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FUNDAMENTALS OF ACCOUNTING



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ACCOUNTING BASICS

1. "Goods purchased on cash" is an example of:
 - a) Simple Transaction
 - b) Complex Transaction
 - c) One Off Transaction
 - d) Capital Receipt
2. Which account will have a debit balance in case of an increase?
 - a) Drawings account
 - b) Revenue account
 - c) Discount received account
 - d) Capital account
3. Following information is extracted from the books of Hi-Tech Enterprises:

	Rs.
Non-Current Assets	42,000
Non-Current Liabilities	24,000
Current Assets	21,000
Current Liabilities	12,000
Capital	27,000

What is the total of Net Assets?

- a) Rs. 66,000
 - b) Rs. 63,000
 - c) Rs. 36,000
 - d) Rs. 27,000
4. Following information is extracted from the books of Naqeeb Enterprises:

	Rs.
Current Assets	66,000
Current Liabilities	16,000
Non-current Assets	45,000
Non-current Liabilities	32,000
Capital	63,000

What is the total of Assets?

- a) Rs. 127,000
- b) Rs. 111,000
- c) Rs. 79,000
- d) Rs. 63,000

5. Fast Software (FS) is a software house. FS imported 10 Laptops from Japan for their office @ Rs. 50,000 per Laptop. Payment was made through cheque. How this will be recorded in the books of FS?

Account to be debited

- a) Purchases Account
- b) Laptop Account
- c) Purchases Account
- d) Laptop Account

Account to be credited

- Bank Account
- Bank Account
- Accounts Payable
- Accounts Payable

6. Which statements about accounting and bookkeeping are correct?
- a) Bookkeeping is performed daily rather than periodically
 - b) Preparation of financial statements is part of bookkeeping
 - c) Accounting relies on having accurate bookkeeping records
 - d) Financial transactions are recorded by using bookkeeping
7. Zamil Limited applied to bank for an overdraft limit of Rs. 0.5 million, which was accepted by bank subsequently? Which of the following statement is correct?
- a) Bank will transfer Rs. 0.5 million to bank account of Zamil Limited
 - b) Bank will pay all the cheques issued by Zamil Limited
 - c) Bank will pay all the cheques of the amount less than 0.5 million
 - d) Bank will pay the cheques issued by Zamil Limited provided that account will not be overdrawn by more than Rs. 0.5 million
8. Which of the following combination includes only liabilities?
- a) Machines, Debtors, Cash
 - b) Creditors, Bank Overdraft, Bills Payable
 - c) Bank, Payables, Sales
 - d) Loan Obtained, Loan Issued, Creditors
9. Which of the following combination represents assets only?
- a) Debtors, Purchases, Cash in Hand
 - b) Building, Cash at Bank, Investments
 - c) Creditors, Insurance, Tax
 - d) Bank Overdraft, Equipment, Cash in Hand
10. Which of the following is correct representation of accounting equation?
- a) Assets – Liabilities = Capital
 - b) Liabilities – Assets = Capital
 - c) Capital – Liabilities = Assets
 - d) Capital – Assets = Liabilities
11. Which of the following are non-current assets?
- a) Inventory
 - b) Land and building
 - c) Motor vehicles
 - d) Equipment
 - e) Furniture

12. Which of the following statements is correct?
 - a) Net Sales = Gross sales – sales return – discount allowed
 - b) Gross Sales = Net sales – sales return – discount allowed
 - c) Net Sales = Gross sales – sales return + discount received
 - d) Gross Sales = Net Sales
13. Adil sublets part of his premises to Abid, the rental income shall be classified as?
 - a) Capital Receipt
 - b) Capital Expenditure
 - c) Revenue Receipt
 - d) Revenue Expenditure
14. Sultan traders deals in electric fans. The owner of Sultan traders took one electric fan for his home, which of the following account will be debited?
 - a) Fans account
 - b) Purchases account
 - c) Sales account
 - d) Drawings account
15. Debit represents all of the following, except:
 - a) Increase in asset
 - b) Decrease in liability
 - c) Decrease in equity
 - d) Increase in equity
16. Which of the following are current assets?
 - a) Cash at bank
 - b) Bank overdraft
 - c) Accounts receivables
 - d) Equipment
 - e) Inventory
17. Owner's annual life insurance premium paid from business bank account will be:
 - a) Debited to insurance account and Credited to bank account
 - b) Debited to bank account and Credited to drawings account
 - c) Debited to bank account and Credited to insurance account
 - d) Debited to drawings account and Credited to bank account
18. Nasir obtained loan from his friend Yasir for his business, by cheque. What journal entry will be recorded in the books of Nasir?
 - a) Cash account Debit, Loan from Yasir account Credit
 - b) Bank account Debit, Loan from Yasir account Credit
 - c) Loan from Yasir account Debit, Bank account Credit
 - d) Loan from Yasir account Debit, Yasir account credit

19. New Look Transport Limited (NLTL) purchased a van from Advanced Motors for Rs. 5 million on 1 February 2022. NLTL paid Rs. 2.2 million on the same date and remaining amount will be paid in two equal installments on 31 March 2022 and 30 April 2022.

What journal entry will be passed in the books of NLTL on 31 March 2022?

