	Assets			**Liabilities and Equity**		
	Current Assets			**Current Liabilities**		
0.5	cash & bank		540	A/c payable	400	0.5
	A/C Receivable	1,200		Note payable	300	0.5
0.5	less: allow for bad	(60)		Accrued salary	150	0.5
0.5			1,140	Interest payable	40	0.5
0.5	prepaid insurance		100		890	0.5
0.5	prepaid salary		50	**Non current Liabilities**		
0.5	Mdse inventory		500	8% Debenture	1,000	0.5
0.5			2,330	**Issued and paid up capital**		
				Share capital	10,000	0.5
	Non-current Assets			General Reserves	200	0.5
0.5	Land		10,400	Retained earnings **W-1**	3,430	0.5
0.5	Plant (3000 – 300)		2,700			
	Preliminary expenses		13,100		13,630	0.5
0.5	(100 - 10)		90			
0.5						
0.5			**15,520**		**15,520**	0.5

Working Notes:
W-1: **(Rs. '000')**

Retained earnings

Interim dividend	200	Bal B/F	3,000	**0.5+ 0**
Bal C/F	3,430	Profit for the year	630	**0.5+0.5**
	3,630		**3,630**	

Marks

Q.6

(a) GP rate = $\frac{\text{GP}}{\text{Sales}} \times 100$ — 0.5

$\frac{1,300}{3,000} \times 100$ **= 43.33%** — 0.5

(b) Net profit = $\frac{\text{Net profit}}{\text{Sale}} \times 100$ — 0.5

$\frac{900}{3,000} \times 100$ **= 30%** — 0.5

(c) Return on Shareholder' equity = $\frac{\text{Net profit}}{\text{Equity}} \times 100$ — 0.5

$= \frac{900}{2,500} \times 100$ **= 36%** — 0.5

(d) Current ratio = Current assets : Current liabilities — 0.5
= 2,300 : 800
= <u>2.88 : 1</u> — 0.5

(e) Acid test ration = Quick assets : Current liabilities — 0.5

		(Rs.'000')	Marks
Quick assets:	Current assets at December 31, 2012	2,300	
	Less inventory	300	
		2,000	1.0

Acid test ratio = 2,000 : 800
= <u>2.5 : 1</u> — 0.5

(f) Inventory turn over = $\frac{\text{Cost of sale}}{\text{Average inventory}}$ — 0.5

Average inventory = (500 +300) / 2 = 400 — 0.5

$= \frac{1700}{(500 + 300)/2} = \frac{1,700}{400}$ — 0.5

= **= 4.25 times** — 0.5

(g) Receivable turn over = $\frac{\text{Credit sale}}{\text{Average receivable}}$ — 0.5

Average receivable = (240 + 300) / 2 = 270 — 0.5

$= \frac{(3,000 - 300)}{(240 + 300)/2} = \frac{2,700}{270}$ — 0.5

= **10 times** — 0.5

THE END

SPRING 2013 EXAMINATIONS
Tuesday, the 3rd September 2013
FUNDAMENTALS OF FINANCIAL ACCOUNTING – (AF-101)
SEMESTER-1

Writing Time: 02 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 Sign Pakistan Limited is incorporated in Pakistan. The Company is engaged in manufacturing of consumer appliances for local market. Following is the pre-closing trial balance of the company together with related adjustments as at December 31, 2012:

	Debit	Credit
	(Rupees in '000)	
Issued, subscribed and paid-up capital		17,900
General reserves		10,500
Retained earnings		700
Long-term loans		8,000
Accounts payable		5,197
Property, plant and equipment (net)	30,000	
Long-term deposits	3,000	
Inventory (01.01.2012)	1,500	
Accounts receivable	7,900	
Allowance for doubtful debts		106
Staff advances	125	
Prepaid insurance	600	
Cash and bank balances	3,620	
Sales		35,770
Purchases	23,400	
Carriage inward	2,600	
Distribution costs	2,100	
Administrative expenses	3,200	
Suspense account	128	
	78,173	**78,173**

Data for adjustments as at December 31, 2012:

(i) During the current year, a premium of Rs.600,000 to insure factory premises was made for a period of 3 years with effect from July 01, 2012, which was initially debited to prepaid insurance. Rent of Gujrat office for the month of November and December 2012 has not so far been paid, which amounts to Rs.150,000. In this connection, no adjustments have been incorporated in the accounts.

(ii) Based on past recovery trend, it is estimated that 3% of the year-end accounts receivable are to be considered doubtful. It was also observed that discount of Rs.153,000 allowed to customers was erroneously charged to suspense account.

(iii) An amount of Rs.25,000, recovered from an employee, Mr. Farooque, was mistakenly credited to suspense account.

(iv) On March 01, 2012, an amount of Rs.3 million was invested in long term deposits. The investment is secured by Government of Pakistan. The rate of return on the scheme is 10% p.a. and the interest on investment is due on December 31 every year.

Marks

(v) Previously 100% depreciation on non-current assets was being charged to production department and nothing was apportioned to distribution and marketing departments. In order to allocate depreciation charge appropriately, it was decided that from year 2012, the rate of depreciation on non-current assets will be charged at 10% on reducing balance method and it will be apportioned as follows:

a)	Production	60%
b)	Marketing	25%
c)	Administration	15%

There was no addition or disposal of property, plant and equipment during the year.

(vi) Inventory comprising finished goods has been valued at Rs.3 million.

(vii) Board of Directors approved to transfer Rs.500,000 to general reserves.

Required:

(a) Statement of Profit or Loss for the year ended December 31, 2012. **12**

(b) Statement of Financial Position as at December 31, 2012. **13**

Note: *The financial statements must be prepared in accordance with the approved accounting standards and keeping in mind recording of relevant adjustments. However, formal notes to the accounts are not required, although detailed working should be submitted with the answer.*

Q. 3 (a) Explain the following terms:

(i) Dual aspect concept **02**

(ii) Relevance **02**

(iii) Neutrality **02**

(iv) Completeness **02**

(b) On December 31, 2012, Alina Limited estimated allowance for doubtful debts at 10% of accounts receivable of Rs.450,000.

The allowance for doubtful debts account prior to any adjustment has following balance in each independent case:

Case No. 1	No balance
Case No. 2	Credit balance of Rs.20,000
Case No. 3	Credit balance of Rs.45,000
Case No. 4	Debit balance of Rs.15,000

Required:

Pass an adjusting entry for each of the above independent case. **04**

(c) Following accounting data of year 2012 has been extracted from the books of Razzaque Sons:

	Rupees
Purchases ledger balance (01.09.2012)	25,500
Sales ledger balances (01.09.2012)	31,200
Totals for the month of September, 2012:	
Purchases journal	511,000
Sales journal	861,000
Return outwards journal	123,000
Return inwards journal	110,000
Cash sales	250,250
Cash purchases	125,125
Cash paid to suppliers	340,000
Cash recovered from debtors	750,000
Discount allowed	9,000
Discount received	5,000
Balances on the sales ledger set off against balances in the purchases ledger	12,000

Required: **Marks**

(i) Prepare a sales ledger control account. **04**

(ii) Prepare a purchases ledger control account. **04**

Q. 4 (a) Following balances have been extracted from the books of Shahi Traders:

	2012 (Rs.'000)	**2011 (Rs.'000)**
Opening inventory	3,400	
Purchases	132,000	
Closing inventory	(2,500)	
Cost of goods sold	132,900	
Sales	146,600	
Profit for the year	8,645	
Current assets:		
Inventory	2,500	3,400
Accounts receivable	25,000	23,300
Cash in hand	10,500	12,700
	38,000	39,400
Non-current assets	99,000	88,500
Accounts payable	19,200	17,100
Capital	100,000	90,000

Required:

Answer the following:

(i) What is return on capital employed for the year 2012? **02**

(ii) After how many days inventory is disposed of? **02**

(iii) In how many days collection is made from customers? **02**

(iv) In how many days payment is disbursed to suppliers? **02**

(b) From the following data find out the balance as per bank statement as on March 31, 2013: **08**

- Balance as per cash book on March 31, 2013 Rs. 55,200
- Payment cheques outstanding on March 31, 2013 Rs. 31,300
- Late Deposit of cheques outstanding on March 31, 2013 Rs. 33,700
- Bills of Rs.7,200 collected by the bank but not entered into the cash book till March 31, 2013.
- Bank charges of Rs.700 debited by the bank but not recorded in cash book till end of March, 2013.
- A cheque issued to a supplier for Rs.29,800 was entered in the cash book as Rs.28,900.
- A cheque amounting to Rs.15,200 was dishonoured but not entered in the cash book.

Q. 5 (a) Qaisar & Sons are renowned computers traders in the city. Below are the transactions extracted from their accounting data, which took place during the month of May, 2013:

		Rupees
01.5.13	Purchased, on account, computer accessories from Zaheer & Sons. Terms being 2/10, n/30 – Invoice No.1876.	55,513
05.5.13	Purchased, on credit, five printers from Yaseen Brothers. Terms being 2/10, n/30 – Invoice No.125.	146,724
09.5.13	Purchased a delivery motorbike on account from Husain Engineering. Terms 3/10, n/45 – Invoice No. 5656.	50,400
12.5.13	Purchased merchandise on cash from Khalil Bros. Invoice No.1362.	13,250
16.5.13	Purchased merchandise from Jindani Traders on account. Terms basis 2/10, n/35 – Invoice No.1226.	82,723
25.5.13	Invoice No. 10001 received from Bushra & Sons on account of purchasing three laptops. Terms basis 3/10, n/30.	150,000
27.5.13	A laptop found defective and returned to supplier. D/Note #18	45,600
31.5.13	Purchased merchandise from Zee Brothers for cash	41,100

Marks

Required:

Prepare a standard format for Purchases Day Book and record the *relevant* transactions therein. **05**

(b) The following information pertains to B & D Traders for the month of June, 2012:

	Rs.
Debtors on June 1, 2012	6,000
Creditors on June 1, 2012	8,000

Transactions during the month of June, 2012:

	Rs.
Counter sales to customers	6,000
Debtors' accounts written off	600
Cash received from debtors	14,000
Cash paid to suppliers	8,000
Goods returned to suppliers	1,000
Goods purchased on cash	9,000
Debtors on June 30, 2012	24,000
Creditors on June 30, 2012	30,000

Required:

(i) Calculate the amount of credit sales for the month. **04**

(ii) Calculate total sales for the month. **01**

(c) During the scrutiny of accounts following errors were detected before closing of books of M/s. Jaffar & Sons:

(i) Sold goods to Juma Khan worth Rs.6,400 on credit. The whole transaction was wrongly recorded as credit purchase.

(ii) Accrued commission income of Rs.1,300 was overlooked.

(iii) Owner withdrew merchandise of Rs.1,550 for personal use but erroneously could not be recorded.

(iv) Computer purchased on credit costing Rs.8,300 was recorded as Rs.3,800.

Required:

Pass rectification entries for the above transactions. **05**

Q. 6 (a) Explain the following by giving at least one example for each:

(i) Personal accounts **02**

(ii) Real accounts **02**

(iii) Nominal accounts **02**

(b) Following data has been extracted from the books of Wajahat & Sons:

	Rs.
Cost of old machine	65,000
Accumulated depreciation	51,000
Trade-in allowance for old machine	11,000
Cost of new machine	75,000

Required:

(i) Compute gain or loss on exchange of machine. **05**

(ii) Calculate cash payment to be made for exchange of machine. **03**

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

				Marks
Q.2 (a)	**Sign Pakistan Limited**			0.5
	Statement of Profit or Loss			0.5
	For the year ended December 31, 2012			0.5
		2012 (Rs. '000)		
Sales (35,770 – 153)		35,617		0.25+0.25
Less cost of sales	note1	26,400		0.25
Gross profit			9,217	0.25
Distribution costs	note2	2,981		0.25
Administrative expenses	note3	3,800		0.25
			6,781	0.25
Profit from operations			2,436	
Interest on long-term deposits (3,000 x 10% x 10/12)			250	0.5+0.25
Profit for the year			**2,686**	0.5

Working:

Note 1 : Cost of sales	**Rs. '000**	**Rs. '000**	
Opening stock		1,500	0.25
Purchases	23,400		0.25
Carriage inward	2,600		0.25
Depreciation (3,000 x 60%)	1,800		0.5+0.25
Insurance (600 x 1/3 x 6/12)	100		0.5+0.25
		27,900	
		29,400	
Less closing stock		(3,000)	0.25
Cost of sales		**26,400**	0.5
Note 2 : Distribution costs			
Given in trial balance		2,100	0.25
Provision for doubtful debts [(7,900 x 3%) – 106]		131	0.5+0.25
Depreciation (3,000 x 25%)		750	0.5+0.25
		2,981	0.5
Note 3 : Administrative expenses			
Given in trial balance		3,200	0.25
Rent expenses		150	0.25
Depreciation (3,000 x 15%)		450	0.5+0.25
		3,800	0.5
Depreciation on PPE (30,000 x 10%)		3,000	0.5

Marks

(b) **Sign Pakistan Limited** 0.5
Statement of Financial Position 0.5
As at December 31, 2012 0.5

Equity and Liabilities		**Rs.'000**	
Equity			
Issued, subscribed and paid-up capital		17,900	0.25
General reserve	note4	11,000	0.25
Retained earnings	note5	2,886	0.25
		31,786	0.5
Non-Current Liabilities			
Long term loans		8,000	0.25
Current liabilities			
Accounts payable		5,197	0.25
Rent payable		150	0.25
		5,347	0.5
Total equity and liabilities		**45,133**	**0.75**
Assets			
Non-current assets			
Property, plant and equipment (30,000 – 3,000)		27,000	0.5+0.25
Long-term deposits		3,000	0.25
		30,000	0.5
Current Assets			
Pre-paid insurance	(600-100)	500	0.5+0.25
Staff advance	(125-25)	100	0.5+0.25
Inventory		3,000	0.25
Accounts receivable	[7900 - (7900 x 3%)]	7,663	0.5+0.25
Accrued interest on long term deposits		250	0.25
Cash and bank balances		3,620	0.25
		15,133	0.75
Total assets		**45,133**	**0.75**

