CMA JUNE, 2020 EXAMINATION
KNOWLEDGE LEVEL
SUBJECT: IE 01. PRINCIPLES OF ACCOUNTING

MODEL SOLUTION

Solution of the Q. No. 2

i) This is referred to as ***the business entity concept***. The financial transactions of a business have to be treated as separate from the non-business activities of the owner of the business. Only the financial transactions of the business are recorded and not those of the owner. The firm, or business, is regarded as a separate business entity. If the owner takes money out of the business for his own personal use, the accounts transactions show a debit on drawings to maintain this concept.

ii) This is ***the consistency concept*** which determines that accountants should treat some items in the financial statements on a consistent basis and adopt the same accounting policies from one year to the next. In the question the owner requests that the accountant should use a different way of calculating depreciation that had been used in previous years. This would contravene the principle of consistency.

iii) This is lead to ***the matching concepts***: when a given event affects revenue and expenses, the effect on each should be recognized in the same accounting period

iv) This is ***the materiality concept***, which is here having been applied for becoming expenses from assets. Materiality concept is important in the process of determining the Expenses and revenue for a given accounting period.

v) This is ***the accruals concept***. An accrual is something that becomes due especially an amount of money that is yet to be paid, or received, at the end of the accounting period. Mr. Emdad's accountant record it on basis of accruals concepts

Solution of the Q. No. 3(a)

Closing inventory (under the FiFO Method)

50 x Tk. 190	9,500
500 x Tk. 220	110,000
300 x Tk. 230	69,000
	188,500

(b)

Sales		410,000
Return		(10,000)
Net sales		400,000
Cost of good sold (80% on sale)	4,00,000X80%	= 32,0000

Inventory as on 15 April 2020	5,00 000
Less : purchases goods after 31st march 2020	(50340)
Add : cost of good sold after 31st march 2020	320000
Closing inventory as on 31st March 2020	769660

Solution of the Q. No. 4 (b)

Contra Entry

A contra entry is recorded when the debit and credit affect the same parent account and resulting in a net zero effect to the account. These are transactions that are recorded between cash and bank accounts

(c)

Work-in-process inventory is materials that have been partially completed through the production process. These items are typically located in the production area, though they could also be held to one side in a buffer storage area.

(d)

Accrual-Basis Accounting	*2019*	*2020*
Revenue	80000	nil
Expenses	50000	nil
Net income	30000	nil

Cash-Basis Accounting	*2019*	*2020*
Revenue	00.00	80000
Expenses	50000	00.00
Net Loss	(50000)	80000 Net Income

Solution of the Q. No. 5

Date	Description	Debit	Credit
2-Jun	Cash	Tk. 7,200	
	M. Pramanik Capital		Tk. 7,200
3-Jun	Supplies	Tk. 150	
	Accounts Payable		Tk. 150
4-Jun	Bicycles	Tk. 2,500	
	Cash		Tk. 1,200
	Accounts Payable		Tk. 1,300
5-Jun	Shed	Tk. 2,900	
	Cash		Tk. 2,900
8-Jun	Shed	Tk. 400	
	Cash		Tk. 400
10-Jun	Maintenance Expense	Tk. 75	
	Cash		Tk. 75
13-Jun	Cash	Tk. 970	
	Rental Revenue		Tk. 970
17-Jun	Accounts Payable	Tk. 150	
	Cash		Tk. 150
18-Jun	Repair Expense	Tk. 55	

	Cash		Tk. 55
23-Jun	Accounts Receivable	Tk. 110	
	Rental Revenue		Tk. 110

Solution of the Q. No. 6

(a)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		2,400	3,600
30		J1		500	3,100

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1	12,000		12,000

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1		8,000	8,000
25		J1	2,400		5,600

Owner's Capital

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		10,000	10,000

Owner's Drawings

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	500		500

(b)

Enayet Wahid
Adjusting entries

Date	Description	Debit (Tk.)	Credit (Tk.)
January 31	Accounts receivable	2,400	
	Service Revenue		2,400
January 31	Utilities Expense	400	
	Utilities Payable		400
January 31	Interest Expense	600	
	Interest Payable		600
January 31	Insurance Expense (Tk. 12,000 /12)	1000	
	Prepaid Insurance		1000
January 31	Supplies Expense (Tk. 2,600 – Tk. 900)	1700	
	Supplies		1700