- a) Advance Motors account Debit Rs. 1.4 million; Bank account Credit Rs. 1.4 million
 - b) Van account Debit Rs. 5 million; Bank account Credit Rs. 5 million
 - c) Advanced Motors Debit Rs. 1.4 million; Van account Credit Rs. 1.4 million
 - d) Van account Debit Rs. 1.4 million; Advanced Motors Credit 1.4 million
20. A trainee accountant has prepared the following list of expenses. Which of the following are correct in relation to expenses?:
- a) Carriage Inwards
 - b) Carriage outwards
 - c) Commission received
 - d) Salaries expense
21. A debit entry usually represents decrease in:
- a) Assets and expenses
 - b) Liabilities and income
 - c) Liabilities and expenses
 - d) Income and assets

22. Following debit and credit effects were recorded by the Shine Limited:

Accounts	Element	Effect	Debit / Credit	Amount Rs.
Bank Loan	Liability	Decrease	Debit	10,000
Cash	Asset	Decrease	Credit	8,000
Capital	Equity	Increase	Credit	2,000

Which of the following transaction represent above double entry for Shine Limited?

- a) Bank Loan was obtained for office use Rs. 8,000 and for Personal use Rs. 2,000
 - b) Cash invested by the owner Rs. 10,000 into Bank and Rs. 8,000 in cash
 - c) Bank loan repaid Rs. 8,000 from business and Rs. 2,000 from owner's personal resources
 - d) Bank loan was invested into the business Rs. 10,000
23. The goods are given as charity, which of the following is correct effect?
- a) Increase in liability, increase in asset
 - b) Increase in asset, decrease in asset
 - c) Increase in income, decrease in asset
 - d) Decrease in asset, increase in expense

24. GAAP stands for:
- General Accounting and Audit Principles
 - Generally Accepted Accounting Principles
 - Globally Accepted Accounting Principles
 - General Accounts and Accounting Principles
25. Which of the following statement(s) is/are correct.
- Assets that provide economic benefits in the short term (usually one year) are current assets
 - Amounts payable more than 12 months after the reporting date is treated as current liability
 - Equity is the residual interest in the assets of the entity after deducting all its liabilities
 - Revenue is income arising in the course of the ordinary activities of the entity
26. The status of shareholders in a company is same as those of _____ in a company.
- Competitor
 - Owners
 - Employees
 - Debtors
27. The following is the list of stakeholders.
- Government
 - Management
 - Employees
 - Competitors
- Which of the above are internal stakeholders?
- 1 and 2
 - 2 and 4
 - 2 and 3
 - 1 and 4
28. Which of the following are part of accounting cycle or accounting process?
- Transactions
 - Books of prime entry
 - Ledgers
 - Trial balance
 - Financial statements
29. Suppliers can use the financial statements to assess that:
- How much credit they can allow to the entity?
 - How much inventory that can be sold to the entity?
 - How much tax company was paying?
 - In order to measure the demand of its products.

30. Income arising in the course of the ordinary activities of the entity is:

- a) Revenue
- b) Other income
- c) Capital Receipt
- d) None of the above

31. Following information is extracted from the books of Good Limited:

	Rs.
Creditors	20,000
Debtors	40,000
Bank Overdraft	18,000
Loan given to an employee	30,000
Bills Payable	10,000

What is the total of current liabilities?

- a) Rs. 78,000
- b) Rs. 48,000
- c) Rs. 38,000
- d) Rs. 18,000

32. Financial accounting is a term that describes:

- 1. Maintaining a system of accounting records for business transactions and other items of a financial nature
- 2. Reporting the financial position and financial performance of an entity in a set of financial statements

Which of the following statement(s) is/are true?

- a) Only statement (1)
- b) Only statement (2)
- c) Both statements
- d) None of the above statement

33. "Owner withdrew cash from business for personal use" is business transaction. Which of the following accounting concept is related to this statement?

- a) Going concern
- b) Separate entity concept
- c) Prudence concept
- d) Matching concept

34. Which of the following transaction is NOT a capital transaction?

- a) Purchase of property, plant and equipment
- b) Improvement in property, plant and equipment which enhances the profit earning capacity of assets
- c) Additions to property, plant and equipment
- d) Running and ongoing cost of property, plant and equipment

35. Capital of Bhai Bhai Associates (BBA) was Rs. 250,000. Which of the following is correct representation in statement of financial position?

Assets	Liabilities
a) Rs. 240,000	Rs. 10,000
b) Rs. 50,000	Rs. 300,000
c) Rs. 275,000	Rs. 25,000
d) Rs. 30,000	Rs. 280,000

36. Which of the following statement best describes the concept of Equity?

- a) Primary right of owners on the assets of the business
- b) Residual right of owners on the assets of the business
- c) Secondary right of owners on the assets of the business
- d) Equity refers to capital employed into business

37. Total assets of business are Rs. 250,000 and current assets are 25% of non-current assets, if the liabilities of business are Rs. 100,000 and equity was 6 times more than its current liabilities, the value of net current assets (current assets minus current liabilities) shall be:

- a) Rs. 25,000
- b) Rs. 37,500
- c) Rs. 50,000
- d) Cannot be calculated from above data

38. Which of the following is/are examples of financial business transactions:

- a) Receipt of loan proceeds
- b) Cash purchases of raw materials
- c) Order placed for purchase of machine
- d) Goods taken by owner for personal use
- e) Payment of electricity bill of residence by owner from his own pocket

39. Which of the following is/are capital expenditure?

- a) Repairs of vehicle
- b) Replacement of engine of vehicle
- c) Purchase of machine for production use in business
- d) Annual insurance premium paid on machine

40. Borrowing money for business purposes by owner and withdrawal of 50% amount on same day from borrowing amount is business transaction. The effect on this business transaction on accounting equation shall be:

- a) Increase in asset and increase in liability
- b) Increase in asset; increase in liability and decrease in equity
- c) Increase in asset and decrease in liability
- d) Increase in asset; decrease in equity and decrease in liability

