

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

SPRING (SUMMER) 2008 EXAMINATIONS

Thursday, the 22nd May, 2008

**FUNDAMENTALS OF FINANCIAL ACCOUNTING**

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** Following is the Trial Balance and additional information of Hanif Khan Traders as on December 31, 2007:

|  | <b>Debit<br/>(Rupees)</b> | <b>Credit<br/>(Rupees)</b> |
|--|---------------------------|----------------------------|
| Sundry debtors                           | 16,000                    |                            |
| Sundry creditors                         |                           | 22,600                     |
| Administration and general expenses      | 31,500                    |                            |
| Bad debts                                | 1,200                     |                            |
| Motor vehicle                            | 120,000                   |                            |
| Accumulated depreciation – motor vehicle |                           | 27,000                     |
| Printing and stationery                  | 8,600                     |                            |
| Advertisement                            | 6,000                     |                            |
| Insurance                                | 2,000                     |                            |
| Postage and telephone                    | 1,800                     |                            |
| Salaries                                 | 86,000                    |                            |
| Vehicle expenses                         | 13,400                    |                            |
| Rent and taxes                           | 21,000                    |                            |
| Drawings                                 | 42,000                    |                            |
| Hanif Khan – capital                     |                           | 123,600                    |
| Purchases                                | 311,000                   |                            |
| Sales                                    |                           | 541,000                    |
| Stock as on 01-01-2007                   | 40,200                    |                            |
| Cash / bank balances                     | 13,500                    |                            |
|  | <u>714,200</u>            | <u>714,200</u>             |

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Additional information for adjustment on December 31, 2007:

- (1) Rs.2,100 was payable for repair of motor vehicle.
- (2) A provision for bad and doubtful debts is to be created to the extent of 2-½ % on sundry debtors.
- (3) Depreciation is charged on Motor Vehicle under straight line method @ 20% per annum.
- (4) Rent and taxes includes Rs.16,000 for next year.
- (5) During the year, the goods costing Rs.12,000 were destroyed by flood and this claim has been agreed with the insurance company. The claim has not been paid as on closing date of accounts.
- (6) Stock as on December 31, 2007 was valued at Rs.48,600.

**Required:**

Prepare the following:

- |  |   |    |
|--|---|----|
|  | (a) Adjusting Journal Entries           | 05 |
|  | (b) Trading and Profit and Loss Account | 07 |
|  | (c) Balance Sheet                       | 08 |
- Q. 3** (a) Write a short sentence explaining each of the following concepts: 08
- (i) Relevance
  - (ii) Reliability
  - (iii) Faithful representation
  - (iv) Neutrality
  - (v) Prudence
  - (vi) Completeness
  - (vii) Comparability
  - (viii) Understandability
- (b) For the month of January 2008, the payroll records of Khan & Company show that employees earned total salaries of Rs.190,000. Amount withheld consisted of social security taxes computed at an assumed rate of 6%, medicare taxes computed at an assumed rate of 1.5%, federal income taxes of Rs.21,200, child support payments of Rs.12,500 and employees' contribution to provident fund is Rs.10,900. Khan & Company contributes an amount equal to the amount of provident fund deducted from employees. The monthly payroll is recorded on last day of the month and paid to employees on 5<sup>th</sup> of next month.

**Required:**

Prepare separate general journal entries to record:

- |  |  |    |
|--|--|----|
|  | (i) Salaries earned by the employees, amounts withheld, and liability for net pay; | 08 |
|  | (ii) Employer's contribution to provident fund; and                                | 02 |
|  | (iii) Payment of salaries on due date.   | 02 |

Q. 4 (a) Define the following terms:

- Accrued expenses 01
- Depreciation 01
- Intangibles 01

(b) On March 31, 2008 a fire occurred in the premises of Arif Traders which destroyed its inventory completely. From the record, the following information is available:

|   | Rupees    |
|---|-----------|
| Sales (January 1, 2008 to March 31, 2008) | 1,500,000 |
| January 1, 2008 Inventory                 | 400,000   |
| Purchases (January – March)               | 1,600,000 |
| Purchase returns & allowances             | 20,000    |
| Gross profit average rate                 | 20%       |

**Required:**

Calculate the value of stock lost by fire. 07

(c) S. R. W. partnership firm maintains a petty cash fund to control small cash payments. The firm does not use a voucher system, however, management wished to replenish the fund at the end of every month. Shown below are the transactions involving the establishment of the fund and its replenishment at March 31, 2008:

March 02     A cheque for Rs.10,000 was issued and cashed to establish a petty cash fund.

