

**FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1**

Marks

**Question No.2**

(a) A regulatory framework for the preparation of financial statements is necessary for a number of reasons:

- 1) To ensure that the needs of the users of financial statements are met with at least a basic minimum of information. 01
- 2) To ensure that all the information provided in the relevant economic arena is both comparable and consistent. Given the growth in multinational companies and global investment this arena is an increasing international one. 01
- 3) To increase users' confidence in the financial reporting process. 01
- 4) To regulate the behaviour of companies and directors towards their investors. 01

(b)

| DESCRIPTION                          | Dr.    | Cr.    |      |
|--------------------------------------|--------|--------|------|
| Merchandise inventory                | 6,000  |        | 01   |
| Trading A/c                          |        | 6,000  | 01   |
| Depreciation expense                 | 21,150 |        | 01   |
| Accumulated depreciation – Equipment |        | 9,750  | } 01 |
| Buildings                            |        | 8,000  |      |
| Furniture and fixtures               |        | 3,400  |      |
| Interest expense                     | 3,000  |        | 01   |
| Accrued interest                     |        | 3,000  | 01   |
| Insurance expense                    | 10,000 |        | 01   |
| Prepaid insurance                    |        | 10,000 | 01   |
| Allowance for doubtful debt          | 225    |        | 01   |
| Trade receivables                    |        | 225    | 01   |
| Office supplies expense              | 1,350  |        | 01   |
| Office supplies                      |        | 1,350  | 01   |

**Question No.3**

(a) (i)

| Group | Aging of Trade Receivables | Amount (Rs.)   | %  | D' debts (Rs.) |    |
|-------|----------------------------|----------------|----|----------------|----|
| A     | Not yet due                | 532,800        | 2  | 10,656         | 01 |
| B     | 1-30 days past due         | 216,000        | 3  | 6,480          | 01 |
| C     | 31-60 days past due        | 93,600         | 15 | 14,040         | 01 |
| D     | 61-90 days past due        | 21,600         | 25 | 5,400          | 01 |
| E     | Over 90 days past due      | 36,000         | 50 | 18,000         | 01 |
|       | <b>Total</b>               | <b>900,000</b> |    | <b>54,576</b>  | 01 |

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|             |   |               |     |
|-------------|---|---------------|-----|
| <b>(ii)</b> | Doubtful amount required  | 54,576        | 0.5 |
|             | Add debit balance (deficit)   | <u>2,100</u>  | 0.5 |
|             | Amount required to be provided  | <u>56,676</u> | 01  |
|             | Journal entry:  |               |     |
|             | Doubtful debts expenses   | 56,676 Dr.    | 01  |
|             | Allowance for doubtful debts  | 56,676 Cr.    | 01  |
| <b>(b)</b>  | <b>(i) Intangible assets:</b> An intangible asset is an identifiable non-monetary asset without physical substance.                       |               |     |
|             | <b>(ii) Impairment loss:</b> an impairment loss is the amount by which carrying amount of an asset exceeds its recoverable amount.        |               |     |
|             | <b>(iii) Amortization:</b> Amortization is a systematic allocation of the depreciable amount of an intangible asset over its useful life. |               |     |

**Question No.4****(a) (i)**

**Naeem Traders**  
**Statement of Profit or Loss**  
**for the year ended December 31, 2015**

|                                  | <u>Rupees</u>        |      |
|----------------------------------|----------------------|------|
| Sales                            | 500,000              | 0.5  |
| Cost of goods sold               | <u>(395,000)</u>     | 0.5  |
| <b>Gross profit</b>              | <b>105,000</b>       | 0.25 |
| <u>Operating expenses:</u>       |                      |      |
| Salaries expenses                | 62,175               | 0.5  |
| Advertising expenses             | 12,750               | 0.5  |
| Rent expense                     | 6,125                | 0.5  |
| Interest expense                 | 2,125                | 0.5  |
| Depreciation expense – Equipment | 8,375                | 0.5  |
| Bad debt expense                 | 1,250                | 0.5  |
| Insurance expense                | <u>450</u>           | 0.5  |
| Operating income                 | 11,750               | 0.5  |
| Interest income                  | <u>1,000</u>         | 0.5  |
| <b>Profit for the year</b>       | <b><u>12,750</u></b> | 0.25 |

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Marks

(ii)

**Naeem Traders**  
**Statement of Financial Position**  
**as on December 31, 2015**

| Assets                              | Rs.             |                       |             |
|-------------------------------------|-----------------|-----------------------|-------------|
| <b>Non-current assets</b>           |                 |                       |             |
| Equipment                           | 83,750          |                       | 0.5         |
| Accumulated depreciation            | <u>(23,375)</u> | 60,375                | 0.5         |
| <b>Current assets</b>               |                 |                       |             |
| Inventory                           | 58,750          |                       | 0.5         |
| Trade receivables                   | 62,500          |                       | 0.5         |
| Allowance for doubtful debts        | <u>(3,750)</u>  | 58,750                | 0.5         |
| Prepaid insurance                   | 675             |                       | 0.5         |
| Prepaid rent                        | 625             |                       | 0.5         |
| Interest receivable                 | 1,000           |                       | 0.5         |
| Cash                                | <u>1,500</u>    | 121,300               | 0.5         |
| <b>Total assets</b>                 |                 | <b><u>181,675</u></b> | <b>0.25</b> |
| <b>Equity and liabilities</b>       |                 |                       |             |
| Capital – Mr. Naeem                 | 106,250         |                       | 0.5         |
| Profit for the year                 | <u>12,750</u>   | 119,000               | 0.5         |
| Non-current liabilities             |                 | 25,000                | 0.5         |
| <b>Current liabilities</b>          |                 |                       |             |
| Trade payables                      |                 | <u>37,675</u>         | 0.5         |
| <b>Total equity and liabilities</b> |                 | <b><u>181,675</u></b> | <b>0.25</b> |

