

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



**Spring (Summer) 2009 Examinations**

Sunday, the 24th May 2009

**FUNDAMENTALS OF FINANCIAL ACCOUNTING – (S-101)**

Stage - 1

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 90

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- (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.
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		<b>Marks</b>
<b>Q. 2</b>	<b>(a)</b> List out the criterion regarding revenue recognition from sale of goods as laid down in IAS 18 <i>Revenue</i> .	05
	<b>(b)</b> When can an enterprise deviate from International Accounting Standards?	02
	<b>(c)</b> Below are some typical transactions incurred by Hyder Company Limited: <ul style="list-style-type: none"><li>(i) Payment to accounts payable</li><li>(ii) Return of goods sold for credit</li><li>(iii) Collection on account from customers</li><li>(iv) Sale of land for cash</li><li>(v) Sale of goods for cash</li><li>(vi) Sale of goods on account</li><li>(vii) Issue of ordinary shares for cash</li><li>(viii) Revaluation of land</li><li>(ix) Payment of employees' wages</li><li>(x) Cash dividend paid</li><li>(xi) Depreciation on building</li><li>(xii) Purchase of goods for cash</li><li>(xiii) Purchase of goods on account</li></ul>	

PTO

**Required:****Marks**

Show the impacts of the above transactions on both sides of the accounting equation. Use the following format filling the relevant boxes with symbols of '+' (for an increase in an individual account) and '-' (for a decrease in an individual account):

13

Transactions	Cash	Accounts Receivable	Inventory	Land/ Building	=	Accounts Payable	Shareholders' Equity
(i)					=		
(ii)					=		
...							
(xiii)					=		

**Q. 3** The cash transactions and cash balances of Sufi Corporation for July were as follows:

- The ledger account of cash showed a balance of Rs.125,568 at July 31.
- The July bank statement showed a closing balance of Rs.114,828.
- The cash received on July 31, amounted to Rs.16,000. It was deposited in the bank after banking hours on July 31 and, therefore, was not recorded by the bank in the July bank statement.
- Also included with the July bank statement was a debit memorandum from the bank for Rs.50 representing service charges for July.
- A credit memorandum enclosed with the July bank statement indicated that a non-interest bearing note receivable for Rs.4,000 from Mahmood left with the bank for collection, had been collected and the proceeds credited to Sufi Corporation Account.
- A cheque issued by Sufi Corporation amounting to Rs.519 in respect of repairs of office equipment was erroneously entered in the Sufi Corporation's books at Rs.915.
- Examination of the bank statement revealed that three cheques, all issued in July had not yet been paid by the bank No.811 for Rs.314, No.814 for Rs.625 and No.823 for Rs.175.
- Included with the July bank statement was a Rs.200 cheque drawn by Hamid, a customer of Sufi Corporation. This cheque was dishonoured. It had been included in the deposit of July 27 but had been charged back against the company's account on July 31.

**Required:**

(a) Prepare a bank reconciliation statement for Sufi Corporation for the month ended July 31. 10

(b) Prepare necessary adjusting journal entries. 05

**Q. 4** (a) What are the advantages of accounting packages / ERPs as compared with the manual system? 05

(b) Qasim is a sole trader and usually sells goods on credit. In order to meet his working capital requirement, he draws bills of exchange on his customers and after their acceptance, gets them discounted by his banker.

On January 1, 2009 Qasim sold goods to one of his customers, Asim, for Rs.25,000 on credit. On the same date, he drew a bill of exchange on the customer, payable on April 1, 2009. Asim accepted and sent it back to Qasim.

On January 2, 2009, Qasim got the bill discounted by his banker and received Rs.23,800 cash.

**Required:**

Prepare journal entries in the books of Qasim and Asim under the following situations:

- |             |  |    |
|-------------|--|----|
|             | (i) If the bill was honoured.  | 06 |
|             | (ii) If the bill was dishonoured and the bank paid cost of noting of Rs.200.   | 04 |
| <b>Q. 5</b> | <b>(a)</b> (i) In accordance with IAS 38 <i>Intangible Assets</i> , under what conditions an enterprise can recognise development expenditure as an asset?   | 06 |
|             | (ii) Define <i>Inventories</i> as per IAS 2 <i>Inventories</i> .   | 03 |
|             | <b>(b)</b> Fortune company acquired a machine on January 1, 2000 for Rs.1,500,000 with an estimated life of 10 years. Salvage value was estimated to be Rs.150,000.<br>On January 1, 2005, the company spent Rs.100,000 on a major overhauling of the machine. As a result the useful life is expected to extend by additional 5 years. Salvage value remains unchanged. |    |

**Required:**

Compute depreciation expense for the year ended December 31, 2005. 06

- (c)** Star Satellite sells satellite tracking systems for receiving television broadcasts from communications satellites in space. At December 31, 2008, the company's inventory amounted to Rs.440,000. During the first week in January 2009, Star Satellite made only one purchase and one sale. These transactions were as follows:

January 3      Sold a tracking system to Mystery Mountain Resort for Rs.220,000 cash. The system consisted of seven different devices, which had cost Rs.112,000 to Star Satellite.

January 7      Purchased two model-400 and four model-800 satellite dishes from Yamna Corporation.

The total cost of this purchase amounted to Rs.100,000, the terms being 2/10, n/30. Star Satellite records purchases of goods at net cost. The company has full time accounting personnel and uses a manual accounting system.

**Required:**

Prepare journal entries to record these transactions assuming that Star Satellite uses the:

- |                                 |    |
|---------------------------------|----|
| (i) perpetual inventory system. | 03 |
| (ii) periodic inventory system. | 02 |

- Q. 6** The trial balance of Ibrahim Wholesale Company contained the following accounts at December 31, 2008:

	<u>Dr.</u> (Rs.)	<u>Cr.</u> (Rs.)
Cash	254,000	
Accounts receivable	376,000	
Inventory	900,000	
Land	920,000	
Buildings	1,970,000	
Accumulated depreciation : building		540,000
Equipment	835,000	
Accumulated depreciation : equipment		424,000
Notes payable		500,000
Accounts payable		375,000
Ibrahim, capital		2,678,000
Ibrahim, drawings	100,000	
Sales		9,041,000
Sales discount	46,000	
Cost of goods sold	7,099,000	
Salaries expense	698,000	
Utilities expense	194,000	
Repairs expense	59,000	
Gas & oil expense	72,000	
Insurance expense	35,000	
	<u>13,558,000</u>	<u>13,558,000</u>

**Adjustment data:**

- 1- Depreciation is Rs.100,000 on building and Rs.90,000 on equipment (both are used for administrative purpose).
- 2- Interest of Rs.70,000 is due and unpaid on notes payable at December 31, 2008.
- 3- Inventory on hand is Rs.892,000.

**Other data:**

- 1- Salaries are 80% selling and 20% administrative.
- 2- Utilities expense, repair expense, and insurance expense are 100% administrative.
- 3- Rs.150,000 of the notes payable are payable next year.
- 4- Gas and oil expense is a selling expense.

**Required:**

Work out the followings:

- |   |    |
|---|----|
| <b>(a)</b> Income statement for the year ended December 31, 2008 (using classification of expenses by functions). | 07 |
| <b>(b)</b> Statement of financial position as at December 31, 2008.   | 05 |
| <b>(c)</b> Notes to the financial statements.   | 08 |

**THE END**