41. The following statements describe the link between statement of comprehensive income and statement of financial position in accounting equation:
1. Profit in the statement of comprehensive income affects the statement of financial position by adding to the owner's capital
 2. Drawings out of profit shall also affects the statement of financial position, by reducing the owner's capital
- Which of the above statement(s) is/are correct?
- a) Both statements
 - b) Only statement (1)
 - c) Only statement (2)
 - d) No statement is correct
42. Which of the following is capital expenditure?
- a) Salaries paid in cash
 - b) Equipment purchased on credit
 - c) Inventory purchased on credit
 - d) Electricity bill received but not yet paid
43. The current and non-current assets of Rana Enterprises as at 31 January 2022 were Rs. 400,000 and Rs. 200,000 whereas liabilities were Rs. 250,000. The equity of Rana Enterprises as at 31 January 2022 will be?
- a) Rs. 600,000
 - b) Rs. 350,000
 - c) Rs. 150,000
 - d) Rs. 50,000
44. Mukhtar earned profit of Rs. 325,000 during first quarter of 2022 but he withdrew the following:
1. Cash of Rs. 220,000 but he discharged business liability of Rs. 75,000 as well.
 2. Goods of Rs. 100,000 of which 40% goods were distributed as free samples (free sample expense has been included in the calculation of quarterly profit above).
- What will be impact on net assets during first quarter of 2022?
- a) Net assets increased by Rs. 120,000
 - b) Net assets decreased by Rs. 5,000
 - c) Net assets increased by Rs. 210,000
 - d) Net assets decreased by Rs. 120,000
45. With reference to accounting equation, state which of the following statement is true?
- a) Assets should be equal to liabilities
 - b) Assets should be equal to equity
 - c) Assets should be equal to liabilities and equity
 - d) Assets plus liabilities should be equal to equity
46. Which of the following transaction affects accounting equation as "increase in one asset, decrease in other asset and decrease in equity":
- a) Cash received of Rs. 25,000 against disposal of asset with carrying value of Rs. 20,000
 - b) Cash received of Rs. 25,000 against disposal of asset with carrying value of Rs. 30,000
 - c) Cash of Rs. 25,000 was received from sales of inventory at 15% margin
 - d) Cash of Rs. 25,000 was received from sales of inventory at 10% markup

47. Which of the following best describes the statement of financial position?
- a) Includes all cash inflows and outflows during the year
 - b) Includes all assets, liabilities and equity
 - c) Includes all assets and liabilities
 - d) Includes all assets, liabilities, income and expenses
48. Which of the following statement is correct?
- a) Revenue minus cost of sales is net profit
 - b) Revenue minus cost of sales, add other income is net profit
 - c) Revenue minus operating expenses is gross profit
 - d) Revenue minus cost of sales is gross profit
49. Which of the following is NOT an example of non-current asset?
- a) Furniture
 - b) Office building
 - c) Computer for resale purposes
 - d) Patents
50. Which of the following is not included in definition of Liability in accordance with conceptual framework?
- a) Present obligation of the entity
 - b) Future obligation of the entity
 - c) As a result of past event
 - d) The settlement of which is expected to result in an outflow of resources allowance

ANSWERS TO SELF TEST QUESTIONS

01	a	Simple Transaction								
02	a	Dreawings account								
03	d	Rs. 27,000 (equal to owner’s capital)								
04	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Current assets</td><td>66,000</td></tr><tr><td>Non-current assets</td><td>45,000</td></tr><tr><td>Total Assets</td><td>111,000</td></tr></table>		Rupees	Current assets	66,000	Non-current assets	45,000	Total Assets	111,000
	Rupees									
Current assets	66,000									
Non-current assets	45,000									
Total Assets	111,000									
05	b	Debit Laptop Account; Credit Bank Account								
06	a,c,d	Bookkeeping is performed daily rather than periodically Accounting relies on having accurate bookkeeping records Financial transactions are recorded by using bookkeeping								
07	d	Bank will pay the cheques issued by Zamil Limited provided that account will not be overdrawn by more than Rs. 0.5 million.								
08	b	Creditors, Bank Overdraft, Bills payable								
09	b	Buidling, Cash at Bank, Investments								
10	a	Assets – Liabilities = Capital								
11	b,c,d,e	• Land and building • Motor vehicles • Equipment • Furniture								
12	a	Net Sales = Gross sales – sales return – discount allowed								
13	c	Revenue Receipt								
14	d	Drawings account								
15	d	Increase in equity								
16	a,c,e	• Cash at bank • Accounts receivables • Inventory								
17	d	Debited to drawings account and Credited to bank account								
18	b	Bank account Debit, Loan from Yasir account Credit								
19	a	Advance Motors account Debit Rs. 1.4 million; Bank account Credit Rs. 1.4 million								
20	a,b,d	• Carriage Inwards • Carriage outwards • Salaries expense								
21	b	Liabilities and income								
22	c	Bank loan repaid Rs. 8,000 from business and Rs. 2,000 from owner’s personal resources								

