**P Q 2(a)**

| | Co.A | Co.B | Co.C | Marking Plan |
|---|---|---|---|---|
| **(i) Computation of Goodwill:** | Rs. | Rs. | Rs. | |
| Estimated Annual Earning | 300,000 | 165,000 | 135,000 | |
| 6% Assets | 180,000 | 90,000 | 90,000 | **0.5+0.5+0.5** |
| Excess Earning | 120,000 | 75,000 | 45,000 | **0.5+0.5+0.5** |
| Goodwill | 600,000 | 375,000 | 225,000 | **1.0+1.0+1.0** |
| **(ii) Annual Earning:** | 300,000 | 165,000 | 135,000 | |
| Capitalization Rate | 7.5% | 7.5% | 7.5% | |
| | Rs. | Rs. | Rs. | |
| Value of Assets on Capitalization Basis | 4,000,000 | 2,200,000 | 1,800,000 | **1.0+1.0+1.0** |
| Less: Assets as appraised | 3,000,000 | 1,500,000 | 1,500,000 | |
| Goodwill | **1,000,000** | **700,000** | **300,000** | **1.0+1.0+1.0** |
| | | | **Total Marks** | **12.0** |

**P Q 2(b)**

| Name | Units produced | Rate per unit | Gross Wages | Marking Plan |
|---|---|---|---|---|
| | | Rs. | Rs. | |
| Akram | 240 | 40 | 10,000 | 2.0 |
| Naseem | 275 | 40 | 11,000 | 1.0 |
| Gulsher | 250 | 40 | 10,000 | 1.0 |
| Lateef | 285 | 40 | 11,400 | 1.0 |
| Roshan | 225 | 40 | 10,000 | 2.0 |
| Yasir | 265 | 40 | 10,600 | 1.0 |
| | 1,540 | | 63,000 | |
| | | | **Total Marks** | **8.0** |

**Solution**

**P Q 3 (a)**

**(i) Net Realisable Value:**

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2.5 Marks**

**(ii) Fair Value:**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**2.5 Marks**

**Solution**

**P Q 3 (b)**

***Computation of Value of Closing Stock***

**(i) FIFO (Perpetual Inventory) Method:**

| Date | Particulars | Purchases | | | Cost of Sales | | | Balance | | | Marking Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Qty* | *Rate (Rs.)* | *Amount (Rs.)* | *Qty* | *Rate (Rs.)* | *Amount (Rs.)* | *Qty* | *Rate (Rs.)* | *Amount (Rs.)* | |
| Apr 1 | Balance | | | | | | | 500 | 4.00 | 2,000 | |
| 4 | Purchases | 700 | 4.20 | 2,940 | | | | 500 | 4.00 | 2,000 | 0.5 |
| | | | | | | | | 700 | 4.20 | 2,940 | |
| 9 | Sales | | | | 500 | 4.00 | 2,000 | 600 | 4.20 | 2,520 | 0.5 |
| | | | | | 100 | 4.20 | 420 | | | | |
| 15 | Purchases | 900 | 4.10 | 3,690 | | | | 600 | 4.20 | 2,520 | 0.5 |
| | | | | | | | | 900 | 4.10 | 3,690 | |
| 21 | Purchases | 100 | 4.50 | 450 | | | | 600 | 4.20 | 2,520 | 0.5 |
| | | | | | | | | 900 | 4.10 | 3,690 | |
| | | | | | | | | 100 | 4.50 | 450 | |
| 27 | Sales | | | | 600 | 4.20 | 2,520 | | | | 0.5 |
| | | | | | 100 | 4.10 | 410 | 800 | 4.10 | 3,280 | |
| | | | | | | | | 100 | 4.50 | 450 | |
| 30 | Purchases | 200 | 4.40 | 880 | | | | 800 | 4.10 | 3,280 | 0.5 |
| | | | | | | | | 100 | 4.50 | 450 | |
| | | | | | | | | 200 | 4.40 | 880 | |
| 30 | Sales | | | | 300 | 4.20 | 1,260 | 500 | 4.10 | 2,050 | 0.5 |
| | | | | | | | | 100 | 4.50 | 450 | |
| | | | | | | | | 200 | 4.40 | 880 | |
| | | | | | | | | | | 3,380 | 0.5 |

