



Introduction to Financial Accounting

Foundation Examinations – Autumn 2010
Module B

September 3, 2010
100 marks - 3 hours

Q.1 Name the accounting concepts on which the following rules are based.

- (i) Stocks are valued on the same basis in each accounting period.
 - (ii) Assets are valued assuming there will be no sudden stoppage in business.
 - (iii) Assets and liabilities are valued with due caution in times of uncertainty.
 - (iv) Personal transactions should be distinguished from business transactions.
 - (v) Cost of small calculators may be charged to expenses instead of being capitalized.
 - (vi) The financial statements must disclose all the relevant information.
 - (vii) Transactions are recorded in various periods assuming money has a constant value.
 - (viii) Income is not recognized when a fee is received but when a service is rendered.
 - (ix) Leased vehicles are recorded as assets although these are not owned by the organisation.
 - (x) Income and all costs relating to earning such income are accounted for in the same accounting period.
- (10 marks)*

Q.2 Aqueel and Barkat were in partnership and shared profits and losses in the ratio of 3:2 respectively. The balances on the partners' capital accounts at July 1, 2009 were: Aqueel Rs. 250,000, Barkat Rs. 400,000.

Due to expansion of business, Shahid was admitted as a partner on October 1, 2009 under the following arrangements:

- (i) Assets were revalued upwards by Rs. 200,000 but the revaluation was not recorded in the books.
- (ii) Goodwill of the firm was assessed at Rs. 300,000 and was retained in the books.
- (iii) Shahid invested Rs. 500,000 as capital.
- (iv) Shahid was allowed a monthly salary of Rs. 20,000 whereas Aqueel and Barkat continued to receive salaries of Rs. 28,000 and Rs. 25,000 per month respectively, as in the past.
- (v) The balance profit was to be shared: Aqueel 35%; Barkat 35% and Shahid 30%.
- (vi) Mr. Saleem was hired as manager from October 1, 2009 at a salary equal to 5% of the profit remaining after deducting such salary but before charging partners' salaries.

The profit for the year ended June 30, 2010 amounted to Rs. 486,000 after:

- (i) Making provision for a debt of Rs. 48,000 incurred prior to July 2009; and
- (ii) providing for the partners' salaries.

In addition to salaries, the partners withdrew the following amounts:
Aqueel Rs. 150,000; Barkat Rs. 120,000; and Shahid Rs. 90,000

Required:

Partners' capital accounts for the year ended June 30, 2010.

(20 marks)

- Q.3 Due to the death of his book-keeper, Asif failed to keep proper records for the year ended June 30, 2010. He has forwarded to you the following statements:

BALANCE SHEET
as on June 30, 2009

	Rs.		Rs.
Asif-capital account	613,300	Land and building at cost	130,000
6% Loan	500,000	Furniture: Cost	825,000
Trade creditors	500,100	Depreciation	485,000
Accrued expenses	21,700	Stock	482,500
Bank overdraft	24,200	Trade debtors:	670,000
		Less: Provision	27,000
		Prepayments	53,800
		Cash in hand	10,000
	1,659,300		1,659,300

Summary of the transactions in the bank book
for the year ended June 30, 2010

Receipts	Rs.	Payments	Rs.
Deposits against cash sales	624,750	Creditors	2,509,600
Receipts from debtors	3,071,000	Sundry expenses	212,500
Furniture sold on 1-Jul-09 (purchased for Rs. 280,000 on 1-Jul-06)	122,400	Salaries	440,400
		Furniture purchased on 01-Jan-10	64,000
		Interest on loan upto 31-Mar-10	22,500
Total	3,818,150	Total	3,249,000

You have carried out the necessary scrutiny and ascertained the following:

- (i) Asif sells the goods at a profit margin of one-third of their selling price i.e. at a profit margin of 50% of cost of sales.
- (ii) On June 30, 2010 trade debtors aggregated Rs. 600,500. These included Rs. 18,000 pertaining to goods which were sent on sale or return basis and were unsold on June 30.
- (iii) Closing stock was valued at Rs. 580,000.
- (iv) Receipts from debtors include an advance of Rs. 2,500 for goods delivered in July 2010.
- (v) Rs. 3,700 were recovered from a debtor which had been fully provided for on June 30, 2009. A new customer who was introduced in 2010 and owed Rs. 4,200 was declared as bankrupt.
- (vi) Sundry expenses payable on June 30, 2010 amounted to Rs. 19,000 (excluding interest on loan) whereas prepayments amounted to Rs. 9,700.
- (vii) Asif estimates that he withdrew Rs. 60,000 for his personal use and paid sundry expenses aggregating Rs. 25,000 before depositing the proceeds from cash sales.
- (viii) Depreciation on furniture is provided at the rate of 10% per annum on cost.
- (ix) Bonus is payable to the manager at 5% of the net profit after charging such bonus.
- (x) The following account balances were obtained from the memorandum records:

▪ Purchases	Rs. 2,570,000
▪ Discounts received	Rs. 30,300
▪ Sales returns	Rs. 15,000

Required:

- (a) A Trading and Profit & Loss account of Mr. Asif for the year ended June 30, 2010; and
- (b) a balance sheet as on June 30, 2010 (25 marks)

Q.4 Ziakot Steel Works, a sole proprietorship, provides depreciation on plant and machinery at 20% per annum on diminishing balance method. On July 1, 2009 the balances in the plant and machinery and accumulated depreciation accounts were Rs. 712,000 and Rs. 240,000 respectively. Depreciation is provided from the month of purchase till the month of disposal. It was discovered during 2009-2010 that:

- (a) Rs. 25,000 being ordinary repairs to machinery, incurred on October 1, 2007 had been capitalised incorrectly.
- (b) A machine which was purchased on January 1, 2007 for Rs. 100,000 was traded-in, on March 31, 2009 for a new and more sophisticated machine. The disposal was not recorded and the new machine was capitalised at Rs. 120,000 being the net amount paid to the supplier. The trade-in allowance amounted to Rs. 50,000.