23	d	Decrease in asset, increase in expense																			
24	b	Generally Accepted Accounting Principles																			
25		Assets that provide economic benefits in the short term (usually one year) are current assets Equity is the residual interest in the assets of the entity after deducting all its liabilities Revenue is income arising in the course of the ordinary activities of the entity																			
26	b	Owners																			
27	c	Management & Employees																			
28	a to e	• Transactions • Books of prime entry • Ledgers • Trial balance • Financial statements																			
29	a	How much credit they can allow to the entity?																			
30	a	Revenue																			
31	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Creditors</td><td>20,000</td></tr><tr><td>Bank overdraft</td><td>18,000</td></tr><tr><td>Bills Payable</td><td>10,000</td></tr><tr><td>Current liabilities</td><td>48,000</td></tr></table>			Rupees	Creditors	20,000	Bank overdraft	18,000	Bills Payable	10,000	Current liabilities	48,000								
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Current liabilities	48,000																				
32	c	Both statements are correct.																			
33	b	Separate entity concept																			
34	d	Running and ongoing cost of property, plant and equipment																			
35	c	Assets 275,000 – Liabilities 25,000 = Capital 250,000																			
36	b	Residual right of owners on the assets of the business																			
37	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Total Assets</td><td>250,000</td></tr><tr><td>Current assets (CA) + Non-current assets (NCA)</td><td>250,000</td></tr><tr><td>0.25 NCA + NCA</td><td>250,000</td></tr><tr><td>NCA (250,000/1.25)</td><td>200,000</td></tr><tr><td>Current assets (250,000-200,000)</td><td>50,000</td></tr><tr><td>Equity (250,000-100,000)</td><td>150,000</td></tr><tr><td>Current liabilities (150,000/6)</td><td>25,000</td></tr><tr><td>Net current assets (50,000-25,000)</td><td>25,000</td></tr></table>			Rupees	Total Assets	250,000	Current assets (CA) + Non-current assets (NCA)	250,000	0.25 NCA + NCA	250,000	NCA (250,000/1.25)	200,000	Current assets (250,000-200,000)	50,000	Equity (250,000-100,000)	150,000	Current liabilities (150,000/6)	25,000	Net current assets (50,000-25,000)	25,000
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38	a,b,d	Receipt of loan proceeds Cash purchases of raw materials Goods taken by owner for personal use											
39		Replacement of engine of vehicle Purchase of machine for production use in business											
40	b	Increase in asset; increase in liability and decrease in equity											
41	a	Both statements are correct											
42	b	Equipment purchased on credit.											
43	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Current assets</td><td>400,000</td></tr><tr><td>Non-current assets</td><td>200,000</td></tr><tr><td>Less: liabilities</td><td>(250,000)</td></tr><tr><td>Equity</td><td>350,000</td></tr></table>			Rupees	Current assets	400,000	Non-current assets	200,000	Less: liabilities	(250,000)	Equity	350,000
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44	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Net profit for the year</td><td>325,000</td></tr><tr><td>Cash drawings (220,000-75,000)</td><td>(145,000)</td></tr><tr><td>Drawings in goods (100,000 x 60%)</td><td>(60,000)</td></tr><tr><td>Net assets increased</td><td>120,000</td></tr></table>			Rupees	Net profit for the year	325,000	Cash drawings (220,000-75,000)	(145,000)	Drawings in goods (100,000 x 60%)	(60,000)	Net assets increased	120,000
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Drawings in goods (100,000 x 60%)	(60,000)												
Net assets increased	120,000												
45	c	Assets should be equal to liabilities and equity											
46	b	Cash received of Rs. 25,000 against disposal of asset with carrying value of Rs. 30,000											
47	b	Includes all assets, liabilities and equity											
48	d	Revenue minus cost of sales is gross profit											
49	c	Computer for resale purposes											
50	b	Future obligation of the entity											

BOOKS OF PRIME ENTRY

1. Following information is extracted from the books of Azad Co for May 2022:

Credit Purchases Invoices	Rs. 3 million
Cash Purchases Invoices	Rs. 2 million
Credit Notes Received	Rs. 0.02 million

What was the total of Purchases Journal for May 2022?

- Rs. 4.98 million
 - Rs. 5.00 million
 - Rs. 2.98 million
 - Rs. 3.00 million
2. On 1 March, 2022, Cool Limited obtained a bank loan for Rs. 2 million and deposited into bank current account. On the same day Cool Limited transferred Rs. 1 million from their bank current account to bank deposit account. How these transactions will be recorded by Cool Limited?
- Dr. Bank account Rs. 2 million; Cr. Bank loan Rs. 1 million and Cr. Deposit account Rs. 2 million
 - Dr. Bank account Rs. 1 million; Dr. Bank loan Rs. 1 million and Cr. Deposit account Rs. 2 million
 - Dr. Bank account Rs. 1 million; Dr. Deposit account Rs. 1 million and Cr. Bank loan account Rs. 2 million
 - Dr. Bank loan account Rs. 2 million and Cr. Bank account Rs. 1 million and Cr. Deposit account Rs. 1 million
3. Nasir bought 20 mobile phones from "Digital Mobiles" at list price of Rs. 5,000 each, subject to 10% trade discount. Three mobile phones were faulty so returned by Nasir to Digital Mobiles. What document would Digital Mobiles issue to Nasir on return of these mobile phones?
- Credit Note for Rs. 15,000
 - Debit Note for Rs. 15,000
 - Credit Note for Rs. 13,500
 - Debit Note for Rs. 13,500
4. Which of the following is/are not necessarily be considered as book of prime entry in small and medium size businesses?
- Cash book
 - Purchase day book
 - Sales day book
 - Cash receipt book
5. The following partially completed account is taken from the books of Zaryab Associates.
- Nayab Traders (Accounts payable)

Date	Description	Debit Rs.	Credit Rs.	Balance Rs.
March 03	Purchases		10,000	10,000
March 05	Purchases Return	2,000		8,000

On 31 March, Nayab traders received a cheque of Rs. 4,500 from Zaryab Associates after allowing the discount Rs. 500.

Which statement is correct after accounting of above transactions?