Solution of the Q. No. 7

Nita Ltd.
Work sheet (10 column)
As on 30 June, 2020

SL	Particulars	Trial Balance		Adjustments		Adjusted T. B		Income Stat.		Balance Sheet	
1		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
2	DBBL STD Accounts		33000	100000	150	66850				66850	
3	Cash	15,000		5000		20,000				20,000	
4	Accounts receivable	48,000				48,000				48,000	
5	Inventory	40,000				40,000		40,000			
6	Prepaid insurance	16,000			10,000	6,000				6,000	
7	IT Equipment	200,000				200,000				200,000	
8	Allow for dep – IT Equip.		40,000		8,000		48,000				48,000
9	Creditors		32,000				32,000				32,000
10	Capital		209,200				209,200				209,200
11	Drawings	24,000				24,000				24,000	
12	Sales Revenue		287000		100000		387,000		387,000		
13	Sales Discounts	16,000				16,000		16,000			
14	Purchases	160,000				160,000		160,000			
15	Purchase returns		20,000				20,000		20,000		
16	Carriage-in	23,200				23,200		23,200			
17	Advertising expense	34,000			4,800	29,200		29,200			
18	Suspense	5000			5000						
19	Payroll expense	40,000		8,000		48,000		48,000			
20	Insurance expense			10,000		10,000		10,000			
21	Depreciation expense			8,000		8,000		8,000			
22	Payroll payable				8,000		8,000				8,000
23	Prepaid advertising			4,800		4,800				4,800	
24	Bad debt expense			4,800		4,800		4,800			
25	Bank Charges			150		150		150			
26	Allow. For bad debts				4,800		4,800				4,800
27	Closing inventory								60,000	60,000	
28	Net income							90,150			90,150
29	Provision for tax							37500			37500
		621,200	621,200	140,750	140,750	709,000	709,000	467,000	467,000	429,650	429,650

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Solution of the Q. No. 8

(a) One principal advantage of separating the financial reporting from the management accounting department is that employees who are dedicated to their particular tasks develop expertise in these tasks. The financial reporting accountants can concentrate on the financial accounting and tax standards that must be used to stay in compliance with the country's accounting and tax regulations. They can also serve as liaisons with the external auditors. The financial reporting department can be responsible for the company's basic transaction and general ledger systems, ensuring that these systems reliably capture data and have adequate internal controls.

The management accounting department can work closely with the functional areas (for example, manufacturing, marketing, and engineering) that use management accounting information. This will ensure that the reports are timely and relevant for these internal users. If users wish to use specific accounting conventions (interest on capital employed, asset valuation and depreciation using current, not historical values), the management accountants can incorporate these conventions in their reports. Also, weekly and monthly operating summaries for internal information and performance measurement may not have to abide by financial accounting requirements (for example, on inventory valuation procedures). The management accountants can include nonfinancial operating information in the reports they prepare for employees and managers, and they can become familiar with how to access information from all the organization's information systems and databases, not just the general ledger. Also, some of the information might be judgmental, subjective, and based on rough estimates. This information might be accurate enough for certain internal uses, but not reliable enough for external reporting and external auditing requirements.

(b)

Req: (i)

Cost of materials used:	
Materials inventory, beginning	Tk. 26,490
Direct materials purchased	361,920
Cost of materials available for use	Tk.388,410
Less materials inventory, ending	24,910
Cost of materials used	Tk. 363,500

Req: (ii)

Total manufacturing costs:		
Cost of materials used		Tk. 363,500
Direct labor costs		99,085
Overhead costs:		
Indirect labor	Tk. 126,750	
Plant supervision	42,500	
Factory insurance	8,100	
Utilities, factory	29,220	
Depreciation, factory building	46,200	
Depreciation, factory equipment	62,800	
Factory security	9,460	
Factory repair and maintenance	14,980	
Total overhead costs		340,010
Total manufacturing costs		Tk. 802,595

Req: (iii)

Cost of goods manufactured:

Total manufacturing costs	Tk. 802,595
Add work in process inventory, beginning	101,640
Total cost of work in process during the year	Tk. 904,235
Less work in process inventory, ending	100,400
Cost of goods manufactured	Tk. 803,835

Req: (iv)

Actual product unit cost:
Cost of Goods Manufactured/ Number of Units Manufactured
= Tk. 803,835/13,397 units
= Tk. 60.00 (rounded)

= THE END =