It was decided to correct the above mistakes while finalising the accounts for the year ended June 30, 2010.

Only one machine was purchased during the year ended June 30, 2010 costing Rs. 60,000. The machine was received in the factory on October 1, 2009 and was installed on January 1, 2010.

Required

Plant and machinery account and accumulated depreciation account for the year ended June 30, 2010. (*Show all workings*) **(15 marks)**

Q.5 Mr. Fawwad owns a factory and closes his books on June 30. The trial balance prepared by him, contained a difference which he kept in a suspense account. On scrutinising the records, the following errors were detected:

- (i) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount. The payment was correctly entered in the bank book but was posted to purchase account as Rs. 1,080 only. No other entry was made.
- (ii) Sundry debtors include an amount of Rs. 15,000 which had proved irrecoverable but was not written off. According to a consistent policy, a reserve for bad debt was created @ 5% on closing debtors;
- (iii) Commission of Rs. 3,500 was paid but was debited twice, once in the party's account and again in the commission account;
- (iv) Purchases of Rs. 4,500 were entered as sales in the Sales Day Book.
- (v) In the salaries account, a sub-total of Rs. 12,600 was carried over to the next page as Rs. 1,260 on the wrong side.
- (vi) Rs. 600 collected from a party in respect of dues which had been written off as bad two years ago, was credited to the sales ledger control account.
- (vii) Goods invoiced at Rs. 4,600 were returned by a debtor. These were entered in the purchase book and posted from there to debtor's account as Rs. 6,400.
- (viii) The discount column in the sales day book was short casted by Rs. 1,500.
- (ix) A cash sale of Rs. 7,300 to Mr. Anwar was correctly entered in the cash book but was posted to the credit of Mr. Anwar's account
- (x) An amount of Rs. 17,400 was received in full and final settlement from a customer after he was allowed a discount of Rs. 2,600. However, while writing the books, the amount received was entered in the discount allowed column of the bank book and the discount allowed was entered in the bank column.

Required:

Pass rectification entries (without narration) to correct the above errors.

(15 marks)

- Q.6 The cashier of Mr. Asad had not reported for duty for a number of days and Mr. Asad suspects that a fraud has been committed. The amounts appearing in his cash book and bank statement for the months of June and July 2010 respectively are as follows:

Cash Book for June 2010

Date	Particulars	Rs.	Date	Particulars	Rs.
01	Balance b/d	7,000	3	Drawings	2,000
17	Zahid	1,200	4	Cash	4,000
20	Hasnain	10,000	6	Abdul Qadir	11,900
25	Farooq Nagar & Co.	4,200	10	Zulfiqar	5,300
27	Haji Bilal	13,000	18	Khizar	1,200
29	Ali	3,000	19	Ejaz	2,500
30	Mrs. Habiba	1,800	21	Fuzail	3,800
			30	Ubaid Raza	1,100
			30	Bank Charges	690
			30	Balance c/d	7,710
		40,200			40,200

Bank Statement for July 2010

Date	Particulars	Rs.	Date	Particulars	Rs.
01	Balance b/d	4,500	02	Raza	3,000
02	Ejaz	5,200		Reversal of bank charges	690
03	Super Mart	3,500	03	Mrs. Habiba	1,800
05	Ubaid Raza	1,100	07	Adeel	180
08	Sardarabad Traders	6,700	09	Haji Bilal	13,000
15	AK Enterprise	7,300	18	AK Enterprise	13,300
23	Sardarabad Traders	10,800	26	Kapasi Traders	5,800
	Balance c/d	2,870	27	Farooq Nagar & Co.	4,200
		41,970			41,970

Mr. Asad has extracted the following information from the records:

- (i) Cheque received from Mr. Ali and deposited in the bank on June 29 was dishonoured. The cheque was returned by the bank in the month of July.
- (ii) Bank charges of Rs. 690 which were erroneously charged by the bank in June were reversed in July 2010.
- (iii) A cheque of Rs. 5,300 received on June 10 from Mr. Zulfiqar was recorded on the credit side of the cash book.
- (iv) A cheque issued in favour of Mr. Ejaz, amounting to Rs. 5,200, had been entered in the cash book as Rs. 2,500.
- (v) Mark-up on overdraft charged by the bank on June 30, 2010 amounted to Rs. 2,500.
- (vi) Petty cash payment to Mr. Khizar was recorded in the cash book.

Required:

- (a) Adjusted balance as per cash book on June 30, 2010.
- (b) A bank reconciliation statement as at June 30, 2010 after passing the adjustments referred to in (a) above.
- (c) Amount defalcated by the cashier, if any. (15 marks)

(THE END)