- a) Zaryab Associates owed Nayab Traders Rs. 3,500
 - b) Nayab Traders owed Zaryab Associates Rs. 3,500
 - c) Zaryab Associates owed Nayab Traders Rs. 3,000
 - d) Nayab Traders owed Zaryab Associates Rs. 3,000
6. Which of the following are NOT correctly stated in relation to books of prime entry?
- a) All sales shall be recorded in sales day book
 - b) Only credit sales shall be recorded in sales day book
 - c) Only cash sales shall be recorded in sales day book
 - d) All sales shall be recorded in cash book
7. Books of prime entry are prepared to record similar nature of transaction in one book. Which of the following transaction shall NOT be recorded in General Journal:
- a) Discount allowed to customer
 - b) Purchase of plant on credit terms
 - c) Discount allowed by suppliers
 - d) Trade discount allowed to customer
8. Mr. Fahad started his business in current year. He wants to record the year-end adjustments in his accounting books. Which book he may use to record these adjustments?
- a) General journal
 - b) Cash book
 - c) Sales day book
 - d) Purchase day book
9. If in three column cash book, cash paid of Rs. 6,000 was recorded in Discount column whereas discount amount of Rs. 500 was recorded in cash column. Which of the following statement is correct?
- a) Cash balance was overstated by Rs. 5,500 whereas discount received was understated by Rs. 500
 - b) Cash balance was overstated by Rs. 5,500 whereas discount received was understated by Rs. 5,500
 - c) Cash balance was understated by Rs. 5,500 whereas discount received was overstated by Rs. 500
 - d) Cash balance was overstated by Rs. 5,500 whereas discount received was overstated by Rs. 5,500
10. Which of the following affects the balance of receivables account?
- a) Sales invoice
 - b) Sales order
 - c) Sales quotation
 - d) Delivery note
11. Which of the following statement(s) is/are correct?
- a) Cash paid to suppliers will be credited to creditors account
 - b) Cheques issued to suppliers will be debited to creditors account
 - c) Contra settlement with debtors will be credited to the creditors account

12. A merchant bought 100 bags of cement at retail price of Rs. 200 subject to 5% trade discount. 50% payment was made on spot and balance was agreed to pay in 3 months-time. However, an offer of 2% discount was made if payment shall be made in 1 month-time. It is reasonably certain that customer shall not avail this discount. At the time of transaction, businessman shall recognize revenue after deducting from retail price:
- Trade discount of Rs. 1,000
 - Cash discount of Rs. 400
 - Cash discount of Rs. 380
 - Trade discount of Rs. 1,000 and cash discount of Rs. 400
13. Which of the following statement(s) is/are correct?
- Inventory returned to supplier will be recorded in purchases return journal
 - Furniture purchased for use, returned to supplier will be recorded in general journal
 - Cash sales to customers will be recorded in sales day book
 - Credit purchase from supplier will be recorded in purchase day book
14. Journal entry for issuance of petty cash imprest by cheque is:
- Petty cash Debit Cash Credit
 - Petty cash Debit Bank Credit
 - Bank Debit Petty cash Credit
 - No journal entry will be passed
15. Shadman Traders maintained petty cash float at Rs. 25,000. Petty expenses were paid during the month of March 2022, amounting to Rs. 18,210. On 31 March 2022, he decided to decrease the petty cash float to Rs. 20,000. What amount is required to maintain the cash float of Rs. 20,000?
- Rs. 13,210
 - Rs. 8,290
 - Rs. 1,790
 - Rs. 6,790
16. Insaf Limited deals in Wood Doors and it purchased 50 wood doors from Wood World at Rs. 2,000 per door on 10 January, 2022, terms were 5/10, n/20. Five defective doors were returned on 12 January, 2022. Insaf Ltd settled their account on 15 January, 2022. What is the amount of net purchases and cash paid to the wood world?
- Net Purchases Rs. 100,000 and cash Paid Rs. 100,000
 - Net Purchases Rs. 90,000 and Cash Paid Rs. 85,500
 - Net Purchases Rs. 85,500 and Cash Paid Rs. 85,500
 - Net Purchases 100,000 and Cash paid Rs. 85,500
17. Super Stores sold goods to Nova Enterprises for Rs. 50,000, terms 5/10, n/30 on 1 January, 2022. Super Stores expected that Nova Enterprises shall avail the discount. Nova Enterprises settled their account on 8 January, 2022. What journal entry will be passed in the books of Super Stores on 8 January 2022?
- Cash account Debit Rs. 50,000, Nova Ltd Credit Rs. 50,000
 - Cash account Debit Rs. 47,500, Discount allowed Debit Rs. 2,500, Nova Ltd Credit Rs. 50,000
 - Cash account Debit Rs. 50,000, Nova Ltd Credit Rs. 47,500, Discount allowed Credit Rs. 2,500
 - Cash account Debit Rs. 47,500, Nova Ltd Credit Rs. 47,500

