

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2009 Examinations

Sunday, the 22nd November 2009

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) | |
| | (i) What is the prime objective of financial statements as per <i>IASB's Framework</i> ? | 02 |
| | (ii) ' <i>Accrual basis</i> ' and ' <i>going concern</i> ' are two basic assumptions of financial statements. Explain them. | 04 |
| | (b) Following payments were made by Mr. Sajid for the month of July 2009, credit terms being 3/10, n/30: | |
| | July 8 Paid Asgher Company's invoice amounting to Rs.1,500 dated July 2, issued cheque No. 234. | |
| | July 12 Paid freight charges on goods purchased, Rs.120, and issued cheque No. 235. | |
| | July 15 Paid Feroze Company's invoice of Rs.4,000 dated July 8 and issued cheque No. 236. | |
| | July 22 Purchased goods for cash amounting to Rs.2,000 and issued cheque No. 237. | |
| | July 23 Mr. Sajid withdrew Rs.500 from business, issuing cheque No. 238. | |

Required:

Record the transactions for the month of July using cash payments journal. Foot and rule the journal. 09

| | | |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Q. 3 | (a) | |
| | (i) What is meant by NRV as per IAS-2.? | 01 |
| | (ii) A firm bought inventory at a cost of Rs.500,000. The goods have been damaged and in order to sell them, the firm expects selling cost of Rs.160,000 and additional cost of Rs.200,000 to put them into saleable condition. The firm also estimates selling price of these goods as Rs.800,000. | |

Required:

How should the Inventory be valued in the statement of financial position? Show your computations. 04

PTO

(b) The balance of sales ledger control account is Rs.874,450 while the total of sales ledger balances of customers' accounts is Rs.1,788,250. On re-checking, following errors were discovered:

- Discount allowed to a customer amounting to Rs.23,200 had been posted to the debit side of the customer's account.
- A sales invoice for Rs.126,000 had been completely omitted from the books.
- A purchases ledger control account of Rs.754,000 had been set-off against sales ledger control account but nothing had been recorded in the customer's account.
- Sales figure was overcast by Rs.450.
- Sales return of Rs.251,000 was recorded as Rs.125,000 in the customer's account.
- A customer balance of Rs.9,900 had not been posted to the customer's account.
- A customer account was under cast by Rs.16,250.
- An amount for Rs.14,000 due from a customer had proved bad but no entry had been made in his personal account.

Required:

- (i) Show the adjusted sales ledger control account. 05
- (ii) Prepare a statement showing the reconciliation of total of sales ledger balance of customers' accounts with the sales ledger control account (adjusted). 10

Q. 4 (a) On August 1, 2009, Mumtaz Traders accepted a bill, payable after one month, for Rs.100,000 to finance his friend, Ishaq Brothers. On August 2, 2009, Ishaq Brothers discounted the bill with his bank @ 18% per annum. On September 1, 2009, Ishaq Brothers remitted cash to Mumtaz Traders who honoured the bill.

Required:

Prepare journal entries in the books of Mumtaz Traders and Ishaq Brothers. 07

(b) Ahmed traders exchanged its old equipment paying Rs.205,000 cash for a new equipment. The old equipment originally cost Rs.180,000 and accumulated depreciation at the date of exchange was Rs.115,000. Fair market value of the old equipment was Rs.25,000.

Required:

- (i) Compute the cost of new asset 02
- (ii) Compute gain or loss on exchange 02
- (iii) Give journal entry to record the exchange 03

(c) Give journal entries to record the following transactions:

- Established a petty cash fund of Rs.10,000.
- Expenses incurred and paid out of petty cash fund were as follows:
 - Store supplies expense Rs.1,150
 - Office supplies expense Rs.1,620
 - Miscellaneous expense Rs.4,830
- Petty cash expenses were reimbursed to the petty cashier. 06

Q. 5 (a) Mr. Kabeer makes allowance for doubtful debts at 2.5% of net credit sales. On January 1, 2008, the accounts receivable account balance was Rs.100,000 and the allowance for doubtful debts account showed a credit balance of Rs.3,000. During the year 2008, transactions relating to accounts receivable were as under:

- (i) Total sales (including cash sales of Rs.50,000), Rs.400,000.
- (ii) Sales returns and allowances, Rs.10,000.
- (iii) Sales discount allowed to customers, Rs.5,000.
- (iv) A customer's account was written off during the year Rs.2,500.
- (v) Cash collected from customers (including Rs.400 from a customer written off in the previous period), Rs.335,400.
- (vi) Credit balances in customers' accounts, Rs.10,000.
- (vii) Promissory notes received from customers, Rs.5,000.

Required:

Prepare accounts receivable, allowance for doubtful debts and bad debts expense accounts. Close and balance the accounts on December 31, 2008.

10

(b) Given below is the income statement of M/s Sulman Traders for the year ended June 30, 2009:

| | |
|--------------------------------------------------------------|-----------------------|
| | Rs. '000' |
| Sales | 1,000,000 |
| Cost of sales | <u>(550,000)</u> |
| Gross profit | 450,000 |
| Operating expenses (including depreciation of Rs.100,000) | <u>(250,000)</u> |
| Net profit | <u>200,000</u> |

During the year accounts receivable were decreased by Rs.85,000, inventory increased by Rs.55,000 and accounts payable decreased by Rs.65,000. All sales were made on credit.

Required:

Prepare cash flows from operating activities section of the statement of cash flows.

05

Q. 6 Following is the pre-closing trial balance of Zulnurain Traders as on June 30, 2009:

| | <u>Dr.</u> <u>(Rs. 000)</u> | <u>Cr.</u> <u>(Rs.000)</u> |
|---------------------------------------|--------------------------------|-------------------------------|
| Cash | 50 | |
| Bank | 1,000 | |
| Accounts receivable | 375 | |
| Inventories: | | |
| Raw materials | 100 | |
| Work-in-process | 450 | |
| Finished goods | 500 | |
| Stores, spare parts & loose tools | 150 | |
| Building | 6,000 | |
| Accumulated depreciation-building | | 100 |
| Machinery | 3,000 | |
| Accumulated depreciation-machinery | | 175 |
| Notes payable | | 2,000 |
| Accounts payable | | 3,000 |
| Capital-Zulnurain | | 4,300 |
| Raw materials purchases | 300 | |
| Stores purchases | 200 | |
| Direct labour | 350 | |
| Indirect labour | 200 | |
| Marketing staff salaries | 400 | |
| Administrative staff salaries | 300 | |
| Miscellaneous factory overhead | 200 | |
| Utility charges | 250 | |
| Miscellaneous marketing expenses | 150 | |
| Miscellaneous administrative expenses | 100 | |
| Sales revenue | | 4,300 |
| Rental income | | 200 |
| | <u>14,075</u> | <u>14,075</u> |

Adjustment data:

- (i) Accrued interest on notes payable, Rs.80,000.
- (ii) Provide Rs.125,000 for income tax.
- (iii) Depreciation on fixed assets is charged @ 5% per annum.
- (iv) Stores, spare parts & loose tools as on June 30, 2009, Rs.100,000.
- (v) Inventories as on June 30, 2009:

| | <u>Rs.</u> |
|-------------------|------------|
| • Raw materials | 80,000 |
| • Work-in-process | 490,000 |
| • Finished goods | 540,000 |

Required: Prepare the following:

- (a) Income statement for the year ended June 30, 2009 (using classification of expenses by nature). 10
- (b) Statement of financial position as at June 30, 2009. 10

THE END