Workings:

Note 4: General reserves

General reserves b/d	10,500	0.25
Add transferred from retained earnings	500	0.25
	11,000	0.5

Note 5 : Retained earnings

Balance as at 1 January 2012	700	0.25
Profit for the year	2,686	0.25
Profit available for appropriation	3,386	
Less amount transferred to General reserve	500	0.25
Balance as at 31 December 2012	**2,886**	0.5

Marks

Q.3 (a) (i) Dual aspect concept:
The dual aspect concept states that there are two aspects of accounting, one represented by the assets of the business and other by the claims against them. The concept states that these two aspects are always equal to each other. In other words, this is the alternate form of accounting equation:
Assets = Capital + Liabilities 2.0

(ii) Relevance:
Information in financial statements must be relevant to the decision making needs of users. To be relevant, information must influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting their past evaluation. 2.0

(iii) Neutrality:
Information in financial statements must be free of bias. 2.0

(iv) Completeness:
To be reliable, information in financial statements must be complete within the bounds of materiality and cost. 2.0

(b) ADJUSTING ENTRIES

Case No.1	Profit or Loss	45,000		0.5
	Allowance for doubtful debts		45,000	0.5
Case No.2	Profit or Loss	25,000		0.5
	Allowance for doubtful debts		25,000	0.5
Case No.3	No entry as provision is exactly available			1.0
Case No.4	Profit or Loss	60,000		0.5
	Allowance for doubtful debts		60,000	0.5

(c) (i) Sales Ledger Control Account

	Rupees		Rupees	
Balances b/d	31,200	Returns inward	110,000	0.5+0.5
Sales day book	861,000	Cash	750,000	0.5+0.5
		Discount allowed	9,000	0.5
		Set off against P/Ldgr	12,000	0.5
		Balances c/d	11,200	1.0
	892,200		**892,200**	

(ii) Purchase Ledger Control Account

	Rupees		Rupees	
Returns outward	123,000	Balances b/d	25,500	0.5+0.5
Cash	340,000	Purchases day book	511,000	0.5+0.5
Discount received	5,000			0.5
Set off against S/Ldgr	12,000			0.5
Balances c/d	56,500			1.0
	536,500		**536,500**	

			Marks
Q.4 (a) (i) Return on capital employed:			
Return on capital employed	**=**	Profit for the year ÷ Average capital	0.5
	=	8,645 ÷ (100,000 + 90,000)/2	0.5
	=	**9.1%**	1.0
(ii) Inventory disposing of days:			
Inventory disposing of days	=	(Average inventory ÷ COGS)365	0.5
	=	(2,950 ÷ 132,900) x 365	0.5
	=	**8.10 days**	1.0
(iii) Collection days:			
Collection days	=	(Average A/R ÷ Sales) x 365	0.5
	=	(24,150 ÷ 146,600) x 365	0.5
	=	**60.13 days**	1.0
(iv) Payment days:			
Payment days	=	(Average A/P ÷ Purchases) x 365	0.5
	=	(18,150 ÷ 132,000) x 365	0.5
	=	**50.19 days**	1.0

(b)

Particulars		
Balance as per cash book	55,200	1
Add outstanding payment cheques	31,300	1
Add Bills collected by bank but not entered into cash book	7,200	1
Less outstanding deposit cheques	(33,700)	1
Less cheque wrongly entered in the cash book (29,800 – 28,900)	(900)	1
Less cheque dishonored	(15,200)	1
Less Bank charges not entered into cash book	(700)	1
Balance as per Bank Statement	**43,200**	1

Marks

Q.5 (a)

Qaisar & sons
Purchases Day Book
For the month of May, 2013

Date	Supplier	Invoice No.	Amount (Rs.)	Marks
2013 May 01	Zaheer & Sons	1876	55,513	1
05	Yaseen Brothers	125	146,724	1
16	Jindani Traders	1226	82,723	1
25	Bushra & Sons	10001	150,000	1
	Transferred to Purchases Account		**434,960**	1

(b) (i) Credit Sales for the Month:

	Rupees	Marks
Closing balances of debtors	24,000	0.5
Add cash received from debtors	14,000	0.5
Add debtors written off	600	1.0
Less opening balances of debtors	(6,000)	1.0
Credit sales	**32,600**	1.0

(ii) Total Sales:

	Rupees	Marks
Credit sales	32,600	
Counter sales	6,000	
Total sales	**38,600**	1.0

(c) Rectification Entries:

	Rupees	Rupees	Marks
(i) Juma Khan account	12,800		1.0
Sales		6,400	0.5
Purchases		6,400	0.5
(ii) Accrued commission income	1,300		0.5
Commission income		1,300	0.5
(iii) Drawings	1,550		0.5
Purchases		1,550	0.5
(iv) Computer (8300 – 3800)	4,500		0.5
Creditors/Ac Payable		4,500	0.5

Marks

Q. 6 (a) (i) Personal Accounts:

Personal accounts represent persons and organizations. Such accounts are for debtors and creditors (i.e., for customers and suppliers). 2.0

(ii) Real Accounts:

Accounts in which possessions are recorded. Examples are buildings, machinery and inventory. 2.0

(iii) Nominal Accounts:

Accounts in which expenses, income, gains, losses, capital and owner's drawings are recorded. 2.0

(b) (i) Gain or loss on exchange:

	(Rs.)	
Cost of old machine	65,000	01
Less accumulated depreciation	51,000	01
Book value of old machine	14,000	01
Less Trade-in-allowance	11,000	01
Loss on exchange	**3,000**	01

(ii) Payment to be made:

	(Rs.)	
Cost of new machine	75,000	01
Less trade-in-allowance (old machine)	11,000	01
Cash to be paid	**64,000**	01

THE END

ICMA Pakistan

FALL 2013 (FEBRUARY 2014) EXAMINATIONS
Wednesday, the 19th February 2014

FUNDAMENTALS OF FINANCIAL ACCOUNTING (AF-101)

SEMESTER-1

Time Allowed: 02 Hours 30 Minutes **Maximum Marks: 75** **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., or any irrelevant information 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 Unadjusted trial balance of ABC Company as on June 30, 2012 is given below:

Account Tile	**Debit (Rs.)**	**Credit (Rs.)**
Cash and bank balances	99,670	
Opening inventory as on 1/7/11	186,400	
Purchases during the year	1,748,200	
Freight-in	38,100	
Freight-out	47,250	
Sales		3,210,000
Trade receivables	318,000	
Salaries and wages	694,200	
Administrative expenses	381,000	
Allowance for doubtful debts as on 01/7/11		18,200
Bad debts written off during the year	14,680	
Office equipment (cost as on 01/7/11)	214,000	
Accumulated depreciation at 01/7/11 (office equipment)		88,700
Office equipment purchased during the year	48,000	
Sale proceeds of office equipment		12,600
Interest paid	30,000	
Long-term loan		300,000
Capital		100,000
Retained earnings		90,000
Total	**3,819,500**	**3,819,500**

The following adjustments are due:

		Rupees
(i)	Closing inventory as on 30/6/12	2,19,600
(ii)	Payables as on 30/6/12:	
	• Freight-out	1,250
	• Wages and salaries	5,800
	• Admin expenses	13,600
	• Interest payable	30,000

PTO

Marks

(iii) Admin expenses of Rs. 4,900 were prepaid.

(iv) Salaries and wages cost to be allocated to:

- Cost of sales = 10%
- Distribution cost = 20%
- Admin expenses = 70%

(v) Further bad debts of Rs. 8,000 are to be written off. Closing balance of allowance for bad debts will be equal to 05% of the closing trade receivables balance, which is to be charged to administrative expenses.

(vi) Depreciation on office equipment is to be provided at 20% per annum on straight-line method with a full years charge in the year of purchase and none in the year of sale. During the year, equipments having cost of Rs. 40,000 with accumulated depreciation of Rs. 26,800,was sold for Rs. 12,600.

(vii) Ignore tax.

Required:

Prepare adjusting and correcting journal entries. **13**

Q. 3 Using the data of **Q. 2** above, prepare the following financial statements:

(a) Statement of Profit or Loss for the year ended June 30, 2012. **11**

(b) Statement of Financial Position as at June 30, 2012. **12**

Q. 4 (a) Alfa Company uses perpetual inventory system. During the month of September 2013, the company had the following purchases and sales:

Date	Purchases		Sales (Unit)
	Units	Cost/unit	
Sep: 02	50	Rs. 12.00	–
04	–	–	40
06	70	Rs. 13.60	–
10	–	--	30
20	80	Rs. 14.70	–
27	–	–	60

Required:

Determine the following using FIFO method of inventory valuation:

(i) Cost of sales for the month of September 2013. **05**

(ii) Ending inventory as at September 30, 2013. **05**

(b) While preparing the bank reconciliation statement, you have noted the following:

(i) Balance as per cash book is Rs. 3,500 (debit).
(ii) The balance as per bank statement is Rs. 5,441 over-drawn.
(iii) Cheques totaling Rs. 2,500 have yet not been cleared by the bank.
(iv) Deposited cheques of Rs. 15,000 have not been credited by the bank.
(v) Cheque for Rs. 500 drawn on owners account has been debited by the bank to the business account.
(vi) A cheque recorded in the cash book for Rs. 276 has been correctly debited on the bank statement as Rs. 267.
(vii) Standing order (payment of utility bills) Rs. 750 paid by the bank but not recorded in the cash book.
(viii) A customer paid Rs. 5,000 directly in the bank but not recorded in the cash book.
(ix) Bank has charged Rs. 200 for bank charges but not recorded in the cash book.

Marks

Required:

(i) Prepare the bank reconciliation statement (work out adjusted cash book balance and adjusted bank balance). **08**

(ii) Make required journal entries for correction/ adjustment of transactions in the cash book. **03**

Q. 5 (a) Differentiate between revenue expenditure and capital expenditure. Classify the following between revenue expenditure and capital expenditure: **07**

(i) Buying motor vehicle

(ii) Electricity costs of using machinery

(iii) Painting outside the new building

(iv) Carriage costs on purchases

(v) Fire insurance premium

(vi) Legal costs on collecting dates

(vii) Building extension to the warehouse

(viii) Cost of repairs to office equipment

(b) Prepare a format for an IAS 7 Statement of Cash Flows (indirect method) for ABC Ltd., for the year ended June 30, 2013. Put the following cash flow items in the relevant sections/heads/sub heads in the format prepared and show increase/ (decrease): **11**

(i) Tax paid 35% of net income of Rs. 1,000,000.

(ii) Interest received for the year @8% per annum on investment of Rs. 500,000.

(iii) Sale of non-current asset for Rs. 350,000. There was no gain/ loss on this transaction.

(iv) Purchase of assets for Rs. 750,000.

(v) Net profit before tax is Rs.1,000,000.

(vi) Interest paid Rs. 10,000.

(vii) Obtained long-term loan for Rs. 1,200,000

(viii) Depreciation for the year was Rs. 300,000.

(ix) Increase in current liability Rs. 14,000.

(x) Decrease in current assets Rs. 5,000.

(xi) Cash and bank balances at beginning of the year were Rs. 223,500.

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

Marks

Q. 2

ABC Company
Journal Entries

	Dr. (Rs.)	Cr. (Rs.)	Marks
Closing inventory as on 30.6.2012	2,19,600		**0.5**
Cost of sales		2,19,600	**0.5**
Freight out Expense	1,250		**0.5**
Salaries and wages expenses	5,800		**0.5**
Admin-Expenses	13,600		**0.5**
Interest Expenses	30,000		**0.5**
Expenses Payable		50,650	**1.0**
Prepaid Admin expense	4,900		**0.5**
Admin Expenses		4,900	**0.5**
Bad debts Expense(admin)	8,000		**0.5**
Trade Debts receivable		8,000	**0.5**
Allowance for doubtful debts	2,700		**0.5**
[18,200 – (318,000 – 8,000) x 0.05]			**1.0**
Bad debts Expenses		2,700	**0.5**
Loss on disposal of equipment	600		**0.5**
(40,000-26,800-12,600)			**1.0**
Accumulated Depreciation .Equipment	26,800		**0.5**
Sale proceeds	12,600		**0.5**
Equipment		40,000	**0.5**
Depreciation expenses equipment	44,400		**0.5**
20%(2,14,000-40,000+48,000)			**1.0**
Accumulated depreciation equipment		44,400	**0.5**

Q. 3 (a)

ABC Company
Statement of Profit or Loss
for the year ended June 30, 2012

	Rs.	Rs.	Marks
			1.0
Sales		3,210,000	0.5
Less Cost of Goods sold:			
Opening Inventory	186,400		0.5
Add purchases	1,748,200		0.5
Freight in	38,100		0.5
Goods available for sale	1,972,700		
Less ending inventory	(219,600)		0.5
Cost of goods sold	1,753,100		
Salary and wages (700,000 x 10%)	70,000		0.5
Cost of goods sold		(1,823,100)	
Gross profit		**1,386,900**	
Administration expenses:			
Salary and wages (700,000 x 70%)	490,000		0.5
Bad and doubtful debts	19,980		0.5
(14,680 + 8,000 – 2,700)			0.5
Admin Expenses	389,700		0.5
(3,81,000+13,600-4,900)			0.5
Depreciation office equipment (222,000 x 0.20)	44,400		0.5
		(944,080)	
Distribution cost:			
Salary and wages (700,000 x 20%)	140,000		0.5
Freight out (47,250+1,250)	48,500		0.5
		(188,500)	
Operating profit		**254,320**	
Less interest expense (30,000 + 30,000)		(60,000)	0.5
Profit from operations		194,320	
Loss on sale of equipment		(600)	0.5
(40,000 – 26,800 – 12,600)			0.5
Net profit		**193,720**	1.0

Working:

Wages and salaries (trial balance)	694,200	
Outstanding	5,800	
	700,000	0.5

(b)

