INTRODUCTION TO FINANCIAL ACCOUNTING
Suggested Answers
Foundation Examinations – Autumn 2012

Amount in Rupees

A.1

Trading and Profit and Loss Account

Opening stock	552,000	Sales	
Purchases (288,000+5,053,000)	5,341,000	125% of (552,000 + 5,341,000 - 670,000)	6,528,750
Gross profit c/d	1,305,750	Closing stock (Destroyed in fire)	670,000
	7,198,750		7,198,750
Assistant's salary	132,000	Gross profit b/d	1,305,750
Electricity (50,500 + 1,900 - 5,500)	46,900	Scrap sales	35,000
Rent (240,500 + 15,000)	255,500		
Property tax (32,000 +11,500 -15,000)	28,500		
Accounting charges (20,500 + 1,800 – 11,500)	10,800		
Sundry expenses	15,000		
Loss from fire:			
Fixtures (235,000 + 45,000 – 225,000)	55,000		
Stocks (670,000 – 630,000)	40,000		
Provision for bad debt	14,000		
Net profit	743,050		
	1,340,750		1,340,750

Balance Sheet

Debtors (494,000 – 14,000)	480,000	Capital	1,185,000
Receivable from Insurance Co.	855,000	Net profit	743,050
Property tax paid in advance	15,000	Drawings (144,450 + 188,000)	(332,450)
Cash in hand	40,500		1,595,600
Cash at bank	435,800	Creditors:	
		For goods	212,000
		Electricity	1,900
		Accounting charges	1,800
		Rent	15,000
	1,826,300		1,826,300

Creditors

Bank	5,061,000	Opening balance	220,000
Closing balance	212,000	Purchases (Balancing figure)	5,053,000
	5,273,000		5,273,000

Debtors

Opening balance	281,000	Cash (Balancing figure)	6,315,750
Sales	6,528,750	Closing balance	494,000
	6,809,750		6,809,750

Amount in Rupees

Cash and Bank

	Cash	Bank		Cash	Bank
Opening balance	35,000	307,500	Assistant's salary	132,000	
Debtors	6,315,750		Purchases	288,000	
Scrap sales	35,000		Drawings-bal figure	144,450	
Cash		5,780,800	Bank	5,780,800	
			Drawings		188,000
			Sundry expenses		15,000
			Accounting charges		20,500
			Electricity		50,500
			Property tax		32,000
			Rent		240,500
			Creditors		5,061,000
			Fixtures		45,000
			Closing balance	40,500	435,800
	6,385,750	6,088,300		6,385,750	6,088,300

A.2

	.......Rupees in 000........	
Value of physical stock as on 3 July 2012		24,000
Add: Cost of sales between 1st and 3rd July		
(a) Sales during 1-2 July 2012	4,000	
- Goods dispatched on 29 June 2012 but not invoiced	(200)	
- Goods dispatched after stock-taking	(400)	
- Goods on sale or return basis	(200)	
	3,200	
(b) Returns inward/Sales returns	(600)	
	2,600	
Gross profit @ **25%** of above	(650)	1,950
Goods on sale or return basis (200 × 0.75)		150
(c) Purchase invoices received on 1 and 2 July	(1,800)	
- Goods received in June 2012	600	
- Goods received on 7 July	300	
	(900)	
(d) Purchase Returns	400	(500)
Stock at Abbotabad		3,000
Overvaluation of stock		(450)
Value of stock as on 30 June 2012		28,150

A.3 (a)

S. No.	Particulars	Debit (Rs.)	Credit (Rs.)
(i)	Drawings A/c	25,000	
	Trading Account / Purchases		25,000
(ii)	Repairs	3,000	
	Furniture and Fittings	10,000	
	Purchases		11,000
	ABC Furnishings		2,000
	Depreciation	1,000	
	Acc. dep. on furniture		1,000
(iii)	Furniture	8,750	
	Loss on sale of furniture	2,250	
	Purchases		6,000
	Furniture		5,000
	Depreciation (8,750 – 5,000) × 10%	375	
	Acc. dep. on furniture		375
(iv)	Sales	3,000	
	Debtors		3,000
	(Assuming that remaining goods on sale or approval are sold)		
(v)	Goods-in-transit	10,200	
	Trading Account / Purchases		10,200
(vi)	Suspense Account	15,000	
	Accumulated depreciation - computers	58,000	
	Fixed assets		70,000
	Gain on disposal of computers		3,000
	Accumulated depreciation - computers	7,000	
	Depreciation expense		7,000
(vii)	Returns Inward	13,000	
	Creditors	31,000	
	Purchases		13,000
	Debtors		13,000
	Suspense Account		18,000
	(On the assumption that purchase is recorded as Rs. 13,000 and creditor as Rs. 31,000)		
(viii)	Discount Allowed	3,700	
	Discount Received	7,300	
	Suspense Account		11,000

	(ix)	Creditor A/c	12,000	
		Purchases		1,080
		Discount received		1,200
		Suspense Account		9,720

Amount in Rupees

(b) **Recalculation of Profit and Loss**

(ii)	Repair exp	3,000		Unadjusted profit	679,000
(ii)	Dep. on furniture 10% of 10,000	1,000	(i)	Drawings a/c (receipt from ins co.)	25,000
(iii)	Loss on exchange of furniture	2,250	(ii)	Purchases	11,000
(iii)	Depreciation on furniture 10% of (8,750 – 5,000)	375	(iii)	Purchases	6,000
			(v)	Goods-in-transit	10,200
(iv)	Sales	3,000	(vi)	Gain on sale of asset	3,000
(vii)	Return inwards	13,000	(vi)	Depreciation expense	7,000
(viii)	Discount allowed/received	11,000	(vii)	Purchases	13,000
	Adjusted profit for the year	722,855	(ix)	Purchases	1,080
			(ix)	Discount received	1,200
		756,480			756,480

