



Introduction to Accounting

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

- (i) Nothing material is left out that would be vital to investors or other users in assessing the underlying events and conditions of the business.
- (ii) Whether the item in question affects decision of the users of the financial statements?
- (iii) A company is separate and distinct from its owners.
- (iv) Financial information must not only represent relevant phenomena but it must also be complete, neutral and free from error.
- (v) Expenses incurred in a particular time period should be compared with the revenue earned during the same time period.
- (vi) Caution should be exercised while preparing financial statements in order to avoid overstatement of net assets and net income.
- (vii) The assumption that a business entity will continue in existence for the foreseeable future.
- (viii) Same accounting policy shall be applied to accounting events from period to period. (08)

Q.2 The following information is available in respect of debtors and creditors of Saarim Limited:

- (i) The control accounts of debtors and creditors had balances of Rs. 1,744,500 and Rs. 1,366,000 respectively on 1 July 2013.
- (ii) Summary of transactions that took place during the year ended 30 June 2014 is as follows:

| | Rs. |
|--|------------|
| Credit purchases | 8,166,600 |
| Purchase returns | 315,900 |
| Credit sales | 10,796,300 |
| Sale returns | 144,400 |
| Cash received from customers | 9,404,300 |
| Discount allowed to customers | 348,000 |
| Cash paid to the suppliers | 7,210,300 |
| Debtor's balance written off | 16,000 |
| Discount received from vendors | 204,800 |
| Bill of exchange received from customers | 508,400 |
| Contra settlement between creditors and debtors accounts | 35,000 |
| Bill of exchange given to suppliers | 277,700 |
| Bill of exchange dishonoured by a customer | 30,900 |

- (iii) The following discrepancies have been discovered in the recording of transactions:
 - a payment of Rs. 26,000 on 18 December 2013 against a purchase was wrongly recorded as salaries expenses.
 - the sales return book had been overcast by Rs. 22,000.
 - suspense account of Rs. 30,000 (Dr.) is appearing in the trial balance which represents posting errors in creditors' control account.

Required:

Prepare the debtors and creditors control accounts from the above information for the year ended 30 June 2014.

- Q.3 Ali, Zia and Zahid were partners in a firm. They shared profits and losses in the ratio of 40%, 30% and 30% respectively. The firm was dissolved on 1 June 2014 and the balance sheet on the date of dissolution was as under:

| Liabilities and Equity | Rs. | Assets | Rs. |
|------------------------|-----------|-------------------------------|-----------|
| Creditors | 2,549,400 | Cash | 64,800 |
| Ali's capital | 1,296,300 | Debtors | 1,706,800 |
| Zia's capital | 864,200 | Less: Provision for bad debts | (108,000) |
| | | | 1,598,800 |
| | | Stock | 2,592,600 |
| | | Furniture | 259,300 |
| | | Zahid's capital - overdrawn | 194,400 |
| | 4,709,900 | | 4,709,900 |

Other available information is as follows:

- (i) Zia was appointed to realise the assets and distribute the proceeds. Zia agreed to receive 5% commission on the amounts realised from sale of assets and to bear all expenses of realisation.
- (ii) Details of assets realised are as follows:

| | Rs. |
|-----------|-----------|
| Debtors | 1,306,300 |
| Stock | 1,944,500 |
| Furniture | 206,100 |

- (iii) Creditors were paid Rs. 2,484,600 in full and final settlement. In addition, an unrecorded creditor was also paid Rs. 21,600.
- (iv) Realisation expenses amounted to Rs. 25,900.
- (v) Zahid could pay only Rs. 129,600 in full and final settlement of his capital account.

Required:

Prepare the following:

- (a) Realisation account (07)
- (b) Cash account (05)
- (c) Partners' capital accounts (07)

- Q.4 The effect of certain transactions is summarised below in equation form:

| Description | Assets | | | | | = | Liabilities | + | Owner's equity |
|-----------------|---------|---------|---------|---------|---------|---|-------------|---|----------------|
| | Cash | Debtors | Land | Stocks | Machine | | Creditors | | Capital |
| Opening balance | 118,600 | 177,800 | 500,000 | 206,800 | 164,200 | | 191,500 | | 975,900 |
| (i) | -14,600 | - | - | - | +14,600 | | - | | - |
| (ii) | +4,100 | -4,100 | - | - | - | | - | | - |
| (iii) | -16,000 | - | - | - | +61,600 | | +45,600 | | - |
| (iv) | - | - | - | -66,100 | - | | -66,100 | | - |
| (v) | +68,400 | - | - | - | - | | - | | +68,400 |
| (vi) | - | - | - | - | +9,600 | | +9,600 | | - |
| (vii) | -22,000 | - | - | - | - | | - | | -22,000 |
| (viii) | - | -15,000 | - | - | - | | -15,000 | | - |
| Closing balance | 138,500 | 158,700 | 500,000 | 140,700 | 250,000 | | 165,600 | | 1,022,300 |

Required:

Give brief narrative/description of each of the above transactions.

