

The workings under the heading of “*Additional Working*” are not required according to the requirement of the examiner. These are only for understanding the solutions. For more help, visit www.a4accounting.net

2007

XI – ACCOUNTING



*REGULAR /
PRIVATE*

Compiled and Solved by:
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ACCOUNTING - 2007

REGULAR / PRIVATE

Time: 3 Hours

Max. Marks: 100

Note: (i) Attempt any Five questions. (ii) All questions carry equal marks.

(iii) Question No. 6 is compulsory.

Q.No.1 (a) ACCOUNTING EQUATION

- (i) Give the rules for Debit and Credit in term of increase and decrease.
(ii) List in sequence the steps involved in a complete accounting cycle.
(b) Write short notes on any Four of the following:
- | | | |
|---------------------|--------------|----------------------|
| (i) Owner's equity. | (ii) Ledger. | (iii) Trial balance. |
| (iv) Debit. | (v) Expense. | (vi) Petty cash. |

SOLUTION 1 (a)

Rules of Debit & Credit:

Head of Accounts	Increases	Decreases
Assets	Recorded as Debit	Recorded as Credit
Liabilities	Recorded as Credit	Recorded as Debit
Owner's equity	Recorded as Credit	Recorded as Debit
Revenue and income	Recorded as Credit	Recorded as Debit
Expenses	Recorded as Debit	Recorded as Credit

Steps of Accounting Cycle:

- **Journal Entries:**
The transaction is recorded in journal as a debit and credit.
- **Post to Ledger:**
The journal entries are transferred to the appropriate T-accounts in the general ledger.
- **Trial Balance:**
A trial balance is calculated to verify that the sum of debits is equal to the sum of credits.
- **Adjusting Entries:**
Adjusting entries are made for accrued and differed items. The entries are journalized and posted to the T-accounts in the general ledger.
- **Adjusted Trial Balance:**
A new trial balance is calculated after making the adjusting entries.
- **Financial Statement:**
Income statement, balance sheet and cash flow statements are prepared.
- **Closing Entries:**
Transfer the balances of temporary accounts to owner's equity account.
- **After-Closing Trial Balance:**
A final trial balance is calculated after the closing entries made.
- **Reversing Entries:**
Reverse the necessary adjusting entries (optional).

SOLUTION 1 (b)

(i) Owner's Equity:

The right of the owner in the business is known as owner's equity. The owner has the right to make investment in the business and only he has the right to make withdrawals from business. So he has right to enjoy the profit of the business. This right is owner's equity. It is calculated by subtracting total liabilities from the total assets of the firm.

(ii) Ledger:

Collection of an entire group of similar accounts in double-entry bookkeeping is called ledger. Also called book of final entry, a ledger records classified and summarized financial information from journals (the 'books of first entry') as debits and credits, and shows their current balances.

(iii) Trial Balance:

A Trial Balance is a statement of ledger account balances within a ledger, at particular instance. Its main purpose is to check mathematical\arithmetic accuracy of accounting. It is not an account.

(iv) Debit:

Debit means an entry on the left hand side of an account in double-entry book-keeping that increases either the assets or decrease in liabilities or owner's equity. Expenses are debits because they reduce capital.

(v) Expense:

The cost incurred by an organization is said to be expenses. They may be capital expenditure or revenue expenditure. Although expenditure is usually incurred by an outlay of money, expenditure may also arise in accounting by the acknowledgement of liability, for example accrued salaries.

(vi) Petty Cash:

The amount of cash that an organization keeps on its premises to pay all small items of expense is called petty cash. Petty cash transactions are normally recorded in a petty cash book, the balance of which should agree with the amounts of petty cash held at any given time.

Q.No.2 THE LEDGER AND THE TRIAL BALANCE

GIVEN A trader started business on January 1st, 2007 by investing cash Rs.60,000 and equipment worth Rs.40,000. During the month the following transactions were completed:

- (i) Purchased merchandise on credit Rs.40,000 and paid cartage on it Rs.2,000 cash.
- (ii) Sold merchandise on credit Rs.18,000 & for cash Rs.10,0000
- (iii) The customers returned merchandise Rs.2,000 sold on credit and the merchandise returned to suppliers worth Rs.3,000.
- (iv) Paid cash to suppliers Rs.10,000 and cash collected from customers Rs.15,000.
- (v) Cash paid to employees Rs.6,000 and cash used by the proprietor Rs.3,000.

