Introduction to Accounting

Q.1 (a) List the documents used in a system designed to control and account for purchases and briefly describe the purpose for issuance of these documents. (04)

(b) Following transactions pertain to Rana Brothers for the month of August 2016:

<table>
<thead>
<tr>
<th>Date</th>
<th>Name of suppliers</th>
<th>Description</th>
<th>Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>05-Aug</td>
<td>Bravo Traders</td>
<td>Credit purchase</td>
<td>950,000</td>
</tr>
<tr>
<td>05-Aug</td>
<td>Alpha &amp; Sons</td>
<td>Credit purchase</td>
<td>438,000</td>
</tr>
<tr>
<td>08-Aug</td>
<td>Bravo Traders</td>
<td>Return of goods purchased on credit</td>
<td>60,000</td>
</tr>
<tr>
<td>09-Aug</td>
<td>Charlie Brothers</td>
<td>Goods received against advance payment made on 3 July 2016</td>
<td>540,000</td>
</tr>
<tr>
<td>10-Aug</td>
<td>Alpha &amp; Sons</td>
<td>Credit purchase</td>
<td>800,000</td>
</tr>
<tr>
<td>10-Aug</td>
<td>Bravo Traders</td>
<td>Credit purchase</td>
<td>655,000</td>
</tr>
<tr>
<td>11-Aug</td>
<td></td>
<td>Goods destroyed in fire to be recovered from Rahat Insurance Co.</td>
<td>79,000</td>
</tr>
</tbody>
</table>

Required:
(i) Enter the above transactions in the related books of prime entry. (08)
(ii) Prepare relevant general ledger accounts and subsidiary ledger accounts. (Balancing of ledger accounts is not required) (07)

Q.2 Ravi Enterprises (RE) maintains specific provision for doubtful debts on the basis of individual assessment of its major customers. A general provision is also made at 5% of the remaining month-end balances. Following information pertains to trade debtors and provision for doubtful debts for the month of August 2016:

(i) Opening balance:

<table>
<thead>
<tr>
<th>Trade debtors</th>
<th>Rs. in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for doubtful debts:</td>
<td></td>
</tr>
<tr>
<td>– Specific BEE Traders, 100% of the balance</td>
<td>(8.00)</td>
</tr>
<tr>
<td>– Specific RAY Brothers, 60% of the balance</td>
<td>(6.00)</td>
</tr>
<tr>
<td>– General 5% of the remaining balance</td>
<td>(9.10)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176.90</strong></td>
</tr>
</tbody>
</table>

(ii) Credit sales for the month amounted to Rs. 900 million.
(iii) Collections from customers were Rs. 850 million, which included:
- a recovery of Rs. 4.5 million against trade debts written-off in previous years; and
- an amount of Rs. 7.2 million received net of 10% discount in full and final settlement of invoices.

(iv) RAY Brothers were declared bankrupt and their debt has to be written-off.
(v) A customer, TAJ & Co. has disputed certain sales invoices aggregating Rs. 2.8 million which have been outstanding for more than one year. RE estimates that the customer will eventually pay half of the disputed amount.
(vi) Amounts aggregating Rs. 1.5 million due from general customers are not recoverable and have to be written-off.
**Required:**
Prepare following ledger accounts for the month of August 2016:
(a) Provision for doubtful debts
(b) Bad debt expense

Q.3 Following balances have been extracted from trial balance of Chenab Enterprises (CE) for the year ended 30 June 2016:

<table>
<thead>
<tr>
<th></th>
<th>Rs. in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening inventory</td>
<td>15,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>250,000</td>
</tr>
<tr>
<td>Sales</td>
<td>380,000</td>
</tr>
</tbody>
</table>

**Other information:**
(i) A physical count of inventory for the year ended 30 June 2016 was carried out on 10 July 2016 and the cost of inventory was determined at Rs. 18,000,000. During physical count it was also noted that:
- no entry has been made in respect of goods costing Rs. 500,000 which were issued in June 2016 to the proprietor; and
- inventory includes damaged goods costing Rs. 350,000 which have no sales value. It was determined that damage had occurred prior to 1 July 2016.

(ii) During the intervening period 1 July to 10 July 2016, following transactions took place:

<table>
<thead>
<tr>
<th></th>
<th>Rs. in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (at cost plus 25%)</td>
<td>12,000</td>
</tr>
<tr>
<td>Goods returned by customers</td>
<td>800</td>
</tr>
<tr>
<td>Purchases</td>
<td>7,000</td>
</tr>
</tbody>
</table>

(iii) CE uses periodic inventory method to record the inventory.

