M G T 1 0 1 L o n g Q u e s t i o n s

Question No: 56 (Marks: 5)

Write down the five advantages of Limited Company.

Answer

It is a legal entity created by law and hence has its own recognition, good will and brand equity etc.
It is a wide form of business and hence a formal approach for various partners/investors to come and work for the same objectives in an organized form.
Liability limited to company assets only. Investors/partners do not personally liable for any loss or in state of bankrupty.
Being a legal entity, easy to get loans or gather funds from public (for public limited companies only) or financial institutes.
Being a legal entity, it can enjoy more opportunities for mega projects and trade/operations opportunities in international markets on its on behalf.

Question No: 57 (Marks: 5)

ABC Company purchased goods of Rs.150,000 on credit from which goods of Rs.20,000 were defected and returned. Company received 2% discount at the time of payment from the supplier.

Required:

What will be the amount of discount received by the company?
Also show the journal entries

Solution:

(A)
Discount Received= (150,000-20,000) x (2/100) = 2600

(B)

	Particulars	Dr.	Cr.
Entry for Purchase			
	Goods	150,000	
	A/P		150,000
Entry for Return			
	A/P	20,000	
	Goods		20,000
While making Payment (@ 2% discount = 2600)			
	A/P	130,000	
	Discount income		2,600
	Cash		127,400

Question No: 58 (Marks: 10)

State clearly how you will deal with Bad Debts Account, Provision for Bad Debts Account, Profit & Loss account and Balance Sheet in the following case:

The items appearing in the trial balance are bad debts Rs. 300, provision for bad debts Rs. 350 and sundry debtors Rs. 12,000. It is required to increase the provision for bad debts to 5% on sundry debtors.

Question No: 59 (Marks: 10)

The unadjusted and adjusted trial balances for Tinker Corporation on December 31, 2007, are shown below:

Tinker Corporation
Trial Balances
December 31, 2007

	Unadjusted		Adjusted	
	Debit Rs.	Credit Rs.	Debit Rs.	Credit Rs.
Cash	35,200		35,200	
Accounts receivable	29,120		29,120	
Unexpired insurance	1,200		600	
Prepaid rent	5,400		5,400	
Office supplies	680		380	
Equipment	60,000		60,000	
Accumulated depreciation: equipment		49,000		50,000
Accounts payable		900		900
Notes payable		5,000		5,000
Interest payable		200		200
Salaries payable		-		2,100
Income taxes payable		1,570		1,570
Unearned revenue		6,800		3,800
Capital stock		25,000		25,000
Retained earnings		30,000		30,000
Fees earned		91,530		94,530
Advertising expense	1,500		1,500	
Insurance expense	6,600		7,200	
Rent expense	19,800		19,800	
Office supplies expense	1,200		1,500	
Repairs expense	4,800		4,800	
Depreciation expense: equipment	11,000		12,000	
Salaries expense	26,300		28,400	
Interest expense	200		200	
Income taxes expense	7,000		7,000	
	210,000	**210,000**	**213,100**	**213,100**

Journalize the five adjusting entries that the company made on December 31, 2007.

Solution:

Date	Particular	Dr.	Cr.
Dec 31	Insurance expense	600	
	to Unexpired insurance		600
Dec 31	Office Supplies Expense	300	

	to Office Supplies		300
Dec 31	Depreciation Expense-Equip.	1000	
	to Accumulated depreciation-Equip.		1000
Dec 31	Salaries Expense	2100	
	to Salaries Payable		2100
Dec 31	Unearned revenue	3000	
	to Fee Earned		3000

Question No: 55 (Marks: 3)

If the capitals of the partners are fixed, Pass Journal Entries for the following:

Drawings made by partner
Excess drawn amount is returned by partner
Profit distribution among partner

Partner's Current A/c Dr.
Cash/Bank A/c Cr.

Cash/Bank Dr.
Partner's Current A/c Cr.

Profit & Loss A/c Dr.
Partner's Current A/c Cr.