REQUIRED

Record the above transactions in the General Journal.

SOLUTION 2

M/S. _____
GENERAL JOURNAL
FOR THE MONTH OF JANUARY 2007

Date	Particulars	P/R	Debit	Credit
(i)	Cash Equipment Capital (To record the investment by owner in the business)		60,000 40,000	100,000
(ii)	Purchases Cartage Accounts payable Cash (To record the purchase of goods on credit and paid cartage)		40,000 2,000	40,000 2,000
(iii)	Cash Accounts receivable Sales (To record the goods sold on account and for cash)		10,000 18,000	28,000
(iv)	Sales return and allowances Accounts receivable (To record the goods returned by customers)		2,000	2,000
(v)	Accounts payable Purchase returns and allowances (To record the goods returned to suppliers)		3,000	3,000
(vi)	Accounts payable Cash (To record the cash paid to suppliers)		10,000	10,000
(vii)	Cash Accounts receivable (To record the cash collected from customers)		15,000	15,000
(viii)	Salaries expense Cash (To record the salaries paid to the employees)		6,000	6,000
(ix)	Drawings Cash (To record the cash withdrew by owner for personal use)		3,000	3,000

Additional Working:

GENERAL LEDGER

Cash

(i)	Capital	60,000	(ii)	Cartage	2,000
(iii)	Sales	10,000	(vi)	Accounts payable	10,000
(vii)	Accounts receivable	15,000	(viii)	Salaries expense	6,000
			(ix)	Drawings	3,000
					21,000
				c/d balance	64,000
		85,000			85,000
	b/d balance	64,000			

Accounts Receivable

(iii)	Sales	18,000	(iv)	Sales returns	2,000
			(vii)	Cash	15,000
					17,000
				c/d balance	1,000
		<u>18,000</u>			<u>18,000</u>
	b/d balance	1,000			

Equipment

(i)	Capital	40,000			
				c/d balance	40,000
		<u>40,000</u>			<u>40,000</u>
	b/d balance	40,000			

Accounts Payable

(v)	Purchase returns	3,000	(ii)	Purchases	40,000
(vi)	Cash	10,000			
		13,000			
	c/d balance	27,000			
		<u>40,000</u>			<u>40,000</u>
				b/d balance	27,000

Capital

	c/d balance	100,000	(i)	Cash/Equipment	100,000
		<u>100,000</u>			<u>100,000</u>
				b/d balance	100,000

Drawings

(ix)	Cash	3,000			
				c/d balance	3,000
		<u>3,000</u>			<u>3,000</u>
	b/d balance	3,000			

Sales

	c/d balance	28,000	(iii)	Cash/A-Receiveable	28,000
		<u>28,000</u>			<u>28,000</u>
				b/d balance	28,000

Sales Return and Allowances

(iv)	Accounts receivable	2,000			
				c/d balance	2,000
		<u>2,000</u>			<u>2,000</u>
	b/d balance	2,000			

Purchases

(ii)	Accounts payable	40,000		
			c/d balance	40,000
		<u>40,000</u>		<u>40,000</u>
	b/d balance	40,000		

Purchase Return and Allowances

	c/d balance	3,000	(v)	Accounts payable	3,000
		<u>3,000</u>			<u>3,000</u>
				b/d balance	3,000

Cartage

(ii)	Cash	2,000		
			c/d balance	2,000
		<u>2,000</u>		<u>2,000</u>
	b/d balance	2,000		

Salaries Expense

(viii)	Bank	6,000		
			c/d balance	6,000
		<u>6,000</u>		<u>6,000</u>
	b/d balance	6,000		

M/S. _____

TRIAL BALANCE

FOR THE MONTH OF JANUARY 2007

NO.	PARTICULARS	P/R	DEBIT	CREDIT
1	Cash		64,000	
2	Accounts receivable		1,000	
3	Equipment		40,000	
4	Accounts payable			27,000
5	Capital			100,000
6	Drawings		3,000	
7	Sales			28,000
8	Sales return and allowances		2,000	
9	Purchases		40,000	
10	Purchase returns and allowances			3,000
11	Cartage		2,000	
12	Salaries expense		6,000	
	Total		158,000	158,000

Q.No.3 ACCOUNTING FOR CASH

Record the following transactions in Cash Book.