A.4

Amount in Rupees

Vehicles at cost

1/7/2010	Balance b/d	6,800,000	28/02/10	Vehicle disposal account	1,420,000
1/11/2011	Additions	1,680,000	30/06/11	Balance c/d	7,060,000
		8,480,000			8,480,000
1/7/2011	Balance b/d	7,060,000	30/04/12	Vehicle disposal account	1,200,000
1/9/2011	Additions	2,820,000	30/06/12	Balance c/d	8,680,000
		9,880,000			9,880,000

W-1: Vehicles opening balance

Vehicle balance on 1/7/2010 (1,360,000 × 100/20)	6,800,000

W-2 : Cost of addition of Vehicles	**2011**	**2012**
	------------Rupees-----------	
Depreciation for the year	1,236,267	1,424,240
On deletions (1,420,000×0.8×0.2×8/12)	(151,467)	
On deletions (1,200,000×0.8×0.8×0.2×10/12)		(128,000)
On other b/f balances ((6,800,000-1,420,000)×0.8×0.2)	(860,800)	
On other b/f balances ((6,800,000-1,420,000-1,200,000)×0.8×0.8×0.2)		(535,040)
On additions during 2010 ((1,680,000-224,000) × 0.2)		(291,200)
Balance being dep. on additions during the year	224,000	470,000
Cost of vehicle purchased on 1/11/2010 (224,000 × 12/8/0.2)	Rs. 1,680,000	
Cost of vehicle purchased on 1/9/2011 (470,000 × 12/10/0.2)		Rs. 2,820,000

A.5 (a) **User Groups**

- **Management** needs detailed information in order to control their business and plan for the future. Financial results allow the management to compare actual results with its plans (budgets) to assess its performance. Information is also needed about the profitability of individual departments, products and locations etc.

- **Investors** require information to assess risk and the ability of an entity to earn profits and to pay dividends. Principally, they need to decide whether to buy, hold or sell shares.

- **Employees** and their representative groups (e.g. trade unions), require information to assess the ability of an entity to provide remuneration, retirement benefits and employment opportunities.

- **Lenders** are interested in information that enable them to determine whether their loans and interest entitlements will be paid when due.

- **Suppliers** require information which will enable them to assess whether the entity has the ability in the short term to pay amounts owed when they fall due.

- **Customers** are interested in assessing the continuance of an entity where they have a long-term involvement with them and/or are dependent on them for supplies.

- **Government** and their agencies require information for a variety of purposes. These include resource allocation decisions (e.g. government grants), to assess taxable capacity and for regional and national planning purposes.

- **Public** is interested in variety of ways which include employment potential, patronage of local suppliers, and for environment assessment purposes.

(b) **Accrued Income:**

Means income which has been earned but not received at the balance sheet date. It appears as a current asset on the balance sheet.

Unearned Income:

Means amounts received /collected in advance of the period they pertain to. It appears as a current liability on the balance sheet.

A.6 (a) **Cost of stock transferred and disposed of by Shop 2**

	Shop 1	Shop 2	Shop 3
At selling prices	-----Rupees-----		
Opening Stock	2,716,000	3,123,000	2,444,000
Goods sent to branch	32,591,000	37,479,000	29,332,000
Goods sold	(33,332,000)	(37,529,000)	(28,937,000)
Closing stock (selling price)	1,975,000	3,073,000	2,839,000
Actual stock	2,500,000	1,990,000	3,091,000
Inter-shop transfers/disposal of stock	525,000	(1,083,000)	252,000

Stock transfers between shops	525,000	(777,000)	252,000
Stock disposed of at nil value before 30-06-2012		(306,000)	
		(1,083,000)	

At cost (at 0.875)

Stock transfer between shops	459,375	(679,875)	220,500
Stock disposed of at nil value before 30-06-2012		(267,750)	-
		(947,625)	-

(b) **Shops trading accounts**

	Shop 1	Shop 2	Shop 3
	-----Rupees-----		
Sales	33,332,000	37,529,000	28,937,000
Cost of sales :			
Opening stock	2,376,500	2,732,625	2,138,500
Goods received from HO	28,517,125	32,794,125	25,665,500
Inter Branch Transfers	459,375	(679,875)	220,500
	31,353,000	34,846,875	28,024,500
Closing stock	(2,187,500)	W-1 (1,552,875)	(2,704,625)
Loss due to flood damages	-	W-2 (456,125)	-
Cost of Sales	29,165,500	32,837,875	25,319,875
Gross profit	4,166,500	4,691,125	3,617,125

W-1: Closing Stock – Shop 2	
Cost of good stock (1,990,000 – 685,000) × 0.875	1,141,875
Damaged stock at lower of cost and NRV (Cost 685,000 × 0.875) : (NRV 60% of 685,000)	411,000
Cost of total stock	1,552,875

W-2: Flood damage – Shop 2	
Cost of damaged stock disposed of at no value (0.875 × 306,000)	267,750
Loss on valuation of damaged stock at NRV [(0.875 × 685,000) – 411,000]	188,375
	456,125

(THE END)