Question No: 56 (Marks: 5)

ABC Company purchased goods of Rs.150,000 on credit from which goods of Rs.20,000 were defected and returned. Company received 2% discount at the time of payment from the supplier.

Required:
What will be the amount of discount received by the company?
Also show the journal entries

Purchases A/c 150,000
Creditor A/c 150,000
Goods are being purchased

Creditor A/c 20,000
Purchases A/c 20,000
Goods returned to supplier
Creditor A/c 130,000
Discount Received A/c 2600
Cash/Bank A/c 127400
Payment is being made to creditor and 2% discount is received.

Question No: 58 (Marks: 10)

On 01-01-2007, the provision for doubtful debts a/c stood at Rs. 12,000 (credit balance). In 2007, the bad debts are amounted to Rs. 10,000. The debtors on 31-12-2007 are amounted to Rs. 3, 20,000 and a provision for doubtful debt to be maintained @ 5%.

Required:
Show Journal entries and also show how the items will appear in Profit and Loss account and Balance sheet. (Show complete working where it is necessary)

Question No: 59 (Marks: 10)

The accounting staff of ABC, Inc., has assembled the following information for the year ended December 31, 2007:

Cash and cash equivalents, Jan. 1	Rs.35,800
Cash and cash equivalents, Dec. 31	74,800
Cash paid to acquire plant assets	21,000
Proceeds from short-term borrowings	10,000
Loan made to borrowers	5,000
Collection on loans (excluding interest)	4,000
Interest and dividends received	27,000
Cash received from customers	795,000
Proceeds from sale of plant assets	9,000
Dividends paid	55,000
Cash paid to suppliers and employees	635,000
Interest paid	19,000
Income taxes paid	71,000

Using this information, prepare a statement of cash flows. Include a proper heading for the financial statement, and classify the given information into the categories of operating, investing and financing activities.

Question No: 55 (Marks: 3)

Mr. Hassan is a partner in a partnership firm. His capital on July 1, 2001 was Rs. 400,000. He invested further capital of Rs. 150,000 on March 01, 2002. Markup rate is @6%p.a. The financial year of such a business is from 1st July to 30th June.

Required: You are required to calculate his markup on Capital at the end of 30th June 2002.

a) Capital invested on july 1 2001 = 400,000
Markup rate on 400,000 = 6% of 40,000 = 24,000

b) Further capital introduced / invested = 150000 on March 1, 2002
Markup rate = 6% of 150000 = 9000 x 4/12 = 3000

Total mark up rate = a + b = 24000 + 3000 = 27000

Question No: 57 (Marks: 5)

X and Y were partners in a business sharing profits in the ratio of 3:1. Their capital were Rs.30,000 and Rs.10,000 respectively. They earned a net profit of Rs. 160,000. Mr. Y was entitled to a salary of Rs.200 p.m. Prepare Profit Distribution Account of X & Y Partnership.

X AND Y ARE SHARED WITH the ratio 3:1
X capital = 30000
Y capital = 10000
Net profit = 160,000
Mr. Y salary is = 200 p.m entitled
Total investment = X + Y capital = 30000 +10000 = 40000

X profit distribution = 30,000/40000 x 160000 = 120,000
Y profit distrubtion = 10,000/40000 x 160000 x 40000 = 40000

Question No: 56 (Marks: 5)

Calculate cost of goods sold with he help of given data.

Particulars	**Rs.**
Purchases	418,000
Carriage inwards	7,900
Discount Allowed	750
debtors	16,000
Sales man commission	2,000
Office expenses	2,000
Carriage outwards	1,700
Salaries	13,000
Direct labor	3,825
FOH	2,100
Plant & Machinery	53,000
Buildings	35,000
Tools	8,650

Helping data:

Plant & Machinery depreciate @ 10% and charged to FOH
Buildings depreciate @ 5% and 40% charged to Administrative expenses and balance to FOH
40% of salaries will be charge to office and balance to Selling expenses

Question No: 59 (Marks: 10)

