THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA DECEMBER, 2016 EXAMINATION
FOUNDATION LEVEL
SUBJECT: 001. PRINCIPLES OF ACCOUNTING.

Model Solution

Solution to the Q. No. 1:

Adjusting Entries

(i)

		Debit	Credit
31 – Aug.	Insurance Exp.	1200	
	Prepaid Insurance (To record insurance expired)		1200
31 – Aug.	Supplies Exp.	2700	
	Supplies (To record supplies used)		2700
31 – Aug.	Dep. Exp. – Cottages	1500	
	Accu. Dep. – Cottage (To record Depreciation expenses for 3 months)		1500
31 – Aug.	Dep. Exp. Furniture	600	
	Accu. Dep. Furniture (To record Depreciation expenses for 3 months)		600
31 – Aug.	Unearned Rent	4100	
	Rent Revenue (To record rent income for the period)		4100
31 – Aug.	Salaries Exp.	400	
	Salaries Payable (To record accrued salaries)		400
31 – Aug.	Accounts Receivable	1000	
	Rent Revenue (To record rent for the period)		1000
31 – Aug.	Interest Exp.	600	
	Interest Payable (To record interest for the period)		600

(ii)

Adjusted Trail Balance
August 31, 2010

	Debit Taka	Credit Taka
Cash …………………………………………………	19,600.00	
Accounts Receivable …………………………………..	1,000.00	
Supplies ……………………………………………...	600.00	
Prepaid Insurance …………………………………...	4,800	
Land …………………………………………………	25,000.00	
Cottages ……………………………………………...	125,000.00	
Accumulated Depreciation – Cottages ………………..		1,500.00
Furniture …………………………………………….	26,000.00	
Accumulated Depreciation – Furniture		600.00
Accounts Payable ………………………………………		6,500.00
Unearned Rent ……………………………………………..		3,300.00
Salaries Payable ……………………………………………		400.00

Interest Payable …………………………………………		600.00
Mortgage Payable ……………………………………….		80,000.00
J. Abedin, Capital ………………………………………		100,000.00
J. Abedin, Drawing ……………………………………..	5,000.00	
Rent Revenue ……………………………………………		85,100.00
Depreciation Expense – Cottages ………………………….	1,500.00	
Depreciation Expense – Furniture ………………………….	600.00	
Repair Expense …………………………………………..	3,600.00	
Supplies Expense ………………………………………	2,700.00	
Interest Expense ………………………………………..	600.00	
Insurance Expense ……………………………………	1,200.00	
Salaries Expense ………………………………………	51,400.00	
Utilities Expense ………………………………………	9,400.00	
	278,000.00	278,000.00

(iii)

Income Statement

For the Three Months Ended August 31, 2010

Revenues		Taka
Rent revenue …………………………….		85,100.00
Expenses		
Salaries expense ……………………….	51,400.00	
Utilities expense ……	9,400.00	
Repair expense …………..	3,600	
Supplies expense ………………….	2,700.00	
Depreciation expense – cottages ….	1,500.00	
Insurance expense …………………..	1,200.00	
Interest expense …………………….	600.00	
Depreciation expense – furniture ……….	600.00	.
Total expenses …………………………….		71,000.00
Net income …………………………………..		14,100.00

Owner's Equity Statement

For the Three Months Ended August 31, 2010

J. Abedin, Capital, June 1 …………………	
Investment by owner	100,000.00
Add: Net income ………………………….	14,100.00
	114,100.00
Less : Drawings …………………………	5,000.00
J. Abedin, Capital, August 31 …………………..	109,100.00

Balance Sheet

August 31, 2010

Assets	Taka
Cash ………………………………….	19,600.00
Accounts receivable ……………………….	1,000.00
Supplies ……………………………………	600.00
Prepaid insurance ……………………………….	4,800.00
Land ……………………………………………	25,000.00