ABC Company
Statement of Financial Position
as at June 30, 2012

	Rs.	Rs.	Marks
			1.0
Assets			
Non-current Assets			
Office equipment	222,000		**0.5**
(214,000 + 48,000 – 40,000)			**0.5**
Accumulated depreciation	(106,300)		**0.5**
(88,700 – 26,800 + 44,400)			**0.5**
		115,700	
Current Assets			
Inventory	219,600		**0.5**
Prepaid expenses	4,900		**0.5**
Trade receivables (318,000-8,000)	310,000		**0.5+0.5**
Less Allow. for bad debts (5% of 3,10,000)	(15,500)		**0.5+0.5**
	294,500		
Cash	99,670		**0.5**
		618,670	
Total Assets		**734,370**	**0.75**
Equity and Liabilities			
Non-current Liabilities			
Long-term loan		300,000	**0.5**
Current Liabilities			
Freight out	1,250		**0.5**
Wages and salaries	5,800		**0.5**
Admin Expenses	13,600		**0.5**
Interest	30,000		**0.5**
		50,650	
Total Liabilities		350,650	
Equity			
Capital	100,000		**0.5**
Retained earnings (90,000 + 193,720)	283,720		**0.5+0.5**
		383,720	
Total Equity and Liabilities		**734,370**	**0.75**

Marks

Alternate workings:

Office Equipment

b/d	214,000	Sales	40,000
Add:	48,000	b/c	222,000
	262,000		262,000

Accumulated depreciation (office equipment)

Sales	26,800	b/d	88,700
b/c	106,300	Current	44,400
	133,100		133,100

Disposal

Cost	40,000	Depreciation	26,800
		Cash	12,600
		Loss on sale	600
	40,000		40,000

Allowance for doubtful debts

Profit or loss	2,700	b/d	18,200
c/d (310,000 x 0.05)	15,500		
	18,200		18,200

Accounts Receivable

b/d	318,000	Write off	8,000
		c/d	310,000
	318,000		318,000

Marks

Q. 4 (a) (i) & (ii)

Date	Particulars	Purchases			Cost of Sales			Balance			
		Qty	***Rate (Rs.)***	***Amount (Rs.)***	***Qty***	***Rate (Rs.)***	***Amount (Rs.)***	***Qty***	***Rate (Rs.)***	***Amount (Rs.)***	
	Balance										
Sep 2	Purchases	50	12	600	–	–	–	50	12	600	**.5+0+.5**
4	Sales	–	–	–	40	12	480	10	12	120	**0+.5+.5**
6	Purchases	70	13.60	952	–	–	–	10 70	12 13.60	120 952	**0+0+.5** **.5+0+.5**
10	Sales	–	–	–	10 20	12 13.60	120 272	– 50	– 13.60	– 680	**0+.5+0** **0+.5+.5**
20	Purchases	80	14.70	1,176	–	–	–	50 80	13.60 14.70	680 1,176	**0+0+.5** **.5+0+.5**
27	Sales	–	–	–	50 10	13.60 14.70	680 147	– 70	– 14.70	– **1,029**	**0+.5+0** **0+.5+1.5**
							1,699				**1.0**

(b) (i) **Bank Reconciliation Statement**

	Rs.	Rs.	
Balance as per Bank statement		(5,441)	
Less outstanding cheques	(2,500)		**1.0**
Add. Deposits not yet cleared	15,000		**1.0**
Add. Amount wrongly charged to business	500		**1.0**
		7,559	**0.5**
Balance as per cash book		3,500	
Add cheque over stated (276 – 267)	9		**1.0**
direct payment to bank not recorded	5,000	5,009	**1.0**
Less utility bills paid by bank	(750)		**1.0**
Bank charges	(200)	(950)	**1.0**
Adjusted cash book balance		**7,559**	**0.5**

Marks

(ii) Journal Entries

		Dr. Rs.	Cr. Rs.	Marks
(1)	Bank account	5,009		**0.5**
	Accounts Receivable		5,000	**0.5**
	Accounts payable		9	**0.5**
(2)	Bank charges	200		**0.5**
	Utility expense	750		**0.5**
	Bank account		950	**0.5**

Q. 5 (a) **Revenue Expenditure:**

Expenditure which is not spent on increasing the value of non-current assets, but is incurred in running the business on a day-to-day basis, is known as revenue expenditure. **1.5**

Capital Expenditure:

Is incurred when a business spends money either to buy non-current assets; or add to the value of an existing non-current asset. **1.5**

Classification of Revenue and Capital Expenditure:

Expenditures	Nature	Marks
(i) Buying motor vehicle	Capital	**0.5**
(ii) Electricity costs of using machinery	Revenue	**0.5**
(iii) Painting outside of new building	Capital	**0.5**
(iv) Carriage costs on purchases	Revenue	**0.5**
(v) Fire insurance premium	Revenue	**0.5**
(vi) Legal costs on collecting dates	Revenue	**0.5**
(vii) Building extension to the warehouse	Capital	**0.5**
(viii) Cost of repairs to office equipment	Revenue	**0.5**

Marks

(b)

			Marks
ABC Limited			**0.5**
Statement of Cash Flows			**0.5**
For the year ended June 30, 2013			**0.5**
Cash flows from Operating Activities:		**Rs.**	
Operating profit before taxation	1,000,000		**0.5**
Adjustments for:			
Depreciation	300,000		**0.5**
Interest expense	10,000		
Interest income	(40,000)		
Operating cash flows before movements in working capital		1,270,000	
increase/(decrease) in current assets	5,000		**1.0**
(increase)/Decrease in current liabilities	14,000		**1.0**
		19,000	
Cash generating by operation			
Tax paid (1,000,000 x 35%)	(350,000)		**1.0**
Interest paid	(10,000)		**0.5**
		(360,000)	
Net cash from/(used in) operating activities		**929,000**	**0.5**
Cash flow from investing activities			
Interest received (500,000 x 8%)	40,000		**1.0**
Payments to acquire tangible non-current assets	(750,000)		**0.5**
Sale of non-current asset	350,000		**0.5**
Net cash from (used for) investing activities		**(360,000)**	**0.5**
Cash flows from financing activities			
Loan note	1,200,000		**0.5**
Net cash from (used In) financing activities		**1,200,000**	
Net Increase/(Decrease) in cash and cash equivalents		**1,769,000**	**0.5**
Cash and Cash equivalents at beginning of the year		223,500	**0.5**
Cash and cash equivalents at the end of year		**1,992,500**	**0.5**

THE END

ICMA Pakistan

FUNDAMENTALS OF FINANCIAL ACCOUNTING (AF-101)
SEMESTER-1

SPRING (AUGUST) 2014 EXAMINATIONS
Wednesday, the 20th August 2014

Time Allowed:	**02 Hours 30 Minutes**	**Maximum Marks: 75**	**Roll No.:**	

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) Use of non-programmable scientific calculators of any model is allowed.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) 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.
(vi) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information 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 Following pre-closing trial balance has been prepared on the basis of data available from the books of Star Limited as at December 31, 2013:

Debit	**Rs.**	**Credit**	**Rs.**
Delivery vans	220,300	Share capital	180,000
Opening inventory	20,000	Retained earnings	72,395
Accounts receivable	75,000	Accounts payable	88,600
Notes receivable	100,000	Sales	434,255
Allowance for doubtful debts	2,250	Purchases return	29,000
Office supplies	9,350	Accumulated depreciation	25,000
Cash	5,750		
Purchases	324,000		
Sales return	5,000		
Salaries expenses – marketing	14,000		
Carriage-in	11,000		
Carriage-out	13,000		
Salaries expenses – administrative	12,000		
General expenses – administrative	10,000		
Vehicle expenses	7,600		
	829,250		**829,250**

Additional data for adjustment is as follows:

(i) Closing inventory on December 31, 2013 was valued at Rs. 23,000.
(ii) Office supplies consumed during the year amounted to Rs. 8,000. 70% and 30% of the office supplies are consumed by administration and marketing departments, respectively.
(iii) During the year, a new delivery van was purchased and an amount of Rs. 4,000 was paid being the cost of its registration and painting the name of the business on it, which was wrongly charged to vehicle expenses account.
(iv) Provide 10% depreciation on year-end cost of delivery vans. Delivery vans are used by marketing department only.
(v) It is policy of the company to maintain 3% of year-end accounts receivable as allowance for doubtful debts.
(vi) Rent of Rs. 4,000 was payable against administration office building.
(vii) Ignore tax.

Required:

Statement of Profit or Loss for the year ended December 31, 2013. **15**

Marks

Q. 3 (a) Conceptual Framework describes certain measurement bases that are used for determining the monetary amounts at which the elements of financial statements are maintained and carried. Briefly explain these measurement bases. **08**

(b) The following information pertains to D & D Traders for the month of June 2013:

	Rs.
Balance of accounts payable on (01.06.2013)	80,000
Transactions during the month of June 2013:	
Goods purchased for cash	60,000
Discount received from suppliers	6,000
Defective goods returned to suppliers	7,000
Payment to suppliers by cash	100,000
Payment to suppliers by cheque	40,000
Balance of accounts payable on (30.06.2013)	100,000

Required:

(i) Calculate the amount of credit purchases for the month of June 2013. **04**

(ii) Calculate total purchases for the month of June 2013. **01**

(c) The list of transactions of Sana Traders, a dealer of electrical goods, is as under:

(i) Purchase of goods on credit.

(ii) Purchase of furniture on credit.

(iii) Purchase of delivery van for cash.

(iv) Receipts from customers.

(v) Goods returned by customers.

(vi) Sales on credit.

Required:

Suggest most appropriate book of prime entry, which will be used for each of the above transactions. **03**

(d) The data given below pertains to Mehboob Limited:

	Rs.
Cash sales	3,099,260
Credit sales	8,329,311
Gross profit	800,000
Net profit	600,000
Market price per share	4.20
Gross dividend per share	0.20
Ordinary dividends paid and proposed	240,000
Ordinary share capital (Rs. 10 each)	10,000,000

Required:

Using the above data, calculate the following:

(i) Gross profit as a percentage of sales **02**

(ii) Earnings per share **01**

(iii) Price/ Earnings ratio **01**

Marks

Q. 4 (a) The accountant of Rehman & Company is very much worried to see significant difference between the balance as per cash book and the balance available in the bank:

Balance as per cash book (30.4.2014)	Rs. 240,000
Balance as per bank statement (30.4.2014)	Rs. 70,000

Despite his best efforts, he could not prepare bank reconciliation statement correctly. His senior, while reviewing bank reconciliation statement, noted the following:

1. Issued cheques totalling Rs. 25,000 were outstanding.
2. Deposited cheques amounting to Rs. 55,000 were still uncollected.
3. A cheque issued by another company of Rs. 102,000 was wrongly paid by the bank from the account of Rehman & Company.
4. A cheque of Rs. 5,000 received from a customer was erroneously recorded in cash book by the accountant of Rehman & Company as Rs. 50,000.
5. Rent of Rs. 12,000 paid by the bank on standing instruction was not yet recorded in the cash book.
6. Mark-up of Rs. 3,000 charged by the bank on over-draft has not yet been recorded in the cash book.
7. Bills of Rs. 22,000 were collected by the bank on behalf of Rehman & Company but they were not recorded in the cash book.

Required:

Prepare a bank reconciliation statement as at April 30, 2014. **08**

(b) Following data has been extracted from the books of Young Cricket Club:

	Rupees	
	As at 31.12.2012	**As at 31.12.2013**
Subscription due from members	600	900
Subscription received in advance	1,800	1,200

Subscription received during the year 2013, Rs. 10,200.

Required:

Calculate subscription income for the year 2013. **04**

(c) ABC Company purchased goods on credit for Rs. 250,000 (net of sales tax) and sold goods for Rs. 330,000 (net of sales tax). At the end of its accounting period it has paid sales tax owing to taxation authorities. While the company has paid Rs. 145,000 to its creditors and received Rs. 110,000 from its debtors.

(Note: Current sales tax rate is 17%.)

Required:

Prepare the following accounts:

(i) Accounts payable **03**

(ii) Accounts receivable **03**

(iii) Sales tax **02**

Marks

Q. 5 **(a)** Segregate the following transactions of Hafiz Limited into operating, investing and financing activities: **05**

(i) Cash payments to acquire land for construction of new factory premises.

(ii) Cash receipts from the sale of goods and rendering of services.

(iii) Cash proceeds from disposal of old factory building.

(iv) Cash proceeds from issuing debentures and bonds.

(v) Cash repayments of amounts borrowed.

(vi) Cash payments to suppliers for goods and services.

(vii) Issue of ordinary share capital.

(viii) Cash paid to and on behalf of employees.

(ix) Payment to acquire intangible non-current assets.

(x) Charging of depreciation on production plant.

(b) Following balances have been extracted from the statement of financial position of Asma Limited as at December 31:

	2013	**2012**
Non-current assets, (at cost)	111,950	64,800
Less: Accumulated depreciation	(15,375)	(14,800)
	96,575	**50,000**

During the year 2013, an outdated machinery costing Rs. 35,000 was sold for Rs. 12,000. The accumulated depreciation on this machinery on December 31, 2012 was Rs. 9,000. No depreciation is charged in the year of disposal of any non-current asset.