The following is the trial balance of Sikander's Photo Studio, Inc., dated December 31, 2007. The net income for the period is **Rs.36,000**. You are required to prepare Balance Sheet as on December 31, 2007.
Sikander's Photo Studio, Inc.
Trial balance
December 31, 2007

Cash	Rs.171,100	
Accounts receivable	9,400	
Prepaid studio rent	3,000	
Unexpired insurance	7,200	
Supplies	500	
Equipment	18,000	
Accumulated depreciation: equipment		Rs.7,200
Notes payable		10,000
Accounts payable		3,200
Salaries payable		4,000
Income tax payable		6,000
Unearned revenue		8,800
Capital stock		100,000
Retained earnings		34,000
Revenue earned		165,000
Salary expense	85,000	
Supply expense	3,900	
Rent expense	12,000	
Insurance expense	1,900	
Advertising expense	500	
Depreciation expense: equipment	1,800	
Interest expense	900	
Income taxes expense	23,000	
	338,200	**338,200**

Question No: 54 (Marks: 10)

What is the difference between public and private company?

Answer:

Private Limited Company

Number of members in a private limited company varies from 2 to 50.
Any 2 members can subscribe their names in memorandum and articles of association along with other requirements of the companies' ordinance 1984. They can also apply to security exchange commission for company's registration.
The shareholders of the private limited company elect two members of the company as Directors. These directors form a board of directors to run the affairs of the company.
The head of board of directors is called chief executive.
Private limited company can not offer its shares to general public.
In case a investor decides to sell his/her/her shares, his/her shares are first offered to existing shareholders. If all existing shareholders decide not to buy these shares, then an outsider investor can buy.
Words and digression "(Private) Limited" are added at the end of the name of a private limited company.

Public Limited Company

Least number of members in a public limited company is **7** with no upper limit in number of members.
Any 7members can subscribe their names in memorandum and articles of association along with other requirements of the companies' ordinance 1984. They can also apply to security exchange commission for company's registration.
The shareholders of the public limited company elect seven members of the company as Directors and these directors form a board of directors to run the daily affairs.
The head of board of directors is called Chief Executive.
Public limited company can offer its shares to general public at large.
Word "Limited" is added at the end of the name of a public limited company.
Each subscriber of the memorandum shall write opposite to his name, the number of shares held by him/her.

On top of that there are two types of public limited company:
Listed Company
Non Listed Company

LISTED COMPANY

Listed company is the one whose shares are quoted and traded on stock exchange. It is also called quoted company.

NON LISTED COMPANY

Non listed company is the one whose shares are not quoted or traded.

Question No: 52 (Marks: 10)

The following Trial Balance was extracted from the books of Naeem & Sons on 31st December, 2007. From this you are required to prepare an Income Statement for the year ended on 31st December, 2007,

Particulars	Debit Rs.	Credit Rs.
Cash	5,000	
Accounts Receivable	9,000	
Merchandise Inventory on 1.1.2007	6,000	
Plant and Machinery	24,000	
Land and Building	82,000	
Furniture and Fixtures	2,600	
Capital		136,000
Accounts Payable		3800
Purchases	60,000	
Purchases returns and allowances		2,800
Sales		70,000
Sales returns and allowances	4,600	
Insurance Prepaid	3,400	
Advertisement expenses	4,000	
Salaries expenses	12,000	
Total	**212,600**	**212,600**

ADDITIONAL INFORMATION:

Prepaid insurance on 31st December, 2007 is Rs. 1,400
Outstanding salaries Rs. 1,000
Depreciation on Plant and Machinery @ 10% p.a.
Merchandise inventory on 31st December, 2007 was valued at Rs. 6,000

Answer:

Trading Account for the year ending 31.12.2007						
Opening stock		**6000**		**Sales**	**70000**	
				Less : Sales Return	**4600**	
Purchase	**60000**					**65400**
Less Return	**2800**					
		57200				
				Closing Stock		**6000**
Gross Profit			**8200**			
			71400			**71400**
Profit & Loss Account for the year ending 31.12.2007						
Advertisement Exp		**4000**		**Gross Profit**		**8200**
	-					
Salaries	**12000**					
Add: Outstanding	**1000**					
		13000				
Depreciation						
Plant & Mach		**2400**				
Insurance	**3400**					
	1400					
		2000				
				Net Loss		**13200**
		19400				**21400**