Cottages ……………………………………….	125,000.00	
Less: Accum. Depreciation – cottages …………	1,500.00	123,500.00
Furniture	26,000.00	
Less: Accum. Depreciation – furniture	600.00	25,400.00
Total assets ………………………………		199,900.00
Liabilities and Owner's Equity		
Liabilities		Taka
Accounts payable …………………..		6,500.00
Mortgage payable …………………….		80,000.00
Unearned rent …………………………		3,300.00
Interest payable ………………………..		600.00
Salaries payable ……………………….		400.00
Total liabilities …………………………		90,800.00
Owner's Equity		
J. Abedin, Capital ………………………..		109,100.00
Total liabilities and owner's Equity		**199,900.00**

Solution to the Q. No. 2:

(A) 01.

Purchase price ……	38,000.00
Sales tax …….	1,700.00
Shipping costs …………	150.00
Insurance during shipping …………	80.00
Installation and testing ………………	70.00
Total cost of machinery …………………	40,000.00

Machinery ……….	**40,000.00**		
Cash …………..			**40,000.00**
(A) 02.			
Recorded cost …………			40,000.00
Less: Salvage value …………….			5,000.00
Depreciable cost …………..			35,000.00
Years of useful life ……………		5	
Annual depreciation …………..			**7,000.00**
Depreciation Expense ………..	**7,000.00**		
Accumulated Depreciation …….			**7,000.00**
(B) (1)			
Recorded cost ……………..			160,000.00
Less: Salvage value …………..			10,000.00
Depreciable cost ………			150,000.00
Years of useful life ………….. ÷ 4			
Annual depreciation.			37,500.00

(B) (2)

Book value at Beginning of Year	DDB Rate	Annual Dep. Exp.	Accumulated Dep.
160,000.00	50%*	80,000.00	80,000.00
80,000.00	50%	40,000.00	120,000.00
40,000.00	50%	20,000.00	140,000.00
20,000.00	50%	10,000.00	150,000.00

*(100%/4 Yrs Life = 25%x2=50%)

(B) (3) Depreciation cost per unit = (160000 – 10000)/125000 units = 1.20 per units.

Annual Dep. Expenses:	Units	Taka
2010 1.20 per Unit	45000 =	54,000.00
2011 1.20 per Unit	35000 =	42,000.00
2012 1.20 per Unit	25000 =	30,000.00
2013 1.20 per Unit	20000 =	24,000.00

(C)

The declining-balance method reports the highest amount of depreciation expense the first year while the straight-line method reports the lowest. In the fourth year, the straight-line method reports the highest amount of depreciation expense while the declining-balance method reports the lowest.

These facts occur because the declining-balance method is an accelerated depreciation method in which the largest amount of depreciation is recognized in the early years of the asset's life. If the straight-line method is used, the same amount of depreciation expense is recognized each year. Therefore, in the early years less depreciation expense will be recognized under this method than under the declining-balance method while more will be recognized in the later years.

The amount of depreciation expense recognized using the units-of-activity method is dependent on production, so this method could recognize more or less depreciation expense than the other two methods in any year depending on output.

No matter which of the three methods is used, the same total amount of depreciation expense will be recognized over the four-year period.

Solution to the Q. No. 3

(i)

Number of Days outstanding

	Total	0-30		31-60		61-90	91-120	Over-120
	Tk.	Tk.		Tk.		Tk.	Tk.	Tk.
A/C Receivable	375,000	220,000		90,000		40,000	10,000	15,000
% Uncollectable		1%		4%		5%	8%	10%
Estimated Bad	10,100.00	2,200.00		3,600.00	-	2,000.00	800.00	1,500.00

(ii)

Bad Debts Expenses	18100	
Allowance for Doubtful Accounts		18100
(10100 + 8000)		
(To record bad debts expenses)		

(iii)

Allowance for Doubtful Accounts	5000	
Accounts Receivable		5000
(To record written off Accounts receivable)		

(iv)

Accounts Receivable	5000	
Allowance for Doubtful Accounts		5000
(To record Accounts receivable)		
Cash	5000	
Accounts Receivable		5000
(To record received of cash)		

(v)

If the Co. used 3% of total accounts receivable rather than aging the individual accounts the bad debt expenses adjustment would be tk.19250 (375000x3%) + 8000. The rest of the entries would be the same as they were when aging the accounts receivable.