Required:

(i) Calculate the amount paid for acquiring new machinery during the year 2013. **03**

(ii) Calculate the amount of depreciation provided during the year 2013. **03**

(c) Kaleem Electronics holds 20 units @ Rs. 3,000 each of an item of inventory as at July 1, 2014. During July 2014, units received and sold were as follows:

Date	**Units Received**	**Production Cost per Unit**
08 July	80	Rs. 3,000
18 July	70	Rs. 3,100
23 July	100	Rs. 3,150

Goods sold out of the inventory during July 2014 were as follows:

Date	**Units Sold**	**Sale Price per Unit**
12 July	85	Rs. 4,200
19 July	80	Rs. 4,500
26 July	90	Rs. 5,000

Required:

Compute the cost of sales and closing inventory on July 31, 2014 under weighted average cost method. **09**

THE END

Marks

Q. 2

Star Limited
Statement of Profit or Loss 1.5
for the year ended December 31, 2013

	Rupees	Rupees	Rupees	Marks
Sales	434,255			0.5
Less sales return	(5,000)			0.5
Net sales			429,255	
Less cost of goods sold				
Opening inventory		20,000		0.5
Add purchases	324,000			0.5
Less: Purchases return	(29,000)			0.5
Add: Carriage in	11,000			0.5
Net purchases		306,000		
Goods available for sale		326,000		
Less: Ending inventory		(23,000)		0.5
Cost of goods sold			(303,000)	0.5
Gross profit			**126,255**	**0.5**
Admin expenses:				
Doubtful debts		4,500		0.5
Salaries		12,000		0.5
Office supplies (8,000 x 70%)		5,600		0.5
General exp		10,000		0.5
Rent		4,000		0.5
			(36,100)	
Marketing expenses:				
Salaries expense		14,000		0.5
Office supplies (8,000 x 30%)		2,400		0.5+0.5
Carriage out		13,000		0.5
Depreciation on vans {220,300 + 4,000) x 10%}		22,430		1.0 +0.5
Vehicle expenses (7,600 – 4,000)		3,600		0.50+0.50
			(55,430)	
Net profit			**34,725**	1.0

Working:

Allowance for doubtful debts

	Rs.		Rs.	
b/d	2,250			
c/d (75,000 x 3%)	2,250	Profit or loss	4,500	0.5+0.5
	4,500		**4,500**	

Marks

Q. 3 (a) Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

(i) *Historical cost*. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business. 2.0

(ii) *Current cost*. Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently. 2.0

(iii) *Realizable (settlement) value*. Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business. 2.0

(iv) *Present value*. Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business. 2.0

(b) (i) Credit Purchases for the Month:

	Rupees	Marks
Closing balances of accounts payable	100,000	0.5
Add: Payment to suppliers by cash	100,000	0.5
Add: Payment to suppliers by cheques	40,000	0.5
Add: Discount received from suppliers	6,000	0.5
Add: Goods returned to suppliers	7,000	0.5
Less: Opening balances of accounts payable	(80,000)	0.5
Credit purchases	**173,000**	1.0

ALTERNATE ANSWER

Accounts Payable

	Rs.		**Rs.**	
Discount received	6,000	Balance b/d	80,000	0.5+0.5
Purchases return	7,000	Purchases	173,000	0.5+1.0
Cash	100,000			0.5+0.0
Bank	40,000			0.5+0.0
Balance c/d	100,000			0.5+0.0
	253,000		**253,000**	

(ii) Total Purchases:

	Rupees	
Credit purchases (as calculated above)	173,000	
Cash purchases during the month	60,000	
Total purchases	**233,000**	1.0

Marks

(c) List of Transactions:

			Marks
(i)	Purchase of stock on credit.	Purchase Journal (Purchase Day Book)	0.5
(ii)	Purchase of furniture on credit.	General Journal	0.5
(iii)	Purchase of delivery van for cash.	Cash Journal (Cash Book)	0.5
(iv)	Recovery from customers.	Cash Journal (Cash Book)	0.5
(v)	Sales returned by customers.	Sales Return Journal	0.5
(vi)	Sales of stock on credit	Sales Journal (Sales Day Book)	0.5

(d) (i) Gross profit as a percentage of sales

$$= \frac{800,000}{(3,099,260 + 8,329,311)} \times 100$$

$$= \frac{800,000}{11,428,571} \times 100 \qquad 1.0$$

$$= 7\% \qquad 1.0$$

(ii) Earnings per share: = 600,000 ÷ 1,000,000 = Rs. 0.60 1.0

(iii) Price earnings ratio = 4.20 ÷ 0.6 = 7 1.0

Q.4 (a)

Rehman & Company
Bank Reconciliation Statement 1.0
as on April 30, 2014

	Rs.	Marks
Balance as per bank statement	70,000	
Less: Outstanding cheques	(25,000)	1.0
Add: Uncollected cheque	55,000	1.0
Wrong debit	102,000	1.0
	202,000	
Balance as per cash book	240,000	
Less: Error in recording (50,000 – 5,000)	(45,000)	1.0
Rent	(12,000)	1.0
Interest	(3,000)	1.0
Add : Direct deposit	22,000	1.0
	202,000	

Marks

(b) **Subscription Account**

	Rs.		Rs.	
b/d (Due from customers)	600	b/d (subs in advance)	1,800	0.5+0.5
P&L	11,100	Cash	10,200	1.0+1.0
b/d (subs in advance)	1,200	c/d (Due from customers)	900	0.5+0.5
	12,900		**12,900**	

ALTERNATE ANSWER

Subscription Income:

	Rupees	
Subscription amount	10,200	1.0
Add subscription received in advance – opening balance	1800	0.5
Add subscription due from members – closing balance	900	0.5
	2,700	
Less subscription due from members – opening balance	(600)	0.5
Less subscription received in advance – closing balance	(1200)	0.5
	(1,800)	
Subscription income for the year	**11,100**	1.0

(c) (i) **Accounts Payable Account** **Rupees**

Cash	145,000	Purchases	250,000	0.5+0.5
Balance c/d	147,500	Sales tax (250,000 x 0.17)	42,500	1.0+1.0
	292,500		**292,500**	

(ii) **Accounts Receivable Account** **Rupees**

Sales	330,000	Cash	110,000	0.5+0.5
Sales tax (330,000 x 0.17)	56,100	Balance c/d	276,100	1.0+1.0
	386,100		**386,100**	

(iii) **Sales Tax Account** **Rupees**

Creditors (250,000 x 0.17)	42,500	Debtors (330,000 x 0.17)	56,100	0.5+0.5
Cash	13,600			1.0
	56,100		**56,100**	

Marks

Q. 5 (a) Segregation of Transactions:

(i) Cash payments to acquire land for construction of new factory premises.	Investing	0.5
(ii) Cash receipts from the sale of goods and rendering of services.	Operating	0.5
(iii) Cash proceeds from disposal of old factory building.	Investing	0.5
(iv) Cash proceeds from issuing debentures and bonds.	Financing	0.5
(v) Cash repayments of amounts borrowed.	Financing	0.5
(vi) Cash payments to suppliers for goods and services.	Operating	0.5
(vii) Issue of ordinary share capital.	Financing	0.5
(viii) Cash paid to and on behalf of employees.	Operating	0.5
(ix) Payment to acquire intangible non-current assets.	Investing	0.5
(x) Charging of depreciation on production plant.	Operating	0.5

(b) (i) Amount Paid for Acquiring New Machinery:

	Rupees	
Balance of non-current assets on 31.12.13	111,950	0.5
Add: Machinery disposed off	35,000	1.0
Less: Balance of non-current asset on 31.12.12	(64,800)	0.5
Amount paid for acquiring new machinery during 2013	**82,150**	1.0

ALTERNATE ANSWER

Non-current Asset (Cost)

Balance b/d	64,800	Disposal	35,000	0.5+1.0
Cash	82,150	c/d	111,950	1.0+0.5
	146,950		**146,950**	

(ii) Amount of Depreciation Provided:

	Rupees	
Balance of accumulated depreciation on 31.12.13	15,375	0.5
Add: Reversal of depreciation on disposal of machinery	9,000	1.0
Less: Balance of accumulated depreciation on 31.12.12	(14,800)	0.5
Depreciation provided during the year 2013	**9,575**	1.0

ALTERNATE ANSWER

Accumulated Depreciation

Disposal	9,000	Balance b/d	14,800	1.0+0.5
c/d	15,375	Current Dep.	9,575	0.5+1.0
	24,375		**24,375**	

Marks

(c)

	Receipts			Issues			Balance			
	Units	**Price**	**Amount**	**Units**	**Price**	**Amount**	**Units**	**Price**	**Amount**	
Balance							20.00	3,000.00	60,000.00	0.5
8-Jul	80.00	3,000.00	240,000.00				100.00	3,000.00	300,000.00	1.0
12-Jul				85.00	3,000.00	255,000.00	15.00	3,000.00	45,000.00	1.0
18-Jul	70.00	3,100.00	217,000.00				85.00	3,082.35	262,000.00	1.0
19-Jul				80.00	3,082.35	246,588.24	5.00	3,082.35	15,411.76	- 1.0
23-Jul	100.00	3,150.00	315,000.00				105.00	3,146.78	330,411.76	1.0
26-Jul				90.00	3,146.78	283,210.08	15.00	3,146.78	47,201.68	1.0
TOTAL	**250.00**		**772,000.00**	**255.00**		**784,798.32**	**15.00**		**47,201.68**	

Cost of Goods Sold	Rs.784,798.32	1.0
Closing Inventory	Rs. 47,201.68	0.5
	For Format	1.0

THE END

ICMA Pakistan

FUNDAMENTALS OF FINANCIAL ACCOUNTING (BAF-101)
SEMESTER-1

FALL 2014 EXAMINATIONS
Thursday, the 5th March 2015

Time Allowed: 02 Hours 15 Minutes	**Maximum Marks: 60**	**Roll No.:**	

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) Use of non-programmable scientific calculator of any model is allowed.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) 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.
(vi) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information 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) The senior accountant of Ghamdi Sons observed a suspense account with a debit balance of Rs. 1,180 included in the trial balance prepared by his junior. He has gone through the transactions posted in this account and found that:

- The bookkeeper inadvertently debited the bank account and credited suspense account for the receipts of Rs. 5 ,000 from the owner as an additional investment.
- A debit balance of Rs. 750 of photocopying expense account was incorrectly entered in the trial balance as Rs. 7,500.
- A photocopy machine was purchased for Rs. 18,550, which was debited to suspense account and credited to bank account.
- A receipt of Rs. 1,000 from Ahmad, a customer, had been correctly posted to the debtors account but had been entered in the cash account as Rs. 10,000.
- A payment of Rs. 5,000 to Yaqoob, a supplier, had been correctly entered in the bank account, but no entry had been made in the creditor’s account.
- A credit balance of Rs. 810 in other income account had been wrongly posted to the trial balance as a debit balance.

Required:

Prepare a suspense account and post relevant entries to adjust the above mistakes. **06**

(b) Following are the opening and closing balances of three accounts in the ledger of Mr. Rafaqat for the year 2014:

		Rupees
	July 1, 2013	**June 30, 2014**
Salaries payable	10,500	12,000
Prepaid insurance	15,000	18,000
Interest receivable	5,000	11,500

During 2014, Mr. Rafaqat paid insurance amounting to Rs. 30,000 through its bank account. He also paid salaries amounting to Rs. 45,000 and received interest income of Rs. 20,000.

Required:

(i) Prepare the insurance, salaries and interest receivable accounts for the year ended June 30, 2014. **03**

(ii) Prepare the extract of statement of profit or loss for the year ended June 30, 2014. **01**

Marks

Q. 3 The following trial balance has been prepared on the basis of the data available from the books of Lucky Limited as at December 31, 2014:

		Rs. '000'
Particulars	**Debit**	**Credit**
Inventory (1.1.2014)	5,000	
Carriage outwards	400	
Carriage inwards	500	
Sales return	200	
Purchases	25,000	
Sales		40,000
Rent expenses – Administration building	2,500	
Prepaid insurance – Administration	1,250	
Salaries – Marketing	2,100	
Salaries expenses – Administration	1,700	
Other expenses – Administration	1,000	
Other expenses – Marketing	1,500	
Non-current assets, at cost	135,000	
Accumulated depreciation – Non-current assets		50,000
Accounts payable		1,000
Accounts receivable	5,000	
Allowance for doubtful debts		60
Cash at bank	2,500	
Retained earnings		22,590
Share premium		20,000
Share capital		50,000
	183,650	**183,650**

Additional data/ information is available on December 31, 2014:

(i) Physical inventory at cost, Rs. 7,500,000.

(ii) Rent payable on administration building, Rs. 600,000.

(iii) Prepaid insurance (administration) amounted to Rs. 250,000.

(iv) Salaries payable to employees of administration department Rs. 400,000.

(v) Depreciation charge (administration) for the year, Rs. 2,300,000.

(vi) Allowance for doubtful debts to be equal to 3% of closing balance of accounts receivable.

Required:

Adjusting the additional data/ information, prepare the following:

(a) Statement of Profit or Loss for the year ended December 31, 2014. **12**

(b) Statement of Financial Position as at December 31, 2014. **08**

Q. 4 (a) Due to non-recovery since long an amount of Rs. 5,000 was written off in previous year-2014, but it is recovered in current year-2015.

Required:

Give necessary journal entries with narration in the general journal for the year 2015. **03**

Marks

(b) XYZ Brothers lost 80% of their inventory and its record in a fire on December 30, 2014. However, the accounting record has been retrieved from external hard disc which showed the following gross profit related data for November and December 2014:

		Rupees
	November 2014	**December 2014**
Net sales	150,000	130,000
Net purchases	100,400	95,500
Freight-in	1,450	2,000
Opening inventory	8,250	12,600
Ending inventory	12,600	

The inventory of XYZ Brothers is fully insured against fire losses but it can be claimed after preparing a report for the insurance company.

Required:

(i) Calculate the gross profit rate for the month of November 2014. **03**

(ii) Determine the amount of estimated total inventory and inventory lost by fire in December 2014, using the gross profit rate for November 2014. **04**

(c) **(i)** Briefly explain 'going concern' concept. **02**

(ii) Discuss any three circumstances where the disclosure of 'going concern' assumption would not be justified. **03**

Q. 5 **(a)** Classify the following items/ costs as tangible non-current assets and intangible non-current assets: **04**

(i) Brand names and publishing titles

(ii) Land

(iii) Information technology equipment

(iv) Designs

(v) Computer software

(vi) Furniture and fittings

(vii) Goodwill

(viii) Licenses and franchises

(b) A machine was bought on May 1, 2012 for Rs. 160,000. The financial year of the company ends on 31st December. The machine is depreciated at 10 percent, under straight-line method. It is the company policy to charge full year's depreciation in the year of purchase and no depreciation in the year of disposal. The machine is disposed of in February 2015 for Rs. 117,000.