Balance Sheet as on 31.12.2007

Accouts Receivable		**9000**	**Capital**	**136000**	
			Less :Net Loss	**13200**	
Cash		**5000**			**122800**
Plant & Mach	**24000**		**Accounts Payable**		**3800**
Less: Depr	**2400**				
		21600	**Outstanding salaries**		**1000**
Land & Building		**82000**			
Furniture		**2600**			
Prepaid Insurance		**1400**			
Closing Stock		**6000**			
		127600			**127600**

Question No: 53 (Marks: 10)

Prepare Profit and Loss Account for the year ending 31st December 2007 from the Trial Balance and adjustments of MS Company given below:

Particulars	Debit Rs.	Credit Rs.
Drawings	14,000	
Capital Account		80,000
Opening Stock	55,000	
Purchases	485,000	
Sales		610,000
Sundry Debtors	80,000	
Sundry Creditors		60,500
Sales Returns	5,000	
Carriage Inwards	6,000	
Salaries	28,000	
Rent, Rates, Taxes	15,000	
Insurance	4,000	
Machinery	50,000	
Furniture	5,000	
Cash in hand	3,500	
Total	**750,500**	**750,500**

Adjustments:

Depreciate machinery and furniture @20%p.a.
Outstanding Salaries Rs. 2,000
Insurance paid in advance Rs. 500
Maintain @5% reserve for doubtful debts on debtors.
Closing Stock was valued at Rs. 60,000

Answer:

Trading Account for the year ending 31.12.2007						
Opening stock		**55000**		**Sales**	**610000**	
				Less : Sales Return	**5000**	
Purchase		**485000**				**605000**
Caririage Inward		**6000**		**Closing Stock**		**60000**
Gross Profit		**119000**				
		665000				**665000**
Profit & Loss Account for the year ending 31.12.2007						
Salaries	**28000**			**Gross Profit**		**119000**
Add: Outstanding	**2000**					
		30000				
Rent, Rates, Taxes		**15000**				
Insurance	**4000**					
Less :Advance	**500**					
		3500				
Depreciation						
Machinery	**10000**					
Furniture	**1000**					
		11000				
Provision on Doubtful Debts		**4000**				
Net Profit		**55500**				
		119000				**119000**

NOTE: PLEASE CONSIDER ALL ENTRIES ON LEFT SIDE AS ON RIGHT HAND SIDE AND VICE VERSA. JUST SHOWN BY MISTAKE. I HOPE YOU CONSIDER MY REQUEST DUE TO SHORATGE OF TIME.

Question No: 51 (Marks: 5)

With the help of given data prepare Capital account of a sole trader and calculate closing balance of capital.

	Rs.
Balance b/f	550,000
Drawings	50,000
Profit & Loss (debit balance)	45,000

CAPITAL ACCOUNT			
DEBIT SIDE		CREDIT SIDE	
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
Profit and loss	45000	Balance b/f	550,000
Drawings	50,000		
Balance c/f	**455,000**		
TOTAL	550,000	TOTAL	550,000

Question No: 52 (Marks: 10)

Briefly explain the financial statements prepared by the organization. Why these are important for manufacturing concern?

ANSWER: The financial statements prepared by any organization are as follows:
Profit and loss account: It shows the performance of the business in a given period. It shows the profitability of business which shows the success or failure of the business.
Balance sheet: Balance sheet shows the position of business at a given point. It shows the resources available by the business and the resources invested by the owner and other loans.
Cash flow statements: Cash flow statements show the generation of cash and its usage over a given period.
IMPORTANCE OF FINANCIAL STATEMENTS FOR MANUFACTURING CONCERN: These financial statements are important for manufacturing concern organization as they provide information related to financial affairs of the organization. The profitability and liquidity, the resources available to the company and the generation of cash and its usage over a given period which provides reasonable information to the management to take decisions.

