



**CMA DECEMBER, 2018 EXAMINATION
FOUNDATION LEVEL
SUBJECT: 001. PRINCIPLES OF ACCOUNTING**

Time: Three hours

Full Marks: 100

- ❖ All questions are to be attempted.
- ❖ Show computations, where necessary.
- ❖ Answer must be brief, relevant, neat and clean.
- ❖ Start answering each question from a fresh sheet.

Q. No. 1

- (a) "Every debit must have an equal and corresponding credit" – Explain.
- (b) The following ledger balances and adjustments are taken from the Books of AI – Tawaf Ltd.

**AI – Tawaf Ltd.
Trial Balance
As on December 31, 2016**

	<u>Taka</u>
Cash	1,20,000
Furniture & Fixtures	95,000
Accumulated Depreciation – Furniture & Fixtures	15,000
Accounts Receivable	1,10,000
Allowance for Bad debts	2,000
Inventory (01.01.2016)	65,000
Unexpired Insurance	15,000
Supplies on hand	7,000
Accounts Payable	64,000
Common Stock	1,70,000
Retained Earning	50,000
Sales	2,90,000
Sales Return & Allowances	12,000
Purchase	1,20,000
Transportation in	10,000
Operating Expenses	43,000
Interest Revenue	11,000
Interest Expenses	5,000

Adjustments:

- (1) Office Salaries accrued Tk. 3,000.
- (2) Estimated Bad Debts, 1% on net sales.
- (3) Depreciation on Furniture & Fixtures, 5% per annum.
- (4) Insurance expired Tk. 10,000.
- (5) Supplies used Tk. 5,000.

Required:

- (i) Prepare a Ten column worksheet as at December 31, 2016.
- (ii) Pass the necessary adjustment entries.

[Marks: (5+15) = 20]

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Q. No. 2

The bank statement of Al- Tacwa Ltd. having account with AB Bank shows:-

	Tk.	Tk.
Balance on June 30, 2017		1,40,000
Deposit during July, 2017		50,000
		1,90,000
Less: Cheque cleared	60,000	
Service charge for July, 2017	100	
		1,29,900

- Balance per ledger account as of July 31, Tk. 1,24,084.
- A Credit memorandum included with the Cancelled cheques returned indicates the collection of a note by the bank for the Al – Tacwa Ltd. Tk. 2,000.
- An NSF cheque for the amount of Tk. 920 is returned by the bank and included in the total of cheques deducted / cleared on the bank statement.
- Deposit in transit as of July 31, Tk. 5,000 and as of June 30, Tk. 2,400.
- Cheques outstanding as of June 30, all of which cleared by the bank in July Tk. 3,400. Cheques outstanding as of July 31, Tk. 8,200.
- Deposit of Al - Tawaf Ltd. credited to Al – Tacwa Ltd. account by the bank Tk. 2,000.
- Cheques of Al – Tawaf Ltd. charged against Al – Tacwa Ltd. account by the bank Tk. 400.
- Deposit of July 21, recorded by the company as Tk. 1,637 and by the bank at actual amount of Tk. 1,673. The receipts for the day were from collection on account.

Required:

- Prepared a Bank Reconciliation Statement as of July 31, 2017 for Al – Tacwa Ltd.
- Prepare necessary adjusting entries needed on July 31, 2017.

[Marks: (15+5) = 20]

Q. No. 3

- “Depreciation” and “amortization” hold same objective but with a significant difference – explain.
- Many of financial record of Alliance Manufacturing Company were recently destroyed by flood. Management has hired you to create as much financial information as possible for the month of December. You are able to find out that the company uses a weighted average inventory costing system. You also learn that Alliance makes a physical count at the end of each month in order to determine month ending inventory values. By examining various documents you are able to gather the following information:

Ending inventory at December 31	50,000 units
Gross margin on sales for December	Tk. 1,01,000
Total cost of units available for sale in December	Tk. 1,18,800
Cost of goods sold during December	Tk. 99,000
Cost of beginning inventory, December 01	Tk. 0.35 per unit

December purchases:

Date	Units	Unit cost
December 04	60,000	Tk. 0.40
December 11	50,000	Tk. 0.41
December 15	40,000	Tk. 0.42
December 16	50,000	Tk. 0.45

You are asked to provide the following information:

- Number of units on hand, December 01.
- Units sold during December.
- Cost per unit of inventory at December 31.
- Value of inventory at December 31.

[Marks: (5+15) = 20]

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Q. No. 4

- (a) What is stock repurchase? Describe advantages and disadvantages of stock repurchase.
 (b) The stock holders equity account of Beximco Ltd. at January 1, 2017 are as follows:

	Taka
Preferred stock 6% Tk. 50 par	6,00,000
Common stock Tk. 20 par value 60,000 shares	12,00,000
Paid in capital in excess of par	2,00,000
Retained earnings	6,00,000

During the year the following transactions occurred:

- Feb 1 Discovered Tk. 25,000 understatement of 2016 depreciation. Ignore income tax
 March 1 Announced a 2 for 1 stock split. Prior to the split, the market price per share was Tk. 32.
 May 30 Declared a 10% stock dividend to stockholders of record on July 15, distributable on July 31. On May 30, the market price of stock was Tk. 13 per share.
 July 31 Issued the share for stock dividend.
 Aug 15 2000 shares of treasury stock were repurchased at Tk. 18 per share.
 Sep 5 800 shares of treasury stock repurchased above were reissued at Tk. 14 par share.
 Oct 10 500 shares of treasury stock repurchased above were reissued at Tk. 20 par share.

Required: Journalize the above transactions.

[Marks: (6+14) = 20]

Q. NO 5.

- (a) Pacific Inc. purchased equipment on January 1, 2016 for Tk. 1,30,000. It is estimated that the equipment will have a Tk. 4,000 salvage value at the end of its service life. Its service life is estimated at 7 years. Total working hours are estimated at 42,000 and its total production is estimated at 5,25,000 units. During 2016 the machine was operated 6,000 hours and produced 55,000 units. During 2017, the machine was operated 5,500 hours and produced 48,000 units.

Required:

Compute depreciation expense for year ending on December 31, 2016 and the year ending on December 31, 2017 using the following methods:

- (i) Straight line; (ii) Units of output; (iii) Working hour; (iv) Sum of the years digits;
 (v) Declining balance (twice the straight line rate)
 (b) Opera Co. organized in 2015, has set up a single account for all intangible assets. The following summary discloses the debit entries that have been recorded during 2015 and 2016.

		Tk.
01/07/2015	8 year franchise	84,000
01/10/2015	Advance payment on laboratory space for 2 year lease	56,000
31/12/2015	Net loss for 2015 including state incorporation fees Tk. 1,000, and related legal fees of organizing, Tk. 5,000 (all fees incurred in 2015)	16,000
02/01/2016	Purchase of patent (10 years life)	74,000
01/03/2016	Cost of developing a secret formula (indefinite life)	25,000
01/04/2016	Goodwill purchased (indefinite life)	2,78,400
01/06/2016	Legal fee for successful defense of patent purchase above	12,650
01/09/2016	Research and development costs	80,000

Required:

Prepare the necessary entries to clear the intangible assets account and to set up separate accounts for distinct types of intangibles. Make adjusting entries on December 31, 2016.

[Marks: (15+5) = 20]

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