(08)

- Q.5 What is meant by Chart of Accounts? Explain the purpose of creating a chart of accounts.

(04)

Q.6 Hammad deals in a single product. The transactions for the month of August 2014 are summarized below:

| | | |
|----------|-------------|------------------------|
| Balance | 1 Aug 2014 | 40,000 units @ Rs. 70 |
| Purchase | 12 Aug 2014 | 20,000 units @ Rs. 75 |
| Sale | 15 Aug 2014 | 30,000 units @ Rs. 120 |
| Purchase | 28 Aug 2014 | 20,000 units @ Rs. 78 |
| Sale | 30 Aug 2014 | 20,000 units @ Rs. 125 |

Required:

Compute the cost of ending inventory using weighted average method under each of the following assumptions:

- (a) Perpetual inventories are maintained; (4.5)
- (b) Perpetual inventories are not maintained. (4.5)

Q.7 Following is the trial balance of Salman for the year ended 30 June 2014:

| | | <i>Rs. in '000</i> | |
|---------------------------|----------------|---------------------------|----------------|
| | Debit | | Credit |
| Drawings | 30,500 | Salman's capital | 300,000 |
| Trade debtors | 109,420 | Creditors | 104,724 |
| Goodwill | 20,000 | Loan taken from bank | 40,000 |
| Interest on bank loan | 800 | Bad debts provision as on | |
| Cash in hand | 728 | 1 July 2013 | 900 |
| Plant & machinery - WDV | 45,000 | Sales | 353,300 |
| Factory building - WDV | 42,400 | Interest received | 11,930 |
| Sales return | 10,000 | Bills payable | 23,150 |
| Cash at bank | 13,512 | Accrued expenses | 3,460 |
| Power and utility charges | 6,500 | Other income | 3,100 |
| Trade discount | 2,432 | | |
| Purchases less returns | 330,530 | | |
| Salaries and wages | 40,400 | | |
| Rent and rates | 6,992 | | |
| Insurance | 2,000 | | |
| Advertisement | 4,512 | | |
| Opening stock | 127,762 | | |
| Carriage inward | 10,420 | | |
| Bills receivable | 32,526 | | |
| Miscellaneous expenses | 4,130 | | |
| | 840,564 | | 840,564 |

Additional information:

- (i) On 1 July 2013 a machine was purchased for Rs. 500 thousand. However, this cost has wrongly been posted to the purchases account.
- (ii) Salman's son works as the head of administration and received a salary of Rs. 150 thousand per month, which has been included in drawings.
- (iii) Insurance premium was paid in advance to the extent of Rs. 650 thousand.
- (iv) Depreciation is to be charged on written down value (WDV) as follows:

| | |
|-------------------|-----|
| Plant & machinery | 10% |
| Factory building | 5% |

- (v) Provision for bad debts is maintained at 2% of trade debtors.
- (vi) Closing stock as on 30 June 2014 amounted to Rs. 237,500 thousand.

Required:

Prepare statement of comprehensive income (Trading and Profit and Loss account) for the year ended 30 June 2014 and statement of financial position (Balance Sheet) as at 30 June 2014.

(20)

- Q.8 In July 2014, Abdullah established a business for providing van service to private schools in the city of Gujarat. The transactions during the month are listed below:

| | |
|---------|--|
| 1 July | A bank account was opened with a cash deposit of Rs. 20,000,000. |
| 3 July | A property was purchased at a cost of Rs. 10,000,000, of which Rs. 7,200,000 was considered as applicable to the land and Rs. 2,800,000 to the building. The transaction involved a cash payment of Rs. 3,000,000 and the issuance of a note payable for the balance amount. |
| 5 July | 10 new vans were purchased for at Rs. 300,000 each from City Showroom, Lahore. Abdullah paid Rs. 600,000 in cash, and agreed to pay Rs. 1,000,000 by 31 July and the remaining balance by 15 August. |
| 7 July | Upon inspection, a van was found to be defective and was returned to City Showroom, Lahore. |
| 8 July | Office equipment was purchased against cash payment of Rs. 2,400. |
| 15 July | Abdullah signed an agreement with a petrol pump for supply of CNG on credit. As per agreement, he issued a cheque for Rs. 15,000 as security deposit. |
| 30 July | 25% of the property acquired on 3 July was rented out from 1 August 2014 at a monthly rent of Rs. 30,000. A three month advance was received from the tenant. |
| 31 July | Cheque for Rs. 1,000,000 was issued to City Showroom, Lahore. |

Required:

Prepare the following:

- Journal entries for the month of July 2014.
- All the ledger accounts.
- A trial balance as at 31 July 2014.

(08)**(07)****(05)****(THE END)**