Introduction to Accounting

Instructions to examinees:
(i) Answer all EIGHT questions.
(ii) Answer in **black pen** only.
(iii) Multiple Choice Questions must be answered in answer script only.

Q.1 Following table depicts the effects of certain transactions of Zaviya Traders in accounting equation form:

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Debtors</th>
<th>Inventory</th>
<th>Equipment</th>
<th>Liabilities</th>
<th>Owner’s equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>−55,000</td>
<td></td>
<td></td>
<td>+115,000</td>
<td></td>
<td>+60,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>+24,000</td>
<td>−25,000</td>
<td></td>
<td></td>
<td></td>
<td>−1,000</td>
</tr>
<tr>
<td>(iii)</td>
<td>+15,000</td>
<td></td>
<td>−43,000</td>
<td></td>
<td>−28,000</td>
<td>−25,000</td>
</tr>
<tr>
<td>(iv)</td>
<td></td>
<td></td>
<td></td>
<td>−25,000</td>
<td></td>
<td>+30,000</td>
</tr>
<tr>
<td>(v)</td>
<td>+150,000</td>
<td></td>
<td>−120,000</td>
<td></td>
<td></td>
<td>−13,000</td>
</tr>
<tr>
<td>(vi)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+13,000</td>
</tr>
<tr>
<td>(vii)</td>
<td>−12,000</td>
<td></td>
<td>−18,000</td>
<td></td>
<td></td>
<td>−30,000</td>
</tr>
</tbody>
</table>

Required:
Give brief narration/description of each of the above transactions.  

Q.2 Shahabnama Store (SS) is engaged in selling medical supplies. SS usually sells at cost plus 40% and uses perpetual inventory method. Accountant of SS is confused in dealing with the following matters related to January 2020:

(i) On 2 January 2020, a supplier voluntarily recalled one of its products due to quality issues. SS refunded Rs. 630,000 and issued credit notes of Rs. 280,000 for products returned by customers during the month. SS returned all the recalled products to the supplier on 30 January 2020 for cash.

(ii) On 7 January 2020, SS signed an agreement with Town Hospital (TH) for supply of its products against TH’s requisitions. It was agreed that SS will give 15% discount to TH. The bill will be raised on monthly basis and will be paid by TH within 10 days. Bill raised on 31 January 2020 amounted to Rs. 5.95 million.

(iii) As a result of month-end stock count, it was noted that products costing:

- Rs. 380,000 were damaged during handling and needs to be scrapped at nil value.
- Rs. 730,000 has been expired and will be replaced by suppliers with identical unexpired products.

Required:
Prepare journal entries in the books of SS to record the above transactions for January 2020.  

*(Narrations are not required)*
Q.3 Hairat Kadah Enterprises (HKE) acquired a showroom on 1 November 2017 at an annual rent of Rs. 2.4 million. The rent is payable quarterly in advance. Under the agreement, the rent increases by 10% each year.

HKE paid the rent on due date with the exception of the following instances:
- 6 months’ rent was paid on 1 May 2019 on the request of the owner of the showroom.
- Rent due from 1 February 2020 till year-end was not paid due to financial difficulties.

HKE’s financial year ends on 30 June each year.

**Required:**
Prepare rent expense account for the years ended 30 June 2018, 2019 and 2020. (06)

Q.4 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

(i) Which of the following statements is correct regarding trial balance?
   (a) Every credit balance represents income
   (b) Return inward has debit balance
   (c) Opening stock as well as closing stock appear in a trial balance
   (d) Trial balance is a book of prime entry (01)

(ii) Which of the following statements is correct?
   (a) Directors of a company are personally liable for any losses of the company
   (b) A sole trader business is owned by shareholders and operated by the proprietor
   (c) Partners are liable for losses in a partnership equally regardless of their profit-sharing ratio
   (d) A company is run by directors on behalf of shareholders (01)

(iii) Interest charged on drawings of partners:
   (a) increases the profit available for appropriation to partners
   (b) decreases the profit available for appropriation to partners
   (c) increases expenses of the partnership business
   (d) decreases expenses of partnership business (01)

(iv) A motor vehicle was purchased for Rs. 1,395,000 on 1 July 2018. It has an estimated useful life of 5 years and a residual value of Rs. 255,000. If the sum of the digits method of depreciation is used, what will be the carrying amount of motor vehicle as at 30 June 2020?
   (a) Rs. 711,000
   (b) Rs. 558,000
   (c) Rs. 456,000
   (d) Rs. 303,000 (02)