Format 1.0

**5.0**

**P Q 3 (b)**

***Computation of Value of Closing Stock***

**(ii) Weighted Average (Perpetual Inventory) Method:**

| Date | Particulars | Purchases | | | Cost of Sales | | | Balance | | | Marking Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ***Qty*** | ***Rate (Rs.)*** | ***Amount (Rs.)*** | ***Qty*** | ***Rate (Rs.)*** | ***Amount (Rs.)*** | ***Qty*** | ***Rate (Rs.)*** | ***Amount (Rs.)*** | |
| Apr 1 | Balance | | | | | | | 500 | 4.00 | 2,000 | |
| 4 | Purchases | 700 | 4.20 | 2,940 | | | | 1200 | 4.117 | 4,940 | 0.5 |
| 9 | Sales | | | | 600 | 4.117 | 2,472 | 600 | 4.117 | 2,470 | 0.5 |
| 15 | Purchases | 900 | 4.10 | 3,690 | | | | 1500 | 4.107 | 6,160 | 0.5 |
| 21 | Purchases | 100 | 4.50 | 450 | | | | 1600 | 4.131 | 6,610 | 0.5 |
| 27 | Sales | | | | 700 | 4.131 | 2,892 | 900 | 4.131 | 3,718 | 0.5 |
| 30 | Purchases | 200 | 4.40 | 880 | | | | 1100 | 4.18 | 4,598 | 0.5 |
| 30 | Sales | | | | 300 | 4.18 | 1,254 | 800 | 4.18 | 3,344 | 1.0 |

Value of Closing Stock is Rs.3,344/-

| | |
|---|---|
| Format | 1.0 |
| | **5.0** |

**P Q 4 (a)**

**(i) Amortization:**

Amortization is the write off of cost of intangible like goodwill, copyright etc.

**02 Marks**

**(ii) Revenue Expenditure and Capital Expenditure:**

The expenditure which provides benefit only in current period is called revenue expenditure.

The expenditure which provides benefit in more than one accounting period is called capital expenditure.

**02 Marks**

**(iii)**

The following are the errors that may occur in respect of financial transactions:

| | | | |
|---|---|---|---|
| a. | Errors of Omission | : | Where a transaction is completely omitted from books. |
| b. | Errors of Commission | : | Correct amount is entered but in the wrong person's account. |
| c. | Errors of Principles | : | An item is entered in wrong class of account. |
| d. | Compensatory errors | : | Where errors cancel each other out. |

**02 Marks**

**P Q 4(b)**

**(i) Adjusting journal entries:**

| | | Rs. | Rs. | Marking Plan |
|---|---|---|---|---|
| 1. | Rent Income | 4,200 | | |
| | Unearned Rent | | 4,200 | 1.0 |
| 2. | Supplies | 600 | | |
| | Supplies Expense | | 600 | 1.0 |
| 3. | Salaries Expense | 2,500 | | |
| | Salary Payable | | 2,500 | 1.0 |
| 4. | Prepaid Advertising | 500 | | |
| | Advertising Exp. | | 500 | 1.0 |
| 5. | Machine | 2,000 | | |
| | Wages Expense | | 2,000 | 1.0 |
| | | | | **5.0** |

**(ii) Computation of corrected Net Income:**

| | | Rs. | Rs. | Marking Plan |
|---|---|---|---|---|
| Net Income as on December 31, 2009 | | | 120,900 | |
| Add: | Supplies | 600 | | 0.5 |
| | Prepaid Advt. | 500 | | 0.5 |
| | Machine | 2,000 | | 0.5 |
| | | | 3,100 | |
| | | | 124,000 | |
| Less: | Unearned Rent | (4,200) | | 0.5 |
| | Salaries Payable | (2,500) | | 0.5 |
| | | | (6,700) | |
| | | | 117,300 | 1.5 |
| | | | | **4.0** |

**P Q 5 (i)**

**Straight-Line Method**

| Year | Computation | Dep. Exp | Acc. Dep. | N.B.V | Marking Plan |
|---|---|---|---|---|---|
| | | (Amount in Rupees) | | | |
| 1 | (64,000-8,000) x 25% | 14,000 | 14,000 | 50,000 | 1.0 |
| 2 | " | 14,000 | 28,000 | 36,000 | 1.0 |
| 3 | " | 14,000 | 42,000 | 22,000 | 1.0 |
| 4 | " | 14,000 | 56,000 | 8,000 | 1.0 |
| | Depreciation = $\frac{\text{Cost} - \text{Residual Value}}{\text{Useful Life}} = \frac{64,000 - 8,000}{4}$ = | | | 14,000 | 1.0 |
| | | | | | **5.0** |

**P Q 5 (ii)**

**Units of Production Method**

| Year | Computation | Dep. Exp | Acc. Dep. | N.B.V | Marking Plan |
|---|---|---|---|---|---|
| | | (Amount in Rupees) | | | |
| 1 | (28,000 x 0.7) | 19,600 | 19,600 | 44,400 | 1.0 |
| 2 | (22,000 x 0.7) | 15,400 | 35,000 | 29,000 | 1.0 |
| 3 | (18,000 x 0.7) | 12,600 | 47,600 | 16,400 | 1.0 |
| 4 | (12,000 x 0.7) | 8,400 | 56,000 | 8,000 | 1.0 |
| | Rate: (64,000 – 8,000) /80,000 = Rs.0.7/unit | | | | 1.0 |
| | | | | | **5.0** |

