

# INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



## Spring (Summer) 2010 Examinations

Monday, the 17th May 2010

### 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 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.

Marks

- Q.2 (a)** Identifiable net assets and estimated earnings by companies A, B, and C are as follows:

	<u>Company 'A'</u>	<u>Company 'B'</u>	<u>Company 'C'</u>
Identifiable net assets (Rs.)	3,000,000	1,500,000	1,500,000
Estimated Annual Earning (Rs.)	300,000	165,000	135,000

**Required:**

Compute goodwill of each company assuming the following for a prospective vendor who plans to buy these companies:

- (i) Earning of each company in excess of 6% of net assets are to be capitalized at 20%. 06
- (ii) Earning are to be capitalized at 7.5%. 06

- (b)** ABC Company recently adopted an incentive plan. Factory workers are paid @ Rs.40 per unit with a minimum wage of Rs.10,000 per week. Following is a report on employees' productivity for the week ending March 12, 2010. All employees had worked the full 40 hours.

#### Weekly Summary:

<u>Name</u>	<u>Units Produced</u>
Akram	240
Naseem	275
Gulsher	250
Lateef	285
Roshan	225
Yasir	265
<b>Total units</b>	<b>1,540</b>

**Required:**

Compute each employee's gross wage.

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		Marks
<b>Q. 3</b>	<b>(a)</b> As per IAS 2, define the following terms:	
	(i) Net realisable value	2.5
	(ii) Fair value	2.5

**(b)** Records of Ali Baba Company shows the following data for the month of April, 2010.

April 1	Inventory	500 units @ Rs.4.00
April 4	Purchases	700 units @ Rs.4.20
April 9	Sales	600 units @ Rs.6.00
April 15	Purchases	900 units @ Rs.4.10
April 21	Purchases	100 units @ Rs.4.50
April 27	Sales	700 units @ Rs.6.20
April 30	Purchases	200 units @ Rs.4.40
April 30	Sales	300 units @ Rs.6.30

The company follows perpetual inventory system.

**Required:**

Compute the cost of ending inventory as on April 30, 2010 under each of the following methods:

(i) First-In-First-Out	05
(ii) Weighted Average	05

<b>Q. 4</b>	<b>(a)</b> Briefly define the following:	
	(i) Amortization.	02
	(ii) Revenue expenditure and capital expenditure.	02
	(iii) Errors that may occur in respect of financial transactions.	02

**(b)** Right Trading Company reported net income of Rs.120,900 for the current year ending December 31, 2009. An analysis of the records discloses that the following items were omitted for consideration, when the net income was determined:

- Rent income unearned at the end of the year amounts to Rs.4,200. The original credit was to rent income.
- The amount of supplies based on a physical count on December 31, 2009 was Rs.600.
- Salaries earned by a worker but not paid amounted to Rs.2,500.
- Rs.6,000 paid as advance on February 1, 2009 for one year advertisement has been charged to advertising expense.
- Wages amounting to Rs.2,000 chargeable to machinery installation account is still lying in the wages expense account.

**Required:**

(i) Give the adjusting journal entries.	05
(ii) Compute the corrected net income after the above adjustments for the year ended December 31, 2009.	04

- Q. 5** Shining Stars Corporation bought a machine at the beginning of the year at a cost of Rs.64,000. The estimated useful life was four years, and the residual value was Rs.8,000. Assume that the estimated productive life of the machine is 80,000 units. Following data is relevant:

Year	Expected Units
1	28,000
2	22,000
3	18,000
4	12,000

**Required:**

Prepare separate depreciation schedules under each of the following alternative methods:

- |                                 |    |
|---------------------------------|----|
| (i) Straight-line.              | 05 |
| (ii) Units of production.       | 05 |
| (iii) Double declining balance. | 05 |

- Q. 6** The following is the pre-closing Trial Balance of Aftab & Company on December 31, 2009:

**Amount in Rs.**

Title of Account	Debit	Credit
Cash	20,000	
Accounts receivable	30,000	
Allowance for bad debts		2,000
Office supplies	3,000	
Merchandise inventory (1.1.2009)	12,000	
Prepaid insurance	6,000	
Sales equipment	30,000	
Allowance for depreciation sales-equipment		10,000
Accounts payable		35,000
Aftab capital		33,000
Aftab drawings	3,000	
Sales		180,000
Sales return and allowances	13,000	
Discount allowed	2,000	
Purchases	105,000	
Transportation in	5,000	
Purchase return and allowance		3,000
Discount received		5,000
Commission income		4,000
Salaries expense	20,000	
Rent expenses	18,000	
Advertising expenses	5,000	
	<b>272,000</b>	<b>272,000</b>

**Additional data for Adjustments:**

- (i) Merchandise inventory on December 31, 2009 was valued at Rs.7,000.
- (ii) Salaries expense for the year amounted to Rs.27,000.
- (iii) Expired Insurance Rs.3,500.
- (iv) Provide depreciation on sales-equipment for the year Rs.2,000.
- (v) The allowance for bad debts was estimated at the rate of 8% of the year-end accounts receivable.
- (vi) Commission income includes Rs.1,000 received in advance.
- (vii) Rent expense for the year amounted to Rs.16,000.
- (viii) An item of purchase returns of Rs.1,000 was wrongly credited to sales account.

**Required:**

- |            |  |    |
|------------|--|----|
| <b>(a)</b> | Prepare Income Statement for the year ended December 31, 2009. | 15 |
| <b>(b)</b> | Prepare Closing Entries as on December 31, 2009.               | 10 |

**THE END**