18. Which of the following statement is correct in relation to discount allowed that was not expected at the time of recording sales?
- Discount allowed shall be charged as business expense
 - Discount allowed shall reduce the sales amount
 - Discount allowed shall be adjusted against receivables balance
 - Double entry of Discount allowed shall be Dr. Discount allowed and Cr. Receivables
19. Chan Traders sold goods to Veer Traders on credit. It sold goods with list price of Rs. 10,000 subject to @10% trade discount. Veer traders paid in full after receiving the 5% cash discount. Two weeks later, Veer traders returned half of the goods purchased.
- What amount of sales return will be recorded in the books of Chan Traders?
- Rs. 4,275
 - Rs. 4,500
 - Rs. 4,750
 - Rs. 5,000
20. Gulsher Limited purchased goods from Shergul Limited for Rs. 70,000 on 20 March, 2022 subject to term 5/10, n/20. Shergul Limited expected that Gulsher Limited shall not avail the discount. Gulsher Limited paid their account in full by cheque on 5 April, 2022.
- What journal entry will be passed in the books of Shergul Limited on 5 April, 2022?
- Bank account Debit Rs. 70,000, Gulsher Limited Credit Rs. 70,000
 - Bank account Debit Rs. 66,500, Discount allowed Debit Rs. 4,500, Gulsher Limited Credit Rs. 70,000
 - Bank account Debit Rs. 70,000, Gulsher Limited Credit Rs. 66,500, Discount allowed Rs. 4,500
 - Shergul Limited Debit Rs. 70,000, Bank account Credit Rs. 70,000
21. Following information is extracted from the books of Dynasty Limited:
- Goods sold to customers for Rs. 35,000 (60% sales were on credit basis)
 - Goods purchased from suppliers for Rs. 30,000 (20% purchases were on cash basis)
 - Cash deposited into bank Rs. 8,000
- Calculate the closing balance of the cash column of cash book.
- Rs. 7,000
 - Rs. 19,000
 - Rs. 12,000
 - Zero balance
22. Which of the following shall not be shown in receivables ledger account?
- Credit sales
 - Cheques collected from customers
 - Cash sales returns
 - Cash sales
23. Which of the following document shall be source document to record the purchase?
- Purchase requisition
 - Purchase invoice
 - Purchase order
 - Goods receipt note

24. A balance of Rs. 820 in the receivables ledger is to be set off against a balance of Rs. 280 in the payables ledger. Journal entry for contra settlement will be passed with:
- Rs. 820
 - Rs. 280
 - Rs. 540
 - Rs. 1,100
25. Safety Limited purchased a Machine for its production process on 1 February, 2022. Payment will be made after the installation. The accountant of Safety Limited recorded this in purchases day book, but still confused about accounting treatment.
- Choose the correct option to help him.
- He has correctly recorded.
 - Transaction will be recorded in cash book.
 - Transaction will be recorded in general journal
 - Transaction will be recorded in assets journal
26. Mr. Sultan is supervisor in production department of a business. He needed an inventory item but that was not lying in storehouse.
- Which primary document should be prepared to initiate the purchase process and which department is responsible to issue this document?
- Purchase order issued by purchase department
 - Purchase requisition issued by store department
 - Purchase requisition issued by purchase department
 - Purchase order issued by store department
27. Which of the following is/are not recorded in payable ledger account?
- Discount allowed
 - Discount received
 - Credit purchase
 - Cash refunded to customer
28. Mr. Kashan purchased goods from Mr. Zubair for Rs. 12,000. He paid Rs. 10,000 at the time of purchases and balance amount will be paid in two month-time. Mr. Kashan should record the transaction of purchases in:
- Purchases day book Rs. 12,000
 - Purchases day book Rs. 10,000, Cash Book Rs. 2,000
 - Purchases day book Rs. 2,000, Cash book Rs. 10,000
 - Cash book Rs. 10,000, General journal Rs. 2,000
29. Double entry for "cash received from supplier against goods returned after clearance of account" shall be:
- Dr. Purchase Returns and Cr. Creditors
 - Dr. Creditors and Cr. Purchase Returns
 - Dr. Creditors and Cr. Cash
 - Dr. Cash and Cr. Purchase Returns

30. Armaghan Enterprises sold goods to Najma Traders for Rs. 100,000 subject to term 5/10, n/30 on 1 January, 2022. Armaghan Enterprises expected that Najma Traders shall avail the discount. Payment was received by Armaghan Enterprises after discount period.

What journal entry will be passed in the books of Armaghan Enterprises?

- a) Cash account Debit Rs. 100,000, Najma Traders Credit Rs. 100,000
 - b) Cash account Debit Rs. 100,000, Najma Traders Credit Rs. 95,000, Sales account Credit Rs. 5,000
 - c) Cash account Debit Rs. 95,000, Discount allowed Debit Rs. 5,000, Najma Traders Credit Rs. 100,000
 - d) Cash account Debit Rs. 100,000, Najma Traders Credit Rs. 95,000, Discount received Rs. 5,000
31. Total of purchases day book represents:
- a) Gross credit purchases
 - b) Net credit purchases
 - c) Gross total purchases
 - d) Net total purchases
32. Which of the following document will store keeper receive on receipt of goods from supplier:
- a) Goods dispatched note
 - b) Goods received note
 - c) Delivery note
 - d) Invoice
33. Following documents might be used in system designed to account for sales:
- a) Sales Quotation
 - b) Purchase Order
 - c) Goods Dispatch Note
 - d) Credit Note Received
 - e) Sales Invoice
34. Mr. Javed received a cheque from a customer for Rs. 10,000 and deposited it into the bank. Bank returned the cheque due to insufficient funds.
- In which books of prime entry, Mr. Javed will record this dishonour cheque?
- a) Sales day book
 - b) Sales return day book
 - c) Cash book
 - d) General journal
35. Naseem is customer and supplier of business and he buys and sells goods from/to our business. As per terms of agreement, the account balances of both accounts shall be cancelled at month-end and remaining balance shall be paid or received on 5th of month following the month of transaction. As at June 30, 2022 Naseem balance in receivables ledger showed Rs. 25,500 and in payables ledger Rs. 22,000.
- The double entry made at June 30, 2022 shall be:
- a) Receivables Dr. 22,000 and Payables Cr. 22,000
 - b) Receivables Dr. 25,500 and Payables Cr. 25,500
 - c) Payables Dr. 22,000 and Receivables Cr. 22,000
 - d) Payables Dr. 25,500 and Receivables Cr. 25,500