Required:

(i) Calculate book value of the asset at disposal date. **01**

(ii) Calculate gain or loss on disposal of the asset. **01**

(iii) Prepare a machine disposal account. **02**

Marks

(c) The following information has been extracted from the books of FitFine Limited for the year to December 31, 2014:

Extract of Statement of Profit or Loss for the year ended December 31

	Rupees	
	2014	**2013**
Net profit before tax	1,800	1,200

Statement of Financial Position as at December 31

	Rupees	
	2014	**2013**
ASSETS		
Non-current assets		
Non-current assets, at cost	11,950	9,800
Less: Accumulated depreciation	5,375	4,750
	6,575	5,050
Current assets		
Inventory	4,450	1,000
Accounts receivable	6,000	4,300
Prepaid insurance	200	150
Cash	50	300
	10,700	5,750
Total assets	17,275	10,800
EQUITY AND LIABILITIES		
Equity		
Share capital	4,500	4,000
Retained earnings	3,300	1,500
Total equity	7,800	5,500
Non-current liabilities		
Long-term loans	375	300
Current liabilities		
Accounts payable	6,500	3,400
Accrued expenses	2,600	1,600
Total current liabilities	9,100	5,000
Total liabilities	9,475	5,300
Total equity and liabilities	17,275	10,800

Required:

Prepare a Statement of Cash Flows using 'indirect method' for the year to December 31, 2014. (Ignore taxation.) **07**

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

Marks

Q. 2 (a)

Ghamdi Sons
Suspense Account

			Rupees	Marks
Opening balance	1,180			
(1) Capital A/c	5,000	(5) Photocopy machine A/c	18,550	1.0+1.0
(4) Photocopy expense A/c (7,500 – 750)	6,750	(7) Accounts payables A/c	5,000	1.0+1.0
(6) Cash A/c (10,000 – 1,000)	9,000			0.5+0.5
(8) Sundry income A/c (810 x 2)	1,620			0.5+0.5
	23,550		**23,550**	

(b) (i)

Insurance — Rupees

				Marks
Opening balance	15,000	Profit and loss A/c	27,000	0.5
Bank A/c	30,000	Closing balance	18,000	0.5
	45,000		**45,000**	

Salaries Payable

				Marks
Cash A/c	45,000	Opening balance	10,500	0.5
Closing balance	12,000	Profit and loss A/c	46,500	0.5
	57,000		**57,000**	

Interest Receivable

				Marks
Opening balance	5,000	Cash A/c	20,000	0.5
Profit and loss A/c	26,500	Closing balance	11,500	0.5
	31,500		**31,500**	

(ii)

Mr. Rafaqat
Extract of Statement of Profit or Loss
for the year ended June 30, 2014

	Rupees	Marks
Insurance	27,000	
Salaries	46,500	1.0
Interest receivable	(26,500)	

Q. 3 (a)

Lucky Limited
Statement of Profit or Loss
for the year ended December 31, 2014

			Marks
			0.75
		Rs. '000'	
Sales		40,000	0.5
Less: Sales returns		(200)	0.5
Net sales		39,800	
Less: Cost of Goods Sold:			
Opening inventory	5,000		0.5
Add: Purchases	25,000		0.5
Carriage inwards	500		0.5
Goods available for sale	30,500		
Less: Closing inventory	(7,500)		0.5
Cost of goods sold		(23,000)	
Gross profit		**16,800**	0.75
Administrative expenses:			
Salaries expenses (1,700 + 400)	2,100		1.0
Rent expenses (2,500 + 600)	3,100		1.0
Other expenses	1,000		0.5
Depreciation expense	2,300		0.5
Insurance expense (1,250 – 250)	1,000		1.0
Bad debt expense {(5,000 x 0.03) – 60}	90		1.25
		(9,590)	
Marketing expenses:			
Salaries	2,100		0.5
Other expenses	1,500		0.5
Carriage outwards	400		0.5
		(4,000)	
Net profit		**3,210**	0.75

Marks

(b)

Lucky Limited
Statement of Financial Position
as at December 31, 2014 — 0.75

				Marks
Assets			**Rs. '000'**	
Non-current Assets				
Fixed assets, at cost		135,000		0.5
Less: Accumulated depreciation (50,000 + 2,300)		(52,300)		0.75
			82,700	
Current Assets				
Inventory		7,500		0.5
Accounts receivable	5,000			0.5
Less: Allowance for bad debts (60 + 90)	(150)			0.75
		4,850		
Prepaid insurance		250		0.5
Cash at bank		2,500		0.5
			15,100	
Total Assets			**97,800**	
Share capital		50,000		0.5
Share premium		20,000		0.5
Retained earnings	22,590			0.5
Add: Profit for the year	3,210			0.25
		25,800		
			95,800	
Current Liabilities				
Salaries payable		400		0.5
Rent payable		600		0.5
Accounts payable		1,000		0.5
			2,000	
Total Equity and Liabilities			**97,800**	

Marks

Q. 4 (a)

	Dr. (Rs.)	Cr. (Rs.)	Marks
Accounts receivable account	5,000		0.5
Bad debts recovered account		5,000	0.5
(To reinstate the debtor's accounts)			0.5
Cash/ Bank account	5,000		0.5
Accounts receivable account		5,000	0.5
(To record the cash received from debtors)			0.5

OR

	Dr. (Rs.)	Cr. (Rs.)	Marks
Accounts receivable account	5,000		0.5
Bad debts recovered account		5,000	0.5
(To reinstate the debtor's accounts)			
Cash/ Bank account	5,000		0.5
Accounts receivable account		5,000	0.5
(To record the cash received from debtors)			
Bad debts recovered account	5,000		0.5
Profit or loss account		5,000	0.5

(b) (i) Gross profit rate for November 2014:

		(Rs.)	Marks
Net sales		150,000	0.25
Less: Cost of goods sold			
Beginning inventory	8,250		0.25
Add: Purchases	100,400		0.25
Freight-in	1,450		0.25
Goods available for sale	110,100		
Less: Ending inventory	(12,600)		0.25
		(97,500)	0.25
Gross profit		**52,500**	0.5
Gross profit rate (52,500 ÷ 150,000)		35%	1.0

Marks

(ii) Estimated inventory and inventory lost by fire:

		(Rs.)	Marks
Beginning inventory		12,600	0.5
Add: Purchases	95,500		0.5
Freight-in	2,000		0.5
		97,500	0.5
Goods available for sale		110,100	0.5
Less: Goods sold out (130,000 x 65%)		(84,500)	0.5
Unsold inventory (110,100 – 84,500)		**25,600**	0.5
Inventory lost by fire (25,600 x 80%)		20,480	0.5

(c) (i) The going concern concept assumes that a business will continue in operational existence for the foreseeable future. 1.0

This definition means that the financial statements are drawn up on the assumption that there is no intention or necessity to liquidate or curtail significantly the scale of operation. 1.0

(ii) Where there is a specific intention to liquidate the business in the near future. 1.0

Where there is a strong possibility that shortage of finance will force the business into liquidation. 1.0

Where there is a strong possibility that shortage of finance will result in the sale of significant part of the business. 1.0

Q. 5 (a)

Tangible Non-Current Assets	Intangible Non-Current Assets	Marks
(ii) Land	(i) Brand names and publishing titles	0.5 + 0.5
(iii) Information technology equipment	(iv) Designs	0.5 + 0.5
(vi) Furniture and fittings	(v) Computer software	0.5 + 0.5
	(vii) Goodwill	0.5
	(viii) Licenses and franchises	0.5

(b) (i)

Calculation of Gain or Loss on Disposal	**Rs.**	Marks
Cost	160,000	
Less: Accumulated depreciation (16,000 x 3)	(48,000)	0.5
Book value at time of disposal	**112,000**	0.5

Marks

(ii)

Gain or Loss on Disposal:	**Rs.**	
Sale proceeds	117,000	
Less: Book value	(112,000)	0.5
Gain	**5,000**	0.5

(iii) **Machine Disposal Account**

			Rupees	
Machine A/c (cost)	160,000	Acc. Depreciation A/c	48,000	0.5 + 0.5
Gain on disposal A/c	5,000	Cash A/c (sale proceeds)	117,000	0.5 + 0.5
	165,000		**165,000**	

(c)

FitFine Limited
Statement of Cash Flows
for the year ended December 31, 2014 — 1.0

	Rupees	**Rupees**	Marks
Cash flows from operating activities			
Net profit before tax	1,800		0.5
Adjustment for depreciation	625		0.5
	2,425		
Working capital changes:			
Increase in inventory	(3,450)		0.5
Increase in accounts receivable	(1,700)		0.5
Increase in prepaid insurance	(50)		0.5
Increase in accounts payable	3,100		0.5
Increase in accrued expenses	1,000		0.5
	(1,100)		
Net cash from operating activities		**1,325**	
Cash flows from investing activities			
Capital expenditure	(2,150)		0.5
Net cash used in investing activities		**(2,150)**	
Cash flows from financing activities			
Issuance of shares	500		0.5
Net addition in long-term loans	75		0.5
Net cash from financing activities		**575**	
Net decrease in cash and cash equivalents		**(250)**	0.5
Cash and cash equivalents at beginning of the year		**300**	
Cash and cash equivalent at end of the year		**50**	0.5

Working:

Non-current Assets

			Rupees
Opening balance	5,050	Depreciation for the period	625
Additions	2,150	Closing balance	6,575
	7,200		**7,200**

THE END

ICMA Pakistan

FUNDAMENTALS OF FINANCIAL ACCOUNTING (BAF-101)
SEMESTER-1

SPRING 2015 EXAMINATIONS
Thursday, the 27th August 2015

Time Allowed:	**02 Hours 30 Minutes**	**Maximum Marks: 70**	**Roll No.:**	

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) Use of non-programmable scientific calculators of any model is allowed.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) 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.
(vi) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information inside the answer script.
(vii) Question No.1 – "Multiple Choice Questions" 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 Following is the trial balance of Akber (Private) Limited as at June 30, 2015:

		Rs. '000'
	Debit	**Credit**
Share capital (450,000 ordinary shares of Rs. 10 each)		4,500
Retained earnings		405
Long-term loan		2,200
Trade payables		650
Sales		30,725
Other income		1,062
Accumulated depreciation – Plant and equipment		1,330
Accumulated depreciation – Motor vehicle		360
Amortization reserves		340
Cash and bank balances	2,277	
Opening inventory July 01, 2014	900	
Administrative expenses	7,450	
Distribution costs	6,250	
Plant and equipment, at cost	7,000	
Motor vehicle, at cost	1,440	
Computer software	850	
Purchases	14,000	
Finance costs	55	
Advances to employees	250	
Trade receivables	1,100	
	41,572	**41,572**

Additional Information:

- Closing inventory as at June 30, 2015 was Rs. 750,000.
- Depreciation is to be provided as follows:
  - Plant and equipment @ 10% on reducing balance method (allocate 70% depreciation to administration department and 30% to marketing department).
  - Motor vehicle @ 25% on reducing balance method (allocate 60% depreciation to marketing department and 40% to administration department).
- Computer software is to be amortized @ 20% on cost. Computer software was purchased for administration department.
- Company obtained a long-term loan from a commercial bank @ 10% per annum on January 01, 2015. The loan is repayable in 16 quarterly installments of Rs. 137,500 each. The installments start from July 01, 2015.

Marks

- The mark-up on long-term loan is payable quarterly i.e., on April 01, July 01, October 01 and January 01.
- During finalization of financial statements, it was observed that an amount of Rs. 225,000 received as advance from a customer, was recorded as sales during the period. The goods were to be delivered in the month of August 2015.

Required:

Prepare the following financial statements:

(a) Statement of Profit or Loss for the year ended June 30, 2015. **09**

(b) Statement of Financial Position as at June 30, 2015. **11**

Q. 3 (a) Identify an appropriate fundamental accounting concept for each of the situations given below:

(i) Application of a degree of caution that assets and income are not overstated and liabilities and expenses are not understated. **01**

(ii) The assets are normally being shown at cost price, which is the basis of their valuation. **01**

(iii) Charging of various expenses to revenue in the related accounting period. **01**

(iv) A company uses the same accounting principles and methods from year to year. **01**

(v) Assumption that business will continue to operate for at least one accounting period after the end of the reporting period. **01**

(b) Following balances have been extracted from the books of Ali Enterprises:

Accounts receivable as at December 31, 2012	Rs. 450,000
Allowance for doubtful debts at December 31, 2012	Rs. 13,500

Transactions for the year 2013 are given below:

Credit sales	Rs. 690,000
Collections from customers	Rs. 340,000

During the year 2013, a customer from whom Rs. 20,000 were receivable, was declared bankrupt. Mr. Ali, the owner of the business, considered that nothing could be recovered from him. The balance of 'allowance for doubtful debts' is to be increased to Rs. 23,400 at year end.

Transactions for the year 2014 are given below:

Credit sales	Rs. 530,000
Collections from customers	Rs. 280,000

In addition to above collections during the year 2014, Rs. 5,000 were also recovered from a customer whose account was previously written off. The balance of 'allowance for doubtful debts' is to be increased to Rs. 30,900 at year end.

Required:

Draw up following T-accounts, post the relevant transactions and balance them properly:

(i) Accounts receivable **05**

(ii) Allowance for doubtful debts **06**

Q. 4 (a) Pharma Pakistan Limited imported an item of equipment costing Rs. 3 million on July 01, 2011. It further incurred the following expenses on the import of equipment:

- Import duty paid, Rs. 1,000,000.
- Income taxes of Rs. 276,000 adjustable against company's income tax liability.
- Other non-refundable taxes, Rs. 60,000.
- Transportation cost of Rs. 10,000 to bring the equipment to the factory premises.
- Insurance in transit, Rs. 4,000.
- Fire insurance, Rs. 10,000.

Marks

Initially, the useful life of the asset was estimated to be 5 years with residual value of Rs. 350,000 and depreciation was to be provided on straight-line basis. During the year 2012-13, the company estimated the remaining useful life of the equipment to be 5 years and residual value was re-estimated at Rs. 400,000. The machine was sold on July 01, 2014 for Rs. 800,000.