(b) (i) The acquisition price of Rs. 28,500,000 is allocated to the separate assets as follows:

| Asset        | Fair value        | % of Total FV       | Marks | Cost              | Marks              |
|--------------|-------------------|---------------------|-------|-------------------|--------------------|
| Land         | 15,250,000        | 50% (15,250/30,500) | 2/3   | 14,250,000        | 2/3 (28,500 x 50%) |
| Building     | 9,150,000         | 30% (9,150/30,500)  | 2/3   | 8,550,000         | 2/3 (28,500 x 30%) |
| Equipment    | 6,100,000         | 20% (6,100/30,500)  | 2/3   | 5,700,000         | 2/3 (28,500 x 20%) |
| <b>Total</b> | <b>30,500,000</b> | <b>100%</b>         |       | <b>28,500,000</b> | <b>100%</b>        |

(ii) The following entry is made to record this acquisition:

|                   |            |            |     |
|-------------------|------------|------------|-----|
| Land account      | 14,250,000 |            | 0.5 |
| Building account  | 8,550,000  |            | 0.5 |
| Equipment account | 5,700,000  |            | 0.5 |
| Cash account      |            | 28,500,000 | 0.5 |

(To recognize the new assets acquired)

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|     |            |                 |        | Marks |
|-----|------------|-----------------|--------|-------|
| (c) | January 01 | Petty cash fund | 14,000 | 0.25  |
|     |            | Bank            | 14,000 | 0.25  |
|     | 31         | Petty cash fund | 3,480  | 0.25  |
|     |            | Bank            | 3,480  | 0.25  |
|     | 31         | Conveyance      | 1,960  | 0.75  |
|     |            | Entertainment   | 1,320  | 0.75  |
|     |            | Stationery      | 960    | 0.75  |
|     |            | Postage         | 1,700  | 0.75  |
|     |            | Donation        | 890    | 0.75  |
|     |            | Petty cash fund | 6,830  | 0.75  |
|     | 31         | Bank            | 650    | 0.25  |
|     |            | Petty cash fund | 650    | 0.25  |

**Question No. 5**

|  |   |        |        |    |
|--|---|--------|--------|----|
| (a)                                      | Sales A/c   | 22,280 |        |    |
|  | To Suspense A/c   |        | 22,280 |    |
|  | (Being sales day book was overcast)   |        |        | 01 |
|  | Furniture A/c   | 33,825 |        |    |
|  | To Purchases A/c  |        | 33,825 |    |
|  | (Being purchase of furniture passed through purchases day book, now rectified)  |        |        | 01 |
|  | Rana stores A/c   | 27,225 |        |    |
|  | To Suspense A/c   |        | 27,225 |    |
|  | (Being an amount of Rs 3025 received from Rana stores was wrongly entered in his account as Rs 30,250, now rectified) |        |        | 01 |
|  | Purchases Return A/c  | 450    |        |    |
|  | To Suspense A/c   |        | 450    |    |
|  | (Being total of purchases return book was carried forward as Rs 6,610 in place of Rs 6,160, now rectified)            |        |        | 01 |
|  | Suspense A/c  | 67,000 |        |    |
|  | To Sales A/c  |        | 67,000 |    |
|  | (Being cash sales of Rs 67,925 wrongly posted in the sales account as Rs 925, now rectified)                          |        |        | 01 |
| To Salaries A/c                          | 765   |        |        |    |
| Suspense A/c                             |   | 765    |        |    |
| (Being salaries account was overcastted) |   |        | 01     |    |

**FUNDAMENTALS OF FINANCIAL ACCOUNTING – SEMESTER-1****Marks****(b)**Naveen Company  
Bank Reconciliation Statement

|   |          | <b>Rupees</b>        |     |
|---|----------|----------------------|-----|
| Balance as per cash book                            |          | 96,000               | 0.5 |
| Error in the books of company (20,000 – 2,000)      | (18,000) |                      | 01  |
| Payment under standing instructions                 | (4,800)  |                      | 01  |
| Markup on overdraft                                 | (1,200)  |                      | 01  |
| Direct receipt (bills receivable collected by bank) | 8,800    | <u>(15,200)</u>      | 01  |
| <b>Adjusted balance as per cash book</b>            |          | <b><u>80,800</u></b> | 01  |
| Balance as per bank statement                       |          | (28,000)             | 0.5 |
| Unpresented cheques                                 | (10,000) |                      | 01  |
| Wrong payment by bank                               | 40,800   |                      | 01  |
| Uncleared cheque                                    | 78,000   | <u>108,800</u>       | 01  |
| <b>Adjusted balance as per bank statement</b>       |          | <b><u>80,800</u></b> | 01  |

**THE END**