CMA JUNE-2019 EXAMINATION
BUSINESS LEVEL
SUBJECT: GE 01. FUNDAMENTALS OF FINANCIAL ACCOUNTING

Model Solution

Solution to the question No. 03

(a) No. Depreciation is the process of allocating the cost of an asset to expense over its useful life in a rational and systematic manner. Depreciation results in the presentation of the book value of the asset, not its fair value.

(b)

VICARIO CORPORATION
Partial Statement of Financial Position
December 31, 2017

Equity		
Share capital—preference, Tk.100 par value		
10,000 shares authorized, 5,000 shares issued & outstanding	Tk.500,000	
Share capital—ordinary, Tk.50 par value		
15,000 shares authorized,		
8,000 shares issued 7,700 shares outstanding	400,000	Tk. 900,000
Share premium—preference	65,000	
Share premium—ordinary	49,000*	
Share premium—treasury (preference)	4,700	118,700
Retained earnings		247,400**
Less: Treasury shares (300 shares—ordinary)		19,200
Total equity		Tk.1,246,900

*[(Tk.57 – Tk.50) X 7,000]
** Tk.610,000 – Tk.312,600 – (Tk.50 X 1,000 shares)

Solution to the question No. 04

(b)

NOVA COMPANY
Journal

Date	Account Titles	Ref.	Debit (Tk.)	Credit (Tk.)
Mar. 1	Petty Cash		1,000	
	Cash			1,000
Mar. 15	Stamp Inventory		390	
	Freight-in		210	
	Miscellaneous Expense (60+50)		110	
	Travel Expense		240	
	Cash short and over (Short)		30	
	Cash			980
Mar. 20	Petty Cash (1,500-1,000)		500	
	Cash			500

Solution to the question No. 05

(b)

PQ Inc.

FIFO Method

Req (i):

Date	Purchases			Sales			Balance		
	Units	Rate (Tk.)	Amount (Tk.)	Units	Rate (Tk.)	Amount (Tk.)	Units	Rate (Tk.)	Amount (Tk.)
Oct. 1	60*	25*	1,500*				60	25	1,500
Oct. 9	120	26	3,120				60	25	1,500
							120	26	3,120
Oct. 11				100	35	3,500	80	26	2,080
Oct. 17	70	27	1,890				80	26	2,080
							70	27	1,890
Oct. 22				60	40	2,400	20	26	520
							70	27	1,890
Oct. 25	80	28	2,240				20	26	520
							70	27	1,890
							80	28	2,240
Oct. 29				110	40	4,400	60	28	1,680
Totals	330		8,750	270		10,300	60		1,680

*Beginning balance

So, Ending inventory (FIFO) = Tk. 1,680.

Req. (ii):

Cost of Goods Sold

Cost of Goods available for sale	Tk. 8,750
Less: Ending inventory	(1,680)
Cost of Goods Sold	Tk.7,070

Req. (iii):

Gross Profit

Net sale	Tk. 10,300
Less: Cost of Goods Sold	Tk.7,070
Gross Profit	Tk.3,230

Req. (iv):

Gross Profit Rate

Gross Profit rate = (Gross profit/net sales) x 100 = (3,230/10,300) x 100 = 31.36%

Solution to the question No. 06

(a) Allowance for Doubtful Accounts after adjustment = [Tk. 18,000 + (8,00,000-50,000)*3%]-30,000=Tk.10,500.

(b) Req. (i):

MOTIN COMPANY
Bank Reconciliation Statement
As on December 31

Particulars	**Amount (Tk.)**	**Amount (Tk.)**
Balance per bank statement		1,99,556.50
Add: (i) Deposit in transit	40,152	
(ii) Error in recording-over charged (tk. 7,400-4,700)	2,700	42,852.00
		2,42,408.50
Deduct: Outstanding cheque		90,907.50
Correct or adjusted balance		**1,51,501.00**
Balance as per company's record		1,21,925.00
Add: Notes and interest collected by bank		30,450
		1,52,375.00
Deduct: Recording error-understated of cheque issued (Tk. 725-72.50)	652.50	
Bank service charge	221.50	874.00
Correct of adjusted balance		**1,51,501.00**

