

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.

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- (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.

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:

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|-------------------------------------------------------------------------------------------|-----------|
| (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:

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| (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:
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|------------------------------------------------------------------------------------------------------------------------------------------|--|
| (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. | |

(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.

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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.

Required:

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|----------------------------------------------------------------------|-----------|
| (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:

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|-------------------------------------------|-----------|
| (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