**Required:**
Prepare adjusting and closing entries for the year ended 30 June 2016.

Q.4 Consider the following situations:

(i) Due to heavy losses during the current year, Quality Traders (QT) decided to discontinue its operations with effect from 1 August 2016. However, QT’s financial statements for the year ended 30 June 2016 were prepared using the same basis as last year.

(ii) Results of Shan Enterprises (SE) fluctuate widely from year to year. Therefore, SE’s management has decided to create certain provisions in the periods of higher profits and adjust those provisions in the period of lesser profits to maintain profits at a consistent level from year to year.

**Required:**
(a) Identify and explain the accounting concept/principle relevant to each of the above situations.
(b) Suggest adjustments, if any, to correct the financial statements for the year ended 30 June 2016.
Q.5 Following information pertains to Arish Enterprises (AE) for the month of August 2016:

(i) Goods purchased on credit for Rs. 842,000 were returned to the supplier.
(ii) A customer bought goods amounting to Rs. 96,000. 40% payment was made in cash and the balance amount was set off against amount payable by AE to the customer.
(iii) An unidentified amount of Rs. 11,000 received in the bank account was credited to the suspense account. At month end, it was found that the amount received represents a direct transfer into AE’s bank account by a foreign customer. The bank had credited AE’s account net of bank charges of Rs. 1,000.
(iv) A customer owes Rs. 348,000 to AE. It is expected that AE would be able to recover 60% and a provision for doubtful debts is to be made for the remaining amount.
(v) The owner withdrew cash of Rs. 35,000 and goods costing Rs. 65,000 for his own use.

Required:
Show the effect of the above in the form of accounting equations. (08)

Q.6 Gulfishan Paints (GP) is owned by J, R and W who share profits in the ratio of their capitals. GP's summarised statement of financial position as at 30 June 2016 is as under:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Rs. in million</th>
<th>Capital and liabilities</th>
<th>Rs. in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank</td>
<td>5</td>
<td>Capital: J</td>
<td>20</td>
</tr>
<tr>
<td>Trade and other receivables - net</td>
<td>28</td>
<td>R</td>
<td>20</td>
</tr>
<tr>
<td>Stock-in-trade</td>
<td>25</td>
<td>W</td>
<td>10</td>
</tr>
<tr>
<td>Fixed assets - net</td>
<td>62</td>
<td>Trade and other payables</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>120</td>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>

J decided to retire from the partnership effective 1 July 2016. R and W agreed to admit Z as the new partner from the same date. The agreed terms and conditions for the retirement of J and the admission of Z were as under:

(i) A shop owned by GP was taken over by J at an agreed value of Rs. 5 million. The book value of the shop as at 1 July 2016 was Rs. 4.2 million.
(ii) On retirement of J and admission of Z, GP's assets and liabilities were adjusted as under:

<table>
<thead>
<tr>
<th></th>
<th>Rs. in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in fixed assets (other than shop taken over by J)</td>
<td>10.00</td>
</tr>
<tr>
<td>Provision for slow moving inventory</td>
<td>2.50</td>
</tr>
<tr>
<td>Provision for bad and doubtful debts</td>
<td>4.00</td>
</tr>
<tr>
<td>Additional liability for pending damages/claims</td>
<td>1.80</td>
</tr>
<tr>
<td>Goodwill of the firm</td>
<td>15.00</td>
</tr>
</tbody>
</table>

(iii) J was paid 40% of the amount due immediately and balance would be payable after six months from the date of his retirement.
(iv) Z was given one-fourth share in the partnership. He brought cash equivalent to his proportionate share of capital and goodwill.
(v) Goodwill will not appear in the books of account.