Required:

Calculate:

(i) Cost of the equipment. **02**

(ii) Depreciation expense for the years ended June 30, 2012, 2013 and 2014. **03**

(iii) The gain / loss on disposal, if any. **02**

(b) Financial Statements of Faheem Pharmaceuticals Ltd., are given below:

Statement of Profit or Loss (extract)
for the year ended December 31, 2014

	Rupees
Cash sales	300,000
Net credit sales	900,000
Cost of goods sold	960,000
Credit purchases	880,000

Statements of Financial Position (extract)
as at December 31,

	Rupees	
	2014	**2013**
Inventory	170,000	150,000
Accounts payable	150,000	200,000
Accounts receivable	125,000	112,000

Required:

Compute the following ratios as at December 31, 2014:

(i) Average accounts receivable turnover **02**

(ii) Average collection period in days **01**

(iii) Average accounts payable turnover **02**

(iv) Average payment period in days **01**

(c) Mubashir Traders started business on April 01, 2014. The details of purchases till September 30, 2014 are given below:

Month	**No. of Units**	**Unit Cost**
April	6,100	50
May	5,400	49
June	5,200	48
July	4,900	50
August	6,700	51
September	7,300	47
Total	**35,600**	

Mubashir Traders uses FIFO method of inventory valuation. During above period they sold inventory @ Rs. 57 per unit. On September 30, 2014 units in hand were 14,600.

Required:

Calculate **(i)** Cost of units sold out, **(ii)** Value of closing stock and **(iii)** Gross profit. **06**

Marks

Q. 5 (a) The following data relates to purchases and sales transactions of Al-Maroof Honey (Private) Limited for the year ended December 31, 2014:

	Rupees
Sales ledger balances January 01, 2014 (debit)	52,120
Sales ledger balances January 01, 2014 (credit)	3,000
Purchases ledger balances January 01, 2014 (debit)	1,650
Purchases ledger balances January 01, 2014 (credit)	35,250
Activities during the year 2014:	
Payments to trade payables	285,000
Cheques from trade receivables	302,000
Purchases on credit	282,500
Sales on credit	327,500
Bad debts written off	1,500
Discount allowed	13,000
Discount received	8,000
Returns inward	9,000
Returns outward	6,000
Sales ledger credit balance at December 31, 2014	1,250
Purchases ledger debit balance at December 31, 2014	2,560

During the year, debit balances in the sales ledger amounting to Rs. 3,500, were transferred to the purchases ledger.

Required:

From the data given above, prepare the following as on December 31, 2014:

(i) Sales Ledger Control Account. **04**

(ii) Purchases Ledger Control Account. **04**

(b) Following is the data of Classic (Pvt.) Limited for the month of June 2015:

1. Balance as per the bank statement as on June 30, 2015 was Rs. 20,000 (overdraft).
2. On June 30, 2015, a cheque amounting to Rs. 1,000 was deposited in the bank, journal entry of which was made in the cash book the same day. It appears in the bank statement on July 05, 2015 at Rs. 990.
3. Cheques issued to parties but not presented for payment till June 30, 2015 are of Rs. 525, Rs. 835 and Rs. 900.
4. Cheques amounting to Rs. 9,170, deposited for collection, were not credited by the bank till June 30, 2015.
5. Interest on investment collected by the bank on June 30, 2015, Rs. 955 not entered in cash book.
6. Bank charges amounting to Rs. 90 for the month of June 2015 appeared in the bank statement, which were not entered in the cash book.
7. Cheques amounting to Rs. 945 deposited with the bank for collection during the month were dishonoured.
8. The bank has mistakenly debited the account of Classic (Pvt.) Limited by Rs. 1,000. The same was reversed by bank on July 05, 2015.
9. Balance as per cash book as on June 30, 2015 was Rs. 11,010 (overdraft).

Required:

Prepare Bank Reconciliation Statement as at June 30, 2015. **07**

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

Marks

Q. 2 (a)

Akber (Private) Limited
Statement of Profit or Loss
for the year ended June 30, 2015 — 1.5

		Rs. '000'	Marks
Sales (30,725 – 225)		30,500	0.5 + 0.5
Opening inventory	900		0.5
Purchases	14,000		0.5
	14,900		
Closing inventory	(750)		
		(14,150)	
Gross profit		**16,350**	0.5
Other income		1,062	0.5
Administrative expenses (7,450 + 397 + 108 +170)		(8,125)	1.0 + 0.5
Distribution costs (6,250 + 170 + 162)		(6,582)	0.5 + 0.5
		2,705	
Finance costs (55 + 55)		(110)	0.5 + 0.5
Profit for the year		**2,595**	1.0

(b)

Akber (Private) Limited
Statement of Financial Position
as at June 30, 2015 — 1.5

Assets	**Rs. '000'**	Marks
Non-current assets		
Plant and equipment (7,000 – 1,330 – 567)	5,103	1.0 + 0.5
Motor vehicle (1,440 – 360 – 270)	810	1.0 + 0.5
Computer software (850 – 340 –170)	340	1.0 + 0.5
	6,253	
Current assets		
Inventory	750	0.5
Trade receivables	1,100	0.5
Advances to employees	250	0.5
Cash and bank balances	2,277	0.5
	4,377	
Total assets	**10,630**	
Equity		
Share capital	4,500	0.5
Retained earnings (405 + 2,595)	3,000	0.5
	7,500	
Non-current liability		
Long-term loan	2,200	0.5
Current liabilities		
Trade payables	650	0.5
Advances from customers	225	0.5
Accrued interest	55	0.5
	930	
Total equity and liabilities	**10,630**	

		Marks
Q. 3 (a)	**(i)** Prudence	01
	(ii) Historical cost	01
	(iii) Accrual basis and/ matching concept	01
	(iv) Consistency	01
	(v) Going concern	01

(b)

(i) **Accounts Receivable**

Opening balance (1.1.2013)	450,000	Cash (Collection from customers)	340,000	0.5 + 0.5
Sales	690,000	Bad debts (written off)	20,000	0.5 + 0.5
		Balance c/d (31.12.13)	780,000	0.5
	1,140,000		**1,140,000**	
Opening balance (1.1.14)	780,000	Cash (Collection from customers)	280,000	0 + 0.5
Sales	530,000	Cash	5,000	0.5 + 0.5
Allowance for doubtful debts (Bad debts recovered)	5,000	Balance c/d (31.12.14)	1,030,000	0.5 + 0.5
	1,315,000		**1,315,000**	
Opening balance (1.1.15)	1,030,000			

(ii) **Allowance for Doubtful Debts**

		Opening bal (1.1.13)	13,500	0.5
Accounts receivable (written off)	20,000	Provision for 2013	29,900	0.5 + 1.5
Balance c/d (31.12.13)	23,400			0.5
	43,400		**43,400**	
		Opening bal (1.1.14)	23,400	0.5
		Accounts receivable (re-written)	5,000	0.5
		Provision for 2014	2,500	1.5
Balance c/d (31.12.14)	30,900			0.5
	30,900		**30,900**	
		Opening bal (1.1.15)	30,900	

Marks

Q. 4 (a)

(i) Cost of Equipment

	Rupees	Marks
Cost paid	3,000,000	
Add: Import duty	1,000,000	0.5
Other non-refundable taxes	60,000	0.5
Transportation cost	10,000	0.5
Insurance in transit	4,000	0.5
	4,074,000	

(ii) Depreciation expense for the years ended June 30, 2012, 2013 and 2014.

Useful life	05 Years	
Salvage value	350,000	
Depreciation for June 30, 2012 {(4,074,000 – 350,000)/5}	744,800	
During 2012-13 the useful life revised to	5 Years	
During 2012-13 the salvage value is estimated	400,000	

Revised Depreciation on the basis of Remaining Life and Salvage Value

Working:

Depreciation for June 30, 2013 and 2014: {(4,074,000 – 744,800 – 400,000)/5}	585,840	

Depreciation Expenses for the years ending

		Marks
30-Jun-12	744,800	01
30-Jun-13	585,840	01
30-Jun-14	585,840	01
Depreciation for year June 30, 2012, 13 and 14.	**1,916,480**	

(iii) Exchange Gain/ Loss on Disposal

		Marks
Equipment cost	4,074,000	
Accumulated depreciation	(1,916,480)	0.5
Book value	2,157,520	0.5
Less: Cash value	(800,000)	0.5
Exchange Loss on Disposal	**1,357,520**	0.5

Marks

(b)

(i) Average Accounts Receivable Turnover

$$\frac{\text{Net credit sales}}{\text{Average accounts receivable}} = \frac{900{,}000}{118{,}500} = 7.595 \text{ times}$$ 1 + 1

(ii) Average Collection Period in Days

$$\frac{\text{No. of days in the year}}{\text{Average accounts receivable turnover}} = \frac{365}{7.595} = 48 \text{ days}$$ 1

(iii) Average Accounts Payable Turnover

$$\frac{\text{Net credit purchases}}{\text{Average accounts payable}} = \frac{880{,}000}{175{,}000} = 5.029 \text{ times}$$ 1 + 1

(iv) Average Payment Period in Days

$$\frac{\text{No. of days in the year}}{\text{Average accounts payable turnover}} = \frac{365}{5} = 73 \text{ days}$$ 1

(c) (i) Cost of total units sold out:

	Rupees	Marks
6,100 units @ 50	305,000	0.5
5,400 units @ 49	264,600	0.5
5,200 units @ 48	249,600	0.5
4,300 units @ 50	215,000	0.5
21,000 units	1,034,200	0.5

(ii) Value of closing inventory:

		Marks
600 units @ 50	30,000	0.5
6,700 units @ 51	341,700	0.5
7,300 units @ 47	343,100	0.5
14,600 units	714,800	0.5

(iii) Gross profit:

		Marks
Sales 21,000 units @ 57	1,197,000	0.5
Cost of goods sold (as above)	1,034,200	0.5
Gross profit	162,800	0.5

Marks

Q. 5 (a)

(i) Sales Ledger Control Account

Balance b/d	52,120	Balance b/d	3,000	
Sales	327,500	Cash book	302,000	0.5 + 0.5
Balance c/d	1,250	Bad debts	1,500	0.5
		Discounts allowed	13,000	0.5
		Returns inwards	9,000	0.5
		Purchases Ledger	3,500	0.5
		Balance c/d	48,870	01
	380,870		380,870	

(ii) Purchases Ledger Control Account

Balance b/d	1,650	Balance b/d	35,250	
Cash book	285,000	Purchases	282,500	0.5 + 0.5
Discounts received	8,000	Balance c/d	2,560	0.5 + 0.5
Returns outwards	6,000			0.5
Sales Ledger	3,500			0.5
Balance c/d	16,160			01
	320,310		320,310	

(b)

Classic (Private) Limited
Bank Reconciliation Statement
as on June 30, 2015

	Rupees	
Balance as per Bank Statement (Overdraft)	(20,000)	
Add: Cheque deposited on June 20, 2015 for collection not yet credited	1,000	01
Cheque deposited for collection but not yet credited	9,170	01
Bank Charges for the month of June not yet entered in Cash Book	90	01
Cheque deposited dishonoured	945	01
Bank mistakenly debited	1,000	01
	12,205	
	(7,795)	
Less: Cheques issued but not presented for payments (500 + 835 + 900)	(2,260)	01
Interest on Investment collected by Bank not entered in Cash Book	(955)	01
	(3,215)	
Balance as per Cash Book (Overdraft)	(11,010)	

THE END

ICMA Pakistan

FUNDAMENTALS OF FINANCIAL ACCOUNTING (BAF-101)
SEMESTER-1

FALL 2015 EXAMINATIONS
Thursday, the 25th February 2016

Extra Reading Time: 15 Minutes **Writing Time: 02 Hours 30 Minutes**	**Maximum Marks: 70**	**Roll No.:**	

(i) Attempt all questions.
(ii) Write your Roll No. in the space provided above.
(iii) Answers must be neat, relevant and brief. It is not necessary to maintain the sequence.
(iv) Use of non-programmable scientific calculators of any model is allowed.
(v) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(vi) 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.
(vii) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information inside the answer script.
(viii) Question No.1 – "Multiple Choice Questions" printed separately, is an integral part of this question paper.
(ix) **Question Paper must be returned to invigilator before leaving the examination hall.**

DURING EXTRA READING TIME, WRITING IS STRICTLY PROHIBITED IN THE ANSWER SCRIPT

EXAMINEES ARE ADVISED TO MANAGE SOLUTIONS/ ANSWERS WITHIN PROPOSED TIME

Marks

Question No. 2 **Proposed Time : 34 Min. | Total Marks : 16**

(a) Why a 'Regulatory Framework' for the preparation of financial statements is necessary? **04**

(b) Following is the trial balance of Ahsan Traders as on December 31, 2015:

	Rupees	
	Debit	**Credit**
Land	160,000	
Buildings	80,000	
Accumulated depreciation – Buildings		24,000
Equipment	65,000	
Accumulated depreciation – Equipment		29,250
Furniture and fixtures	68,000	
Accumulated depreciation – Furniture and fixtures		10,200
Opening inventory	10,000	
Office supplies	1,950	
Trade receivables	7,500	
Allowance for doubtful debts		500
Prepaid insurance	11,000	
Cash and bank	10,550	
Long-term liability, due on December 31, 2018		120,000
Trade payables		6,950
Capital – Mr. Ahsan		160,000
Drawings – Mr. Ahsan	2,000	
Sales		230,100
Purchases	125,000	
Salaries and wages for office staff	16,200	
Sales commission expense	9,800	
Advertising expense	5,000	
Interest expense	9,000	
	581,000	**581,000**

Marks

Additional Information:

Following additional information is available for Ahsan Traders as on December 31, 2015:

- Closing inventory was Rs. 6,000.
- Depreciation expense for the year was calculated as follows:
  - Equipment, Rs. 9,750.
  - Buildings, Rs. 8,000.
  - Furniture and fixtures, Rs. 3,400.
- Accrued interest on long-term liability amounted to Rs. 3,000.
- Unexpired insurance amounted to Rs. 1,000.
- Analysis of trade receivables under aging method showed that debts amounting to Rs. 225 were not recoverable and were to be written off.
- Office supplies balance at end of the year was Rs. 600.