March 31     Following payments were made through petty cash fund during the month:

|                          | Rupees |
|--------------------------|--------|
| Office supplies expenses | 1,500  |
| Postage expenses         | 400    |
| Entertainment expenses   | 1,950  |
| Conveyance expenses      | 2,050  |
| Stationery expenses      | 1,950  |
| Staff welfare expenses   | 1,000  |
| Miscellaneous expenses   | 450    |

**Required:**

Prepare journal entries in general journal form to record the establishment of petty cash fund on March 02, 2008 to record the expenses incurred through petty cash fund during the month and also to record its replenishment as on March 31, 2008. 10

**Q. 5** (a) Define special journal and explain their usefulness.

03

(b) Following balances were appearing in the books of Super Ideal Exports Co., as on January 01, 2007:

|                                     | <b>Rupees</b> |
|-------------------------------------|---------------|
| Accounts Receivable Control Account | Dr. 80,240    |
| Accounts Payable Control Account    | Cr. 62,350    |

For the year ended December 31, 2007 the following particulars are available:

|   |         |
|---|---------|
| Sales   | 637,280 |
| Purchases   | 399,740 |
| Cash received from trade accounts receivable  | 552,120 |
| Cash paid to trade accounts payable   | 373,070 |
| Discount received   | 14,750  |
| Discount allowed  | 23,280  |
| Return inward   | 10,020  |
| Return outward  | 5,350   |
| Irrecoverable debts written off   | 3,260   |
| Amount due from a customer as shown by receivables ledger, offset against amount due to the same firm as shown in payable ledger (settlement by contra) | 4,340   |
| Allowance to customers on goods damaged in transit  | 2,120   |

**Required:**

You are required to write up the following accounts recording the above transactions bringing down the balances as on December 31, 2007.

(i) Accounts Receivable Control Account 07

(ii) Accounts Payable Control Account 05

**Q. 6** (a) Saira Limited purchased a new machine on January 1, 2008 and paid the following expenses also:

|   | <u>Rupees</u> |
|---|---------------|
| (i) Net cash price of machine                                 | 100,000       |
| (ii) Sales Tax on machine                                     | 15,000        |
| (iii) Custom duty on machine                                  | 25,000        |
| (iv) Property tax on machine for one year                     | 5,000         |
| (v) Cost of repairing the machine damaged during installation | 2,000         |
| (vi) Installation and testing cost                            | 8,000         |
| (vii) Fire insurance one year policy for machine              | 2,700         |
| (viii) Insurance in transit                                   | 5,000         |
| (ix) Freight-in   | 5,000         |

**Required:**

- |  |    |
|--|----|
| (i) Prepare separate schedule of capital expenditures and revenue expenditures.                                    | 05 |
| (ii) Give journal entry to record acquisition of machine on January 1, 2008.                                       | 01 |
| (iii) Give journal entry to record revenue expenditure. Use General Expense Control Account for debiting expenses. | 01 |

(b) Ghayas Corporation has office equipment that costs Rs.150,000 and it has depreciated amount of Rs.96,000.

**Required:**

Record the disposal of the office equipment under each of the following assumptions:

- |  |    |
|--|----|
| (i). It is scrapped as having no value.  | 01 |
| (ii). It is sold for Rs.20,000.  | 01 |
| (iii). It is sold for Rs.70,000.   | 01 |
| (iv). It is exchanged with similar office equipment. The old office equipment has a fair market value of Rs.64,000 and Rs.10,000 was paid. | 03 |
| (v). It is exchanged with similar office equipment. The old office equipment has a fair market value of Rs.35,000 and Rs.25,000 was paid.  | 02 |

**THE END**