Req. (ii):

MOTIN COMPANY
Journal

Date	**Account Titles**	**Ref.**	**Debit (Tk.)**	**Credit (Tk.)**
Dec. 31	Cash in bank		30,450	
	Notes Receivable			30,000
	Interest income			450
Dec. 31	Bank service charges		221.50	
	Accounts Payable-Sattar Equipment Co.		652.50	
	Cash in bank			674

Solution to the question No. 07

(a)

i. Segregation of duties.
ii. Physical controls.
iii. Human resource controls.
iv. Independent internal verification.
v. Segregation of duties.

(b)

RP COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities		
Net income		Tk. 37,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	42,000	
Loss on sale of equipment	4,000*	
Decrease in accounts receivable	18,000	
Increase in inventory	(9,450)	
Decrease in prepaid expenses	5,720	
Increase in accounts payable	7,730	68,000
Net cash provided by operating activities		105,000
Cash flows from investing activities		
Sale of land	25,000	
Sale of equipment	6,000	
Purchase of equipment	(95,000)	
Net cash used by investing activities		(64,000)
Cash flows from financing activities		
Payment of cash dividends	(15,000)	
Net cash used by financing activities		(15,000)
Net increase in cash		26,000
Cash at beginning of period		45,000
Cash at end of period		**Tk. 71,000**
Noncash investing and financing activities		
Conversion of bonds by issuance of common stock		Tk. 40,000

*(6,000 – 10,000)

Solution to the question No. 08

(ii)

	Ratio	Target		Wal-Mart	
1	Current	1.6:1	(Tk.18,906 ÷ Tk.11,782)	.8:1	(Tk.47,585 ÷ Tk.58,454)
2	Accounts receivables turnover	8.6	(Tk.61,471 ÷ Tk.7,124)	115.3	(Tk.374,526 ÷ Tk.3,247)
3	Average collection period	42.4	(365 ÷ 8.6)	3.2	(365 ÷ 115.3)

4	Inventory turnover	6.4	(Tk.41,895 ÷ Tk.6,517)	8.3	(Tk.286,515 ÷ Tk.34,433)
5	Days in inventory	57.0	(365 ÷ 6.4)	44.0	(365 ÷ 8.3)
6	Profit margin	4.6%	(Tk.2,849 ÷ Tk.61,471)	3.4%	(Tk.12,731 ÷ Tk.374,526)
7	Asset turnover	1.5	(Tk.61,471 ÷ Tk.40,954.5[a])	2.4	(Tk.374,526 ÷ Tk.157,550.5[c])
8	Return on assets	7.0%	(Tk.2,849 ÷ Tk.40,954.5[a])	8.1%	(Tk.12,731 ÷ Tk.157,550.5[c])
9	Return on common stockholders' equity	18.4%	(Tk.2,849 ÷ Tk.15,470[b])	20.2 %	(Tk.12,731 ÷ Tk.63,090.5[d])
10	Debt to assets	65.6%	(Tk.29,253 ÷ Tk.44,560)	60.5 %	(Tk.98,906 ÷ Tk.163,514)
[a](Tk.44,560 + Tk.37,349) ÷ 2			[b](Tk.15,307 + Tk.15,633) ÷ 2		
[c](Tk.163,514 + Tk.151,587) ÷2			[d](Tk.64,608 + Tk.61,573) ÷ 2		

(iii)

The comparison of the two companies shows the following:

Liquidity—Target's current ratio of 1.6:1 is significantly better than Wal-Mart's .8:1. However, Wal-Mart has a better inventory turnover ratio than Target and its accounts receivable turnover is substantially better than Target's.

Profitability—With the exception of profit margin, Wal-Mart betters Target in all of the profitability ratios. Thus, it is more profitable than Target.

Solvency—Wal-Mart betters Target in both of the solvency ratios. Thus, it is more solvent than Target.

=THE END =