

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

FOUNDATION—II EXAMINATION—SUMMER, 2003

Tuesday, the 20th May, 2003

1849

FINANCIAL ACCOUNTING

Time Allowed—2 Hours and 40 Minutes

Maximum Marks—90

- (i) Attempt ALL questions.
- (ii) Show computations where necessary.
- (iii) Use of non-programmable scientific calculators O Casio fx-82LB, O Casio fx-82 Super O Casio fx-350 D, O Casio fx-350 HA, models is allowed.
- (iv) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective arrangement, presentation and use of clear diagram/chart, where appropriate.
- (v) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (vi) DO NOT write your Name, Reg. No. or Roll No. inside the answer script anywhere.
- (vii) Question No. 1—“Multiple Choice Question” printed separately, is an integral part of this paper.

Q. 2. (a) Following are the summarized capital accounts of S&S as on 31st December, 2002 :

	Shahid Rs.	Shabir Rs.	Shaheen Rs.		Shahid Rs.	Shabir Rs.	Shaheen Rs.
31 December 2002				1st Jan. 2002			
To drawings	600,000	660,000	600,000	By balance b/d	1,600,000	1,500,000	2,000,000
To balance c/d	1,150,000	1,650,000	2,150,000	By Profit for 2002	750,000	750,000	750,000
	1,750,000	2,250,000	2,750,000		1,750,000	2,250,000	2,750,000

P.T.O.

On 1st January 2003, it is agreed that the following would be effective retrospectively from 1st January, 2002 :

- (i) Shahid shall be entitled to salary of Rs. 37,500 p.m.
- (ii) Interest shall be allowed on partners' capital accounts at 5% p.a. on the opening balances.
- (iii) Profits shall be shared in proportion to opening balances in the capital accounts.
- (iv) Shaheen's share of profit exclusive of interest on his capital shall not fall below Rs. 750,000, the deficit if any, shall be contributed by Shahid out of his share.

Required :

- (i) Adjusted Statement of Profit & Loss. 8
 - (ii) Adjusted Partners' Capital Accounts. 7
 - (b) Define the following terms in context to IAS 24 : 8
 - 1. Related party.
 - 2. Related party transaction.
 - 3. Control.
 - 4. Significant influence.
- Q. 3. (a) What do you understand by the term "Start-up Costs" of opening new branch ? Recommend their treatment as capital or revenue expenditure. 6
- (b) Blanko International of Karachi have a Branch in Multan. Following transactions were undertaken during the year 2002 :
- (i) On 1st January, 2002 cash of Rs. 60,000 was sent by Head Office to Branch.
 - (ii) On 16th January, 2002 merchandise costing Rs. 300,000 was shipped by Head Office to Branch.
 - (iii) Equipment was acquired by Multan Branch for Rs. 15,000, to be carried in the Head Office books (other plant assets of the Multan Branch are generally acquired by Head Office).
 - (iv) Credit sale of Rs. 80,000 were made by Branch. The Branch's cost of the merchandise sold was Rs. 45,000.
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- (v) Collection of Accounts receivable of Rs. 45,000 were made, by Branch.
- (vi) Payment of Rs. 40,000 for operating expenses was made by Branch.
- (vii) Cash of Rs. 30,000 was remitted by Branch to Head Office.
- (viii) Operating expenses incurred during the year, by Head Office and charged to Multan Branch were Rs. 100,000.

Required :

- Pass necessary journal entries in the books of Branch and as well as that of Head Office. 16
- Q. 4. (a) Define Single Entry System of bookkeeping, and list the salient features of the System. 7

- (b) Mr. Yaser started business as crockery merchant on 1st January, 2002, with a capital of Rs. 100,000. On the same day, he purchased furniture and fitting for cash Rs. 30,000. Following further information has been extracted from his books kept on single entry system :

	Rs.
Sales (inclusive of Rs. 70,000 cash sales)	170,000
Purchases (inclusive of Rs. 40,000 cash purchases)	150,000
Yaser's drawings	12,000
Salaries to staff	20,000
Bad debts written Off	5,000
Business expenses	7,000

Mr. Yaser took crockery worth Rs. 5,000 for private use and paid Rs. 2,000 to his son, but omitted to record these transactions in his books. On 31st December, 2002 his Sundry debtors were Rs. 52,000 and Sundry creditors Rs. 36,000. Ending stock was Rs. 65,000.

Required :

- (i) Prepare, a Trading and Profit & Loss Account for the year ended 31st December, 2002, and 8
- (ii) Balance Sheet as at 31st December, 2002. 7

P.T.O.

- Q. 5. (a) The following is the trial balance of Basharat Ghori as at 31st December, 2002 :

	<u>DR</u> <u>Rs.</u>	<u>CR</u> <u>Rs.</u>
Cash in hand	540	
Cash at Bank	12,630	
Purchases	140,675	
Sales		258,780
Return inward	2,680	
Return outward		1,500
Wages	20,480	
Fuel and power	4,730	
Carriage on sales	3,200	
Carriage on purchases	2,040	
Stock on 1st January, 2002	25,760	
Building	30,000	
Freehold land	20,000	
Machinery	20,000	
Patents	7,500	
Salaries	15,000	
General expenses	13,000	
Insurance	600	
Drawings	15,245	
Capital		82,000
Sundry debtors	14,500	
Sundry creditors		6,300
	<u>348,580</u>	<u>348,580</u>

Following additional information has also been made available :

- (i) Ending stock was Rs. 26,800.
- (ii) Machinery is to be depreciated @ 10% and patent to be amortized @ 20%.
- (iii) Unpaid salaries for Dec, 2002, amounted to Rs. 1500.
- (iv) Insurance includes a premium of Rs. 170 expiring on 30th June, 2003.
- (v) Wages include a sum of Rs. 2000 spent on erection of building.
- (vi) Provision for bad & doubtful debts to be made @ 5% of Sundry debtors.

Required :

- (i) Pass necessary adjusting entries. 5
 - (ii) Prepare Trading and Profit & Loss Account for the period ended 31st December, 2002, and 6
 - (iii) Balance Sheet as at 31st December, 2002. 6
- (b) Write short notes on the following : 6
- (i) Royalty
 - (ii) Rock rent
 - (iii) Short workings.

THE END