(v) During the year 2019, an entity purchased a machine for Rs. 20 million to be used for 6 years. Which of the following would represent residual value of this machine in 2019?
   (a) Rs. 15 million can be currently obtained from disposal of the machine in present condition
   (b) Rs. 4 million can be currently obtained from disposal of a 6 year old similar machine
   (c) Rs. 18 million can be obtained in 2025 from disposal of the machine in present condition
   (d) Rs. 7 million can be obtained in 2025 from disposal of a 6 year old similar machine (01)
(vi) A, B and C are partners in a firm sharing profit or loss in the ratio of 3:3:4. B is entitled to an annual commission of 5% on sales. The sales and net profit earned by the firm during the year are Rs. 12 million and Rs. 3 million respectively. What is C’s share of profit?
(a) Rs. 720,000  (b) Rs. 1,140,000
(c) Rs. 1,560,000  (d) Rs. 960,000

(vii) An entity received electricity bill for the month of June 2020. The bill will be paid on 10 July 2020. The entity’s financial year ends on 30 June. How would the payment be recorded?
(a) Debit electricity expense and credit utilities payable
(b) Debit utilities payable and credit electricity expense
(c) Debit utilities payable and credit cash
(d) Debit electricity expense and credit cash

Section B

On 30 June 2020, cash book of Raja Gidh Enterprises (RGE) reflected a credit balance of Rs. 2,493,030 and bank statement showed an overdraft of Rs. 2,415,000. The trial balance for the year ended 30 June 2020 included a debit balance of Rs. 329,730 in the suspense account. Control accounts are not maintained for debtors and creditors. On scrutinizing the records, following issues were discovered:

(i) Outstanding cheques amounted to Rs. 356,300. This amount does not include:
- two cheques of Rs. 100,000 each issued to a supplier. Second cheque was issued in replacement of first cheque due to incorrect payee name. However, the first cheque was not reversed from cash book.
- a cheque dated 20 April 2020 for Rs. 44,630 issued for repair of a car. The cheque was misplaced by receiver and no recording was made for misplacement of the cheque. The repair charges were paid in cash in June 2020 and debited to suspense account.

(ii) A cheque issued to a supplier amounting to Rs. 405,000 was entered in the books of RGE as Rs. 450,000. However, the bank erroneously recorded the amount as Rs. 504,000.

(iii) On 30 June 2020, RGE made an e-payment of Rs. 72,000 to a supplier to avail 10% discount. As payment was made after office hours, it was not reflected in bank statement as well as in cash book.

(iv) Un-cleared cheques amounted to Rs. 460,000 which included a customer’s cheque of Rs. 36,000 returned by the bank due to signature difference. The cheque was sent to the customer for replacement and received back in July 2020.

(v) Financial charges on bank overdraft amounting to Rs. 7,500 were recorded in the bank statement. However, RGE’s accountant identified an error in the calculation of the financial charges and therefore credited the correct amount of Rs. 5,100 in the cash book and the remaining in the suspense account. The error was corrected by the bank in July 2020.

(vi) Annual rent upto 31 March 2021 was paid by the bank on RGE’s standing instruction amounting to Rs. 120,000. The amount paid has been debited to suspense account.

(vii) A cheque of Rs. 10,000 received from a customer has not been posted to customer’s ledger account.

(viii) Total of return inward journal of Rs. 92,000 was posted to the credit of return outward account.

(ix) The credit side of the bank column of cash book was under casted by Rs. 6,500.
Required:
(a) Compute the corrected cash book balance as on 30 June 2020.  (06)
(b) Prepare bank reconciliation statement as on 30 June 2020.  (06)
(c) Prepare suspense account.  (06)

Q.6 Uljhay Suljhay Brothers (USB) is engaged in trading of Air Compressors. As at 1 July 2020, USB’s three column cash book showed cash and bank balances of Rs. 180,000 and Rs. 400,000 respectively. Following transactions pertain to the month of July 2020:

01-July Sold goods on cash to Earth Traders for Rs. 600,000.
02-July Purchased goods on credit in bulk from Sun & Co. and Moon & Co. for Rs. 285,000 and Rs. 266,000 (net of 5% trade discount) respectively.
05-July Sold goods on credit for Rs. 248,000 and Rs. 198,000 to Mars Super Store and Jupiter Centre respectively.
06-July Sold office equipment having book value of Rs. 50,000 for Rs. 80,000 on cash. The cost of the equipment was Rs. 250,000.
10-July Returned goods costing Rs. 87,000 to Sun & Co.
11-July Purchased office furniture for Rs. 190,000 from Galaxy Enterprises. Rs. 45,000 was paid in cash and the balance would be paid in August 2020.
12-July Earth Traders returned goods for cash amounting to Rs. 100,000.
14-July Purchased goods on credit amounting to Rs. 150,000 and Rs. 120,000 from Venus Enterprises (VE) and Saturn Traders respectively. VE offered 3% discount on payment within 15 days.
16-July Received cheques amounting to Rs. 142,500 and Rs. 114,000 (both net of 5% discount) from Mars Super Store and Pluto & Co. respectively.
20-July Purchased goods for cash from Neptune & Co. for Rs. 190,000 (net of 5% discount).
23-July Returned goods costing Rs. 20,000 to VE and settled the remaining balance through cheque.
25-July Paid loan instalment of Rs. 250,000 including interest of Rs. 55,000 through cheque.
27-July Deposited cash into bank Rs. 100,000.
30-July Paid entertainment expenses amounting to Rs. 50,000 through cheque. This included a bill of Rs. 5,000 pertained to the owner’s personal expenses.

Required:
Record the above transactions in the books of prime entry in a proper format.  (Narrations are not required)  (16)

Q.7 Following information pertain to vehicles of Aab-e-Hayat Merchant (AHM):

<table>
<thead>
<tr>
<th>Vehicles – Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1-Jan-19</td>
</tr>
<tr>
<td>1-Jul-19</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

AHM purchased 5 vehicles on 1 July 2016 at a cost of Rs. 1,500,000 each. One of these vehicles was disposed off on 31 December 2017. Further, 3 vehicles were purchased on 1 January 2018 at a cost of Rs. 1,800,000 each.

Residual value of each vehicle is estimated at 30% of its cost.

Required:
Prepare accumulated depreciation account of vehicles for the year ended 31 December 2019 under each of the following situations:
(a) AHM depreciates vehicles at 20% per annum using the straight line method.  (08)
(b) AHM depreciates vehicles at 25% per annum using the reducing balance method.  (08)
Q.8 Following is the summarized trial balance of Bajang Aamad Limited (BAL) for the year ended 30 June 2020:

<table>
<thead>
<tr>
<th>Head office building</th>
<th>15,000</th>
<th>1,900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery vehicles</td>
<td>9,350</td>
<td>4,500</td>
</tr>
<tr>
<td>Opening stock</td>
<td>5,500</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>5,255</td>
<td></td>
</tr>
<tr>
<td>Provision for doubtful trade receivables</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Advance</td>
<td>2,160</td>
<td></td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>1,255</td>
<td>8,000</td>
</tr>
<tr>
<td>Share capital (Rs. 10 each)</td>
<td>2,800</td>
<td></td>
</tr>
<tr>
<td>Share premium</td>
<td>6,660</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Long-term loans</td>
<td>2,900</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>39,770</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>26,200</td>
<td></td>
</tr>
<tr>
<td>Operating expenses (excluding depreciation)</td>
<td>3,510</td>
<td></td>
</tr>
<tr>
<td>Sales supplies</td>
<td>840</td>
<td></td>
</tr>
<tr>
<td>Sales offices rent</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td>Finance charges</td>
<td>560</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>71,430</td>
<td>71,430</td>
</tr>
</tbody>
</table>

**Additional information:**

(i) Cost of closing stock was Rs. 7,400,000, of which goods costing Rs. 500,000 were slightly damaged and can be sold for Rs. 600,000 after incurring repacking cost of Rs. 160,000.

(ii) 60% of the sales offices rent represents payment of annual rent up to 30 September 2020.

(iii) Advance from a customer amounting to Rs. 475,000 (net of 5% discount) has been included in sales. Goods will be delivered to the customer after year-end.

(iv) Advance represents 60% payment made on 1 February 2020 for the purchase of a delivery vehicle. Remaining balance would be paid in September 2020. No entry was made when the vehicle was delivered on 1 April 2020.

(v) Delivery vehicles’ cost includes an amount of Rs. 150,000 paid in June 2020 for repainting of an old delivery vehicle. However, due to heavy workload, vehicle was not painted till year-end.

(vi) BAL depreciates building at 4% using straight line method while delivery vehicles are depreciated at 15% using reducing balance method. 30% of cost of the building represents land.

(vii) A specific provision at 75% is to be made against Asad Baker’s balance of Rs. 380,000. A general provision for doubtful receivables is maintained at 4% of the remaining trade receivables.

(viii) Unused sales supplies at year-end amounted to Rs. 320,000.

(ix) The amount of operating expenses (excluding depreciation) is to be allocated into selling and administration expenses in the ratio of 60:40 respectively.

**Required:**

(a) Prepare statement of profit or loss for the year ended 30 June 2020.

(b) Prepare statement of financial position as at 30 June 2020.