Question No: 53 (Marks: 10)

The comparative financial statement data for XYZ Company is given below:

	December 31	
Assets:	**2007**	**2006**
	Rs.	**Rs.**
Cash	4,000	7,000
Accounts receivable	36,000	29,000
Inventory	75,000	61,000
Plant and equipment	210,000	180,000
Accumulated depreciation	(40,000)	(30,000)
Total Assets	**285,000**	**247,000**
Liabilities & Stockholder's equity:		
Accounts payable	45,000	39,000
Common stock	90,000	70,000
Retain earnings	150,000	138,000
Total liabilities & Stockholder's equity	**285,000**	**247,000**

For 2007, the company reported net income as follows:

XYZ Company
Income Statement
For the year ended 31st December, 2007

	Rs.	
Sales		500,000
Less: Cost of goods sold	300,000	
Gross margin		200,000
Less Operating expenses	180,000	
Net Income		20,000

Required:
Prepare a Statement of Cash Flows if dividend of Rs. 8,000 was declared and paid during the year 2007. There were no sales of plant and equipment during the year.

ANSWER:

Starting balance:	
Net income	**20,000**
Add: adjustment for non cash items	
Depreciation	38,000
Operating profit before working capital changes**:**	**58,000**
Working capital changes:	
Add: cash	3,000
Less: accounts receivable	(7,000)
Add: accounts payable	7,000
Cash generated from operations	**61,000**
Cash flow from investing activities	
Cash flow from financing activities:	
Common Stock	20,000
Net decrease in cash	3,000
Net cash flow	**78,000**

Question No: 41 (Marks: 10)

Calculate depreciation of the asset for five years by using written down value method. Also show accumulated depreciation.

Cost of the asset	Rs. 1,20,000
Depreciation Rate	10%
Expected Life	5 years

ANSWER

YR	**Written down value method**	**RS**	**Accumulated depreciation**
1	cost	120,000	
	Depreciation @ 10%... 10%*120,000	12,000	12,000
	WDV… 120,000-12,000	108,000	
2	Dep @ 10%... 10%*108000	10,800	22800
	WDV= 108,000-10,800	97,200	
3	Dep @ 10%... 10%*97,200	9,720	32520
	WDV= 97,200-9,720	87,480	
4	Dep @ 10%...10%*87,480	8,748	41,268
	WDV=87,480-8,748	78,732	
5	Dep @ 10%...10%*78,732	7873.2	49,141.2
	WDV=78,732-7873.2	70858.8	

Question No: 51 (Marks: 5)

Following information is extracted from the books of Abrar Ltd as on December 31st, 2007.

Particulars	Rs
Carriage inwards	8,000
Legal charges	6,500
Financial charges	223,500
Tax payable	30,000
Advances from customer	10,000
General reserve	40,000
Accumulated profit brought forward(credit balance)	95,000
Long term loans	1,00,000

Additional information

The authorized capital is Rs. 50, 00,000 divided into 500,000 shares of Rs. 10 each. Issued and paid up capital 2, 500,000.

You are required to prepare calculate Share holders equity

Share holder equity will have Authorized capital, Paid up capital, General Reserves & Accumulated profit brought forward

Authorized capital = Rs. 50,00,000 divided into 500,000 shares of Rs. 10 each
Issued and paid up capital 2,500,000
General Reserve 40,000
Accumulated profit brought forward (Credit balance) 95,000

Question No: 52 (Marks: 10)

Write down the at least ten distinguishing features of a limited company which differentiate it from sole proprietor business

The basic difference between a partnership and a limited company is the concept of limited liability.