Aging the individual accounts rather than applying a percentage to the total accounts receivable should produce a more accurate allowance account and bad debts expenses.

Solution to the Q. No. 4:

(a)

			November (Tk.)
Net sales …………………..			600,000.00
Cost of goods sold			
Beginning inventory …………..		32,000.00	
Purchases ……………………...	377,000.00		
Less: Purchase returns and Allowances	(13,300.00)		
Purchase discounts ……….	(8,500.00)		
Add: Freight-in……………	8,800.00		
Cost of goods purchased ………..		364,000.00	
Cost of goods available for sale ……		396,000.00	
Ending inventory …………..		36,000.00	
Cost of goods sold …….. =			360,000.00
Gross profit …………………			**240,000.00**
Gross profit rate = (240000/600000)			**40%**

(B)

			December (Taka)
Net sales ……………………			700,000.00
Less: Estimated gross profit			
(40% x 700000) …………………………			280,000.00
Estimated cost of goods sold …………….			**420,000.00**
Beginning inventory ……………..			36,000.00
Purchases …………………….		424,000.00	
Less : Purchase returns and allowances ……	(14,900.00)		
Purchase discounts ……………	(9,500.00)		
		(24,400.00)	
Net purchases …………………..		399,600.00	
Freight-in …………………		9,900.00	
Cost of goods purchased ………………..			409,500.00
Cost of goods available for sale ………..			445,500.00
Less: Estimated cost of goods sold………..			420,000.00
Estimated inventory lost in fire ……….			**25,500.00**

Solution to the Q. No. 5(a):

Req.-(1)

Wheeler Company
Journal entries
Perpetual inventory system

Dec. 3	Accounts Receivable	500,000	
	Sales		500,000
	(To record merchandise sold on account term 2/10, n/30)		
	Cost of Goods sold	350,000	
	Merchandise Inventory		350,000
Dec-8	Sales Returns and allowances	27,000	
	Accounts Receivable		27,000
Dec-13	Sales Discount (473,000x2%)	9,460	
	Cash (473,000-9,460)	463,540	
	Accounts Receivable (500,000-27,000)		473,000
	(To record received cash within period)		

Req.-(2)

	Cash	473,000	
	Accounts Receivable (500,000-27,000)		473,000
	(To record received cash)		

Solution to the Q. No. 5(b):

(i)

Capital expenditure: Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company. Making capital expenditures on fixed assets can include repairing a roof, purchasing a piece of equipment, or building a new factory. This type of financial outlay is also made by companies to maintain or increase the scope of their operations.

Revenue expenditure: Revenue expenditure is a cost that will be an expense in the accounting period when the expenditure takes place.

(ii)

Accrual- basis accounting: Accounting basis in which companies record transactions that change a company's financial statements in the periods in which the events occur.

Cash- basis accounting: Accounting basis in which companies record revenue when they receive cash and an expense when they pay cash.

(iii)

Single step income statement: An income statement that shows only one step in determining net income.

Multiple step income statement: An income statement that shows several steps in determining net income.

(iv)

Preferred stock: Preferred stock that has some preferences over common stock.Preferred stockholders have a higher claim to dividends or asset distribution than common stockholders. The details of each preferred stock depend on the issue.

Common stock is a type of security that represents ownership of equity in a company. There are other terms – such as common share, ordinary share, or voting share – that are equivalent to common stock.

(v)

Depreciation: The process of allocating to expense the cost of a plant asset over its useful life in a rational and systematic manner.

Amortization: The allocation of the cost of an intangible asset to expense over its useful life in a systematic and rational manner.

Depletion: The allocation of the cost of a natural resource to expense in a rational and systematic over the resource's useful life.

= THE END =