36. Which of the following is not a source document for double-entry bookkeeping?
- Sales invoice
 - Purchase order
 - Credit note issued
 - Cheque
37. Columns in three column cash book on payment side shall be:
- Cash, Bank and Discount Allowed
 - Cash, Bank and Discount Received
 - Cash, Discount Allowed and Discount Received
 - Bank, Discount Allowed and Discount Received
38. Which of the following shall be recorded in petty cash book?
- Cash received from customer
 - Cash paid to supplier
 - Cash purchase
 - Travelling expense
39. Which of the following is NOT a terminology used in maintaining petty cash book system?
- Imprest System
 - Reimbursement of expenses
 - Cash float
 - Cash budgets
40. Which of the following is/are source document/s for journal entry?
- Quotation
 - Purchase order
 - Goods dispatched note
 - Statement
- 1 and 3
 - 2 and 4
 - None of the above
 - All of the above
41. The petty cash balance as at 3 January 2022 was Rs. 2,350 and following transactions were incurred on 4 January 2022.
- Purchase of tea for office Rs. 250
 - Paid for repairs of water dispenser Rs. 400
 - Paid for travelling bill to peon Rs. 100
- The cashier sent all vouchers relating to week ended 4 January 2022 for reimbursement amounting to Rs. 3,400. The reimbursement was made immediately.

What shall be amount of petty cash float?

- a) Rs. 1,600
- b) Rs. 3,400
- c) Rs. 5,000
- d) Rs. 5,750

42. Which of the following best describes the imprest system of operating petty cash?

- a) Expenses incurred on weekly basis shall not exceed the set limit
- b) The exact amount of expenditure is reimbursed at intervals to maintain fixed float
- c) Authorization of all vouchers must not be necessary
- d) Regular equal amounts of cash are transferred into petty cash at intervals

43. Kamal Limited uses vouching system to record the business transactions. "It purchased an equipment on credit."

Which of the following voucher Kamal Limited should prepare for above transaction?

- a) Sales voucher
- b) Purchase voucher
- c) Payment voucher
- d) Journal voucher

44. Which of the following shall cause the debit balance of payable ledger?

- a) Goods were returned to supplier after clearing the invoice
- b) Payment made to supplier was recorded in short
- c) Contra settlement with receivable ledger was omitted
- d) Discount received was not entered in the payable ledger

45. Which of the following best describes the purpose of sales invoice?

- a) Issued to customer as request for payment on due date
- b) Issued as request to receive stock
- c) Issued as details of transactions made during specific month
- d) Issued to customer as notification of payment

46. At any point of time, sum of imprest must be equal to:

- a) Petty cash balance + Amount on invoices - Amount on notes
- b) Petty cash balance + Amount on invoices + Amount on notes
- c) Petty cash balance - Amount on invoices + Amount on notes
- d) Petty cash balance - Amount on invoices - Amount on notes

47. Which of the following book is used to record discount received?

- a) Cash receipt book
- b) Petty cash book
- c) Cash payment book
- d) Purchase day book

48. "The purchase and related liability are usually recorded at full cost of the goods." This is in line with:
- a) Separate entity concept
 - b) Accrual basis
 - c) Going concern basis
 - d) Prudence concept
49. The journal entry of settlement discount shall be made in which of the following book of prime entry:
- a) Cash payment book
 - b) General journal
 - c) Purchases journal and sales journal
 - d) Trial balance
50. Receipt vouchers are prepared
- a) To record the cash receipts
 - b) To record the cheque receipts
 - c) To record the collection in bank accounts
 - d) To record issue of cheque to supplier

ANSWERS TO SELF TEST QUESTIONS														
01	d	Credit purchases only Rs. 3 million.												
02	c	Dr. Bank account Rs. 1 million; Dr. Deposit account Rs. 1 million and Cr. Bank loan account Rs. 2 million												
03	c	Credit Note for Rs. 13,500 [Rs. 5,000 x 90% x 3 mobiles]												
04		Cash receipt book												
05	c	Zaryab Associates owed Nayab Traders Rs. 3,000												
06	a,c,d	• All sales shall be recorded in sales day book • Only cash sales shall be recorded in sales day book • All sales shall be recorded in cash book												
07	d	Trade discount allowed to customer												
08	a	General journal												
09	d	Cash balance was overstated by Rs. 5,500 whereas discount received was overstated by Rs. 5,500.												
10	a	Sales invoice												
11	b	• Cheques issued to suppliers will be debited to creditors account												
12	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Purchase (100 x 200)</td><td>20,000</td></tr><tr><td>Trade discount (20,000 x 5%)</td><td>1,000</td></tr></table>		Rupees	Purchase (100 x 200)	20,000	Trade discount (20,000 x 5%)	1,000						
	Rupees													
Purchase (100 x 200)	20,000													
Trade discount (20,000 x 5%)	1,000													
13	a,b,d	• Inventory returned to supplier will be recorded in purchases return journal. • Furniture purchased for use, returned to supplier will be recorded in general journal. • Credit purchase from supplier will be recorded in purchase day book												
14	b	Petty cash Debit Bank Credit												
15	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Existing cash float</td><td>25,000</td></tr><tr><td>Less: Expenses during March 2022</td><td>(18,210)</td></tr><tr><td>Petty cash in hand</td><td>6,790</td></tr><tr><td>Amount required to maintain cash float of Rs. 20,000 (20,000-6,790)</td><td>13,210</td></tr></table>		Rupees	Existing cash float	25,000	Less: Expenses during March 2022	(18,210)	Petty cash in hand	6,790	Amount required to maintain cash float of Rs. 20,000 (20,000-6,790)	13,210		
	Rupees													
Existing cash float	25,000													
Less: Expenses during March 2022	(18,210)													
Petty cash in hand	6,790													
Amount required to maintain cash float of Rs. 20,000 (20,000-6,790)	13,210													
16	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Purchase (50 x 2,000)</td><td>100,000</td></tr><tr><td>Less: Purchase returns (5 x 2,000)</td><td>(10,000)</td></tr><tr><td></td><td>90,000</td></tr><tr><td>Less: Settlement discount (90,000 x 5%)</td><td>(4,500)</td></tr><tr><td>Net purchase and cash paid</td><td>85,500</td></tr></table>		Rupees	Purchase (50 x 2,000)	100,000	Less: Purchase returns (5 x 2,000)	(10,000)		90,000	Less: Settlement discount (90,000 x 5%)	(4,500)	Net purchase and cash paid	85,500
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Net purchase and cash paid	85,500													