April 2007:

01. Akbar brings Rs.16,000 cash and deposits Rs.20,000 into bank to start his business.
03. Sold merchandise for cash Rs.3,000.
08. Purchased equipment for cash Rs.8,000.
10. Received a cheque from a customer for Rs.2,940 after allowing 2% cash discount.
12. Deposited the cheque received on April 10.
20. Purchased a mobile phone by the owner for his personal use for cash Rs.2,000.
25. Purchased merchandise by cheque Rs.5,000.
28. Paid through cheque to a supplier Rs.3,920 in settlement of Rs.4,000.
29. Sold merchandise for cash Rs.2,500 and deposited Rs.2,000 into bank.
30. Paid rent by cheque Rs.3,000 and salaries to employees cash Rs.6,000.

REQUIRED

Record the above transactions in Cash Book and balance the Cash Book.

SOLUTION 3

MR. AKBAR
THREE COLUMN CASH BOOK
FOR THE MONTH OF APRIL 2007

Date	Particulars	P/R	S.Disc	Cash	Bank	Date	Particulars	P/R	P.Disc	Cash	Bank
1.Apr	Capital			16,000	20,000	8.Apr	Equipment			8,000	
3.Apr	Sales			3,000		12.Apr	Bank (Deposited)	(C)		2,940	
10.Apr	Accounts receivable		60	2,940		20.Apr	Drawings			2,000	
12.Apr	Cash (Deposited)	(C)			2,940	25.Apr	Purchase				5,000
29.Apr	Sales			500	2,000	28.Apr	Accounts payable		80		3,920
						30.Apr	Rent expense				3,000
						30.Apr	Salaries expense			6,000	
						30.Apr	C/D Balance		80	18,940	11,920
			60	22,440	24,940				60	3,500	13,020
1.Mar	B/D Balance			3,500	13,020					22,440	24,940

Q.No.4 SPECIAL JOURNAL

GIVEN The following transactions are to be recorded in Special Journals:

- 01.4.07 Sold merchandise on credit to Sohail Sons Rs.2,000.
- 05.4.07 Sold merchandise on credit to Bashir Bros. Rs.4,000.
- 08.4.07 Sohail Sons returned merchandise worth Rs.250.
- 15.4.07 Sold merchandise on credit to Usman & Co. Rs.5,000.
- 20.4.07 10% allowance given to Bashir Bros, on defective goods of Rs.2,000 sold to him on April5
- 28.4.07 Sold merchandise on credit to Sohail Sons Rs.3,000.

REQUIRED

- (i) Record the above transactions in appropriate journals.
- (ii) Post the total of Special Journals to General Ledger giving posting references.

SOLUTION 4 (i)

M/S. _____
SALES JOURNAL
FOR THE MONTH OF APRIL 2007

Date	Invoice No.	Name of Customers	P/R	Amount
1.April		Sohail Sons		2,000
5.April		Bashir Bros.		4,000
15.April		Usman & Co.		5,000
28.April		Sohail Sons		3,000
30.April		Accounts receivable Dr. Sales Cr.		14,000

M/S. _____
SALES RETURN & ALLOWANCE JOURNAL
FOR THE MONTH OF APRIL 2007

Date	Invoice No.	Name of Customers	P/R	Amount
8.April		Sohail Sons		250
20.April		Bashir Bros.		200
30.April		Sales return and allowance Dr. Accounts receivable Cr.		450

SOLUTION 4 (ii)

GENERAL LEDGER
Accounts Receivable

30.Apr	Sales	(SJ)	14,000	30.Apr	Sales return	(SRJ)	450
			14,000	30.Apr	c/d balance		13,550
1.May	b/d balance		13,550				14,000

Sales

30.Apr	c/d balance		14,000	30.Apr	Accounts receivable	(SJ)	14,000
			14,000				14,000
1.May	b/d balance		14,000				14,000

Sales Return and Allowances

30.Apr	Accounts receivable	(SRJ)	450	30.Apr	c/d balance		450
			450				450
1.May	b/d balance		450				450

Q.No.5 ACCOUNTING FOR CASH

GIVEN A comparison of the bank column of the Cash Book and Bank Statement of a trader revealed the following for the month of March 2007:

(i)	Balances (Cash Book)	Rs.	10,200
	(Bank Statement)	Rs.	4,115
(ii)	Deposit in transit	Rs.	12,000
(iii)	Outstanding cheques	Rs.	5,500
(iv)	Bank credited Rs.500 mark-up and debited Rs.85, bank charges not shown in the Cash Book.		