If a partnership business runs into losses and is unable to pay it's liabilities, its partners will have to pay the liabilities from their own wealth.
In case of limited company the shareholders don't lose anything more than the amount of capital they have contributed in the company. It points that personal wealth is not at stake and their liability is limited to the amount of share capital they have contributed.
The concept of limited company is to mobilize the resources of a large number of people for a project, which they would not be able to afford independently and then get it managed by experts.
Listed Company have more than twenty partners, so problem of extra capital is reduced to minimum.
The liabilities of the members of a company is limited to the extent of capital invested by them in the company
There are certain tax benefits to the company, which a partnership firm can not enjoy
In Pakistan, affairs of limited companies are controlled by "Companies Ordinance" issued in 1984
The formation of a company and other matters related to companies are governed by "Securities and Exchange Commission of Pakistan (SECP)

Question No: 53 (Marks: 10)

The following Trail balance is taken out from the books of Rahman & Sons as on 31st December, 2008.

	Dr.	Cr.
	Rs.	Rs.
Sales		204,000
Capital		120,000
Bank overdraft		103,560
Sundry Creditors		120,000
Opening Stock	60,400	
Purchases	231,600	
Sundry Debtors	109,660	
Returns Inwards	3,640	
General Expenses	6,980	
Plant	22,620	
Wages & Salaries	16,740	
Building	50,000	
Cash in Hand	680	
Cash at bank	8,720	
Drawings	16,960	
Motive Power	2,300	
Dock &clearing Charges	1,300	
Coal, Gas, Water	1,700	
Salaries	9,820	
Interest on O/D	4,440	
Rent rates Taxes	1,400	
Discount Allowed	2,000	
Interest received		3,400
	550,960	**550,960**

Requirement:

Prepare The Trading and Profit & Loss account of the business for the year ended. Closing Stock is valued at Rs.40, 000.

Question No: 52 (Marks: 10)

Write a note on legal documents required for the formation of company.

In Pakistan when someone wants to form a company. He will contact with SECP, its abbreviation for Securities and Exchange Commission of Pakistan. it came in 1984 in law of Pakistan which is called companies ordinance. It controls all affairs of limited companies. For making of private limited company 2 members can submit their names in memorandum and articles of association along with other requirements of company ordinance 1984. while for public limited company seven members will sent their names. By this way they can apply and make registration of the company.

Question No: 54 (Marks: 10)

Pass the rectifying entries to correct the following errors:

Mr. "Ali" purchased goods of Rs. 1,500 on cash, but omitted to enter in the books of accounts.
An amount of Rs. 5,000 received from Mr. Amir, was credited to the account of Mr. Ameer.
Goods returned worth Rs. 500 to Mr. "B" wrongly debited to sales Account.
A purchase of goods from Mr. "B" of Rs. 400 has been wrongly debited to Furniture Account.
Furniture purchased on cash Rs. 8,000 posted as purchases.

Rectification of Errors

Error 1.
A purchase of goods of Rs. 1,500 on cash was omitted by mistake

Rectification Entry on the date of discovery:

Debit:	**Purchase Account**	**1,500**	
Credit:	**Cash Account**		**1,500**

Error 2

Debit:	**Mr. Amir**	**5,000**	
Credit:	**Mr. Ameer**		**5,000**

Debit:	**Mr. Amir**	**5,000**	
Credit:	**Mr. Ameer**		**5,000**

Error 3 Goods returned worth Rs. 500 to Mr. "B" wrongly debited to sales Account.

Debit:	**Mr. B Account**	**Rs. 500**	
Credit:	**Sales Account**		**Rs. 500**

Error 4 A purchase of goods from Mr. "B" of Rs. 400 has been wrongly debited to Furniture Account.

Debit:	Mr. B Account	Rs. 400	
Credit	Furniture Account		Rs. 400

Error 5 Furniture purchased on cash Rs. 8,000 posted as purchases.

Debit	**Furniture Account**	**Rs. 8,000**
Credit	**Purchase Post Account**	

Question No: 51 (Marks: 5)

Financial year decided by partnership agreement is 1st July to 30th June. Mr. Ali is partner and having a capital of Rs. 1,500,000 on July 1st 2007 and he introduced more capital on August 1st 2007 Rs. 10,000 on April 1st 2008, Rs.500,000 and on June 1st 2008 , Rs. 5,000. Mark up rate is 10% p.a.