**P Q 5 (iii)**

**Double-Declining Method**

| Year | Computation | Dep. Exp | Acc. Dep. | N.B.V | Marking Plan |
|---|---|---|---|---|---|
| | | (Amount in Rupees) | | | |
| 1 | (64,000 x 50%) | 32,000 | 32,000 | 32,000 | 1.0 |
| 2 | (32,000 x 50%) | 16,000 | 48,000 | 16,000 | 1.0 |
| 3 | (16,000 x 50%) | 8,000 | 56,000 | 8,000 | 1.0 |
| 4 | | Zero | 56,000 | 8,000 | 1.0 |
| | Rate = 2 x (1/4 Year) = 50% | | | | 1.0 |
| | | | | | **5.0** |

**P Q 6 (i)**

| | | | Marking Plan |
|---|---|---|---|
| **AFTAB & CO.**<br>**Income Statement**<br>**For the year ended Dec. 31, 2009** | | | 0.5 |
| | **(Amount in Rupees)** | | |
| Sales (180,000 - 1,000) | 179,000 | | 1.0 |
| Less: Sales Return & Allowance | 13,000 | | 0.5 |
| | ---------- | | |
| Net Sales | | 166,000 | |
| Less: Cost of goods sold | | | |
| Merchandise Inventory (1-1-2009) | 12,000 | | 0.5 |
| Add: Purchase | 105,000 | | 0.5 |
| Add: Transportation In | 5,000 | | 0.5 |
| | ----------- | | |
| | 122,000 | | |
| Less: Purchase Return (3,000 + 1,000) | 4,000 | | 1.0 |
| | ----------- | | |
| Merchandise available for sale | 118,000 | | |
| | ----------- | | |
| Less: Merchandise inventory (31.12.09) | 7,000 | | 0.5 |
| | ----------- | | |
| Cost of goods sold | | 111,000 | 1.0 |
| | | ----------- | |
| Gross Profit c/d. | | 55,000 | 1.0 |
| | | **Total Marks** | **7.0** |

| | | | (Amount in Rupees) | Marking Plan |
|---|---|---|---|---|
| Gross Profit b/d. | | | 55,000 | |
| Add other income: | | | | |
| Discount received | | 5,000 | | 0.5 |
| Commission Income | 4,000 | | | |
| Less: Advance commission | (1,000) | 3,000 | 8,000 | 1.0 |
| | | | 63,000 | |
| Less: Operating Expenses | | | | |
| Discount allowed | | 2,000 | | 0.5 |
| Salaries expense | 20,000 | | | |
| Add: Accrued salaries | 7,000 | 27,000 | | 1.0 |
| Rent expense | 18,000 | | | |
| Less: Prepaid rent | 2,000 | 16,000 | | 1.0 |
| Advertising expense | | 5,000 | | 0.5 |
| Insurance expense | | 3,500 | | 0.5 |
| Depreciation expense | | 2,000 | | 0.5 |
| Bad debt expense | | 400 | | 0.5 |
| Total operating expense | | | (55,900) | |
| | | Net Income | 7,100 | 1.0 |

**Working:**

**Bad Debt Expense:**

| | | |
|---|---|---|
| Allowance for doubtful debts to be maintained (30,000 x 0.08) | 2,400 | |
| Less balance b/d | (2,000) | |
| Bad Debt Expense | 400 | 1.0 |
| | | **8.0** |

**P Q 6 (ii)**

## Closing Entries on Dec. 31, 2009

| | Rs. | Rs. | Marking Plan |
|---|---|---|---|
| Sales | 179,000 | | |
| Merchandise Inventory (31.12.09) | 7,000 | | |
| Purchase returns | 4,000 | | 3.0 |
| Purchase discount | 5,000 | | |
| Commission Income | 3,000 | | |
| Expense & Revenue Summary | | 198,000 | |
| (To close Revenue Accounts) | | | |
| Expense & Revenue Summary | 190,900 | | |
| Merchandise Inventory (01.01.09) | | 12,000 | |
| Purchase | | 105,000 | |
| Transportation in | | 5,000 | |
| Sales Return | | 13,000 | |
| Sales Discount | | 2,000 | 5.0 |
| Salaries expense | | 27,000 | |
| Advertising expense | | 5,000 | |
| Depreciation expense | | 2,000 | |
| Bad debt expense | | 400 | |
| Rent expense | | 16,000 | |
| Insurance expense | | 3,500 | |
| (To close Expense Accounts) | | | |
| Expense & Revenue Summary | 7,100 | | 1.0 |
| Capital | | 7,100 | |
| Capital | 3,000 | | 1.0 |
| Drawings | | 3,000 | |
| | | | **10.0** |