Required:
(a) Prepare capital accounts of all the partners in columnar form. (15)
(b) Prepare GP's statement of financial position as at 1 July 2016 on retirement of J and admission of Z. (05)
Q.7 Following is the summarised trial balance of Fortune Traders (FT) for the year ended 30 June 2016:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings - cost</td>
<td>3,700</td>
</tr>
<tr>
<td>Buildings - accumulated depreciation as at 1 July 2015</td>
<td>1,436</td>
</tr>
<tr>
<td>Plant and machinery - cost</td>
<td>6,650</td>
</tr>
<tr>
<td>Plant and machinery - accumulated depreciation as at 1 July 2015</td>
<td>2,414</td>
</tr>
<tr>
<td>Purchases</td>
<td>16,000</td>
</tr>
<tr>
<td>Purchase returns</td>
<td>220</td>
</tr>
<tr>
<td>Sales</td>
<td>28,900</td>
</tr>
<tr>
<td>Sales returns</td>
<td>90</td>
</tr>
<tr>
<td>Capital as at 1 July 2015</td>
<td>3,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>5,855</td>
</tr>
<tr>
<td>12% loan payable</td>
<td>5,000</td>
</tr>
<tr>
<td>Provision for doubtful debts as at 1 July 2015</td>
<td>180</td>
</tr>
<tr>
<td>Prepayments and other receivables</td>
<td>380</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,080</td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>5,850</td>
</tr>
<tr>
<td>Suspense account</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>43,230</td>
</tr>
<tr>
<td></td>
<td>43,230</td>
</tr>
</tbody>
</table>

Additional information:
(i) FT depreciates its fixed assets from the month of addition. Depreciation is to be charged on written-down value (WDV) as follows:

| Buildings | 5% |
| Plant & machinery | 10% |

(ii) On 1 March 2016, FT paid an advance of Rs. 330,000 for purchase of a machine and debited it to plant and machinery. The machine was delivered on 1 September 2016.

(iii) Closing inventory was valued at Rs. 1,560,000. This included goods costing Rs. 35,000 returned by a customer on 30 June 2016 but not yet accounted for. These goods were earlier sold at cost plus 40%.

(iv) The loan was acquired on 1 January 2016 and the principal amount is repayable in eight equal half yearly installments commencing from 1 January 2017. Interest is payable half yearly on 1 January and 1 July each year.

(v) Selling and administration expenses include fire insurance premium amounting to Rs. 430,000 and Rs. 240,000 paid for office and owner's personal premises respectively. The policies are valid upto 31 December 2016.

(vi) Rent and salaries amounting to Rs. 137,000 and Rs. 89,000 respectively are to be accrued at 30 June 2016.

(vii) At 30 June 2016, the provision for doubtful debts is to be reduced by Rs. 30,000.

(viii) Suspense account represents an error which occurred when a credit note of Rs. 30,000 received for goods returned to a supplier was mistakenly posted as credit to trade payable account.

Required:
(a) Prepare a statement of comprehensive income for the year ended 30 June 2016. (08)
(b) Prepare a statement of financial position as at 30 June 2016. (09)
Q.8 Following information has been extracted from the records of Eden Garments (EG), as at 30 June 2016:

<table>
<thead>
<tr>
<th>Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as per bank book (debit balance)</td>
</tr>
<tr>
<td>Balance as per bank statement (overdraft)</td>
</tr>
</tbody>
</table>

An examination of the bank book and the bank statement, revealed the following:

(i) Outstanding cheques amount to Rs. 3,856,300 and include:
- a cheque of Rs. 50,000 issued to a supplier bearing an incorrect payee's name. The cheque was returned and recorded on 15 July 2016.
- a cheque issued to a supplier for Rs. 85,000 was recorded in bank book as Rs. 58,000.
- a cheque dated 20 December 2015 for Rs. 4,630 issued for repair of a car was misplaced. The repair charges were paid in cash and the misplacement of the cheque was not recorded.

(ii) Un-cleared cheques amount to Rs. 6,460,000 and include:
- a cheque of Rs. 366,000 received from a customer was returned by the bank as amount in words was not in conformity with the amount in figures. The return was not recorded and the cheque was sent to the customer for replacement.
- a cheque of Rs. 76,000 received from a customer in settlement of an invoice availing payment discount of 5%. The collection was recorded by EG at gross amount of invoice.

(iii) An unidentified credit of Rs. 354,000 was appearing in the bank statement. It was found that a customer had made an online transfer to avail 5% discount allowed on payments made by 30 June 2016.

(iv) Following debit/credit advices dated 30 June 2016 were received from the bank on 5 July 2016:
- Bank charges amounting to Rs. 7,850. It has been noted that the bank had overcharged EG by Rs. 1,250.
- Dividend collected by the bank amounting to Rs. 50,000.
- Payment on EG’s standing instruction of an annual subscription for a magazine amounting to Rs. 12,000.

**Required:**
(a) Post relevant transactions to bank book of EG to arrive at the correct bank balance as at 30 June 2016.  
(b) Prepare a bank reconciliation statement for the month of June 2016 to arrive at the adjusted bank balance as per EG's books.

(THE END)