Capital = 1500000 mark up= 1500000
2nd capital= 10000 markup= 1000
3rd capital= 500000 markup= 50000
4th capital= 5000 markup= 500

Total markup= Rs. 201500

Calculate mark up on Mr. Ali's capital for the year ending on 31th June 2008.

Question No: 53 (Marks: 10)

What is the difference between public and private company?

The main difference between public and private company is that in public limited companies there is no restriction on number of persons to be its members. There is one restriction. That there should be a minimum of three members to form a public limited company. Public limited company can offer its shares to general public.

While in private company two to fifty persons can form a company. Minimum two members are elected to form a board of directors. This board is given the responsibility to run day to day business of the company. Private limited company cannot offer its share to general public.

Question No: 54 (Marks: 10)

The following discrepancies were noted on comparing Cash Book with Pass Book.
Balance as per Cash Book (Cr) is Rs. 19,000.
Cheque for Rs. 5,000 paid into the bank for collection on 20th March, 2008 has not yet been collected.
Cheques for Rs. 15,000 Issued on 24th March, 2008, out of which Cheques for Rs. 10,000 presented during March, 2008
An amount of Rs. 1,000 for interest on overdraft was debited in the Pass Book but was intimated to Mr. David on 4th April, 2008.
Mr. David paid into his bank account an amount of Rs. 3,000 but it was wrongly credited to Mr. Denial's Account.
On 20th March, 2008 the bank received dividend of Rs. 10,000 from a company where Mr. David's has invested his money, the same had been recorded in Cash Book on 31st March, 2008.
Cheque of Rs. 2,500 was shown in Pass Book as dishonored.

Required: Prepare a Bank Reconciliation Statement as on 31st March, 2008

Balance as per Cash Book Cr 19000
Unpresented cheques Dr 5000
Uncredited cheque Dr 10000
Interest by bank Dr. 1000

Question No: 41 (Marks: 10)

Record the following transactions in the General Journal.

Date:	Transactions
Jan 1, 2007	Mr. Asghar started business with cash Rs. 1, 00,000.
Jan 2, 2007	Opened bank account with amount Rs. 50,000.
Jan 4, 2007	Purchased goods for cash Rs. 15,000.
Jan 9, 2007	Payment made to Karachi store (Creditor) Rs. 15,000 by cheque.
Jan14, 2007	Goods returned to Karachi store worth Rs. 1,500.
Jan22, 2007	Goods sold for cash Rs. 2,000.

DR
Bank account 50,000
Purchased goods for cash Rs. 15,000
Payment made to Karachi store (Creditor) Rs. 15,000 by cheque
Goods returned to Karachi store worth Rs. 1,500
Credit balance 20500

Cr
Mr. Asghar started business with cash Rs. 1, 00,000
Goods sold for cash Rs. 2,000.

Question No: 41 (Marks: 10)

Prepare Cash and Capital Accounts with the help of given Journal entries.

journal			
Date	**Particulars**	**(Dr.)**	**(Cr.)**
		Rs.	Rs.
2008 jan1	Cash account	50,000	
	Capital account		50,000
	(owner invested cash)		
jan.2	Furniture account	10,000	
	Cash account		10,000
	(purchased furniture for cash)		
Jan.3	Purchases account	30,000	
	Cash account		30,000
	(goods purchased for cash)		
Jan.5	Cash account	40,000	
	Sales account		40,000
	(sold goods for cash)		
Jan. 6	Salaries account	5,000	
	Cash account		5,000
	(Salaried paid)		

CASH A/C (IN STATEMENT FORM)

Date	V. No	Detail	Ref	Debit	Credit	Balance
01/01/08		CAPITAL A/C		50000	0	50000 DR
02/01/08		FURNITURE A/C		0	10000	40000 DR
03/01/08		PURCHASES A/C		0	30000	10000 DR
05/01/08		SALES A/C		40000	0	50000 DR
06/01/08		SALARIES A/C		0	5000	45000 DR
		TOTAL		90000	45000	45000 DR

Question No: 51 (Marks: 5)

What is the Purpose of Control Accounts?