Required:

Prepare adjusting entries as on December 31, 2015 in the journal of Ahsan Traders. **12**

Question No. 3 **Proposed Time : 28 Min. | Total Marks : 13**

(a) Zama Traders is a supplier of sophisticated medical and surgical items to hospitals and healthcare centres across the country. The company deals with a large number of customers. At the end of year 2015, an aging of the trade receivables showed the following classification:

		Rupees
Group	**Aging of Trade Receivables**	**Amount**
A	Not yet due	532,800
B	1 – 30 days past due	216,000
C	31 – 60 days past due	93,600
D	61 – 90 days past due	21,600
E	Over 90 days past due	36,000
	Total trade receivables	**900,000**

On the basis of past experience, the company estimated the percentages of probable uncollectible for the above all age groups as follows:

Group	**Percentage (%)**
A	2
B	3
C	15
D	25
E	50

The allowance for doubtful debts account before adjustment at December 31, 2015, showed a debit balance of Rs. 2,100.

Required:

(i) Compute the estimated amount of uncollectible based on the above classification by the age group. (Show complete workings) **06**

(ii) Prepare an adjusting entry to bring the allowance for doubtful debts account to the proper amount. (Show complete workings) **04**

(b) Briefly describe the following:

(i) Intangible assets **01**

(ii) Impairment loss **01**

(iii) Amortization **01**

Marks

Question No. 4	Proposed Time : 54 Min. | Total Marks : 25

(a) Following is the adjusted trial balance of Naeem Traders as on December 31, 2015:

	Rupees	
	Debit	**Credit**
Equipment	83,750	
Accumulated depreciation – Equipment		23,375
Closing inventory	58,750	
Trade receivables	62,500	
Allowance for doubtful debts		3,750
Prepaid insurance	675	
Cash	1,500	
Non-current liabilities		25,000
Trade payables		37,675
Capital – Mr. Naeem		106,250
Sales		500,000
Cost of goods sold	395,000	
Salaries expense	62,175	
Advertising expense	12,750	
Rent expense	6,125	
Interest expense	2,125	
Depreciation expense – Equipment	8,375	
Bad debt expense	1,250	
Insurance expense	450	
Interest receivable	1,000	
Interest revenue		1,000
Prepaid rent	625	
	697,050	**697,050**

Required:

Prepare the following financial statements:

(i) Statement of Profit or Loss for the year ended December 31, 2015. **06**

(ii) Statement of Financial Position as on December 31, 2015. **07**

(b) On January 1, 2016, Salman Traders acquired land, the factory building and the manufacturing equipment from Barkha Company for a single sum of Rs. 28,500,000. An independent appraisal determined the fair values of the assets (if purchased separately) is at Rs. 15,250,000 for the land, Rs. 9,150,000 for the building and Rs. 6,100,000 for the equipment.

Required:

(i) Determine the cost of each asset (i.e. land, factory building and manufacturing equipment) **04**

(ii) Prepare journal entry for the same. **02**

Marks

(c) Naushad Brothers maintain a petty cash fund for payment of day to day small expenses. Following transactions were made during the month of January 2016:

January 01	Established petty cash fund by writing a cheque for Rs. 14,000.
31	Replenished the petty cash fund by writing a cheque for Rs. 3,480. On this date the fund consisted of Rs. 7,170 in cash and petty cash payments were as follows: – conveyance Rs. 1,960 – cold-drinks to customers Rs. 1,320 – stationery Rs. 960 – postage Rs. 1,700 – donation to a charitable trust Rs. 890.
31	The management noticed that substantial part of fund remains unutilized, therefore, they decreased the amount of petty cash fund to Rs. 10,000.

Required:
Prepare required journal entries in the books of Naushad Brothers for January 2016. **06**

Question No. 5 **Proposed Time : 34 Min. | Total Marks : 16**

(a) Mr. Ateeq, an Assistant Accountant at Gadara Traders, could not match the Trial Balance of the company. He transferred the difference of Rs. 16,280 to the suspense account, being excess of the debit side total. The following errors were subsequently discovered:

- Sales day book was overcast by Rs. 22,280.
- Purchase of furniture for office use of Rs. 33,825 passed through purchases day book.
- An amount of Rs. 3,025 received from Rana Stores was posted to their account as Rs. 30,250.
- Purchases return day book total on a folio was carried forward as Rs. 6,610 instead of Rs. 6,160.
- A cash sale of Rs. 67,925 was duly entered in the cash book but was posted to sales account as Rs. 925.
- The rest of the difference was due to incorrect total in the salaries account in the ledger.

Required:
Prepare journal entries to rectify the errors. **06**

(b) The accountant of Naveen Company is very much concerned to note a considerable difference between the balance as per cash book, which is Rs. 96,000 debit and the balance as per bank statement, which is Rs. 28,000 over-draft on December 31, 2015.

Despite his best efforts he could not reconcile the balances. His senior while reviewing cash book and bank statement noted the following:

- Cheques totalling Rs. 10,000 were outstanding.
- Deposited cheques of Rs. 78,000 were still uncollected by bank.
- A cheque of Rs. 40,800 issued by Naveed Company was wrongly paid by the bank from the account of Naveen Company.
- A cheque of Rs. 2,000 received from a customer was erroneously recorded in cash book by the accountant of Naveen Company as Rs. 20,000.
- Rent of Rs. 4,800 paid by bank under standing instructions was not yet recorded in the cash book.
- Mark-up of Rs. 1,200 charged by bank on over-draft has not yet been recorded in cash book.
- Bills of Rs. 8,800 were collected by bank on behalf of the company but these were not recorded in the cash book.

Required:
Prepare a Bank Reconciliation Statement as on December 31, 2015. **10**

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

Marks

Question No.2

(a) A regulatory framework for the preparation of financial statements is necessary for a number of reasons:

1) To ensure that the needs of the users of financial statements are met with at least a basic minimum of information. 01
2) To ensure that all the information provided in the relevant economic arena is both comparable and consistent. Given the growth in multinational companies and global investment this arena is an increasing international one. 01
3) To increase users' confidence in the financial reporting process. 01
4) To regulate the behaviour of companies and directors towards their investors. 01

(b)

DESCRIPTION	Dr.	Cr.	Marks
Merchandise inventory	6,000		01
Trading A/c		6,000	01
Depreciation expense	21,150		01
Accumulated depreciation – Equipment		9,750	01
Buildings		8,000	
Furniture and fixtures		3,400	
Interest expense	3,000		01
Accrued interest		3,000	01
Insurance expense	10,000		01
Prepaid insurance		10,000	01
Allowance for doubtful debt	225		01
Trade receivables		225	01
Office supplies expense	1,350		01
Office supplies		1,350	01

Question No.3

(a) (i)

Group	Aging of Trade Receivables	Amount (Rs.)	%	D'debts (Rs.)	Marks
A	Not yet due	532,800	2	10,656	01
B	1-30 days past due	216,000	3	6,480	01
C	31-60 days past due	93,600	15	14,040	01
D	61-90 days past due	21,600	25	5,400	01
E	Over 90 days past due	36,000	50	18,000	01
	Total	**900,000**		**54,576**	01

Marks

(ii)

			Marks
Doubtful amount required	54,576		0.5
Add debit balance (deficit)	2,100		0.5
Amount required to be provided	56,676		01
Journal entry:			
Doubtful debts expenses	56,676 Dr.		01
Allowance for doubtful debts		56,676 Cr.	01

(b) (i) Intangible assets: An intangible asset is an identifiable non-monetary asset without physical substance. 01

(ii) Impairment loss: an impairment loss is the amount by which carrying amount of an asset exceeds it s recoverable amount. 01

(iii) Amortization: Amortization is a systematic allocation of the depreciable amount of an intangible asset over its useful life. 01

Question No.4

(a) (i)

Naeem Traders
Statement of Profit or Loss
for the year ended December 31, 2015

		Rupees	Marks
Sales	500,000		0.5
Cost of goods sold	(395,000)		0.5
Gross profit		**105,000**	0.25
Operating expenses:			
Salaries expenses	62,175		0.5
Advertising expenses	12,750		0.5
Rent expense	6,125		0.5
Interest expense	2,125		0.5
Depreciation expense – Equipment	8,375		0.5
Bad debt expense	1,250		0.5
Insurance expense	450	(93,250)	0.5
Operating income		11,750	0.5
Interest income		1,000	0.5
Profit for the year		**12,750**	0.25

Marks

(ii)

Naeem Traders
Statement of Financial Position
as on December 31, 2015

Assets		**Rs.**		
Non-current assets				
Equipment		83,750		0.5
Accumulated depreciation		(23,375)	60,375	0.5
Current assets				
Inventory		58,750		0.5
Trade receivables	62,500			0.5
Allowance for doubtful debts	(3,750)	58,750		0.5
Prepaid insurance		675		0.5
Prepaid rent		625		0.5
Interest receivable		1,000		0.5
Cash		1,500	121,300	0.5
Total assets			**181,675**	0.25
Equity and liabilities				
Capital – Mr. Naeem		106,250		0.5
Profit for the year		12,750	119,000	0.5
Non-current liabilities			25,000	0.5
Current liabilities				
Trade payables			37,675	0.5
Total equity and liabilities			**181,675**	0.25

(b) (i) The acquisition price of Rs. 28,500,000 is allocated to the separate assets as follows:

Asset	Fair value	% of Total FV	Marks	Cost	Marks	
Land	15,250,000	50% (15,250/30,500)	$^{2}/_{3}$	14,250,000	$^{2}/_{3}$	(28,500 x 50%)
Building	9,150,000	30% (9,1500/30,500)	$^{2}/_{3}$	8,550,000	$^{2}/_{3}$	(28,500 x 30%)
Equipment	6,100,000	20% (6,100/30,500)	$^{2}/_{3}$	5,700,000	$^{2}/_{3}$	(28,500 x 20%)
Total	**30,500,000**	100%		**28,500,000**		100%

(ii) The following entry is made to record this acquisition:

Land account	14,250,000		0.5
Building account	8,550,000		0.5
Equipment account	5,700,000		0.5
Cash account		28,500,000	0.5

(To recognize the new assets acquired)

(c)

				Marks
January 01	Petty cash fund	14,000		0.25
	Bank		14,000	0.25
31	Petty cash fund	3,480		0.25
	Bank		3,480	0.25
31	Conveyance	1,960		0.75
	Entertainment	1,320		0.75
	Stationery	960		0.75
	Postage	1,700		0.75
	Donation	890		0.75
	Petty cash fund		6,830	0.75
31	Bank	650		0.25
	Petty cash fund		650	0.25

Question No. 5

(a)

Sales A/c	22,280		
To Suspense A/c		22,280	
(Being sales day book was overcast)			01
Furniture A/c	33,825		
To Purchases A/c		33,825	
(Being purchase of furniture passed through purchases day book, now rectified)			01
Rana stores A/c	27,225		
To Suspense A/c		27,225	
(Being an amount of Rs 3025 received from Rana stores was wrongly entered in his account as Rs 30,250, now rectified)			01
Purchases Return A/c	450		
To Suspense A/c		450	
(Being total of purchases return book was carried forward as Rs 6,610 in place of Rs 6,160, now rectified			01
Suspense A/c	67,000		
To Sales A/c		67,000	
(Being cash sales of Rs 67,925 wrongly posted in the sales account as Rs 925, now rectified)			01
To Salaries A/c	765		
Suspense A/c		765	
(Being salaries account was overcastted)			01

Marks

(b)

Naveen Company
Bank Reconciliation Statement

		Rupees	Marks
Balance as per cash book		96,000	0.5
Error in the books of company (20,000 – 2,000)	(18,000)		01
Payment under standing instructions	(4,800)		01
Markup on overdraft	(1,200)		01
Direct receipt (bills receivable collected by bank)	8,800	(15,200)	01
Adjusted balance as per cash book		**80,800**	01
Balance as per bank statement		(28,000)	0.5
Unpresented cheques	(10,000)		01
Wrong payment by bank	40,800		01
Uncleared cheque	78,000	108,800	01
Adjusted balance as per bank statement		**80,800**	01

THE END

ICMA Pakistan

FUNDAMENTALS OF FINANCIAL ACCOUNTING (BAF-101)
SEMESTER-1

SPRING 2016 EXAMINATIONS
Thursday, the 25th August 2016

Extra Reading Time: 15 Minutes **Writing Time:** 02 Hours 30 Minutes	**Maximum Marks: 70**	**Roll No.:**	

(i) Attempt all questions.
(ii) Write your Roll No. in the space provided above.
(iii) Answers must be neat, relevant and brief. It is not necessary to maintain the sequence.
(iv) Use of non-programmable scientific calculators of any model is allowed.
(v) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(vi) 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.
(vii) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information inside the answer script.
(viii) Question No.1 – "Multiple Choice Questions" printed separately, is an integral part of this question paper.
(ix) **Question Paper must be returned to invigilator before leaving the examination hall.**

DURING EXTRA READING TIME, WRITING IS STRICTLY PROHIBITED IN THE ANSWER SCRIPT

EXAMINEES ARE ADVISED TO MANAGE SOLUTIONS/ ANSWERS WITHIN PROPOSED TIME

Marks

Question No. 2 **Proposed Time : 15 Min. | Total Marks : 08**

Explain the following accounting concepts:

(a) Going Concern **02**

(b) Materiality **02**

(c) Substance Over Form **02**

(d) Business Entity **02**

Question No. 3 **Proposed Time : 25 Min. | Total Marks : 13**

(a) Receivables balance of Mr. Alam at December 31, 2014 stood at Rs. 160,000. Based on the past experience, Mr. Alam estimates that 3% of the receivable balances will not be collected and therefore relevant allowance shall be made.

