

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Summer (May) 2011 Examinations

Sunday, the 29th May 2011

FUNDAMENTALS OF FINANCIAL ACCOUNTING - (S-101) STAGE – 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 after finishing/ writing the exam.**

Marks

Q. 2 The following information relates to Hamza & Co., a retailer of television sets for the month of December 2010:

	<u>Rs. '000'</u>
1 Started business with a capital:	
(i) in cash	870
(ii) at bank	1,330
3 Bought television sets from Amin & Co., on credit.	2,200
3 Paid to Fast Motors for purchase of delivery van through cheque.	540
4 Televisions sold to Ahmed Brothers on credit.	1,880
8 Paid shop's rent in advance for six months to June 2011 to Mrs. Ali through cheque.	680
11 Payment received from Ahmed Brothers and deposited in the bank.	1,340
12 Paid cheque to Amin & Co.	784
18 Paid carriage by cash on purchases.	38
19 Defected televisions returned by Ahmed Brothers.	220
22 Bought flatron televisions on credit from Amin & Co.	1,230
28 Sold flatron televisions to Ahmed Brothers on credit.	810
30 The owner withdraws one television set for his personal use.	25

Required:

- (a) Prepare journal entries of the above transactions. 06
- (b) Enter the information in the ledger accounts. 06
- (c) Extract a trial balance as at December 31, 2010. 03

Q. 3 (a) Briefly define the following terms:

- (i) Materiality 02
- (ii) Relevance 02
- (iii) Reliability 02

(b) Umar Traders sells household items. A considerable part of their sales consists of credit sales. Consequently they have been confronting the problem of bad debt expenses. As per their policy they relate the 'allowance for bad debts' to the age of the outstanding debts. Following information is relevant for the year ended December 31, 2010:

PTO

Outstanding Debt(s)	Amount (Rs.)	Required Allowance for Doubtful Debts(%)
Upto 2 months	135,000	2
More than 2 months and upto 4 months	64,000	4
More than 4 months and upto 6 months	47,000	6
More than 6 months and upto 8 months	25,500	8
More than 8 months	8,500	10
	280,000	

Required:

- (i) Prepare an 'aging schedule' for doubtful debts as given above. **04**
- (ii) What amount will be shown as closing balance in the 'allowance for doubtful debts' on December 31, 2010? **01**
- (iii) What amount will be credited/ debited in the income statement if opening balance in the 'allowance for doubtful debts' is Rs.15,500 (credit)? **01**
- (c) An amount of Rs.10,400 written off as bad debt in the year 2009 was recovered in the year 2010. Pass relevant journal entries for the year ended December 31, 2010. **03**
- (d) Usman Ahmed works for a rice mill as cost accountant. His basic salary is Rs.75,000 per month with a yearly bonus of Rs.100,000 prorated over 12 months and included in monthly salary. He pays a contribution @ 8.33% towards provident fund, which is allowed as relief against income tax. The taxable pay is taxed @ 6% on first Rs.25,000 and the remaining amount is taxed @ 8.5%. **05**

Required:

Calculate the net pay of Usman Ahmed.

05

- Q. 4 (a)** Zeeshan & Sons maintain a petty cash fund to control small cash payments. Shown below are the transactions involving the petty cash fund and its replenishment in March 2011:

March 2011		Rs.	Rs.
1	A cheque was issued and en-cashed to establish petty cash fund		15,000
3	Telephone expense for the month of February	1,850	
4	Refreshment charges of Mr. Zeeshan's guests	185	
10	Computer printer papers	550	
11	Computer toner	2,150	
15	Tea and sugar – office use	350	
18	Reimbursement of petrol charges of office rider	100	
20	Postage charges	125	
20	Newspaper bill for the month of February	650	
20	Trade journal subscription	2,200	
27	Office stationery	800	
27	Car repair	1,200	
28	Courier charges	120	
29	New telephone connection charges paid	1,500	
31	The amount spent in March was reimbursed		

Required:

Write out an analytical petty cash book having columns for printing & stationery expense, communication expense, newspaper & subscription expense, vehicle running & maintenance expense and miscellaneous expense.