A business needs to have accounts created for individual creditors and debtors in its general ledger. Creditors are people/entity to whom company owes money and debtors are entities/people who owe money to the business. But when a business grows then the number of creditors and debtors also grows. We know that trial balance can give us the mathematical accuracy of accounts and if there is any difference in trial balance we can know it from the general ledger by actually checking each and every transaction for the year. But it is a very time consuming job to check each and every transaction if the business of the company is huge because it will have many many transaction to check. So in this control accounts are maintained in general one for total creditors and one for total debtors. Debtor's account is called debtor's control account and creditor's account is called creditor's control account. These accounts will not get hit by individual purchase, purchase returns, payments to creditor in case of creditor's control account and by sales, sales return, receipts in case of debtor's control account. Periodically this summarized data will be posted from individual ledgers which will be created for each type of transaction e.g a sales subsidiary ledger, purchase subsidiary ledger etc which will contain actual details of transactions with invoice number and periodically the amounts will be summarized from these subsidiary ledgers and posted to the control accounts at a single time. This way the transactions in general ledger will decrease and will become easy to manage and can be easily checked against creditor's or debtor's details in total creditor's ledger and total debtor's ledger for accuracy.

Question No: 52 (Marks: 10)

What is the effect of given adjustments on Trading & Profit & Loss account and Balance Sheet?

Accrued Expenses or Outstanding Expenses
Prepaid Expenses or Unexpired Expenses
Accrued Revenue or Revenue Receivable
Unearned Revenue or Revenue Received in Advance
Depreciation of Asset

Accrued Expenses or Outstanding Expenses

Trading and profit and loss account effect

These expenses will be shown in profit and loss account under administrative expenses and will and be deducted from gross profit. They will be used to calculate net profit

Balance sheet effect

These expenses will be shown as expense payable or accrued expenses in balance sheet as current liabilities and will be shown under current liabilities section of liabilities as they have to be paid by business..

Prepaid Expenses or Unexpired Expenses

Trading and profit and loss account effect

These will be deducted from relevant expense account to get the actual expenses for the period and that actual amount of expense will be deducted from gross profit to arrive at net profit. This amount of prepaid expenses will not be included in profit and loss account as an expense itself but its effect will be on current expenses for the period for which profit and loss is being calculated.

Balance sheet effect

These prepaid expenses will be show and current assets in balance sheet and will be shown under the section of current assets in balance sheet.

Accrued Revenue or Revenue Receivable

Trading and profit and loss account effect

These will be added to sales in trading account in profit and loss statement and will be treated as a revenue in the calculation of gross profit by subtracting cost of goods sold from net sales. This will affect gross profit in trading account.

Balance sheet effect

In balance sheet this revenue will be shown under current assets as receivables from debtors and will be shown under the section of current assets of the business.

Unearned Revenue or Revenue Received in Advance

Trading and profit and loss account effect

This will not be added to the sales as sales is recognized when the actual services have been provided or when goods have been shipped irrespective of whether payment has been received or not. So this will not affect profit and loss account as it is still not recognized as sales/revenue.

Balance sheet effect

This is a liability for the company because the company has to give goods or services to the buyer for the advance payment done by the buyer and will be shown as a liability in the balance sheet under the current liability section of balance sheet. Also the same amount will be shown in the bank or cash as current asset to offset the liability because the cash or cheque has been received for goods not given or services not rendered yet.

Depreciation of Asset

Trading and profit and loss account effect

The depreciation of asset is an operating expense for the business and will affect profit and loss account. It will be added to the administrative expense and will be appear in the administrative expense section of profit and loss account and will be deducted from gross profits to arrive at net profits along with other expenses.

Balance sheet effect

In balance sheet it will appear as deduction from the fixed asset as the fixed assets in balance sheet will be shown at written down value. So this will be added to previous balance of accumulated depreciation and will be deducted from the total cost of the fixed assets and will appear in the assets section under the heading of fixed asset. It might appear in notes as sometimes in balance sheet summarized figure of fixed asset at WDV will be shown. In any case it is deducted from fixed asset in balance sheet and affects the total assets side