On December 31, 2015 Mr. Alam's receivables balance stood at Rs. 240,000. Being more prudent, Mr. Alam now foresees that 5% of year end's receivables balance is required to be maintained as allowance for bad debts.

Required:

(i) Pass necessary general journal entries in the books of Mr. Alam for the accounting year ended December 31, 2014 and 2015. **03**

(ii) Prepare an Allowance for Bad Debts Account for the year ended December 31, 2014 and 2015. **02**

(b) Briefly describe the following:

(i) Error of Principle (give at least one example) **02**

(ii) Error of Original Entry (give at least one example) **02**

Marks

(c) Identify which of the following would be classified as 'Capital Expenditure' or 'Revenue Expenditure': **04**

- **(i)** Electricity costs of using machinery
- **(ii)** Payment of legal fees in connection with building extension
- **(iii)** Cost of rebuilding extension wall which had fallen down
- **(iv)** Payment of wages to warehouse assistants
- **(v)** Purchase of motor vehicle for business use
- **(vi)** Cost of acquiring patent rights
- **(vii)** Legal costs of collecting debts
- **(viii)** Payment against purchase of licensed computer software.

Question No. 4	**Proposed Time : 50 Min. | Total Marks : 20**

(a) The following data has been extracted from the books of accounts of Ismail Brothers, a renowned name in manufacturing of auto parts:

Sunday, January 01, 2012	Bought machine 'M-1' costing Rs. 500,000
Monday, July 01, 2013	Bought machine 'M-2' for Rs. 450,000
Tuesday, April 01, 2014	Disposed off machine 'M-1' for Rs. 310,000
Tuesday, April 01, 2014	Bought machine 'M-3' costing Rs. 400,000

Ismail Brothers uses straight-line method of depreciation @ 10% for providing depreciation on machinery and follows calendar year as accounting year.

Required:

- **(i)** Prepare year-wise Machinery Account from year 2012 to 2014. **04**
- **(ii)** Prepare year-wise Accumulated Depreciation Account – Machinery from year 2012 to 2014. **06**
- **(iii)** Prepare a Machinery Disposal Account for the year 2014 showing all necessary posting therein. **02**

(b) Bridge Incorporation is a multinational entity which deals in only one product i.e., Zeta. The inventory of Zeta on March 01, 2016 comprised of 100 units at a total cost of Rs. 24,800. Purchases and sales of Zeta during the month of March 2016 are as follows:

Purchases			**Sales**		
Date	**Units**	**Rate (Rs. per Unit)**	**Date**	**Units**	**Rate (Rs. per Unit)**
Mar-02	400	250	Mar-04	310	300
Mar-06	250	252	Mar-09	200	310
Mar-13	390	251	Mar-17	120	305
Mar-21	150	253	Mar-23	370	315
Mar-28	100	255	Mar-31	230	320

Required:

Calculate the value of closing inventory of Zeta as on March 31, 2016 using Weighted Average Cost method assuming that Bridge Incorporation follows Perpetual Inventory System. **08**

Marks

Question No. 5	Proposed Time : 45 Min. | Total Marks : 21

Mr. Hassan is engaged in a trading business; the following balances were extracted from his books for the accounting year ended December 31, 2015:

	Rupees
Sales	4,000,000
Selling expense	120,000
Purchases	2,700,000
Carriage inwards	135,000
Salaries and wages	78,000
Motor running expense	40,000
Rent expense	60,000
Bank markup	5,500
Purchase discount	27,000
Sundry expenses	160,000
Trade receivables	75,000
Trade payables	91,500
Opening inventory	850,000
Furniture and fixtures	900,000
Delivery trucks	1,800,000
Accumulated depreciation – Furniture and fixtures	180,000
Accumulated depreciation – Delivery trucks	787,500
Allowance for doubtful debts	4,000
Bank overdraft	100,000
Cash in hand	11,500
Capital – Mr. Hassan	1,855,000
Drawings – Mr. Hassan	110,000

Additional Information:

- Inventory on December 31, 2015 was valued at Rs. 1,000,000.
- Salaries and wages of Rs. 2,000 were accrued at December 31, 2015.
- Prepaid rent expense were Rs. 21,625 on December 31, 2015.
- Furniture and fixtures is to be depreciated by 10% per annum using straight-line method.
- Delivery trucks are to be depreciated by 25% per annum using reducing balance method.
- During the year, Mr. Hassan withdrew goods worth Rs. 20,000 for his personal use.

Required:

Prepare the following financial statements:

(a) Statement of Profit or Loss for the year ended December 31, 2015. **11**

(b) Statement of Financial Position as on December 31, 2015. **10**

Marks

Question No. 6	**Proposed Time : 15 Min. | Total Marks : 08**

The following information has been extracted from the books of Asfand & Sons for the financial year ended December 31, 2015:

Extracts from Statement of Profit or Loss

	Rupees
Purchases	135,000
Opening inventory	10,000
Closing inventory	20,000
Gross profit	115,000
Operating expenses	85,000

Extracts from Statement of Financial Position

	Rupees
Furniture and fixtures	230,000
Motor van	150,000
Inventory	20,000
Trade receivables	40,000
Cash in hand	60,000
	500,000
Capital	310,000
Trade payables	90,000
Long-term loan	100,000
	500,000

Required:

You are required to compute the following ratios of Asfand & Sons for the year ended December 31, 2015:

(a) Gross Profit Ratio **02**

(b) Debt Equity Ratio **02**

(c) Quick Ratio **02**

(d) Inventory Turnover (in times) **02**

THE END

FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1

Marks

Question No.2

(i) Going Concern:
This concept states that the business will continue to run for foreseeable future or continue to operate for at-least twelve months after the end of reporting period. 02

(ii) Materiality:
This concept states that information is material if its omission or misstatement could influence the economic decisions of users. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. 02

(iii) Substance Over Form:
This concept states that transactions and other events must be accounted for and presented in accordance with their substance and economic reality and not merely their legal form 02

(iv) Business Entity:
This concept states that accountants regard a business as a separate entity, distinct from its owners or managers. 02

Question No.3

(a) (i) General Journal Entries:

		Dr	Cr	Marks
2014				
	Bad Debts Expense	4,800		0.5
	Allowance for Bad Debts		4,800	0.5
2015				
	Bad Debts Expense (W1)	7,200		0.5
	Allowance for Bad Debts (W1)		7,200	0.5
Working:				
	Bad Debts (240,000 * 5%) - 4,800		**7,200**	0.5+0.5

(ii) Allowance for Bad Debts

2014		**Rs.**	**2014**		**Rs.**	
Dec-31	Balance c/d	4,800	Dec-31	Bad Debts Expense	4,800	0.5
		4,800			4,800	
2015			**2015**			
Dec-31	Balance c/d	12000	Jan-01	Balance b/d	4,800	0.5+0.5
			Dec-31	Bad Debts Expense	7,200	0.5
		12,000			12,000	

(b) (i) Error of Principle:
It is an error where an item is entered in the wrong class of account. 01
Example
Purchase of Motor Van (an asset) is debited to Motor Expense Account 01

(ii) Error of Original Entry:
It is an error where the original figure of the transaction is incorrect, yet double entry is correctly posted using the incorrect figure. 01
Example
Sales of Rs: 54,000 made to Mr. Akeel however Sales Invoice had been made of Rs: 45,000 and same had been debited to the account of Mr. Akeel and credited to Sales Account. 01

		Marks
(c)	1- Revenue Expenditure	0.5
	2- Capital Expenditure	0.5
	3- Revenue Expenditure	0.5
	4- Revenue Expenditure	0.5
	5- Capital Expenditure	0.5
	6- Capital Expenditure	0.5
	7- Revenue Expenditure	0.5
	8- Capital Expenditure	0.5

Question No.4

(a) (i)

Machinery Account

2012		**Rs.**	**2012**		**Rs.**	
Jan-01	Cash M1	500,000	Dec-31	balance c/d	500,000	0.5
		500,000			**500,000**	
2013			**2013**			
Jan-01	balance b/d	500,000	Dec-31	balance c/d	950,000	0.5+0.5
Jul-01	Cash M2	450,000				0.5
		950,000			**950,000**	
2014			**2014**			
Jan-01	balance b/d	950,000	Apr-01	Disposal M1	500,000	0.5+0.5
Apr-01	Cash M3	400,000	Dec-31	balance c/d	850,000	0.5+0.5
		1,350,000			**1,350,000**	
2015						
Jan-01	balance b/d	850,000				

(ii)

Accumulated Depreciation - Machinery

2012		**Rs.**	**2012**		**Rs.**	
Dec-31	balance c/d	50,000	Dec-31	Profit and Loss M1	50,000	0.5+0.5
		50,000			**50,000**	
2013			**2013**			
Dec-31	balance c/d	122,500	Jan-01	balance b/d	50,000	0.5+0.5
			Dec-31	Profit and Loss M1	50,000	0.5
				Profit and Loss M2	22,500	0.5
		122,500			**122,500**	
2014			**2014**			
Apr-01	Disposal M1	112,500	Jan-01	balance b/d	122,500	0.5+0.5
	balance c/d	97,500	Apr-01	Profit and Loss M1	12,500	0.5+0.5
			Dec-31	Profit and Loss M2	45,000	0.5
				Profit and Loss M3	30,000	0.5
		210,000			**210,000**	
			2015	balance b/d	97,500	

Marks

(iii) **Machinery Disposal Account**

2014		**Rs.**	**2014**		**Rs.**	Marks
Apr-01	Machinery 1	500,000	Apr-01	Cash	310,000	0.5+0.5
				Accumulated Dep M1	112,500	0.5
				Profit & Loss Account	77,500	0.5
		500,000			500,000	

(b)

		Receipt			**Issue**			**Balance**			
Date	Particulars	Qty	Rate	Amount	Qty	Rate	Amount	Qty	Rate	Amount	Marks
Mar-01	Op Balance							100	248.00	24,800	0.5
Mar-02	Purchases	400	250	100,000				400	250.00	100,000	0.5
								500	249.60	124,800	0.5
Mar-04	Sales				310	249.60	77,376	190	249.60	47,424	0.5
Mar-06	Purchases	250	252	63,000				250	252.00	63,000	0.5
								440	250.96	110,424	0.5
Mar-09	Sales				200	250.96	50,193	240	250.96	60,231	0.5
Mar-13	Purchases	390	251	97,890				390	251.00	97,890	0.5
								630	250.99	158,121	0.5
Mar-17	Sales				120	250.99	30,118	510	250.99	128,003	0.5
Mar-21	Purchases	150	253	37,950				150	253.00	37,950	0.5
								660	251.44	165,953	0.5
Mar-23	Sales				370	251.44	93,034	290	251.44	72,919	0.5
Mar-28	Purchases	100	255	25,500				100	255.00	25,500	0.5
								390	252.36	98,419	0.5
Mar-31	Sales				230	252.36	58,042	**160**	**252.36**	**40,377**	0.5

	Amount	Units
Closing Inventory	40,377	160

Marks

Question No.5

(a)

Mr. Hassan
Statement of Profit or Loss Account
For the year ended December 31, 2015

			Rs.	
Sales			4,000,000	0.5
Less: Cost of sales				
Opening inventory		850,000		0.5
Purchases	2,700,000			0.5
Less: Purchases discount	(27,000)			0.5
Add: Carriage inward	135,000			0.5
Less: Goods drawn	(20,000)			0.5
		2,788,000		
Inventory available for sale		3,638,000		
Less: Closing inventory		(1,000,000)		0.5
			2,638,000	
Gross Profit			1,362,000	1.0
Less: expenses				
Selling expense		120,000		0.5
Salaries and wages (78,000 + 2,000)		80,000		0.5+0.5
Motor running expense		40,000		0.5
Rent expense (60,000 – 21,625)		38,375		0.5+0.5
Bank markup		5,500		0.5
Sundry expense		160,000		0.5
Depreciation - Furniture and fixtures (900,000 x 10%)		90,000		0.5
Depreciation - Delivery trucks (1800,000 – 787,500) x 25%		253,125		0.5+0.5
			787,000	
Net profit			**575,000**	1.0

Marks

(b) (10 marks = 9 marks for solution and 1 mark for presentation/ sequence as per IFRS)

Mr. Hassan
Statement of Financial Position
As on December 31, 2015

		Rs.	Marks
Non- Current Assets:			
Furniture and fixtures	900,000		0.5
Less: Accumulated depreciation (180,000 + 90,000)	(270,000)		0.5+0.5
		630,000	
Delivery trucks	1,800,000		0.5
Less: Accumulated depreciation (78,7500 + 253,125)		(1,040,625)	0.5+0.5
		759,375	
Current Assets:			
Inventory		1,000,000	0.5
Prepaid rent	21,625		0.5
Trade receivables (75,000 – 4,000)	71,000		0.5 + 0.5
Cash in hand	11,500		0.5
		1,104,125	
		2,493,500	
Liabilities:			
Bank overdraft	100,000		0.5
Accrued salaries and wages	2,000		0.5
Trade payables	91,500		0.5
		193,500	
Capital:			
Capital	1,855,000		0.5
Drawings (110,000 + 20,000)	(130,000)		0.5 + 0.5
Net profit	575,000		0.5
		2,300,000	
		2,493,500	

Marks

Question No.6

(a) Gross Profit Ratio:

			Marks
Gross Profit x 100	115,000 x 100	**47.90%**	0.5+0.5
Sales	(10,000+135,000 – 20,000+115,000)=240,000		0.25+0.25+0.25+0.25

(b) Debt Equity Ratio:

			Marks
Long term loan x100	100,000 x 100	**32.2%**	0.5+0.5+0.5
Capital	310,000		0.5

(c) Quick Ratio:

			Marks
Current Assets - Inventory	(20,000+40,000 + 60,000) – 20,000	**1.11:1**	0.5+0.5+0.5
Current Liabilities	90,000		0.5

(d) Inventory Turnover:

			Marks
Cost of Goods Sold	(10,000 + 135,000) – 20,000	**8.33 Times**	0.5+0.5+0.5
Average Inventory	(10,000 + 20,000) / 2		0.5

THE END