10

- (b) Mr. Hassan prepares financial statements of his company on December 31, each year. Full year depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal. Machinery account balance at cost and the balance on the accumulated depreciation as at December 31, 2006 were Rs. 685,000 and Rs.266,389 respectively. Depreciation was provided at reducing balance method @ 20%. In January 2009, a machinery costing Rs. 95,000 in March 22, 2007 was sold for Rs.81,200. At the end of 2009, it was decided that for the current and the succeeding years, straight-line method of depreciation should be used. It was assumed that the entire machinery would be sold in 2012 for approximately Rs.110,000.

Required:

- (i) Calculate gain or loss on machinery sold in 2009. **04**
 (ii) Calculate depreciation expense from 2009 till 2011 under straight-line method. **06**

- Q. 5 (a) Zaheer & Co., a fast food restaurant owner have incurred the following expenditure in the month of January 2011:

<u>Jan</u>	
2	Purchase of a van for business use
3	Construction of a new room in the existing restaurant
5	Purchase of electrical meat chopper and cutter
7	Insurance premium paid
7	Painting of the existing restaurant, excluding the new room constructed
9	Salaries of the restaurant staff
10	Purchase of a computer for use in the business
18	Expense of hiring a refrigerator
22	Carriage expense paid to bring the meat cutter and chopper to the restaurant
28	Petrol expense of the van
28	Putting extra head lights on van
30	Electricity expense for using the meat cutter and chopper

Required:

- (i) Classify the above expenditure as 'Revenue Expenditure' or 'Capital Expenditure'. **06**
 (ii) Differentiate between "Revenue Expenditure' and 'Capital Expenditure'. **01**

- (b) Records of Shahzad & Company show the following data for the month of March 2010:

	<u>Rupees</u>
• Original purchase ledger control account balance.	218,750
• Invoice omitted from control account, but entered in purchase ledger.	28,109
• Customer account with a credit balance included in the purchase ledger that should have been included in sales ledger.	38,900
• Supplier balance excluded from purchases ledger total because the account had been included in the sales ledger by mistake.	14,128
• Return inwards erroneously posted to the credit of purchases ledger account instead of crediting it to an account in the sales ledger.	3,400
• Credit sales erroneously posted to the debit of purchases ledger account instead of debiting it to an account in the sales ledger.	9,280
• Under-casting error in calculation of total end of period creditors' balances.	5,820

Required:

- (i) Prepare the revised Purchases Ledger Control Account on the basis of above adjustments. **07**
 (ii) List out the kinds of ledgers. **01**

Q.6 The following trial balance was extracted from the books of Abdul Ghani & Sons at the close of business on June 30, 2010:

	Debit (Rs.)	Credit (Rs.)
Sales revenue		1,700,000
Purchases	908,000	
Sales returns	40,050	
Purchases returns		87,000
Carriage inwards	15,750	
Inventory (July 1, 2009)	142,000	
Allowance for doubtful debts		80,000
Discount allowed	17,550	
Wages and salaries	105,500	
Rent expense	80,800	
Telephone expense	75,700	
Furniture and fixtures - at WDV	150,000	
Van - at WDV	300,000	
Accounts receivable	402,250	
Accounts payable		662,800
Bad debts	20,000	
Capital		298,800
Cash	125,000	
Bank balance	428,000	
Drawings	18,000	
	2,828,600	2,828,600

Additional Information:

	Rs.
Inventory as at June 30, 2010	78,000
Depreciation expense for the year:	
- Furniture and fixtures	15,000
- Van	60,000
Prepaid rent as at June 30, 2010	18,000
Allowance for bad debts as at June 30, 2010	98,000

Required:

- (a) Prepare Income Statement for the year ended June 30, 2010. **10**
- (b) Prepare Statement of Financial Position as at June 30, 2010. **10**

THE END