REQUIRED

- (i) What is the correct Cash Book balance?
- (ii) Prepare a Bank Reconciliation Statement.

SOLUTION 5 (i)

Computation of Correct Cash Book Balance:

Particulars	Cash Book
Balance on March 2007	10,200
Add: Mark-up	500
	10,700
Less: Bank charges	(85)
Correct Cash Book Balance	10,615

SOLUTION 5 (ii)

M/S. _____

**BANK RECONCILIATION STATEMENT
FOR THE MONTH OF MARCH 2007**

Particulars	Cash Book	Pass Book
Balance on March 2007	10,200	4,115
Add: Deposit in transit (ii)		12,000
		16,115
Less: Outstanding cheques (iii)		(5,500)
		10,615
Add: Mark-up (iv)	500	
	10,700	
Less: Bank charges (iv)	(85)	
Reconcile Balance	10,615	10,615

Additional Working:

M/S. _____

**GENERAL JOURNAL
FOR THE MONTH OF MARCH 2007**

Date	Particulars	P/R	Debit	Credit
1	Bank		500	
	Mark-up income			500
	(To record the mark-up credited by bank)			
2	Bank charges		85	
	Bank			85
	(To record the bank charges deducted by bank)			

Q.No.6 FINANCIAL STATEMENTS

GIVEN The following unadjusted balances are obtained from the ledger of a trader “EZ” for the 3 months ended on Mach 31, 2007.

Cash Rs.5,000; Accounts receivable Rs.27,000; Merchandise inventory Rs.30,000; Unexpired insurance Rs.3,000; Sales Rs.105,000; Purchases Rs.60,000; Sales return and allowances Rs.4,000; Purchase discount Rs.2,000; Accounts payable Rs.12,000; “EZ” Drawing Rs.15,000; Unearned rent Rs.12,000; General expenses Rs.2,000; Salaries expenses Rs.15,000; “EZ” Capital ?

Adjustments:

- (i) Merchandise inventory valued at Rs.25,000.
- (ii) Insurance expired 1/3.
- (iii) Unearned rent 2/3.
- (iv) Accrued salaries Rs.3,000.

REQUIRED

Prepare Income Statement and a Balance Sheet for the first quarter ended March 31, 2007.

SOLUTION 6

*EZ TRADERS
INCOME STATEMENT
FOR THE PERIOD ENDED 31 MARCH 2007*

Sales	105,000	
Less: Sales returns and allowances	(4,000)	
Net sales		101,000
<u>Less: Cost of Goods Sold:</u>		
Merchandise inventory (beg)	30,000	
<u>Add: Net Purchases:</u>		
Purchases	60,000	
Less: Purchase discount	(2,000)	
Net purchases	58,000	
Merchandise available for sale	88,000	
Less: Merchandise inventory (end)	(25,000)	
Cost of goods sold		(63,000)
Gross profit		38,000
<u>Less: Operating Expenses:</u>		
Salaries expense (15,000 + 3,000)	18,000	
General expenses	2,000	
Insurance expense (3,000 x 1/3)	1,000	
Total operating expenses		(21,000)
Profit from operation		17,000
<u>Add: Other Income:</u>		
Rent income (12,000 x 1/3)		4,000
Net profit		21,000

EZ TRADERS
BALANCE SHEET
AS ON 31 MARCH 2007

ASSETS		EQUITIES	
<u>Current Assets:</u>		<u>Current Liabilities:</u>	
Cash	5,000	Accounts payable	12,000
Accounts receivable	27,000	Salaries payable	3,000
Merchandise inventory	25,000	Unearned rent	8,000
Unexpired insurance	2,000	Total liabilities	23,000
		<u>Owner's Equity:</u>	
		Capital	30,000
		Add: Net profit	21,000
			51,000
		Less: Drawings	(15,000)
		Total owner's equity	36,000
Total assets	59,000	Total equities	59,000

