INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall (Winter) 2008 Examinations

Thursday, the 20th November 2008

FUNDAMENTALS OF FINANCIAL ACCOUNTING – (S-101)

Stage - 1

Time Allowed – 2 Hours 45 Minutes | Maximum Marks – 90

(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 on 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.

Marks

Q. 2 **(a)** State the required steps in the accounting cycle. 06

(b) What are accruals and prepayments? Give two examples of each one. 05

(c) Following cases for adjustments at the year ended December 31, 2007 have been taken from the records of Century Traders.

(i) Rent expired during the year Rs.9,000. Rent was paid in advance and was initially recorded as an asset.

(ii) Fees earned amounted to Rs.16,000. Fees received in advance were initially credited to unearned fees account.

(iii) Salaries paid in advance were initially charged to the expense account. On December 31, 2007, Rs.11,000 were reported as prepaid.

(iv) Of the commission income, Rs.7,600 were reported as unearned.

(v) Depreciation on equipment is charged by sum-of-the-years-digits method. Equipment cost is Rs.40,000. Salvage value is Rs.10,000 at the end of useful life of 5 years. The year ending December 31, 2007, is the second year of its use. Charge depreciation, for the year, by using sum-of-the-years-digits method.

(vi) The company uses the perpetual inventory system and FIFO method for inventory valuation. The cost of inventory at year end was determined as Rs.25,000 and cost of goods sold as Rs.185,000.

PTO

Marks

Required:

Give adjusting entries and reversing entries, where necessary. 09

Q.3 (a) When Ahmad arrived at his store on the morning of January 29, 2008, he found empty shelves and display racks. The thieves had broken in during the night and stolen the entire inventory. Ahmed's accounting records showed that he had Rs.55,000 inventory on January 1, 2008 (cost value). From January 1, 2008 to January 29, 2008, he had made net sales of Rs.200,000 and net purchases of Rs.142,800. The gross profit during the last several years had consistently been averaged 30% of the net sales. Ahmad wishes to file an insurance claim for the theft loss.

Required:

Use the gross profit method to estimate the cost of his inventory at the time of the theft. Show all necessary workings. 08

(b) During the second half of the financial year of Millat Corporation Limited, the monthly credit sales and their collections were as under:

Sales	(Rs.)			Collections	(Rs.)			
Month	**Amount**	**July**	**August**	**September**	**October**	**November**	**December**	**Balance**
July	35,000	14,000	17,000	–	1,000	–	–	3,000
August	25,000	–	8,000	12,000	1,000	2,000	400	1,600
September	36,000	–	–	15,000	11,000	1,000	5,000	4,000
October	36,000	–	–	–	16,000	17,000	200	2,800
November	38,000	–	–	–	–	20,000	15,000	3,000
December	39,000	–	–	–	–	–	19,000	20,000
Total	209,000	14,000	25,000	27,000	29,000	40,000	39,600	34,400

On December 31, 2007, the management of the corporation decided that an allowance for doubtful accounts should be established, amounting to:

- 75% of balance more than 4 months old.
- 65% of balance more than 3 months old, but less than 4 months old.
- 40% of balance more than 2 months old, but less than 3 months old.
- 10% of balance more than 1 month old, but less than 2 months old.
- 2% of balance less than 1 month old.

It was also decided to write off specific Ahmad accounts totaling to Rs.2,500 as uncollectible.
(Note: The balance due from Ahmed, amounting to Rs.2,500, is not included in the above table).

Required:

(i) Compute the bad debts expense for the year, and 03

(ii) Give the journal entries to set up the allowance for doubtful accounts and to write off specific Ahmed accounts. 04

Marks

Q. 4 Perwaz & Company purchased a factory machine at a cost of Rs.180,000 on January 01, 2004. The machine is expected to have a salvage value of Rs.20,000 at the end of its 4-year useful life.
During its useful life, the machine is expected to be used for 160,000 hours. The machine was used as under:

Year	Hours Used
2004	40,000
2005	60,000
2006	35,000
2007	25,000

Required:

Prepare depreciation schedules on the bases of the following methods:

(a) Straight-line. 05

(b) Units-of-activity, and 05

(c) Declining-balance using double the straight-line rate. 05

Q. 5 **(a)** State the requirement of IAS-16 relating to upward and downward revaluation of property, plant and equipment. 04

(b) Kamran wants to purchase a running business of Mahmood. Mahmood's assets are worth Rs.1,600,000 and liabilities are of Rs.400,000. Mahmood's net incomes for the last four years were as follows:

Year	Income (Rs.)
2004	150,000
2005	120,000
2006	180,000
2007	200,000
Total Income	**650,000**

Required:

Compute the amount of goodwill to be paid by Kamran under each of the following methods for the computation of goodwill:

(i) Kamran requires an average rate of return of 10% on net assets purchased. Excess average annual earning of four years is treated as goodwill. 03

(ii) Average annual earning is capitalized at 10% to determine the fair value of net assets and goodwill. 03

(iii) Give journal entry in the books of Kamran to record purchase of Mahmood's business under (ii) above. 02

(c) Give the correcting entries that should be made in 2008, when each of the following errors are discovered:

(i) On December 21, 2007, a Rs.12,000 non-interest bearing note due in 90 days was received from a customer. The note was recorded at its face value, the interest income was credited for Rs.180, and the customer's account was credited for the difference. 02

(ii) No adjustment was made on December 31, 2007 for the interest on a 60-day, 6%, Rs.3,000 note receivable that would be due on January 12, 2008. 02

(iii) During December 2007, goods of Rs.500 were received. These goods were included in the year end inventory, but no entry was made for this purchase, until the invoice was received in January 2008. At that time purchases account was debited. 02

(iv) Prepaid insurance was debited for Rs.360, representing the premium for three years from October 1, 2007. No adjustment was made on December 31, 2007. 02

PTO

Marks

Q. 6 Following is the adjusted trial balance of Tufail Industries on December 31, 2007:

	Debit (Rs.)	Credit (Rs.)
Cash	810,000	
Accounts receivable	1,878,000	
Allowance for doubtful accounts		90,000
Direct materials inventory, January 1	375,000	
Work-in-process inventory, January 1	450,000	
Finished goods inventory, January 1	333,000	
Prepaid expenses	54,000	
Factory equipment	5,880,000	
Accumulated depreciation – Factory equipment		1,695,000
Office equipment	1,842,000	
Accumulated depreciation – Office equipment		738,000
Accounts payable		1,113,000
Miscellaneous expenses payable		366,000
Tufail Capital		7,167,000
Sales (net)		16,290,000
Purchases of direct materials	3,201,000	
Direct labour	4,605,000	
Factory overheads	3,687,000	
Selling expenses	2,616,000	
Administrative expenses	978,000	
Income Tax	750,000	
	27,459,000	27,459,000

Inventories on December 31, 2007 are:

Direct materials inventory	Rs.453,000
Work-in-process inventory	Rs.294,000
Finished goods inventory	Rs.402,000

Required:

Prepare the following statements:

(a) Cost of goods manufactured and sold statement for the year ended December 31, 2007. 08

(b) Income statement for the year ended December 31, 2007. 04

(c) Balance sheet as at December 31, 2007. 08

THE END