Computation of Capital:

Cash	5,000
Accounts receivable	27,000
Merchandise inventory	30,000
Unexpired insurance	3,000
Purchases	60,000
Sales returns and allowances	4,000
Drawings	15,000
General expenses	2,000
Salaries expense	15,000
Total Debits	161,000
Less: Total Credits:	
Sales	105,000
Purchase discount	2,000
Accounts payable	12,000
Unearned rent	12,000
Total Credits	(131,000)
Capital	30,000

Q.No.7 PERIODIC ADJUSTMENTS, CLOSING PROCESS:

GIVEN Pick up data from question No. 6.

REQUIRED

Prepare adjusting and closing entries in proper form.

SOLUTION 7

*EZ TRADERS
ADJUSTING ENTRIES
FOR THE PERIOD ENDED 31 MARCH 2007*

Date	Particulars	P/R	Debit	Credit
1	Merchandise inventory Expense and revenue summary (To adjust the merchandise inventory)		25,000	25,000
2	Insurance expense Unexpired insurance (To adjust the insurance expense)		1,000	1,000
3	Unearned rent Rent income (To adjust the unearned rent)		4,000	4,000
4	Salaries expense Salaries payable (To adjust the accrued salaries)		3,000	3,000

*EZ TRADERS
CLOSING ENTRIES
FOR THE PERIOD ENDED 31 MARCH 2007*

Date	Particulars	P/R	Debit	Credit
1	Expense and revenue summary Merchandise inventory Purchases Insurance expense Sales returns and allowances General expenses Salaries expense (To close the various expenses accounts)		115,000	30,000 60,000 1,000 4,000 2,000 18,000
2	Sales Merchandise inventory Purchase discount Rent income Expense and revenue summary (To close the various income accounts)		105,000 25,000 2,000 4,000	136,000
3	Expense and revenue summary Capital (To transfer the profit to the capital account)		21,000	21,000
4	Capital Drawings (To close the drawings account)		15,000	15,000

Q.No.8 (a) CORRECTION OF ERRORS

- (i) Purchase return of Rs.500 was credited to purchase a/c.
- (ii) Drawings of Rs.1,000 for personal use of the proprietor was debited to office expense account.
- (iii) Sales of office equipment for Rs.2,000 was credited to sales account.
- (iv) Rs.500 spent on the repair of computer was debited to computer accounts.
- (v) Purchase of furniture for Rs.5,000 was wrongly debited to purchase account.

REQUIRED

Record entries in the General Journal to correct each of the above errors.

Q.No.8 (b) COST OF GOODS SOLD

GIVEN The following balances are taken from the books of Shah & Sons for the year ending Dec. 31, 2006.

Purchase	Rs.	10,000
Purchase return	Rs.	1,000
Purchase discount	Rs.	500
Transport expense	Rs.	1,200
Merchandise inventory opening	Rs.	3,000
Merchandise inventory ending	Rs.	2,000

REQUIRED

Prepare the Statement of Cost of Goods Sold.

SOLUTION 8 (a)

M/S. _____
CORRECTING ENTRIES

Date	Particulars	P/R	Debit	Credit
1	Purchases Purchase return (To correct the purchase account)		500	500
2	Drawings Office expense (To correct the office expense account)		1,000	1,000
3	Sales Office equipment (To correct the sales account)		2,000	2,000
4	Repair expense Computer (To correct the computer account)		500	500
5	Furniture Purchases (To correct the purchases account)		5,000	5,000

SOLUTION 8 (b)

SHAH & SONS
STATEMENT OF COST OF GOODS SOLD
FOR THE PERIOD ENDED 31 DECEMBER 2006

Merchandise inventory (beg)		3,000
<u>Add: Net Purchases:</u>		
Purchases	10,000	
Add: Transport expense	1,200	
Delivered purchases	<u>11,200</u>	
Less: Purchase discount	(500)	
Less: Purchase returns & allowances	<u>(1,000)</u>	
Net purchases		<u>9,700</u>
Merchandise available for sale		12,700
Less: Merchandise inventory (end)		<u>(2,000)</u>
Cost of goods sold		<u>10,700</u>