17	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Sales</td><td>50,000</td></tr><tr><td>Less: Settlement discount (50,000 x 5%)</td><td>(2,500)</td></tr><tr><td>Net sales</td><td>47,500</td></tr></table>		Rupees	Sales	50,000	Less: Settlement discount (50,000 x 5%)	(2,500)	Net sales	47,500						
	Rupees															
Sales	50,000															
Less: Settlement discount (50,000 x 5%)	(2,500)															
Net sales	47,500															
18	b	Discount allowed shall reduce the sales amount														
19	a	<table><tr><th></th><th>Rupees</th></tr><tr><td>Sales- list price</td><td>10,000</td></tr><tr><td>Less: Trade discount (10,000 x 10%)</td><td>(1,000)</td></tr><tr><td></td><td>9,000</td></tr><tr><td>Less: Settlement discount (9,000 x 5%)</td><td>(4,50)</td></tr><tr><td>Net sales</td><td>8,550</td></tr><tr><td>Sales returns (8,550/2)</td><td>4,275</td></tr></table>		Rupees	Sales- list price	10,000	Less: Trade discount (10,000 x 10%)	(1,000)		9,000	Less: Settlement discount (9,000 x 5%)	(4,50)	Net sales	8,550	Sales returns (8,550/2)	4,275
	Rupees															
Sales- list price	10,000															
Less: Trade discount (10,000 x 10%)	(1,000)															
	9,000															
Less: Settlement discount (9,000 x 5%)	(4,50)															
Net sales	8,550															
Sales returns (8,550/2)	4,275															
20	a	Bank account Debit Rs. 70,000, Gulsher Limited Credit Rs. 70,000														
21	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Cash Sales (35,000 x 40%)</td><td>14,000</td></tr><tr><td>Less: Cash purchase (30,000 x 20%)</td><td>(6,000)</td></tr><tr><td>Less: Cash deposited into bank</td><td>(8,000)</td></tr><tr><td>Cash balance</td><td>0</td></tr></table>		Rupees	Cash Sales (35,000 x 40%)	14,000	Less: Cash purchase (30,000 x 20%)	(6,000)	Less: Cash deposited into bank	(8,000)	Cash balance	0				
	Rupees															
Cash Sales (35,000 x 40%)	14,000															
Less: Cash purchase (30,000 x 20%)	(6,000)															
Less: Cash deposited into bank	(8,000)															
Cash balance	0															
22	c,d	• Cash sales returns • Cash sales														
23	b	Purchase invoice														
24	b	Rs. 280														
25	c	Transaction will be recorded in general journal														
26	b	Purchase requisition issued by store department														
27	a,d	• Discount allowed • Cash refunded to customer														
28	c	Purchases day book Rs. 2,000, Cash book Rs. 10,000														
29	d	Dr. Cash and Cr. Purchase Returns														
30	b	Cash account Debit Rs. 100,000, Najma Traders Credit Rs. 95,000, Sales account Credit Rs. 5,000														

31	a	Gross credit purchases												
32	c	Delivery note												
33	a,c,e	• Sales Quotation • Goods Dispatch Note • Sales Invoice												
34	c	Cash book												
35	c	Payables Dr. 22,000 and Receivables Cr. 22,000												
36	b	Purchase order												
37	b	Cash, Bank and Discount Received												
38	d	Travelling expense												
39	d	Cash budgets												
40	c	None of these are reelvant source documents for journal entry.												
41	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance of petty cash as at 03.01.22</td><td>2,350</td></tr><tr><td>Less: Petty expenses of 04.01.22 (250+400+100)</td><td>(750)</td></tr><tr><td>Balance of petty cash as at 04.01.22</td><td>1,600</td></tr><tr><td>Add: Petty expenses reimbursed</td><td>3,400</td></tr><tr><td>Cash float</td><td>5,000</td></tr></table>		Rupees	Balance of petty cash as at 03.01.22	2,350	Less: Petty expenses of 04.01.22 (250+400+100)	(750)	Balance of petty cash as at 04.01.22	1,600	Add: Petty expenses reimbursed	3,400	Cash float	5,000
	Rupees													
Balance of petty cash as at 03.01.22	2,350													
Less: Petty expenses of 04.01.22 (250+400+100)	(750)													
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Cash float	5,000													
42	b	The exact amount of expenditure is reimbursed at intervals to maintain fixed float												
43	d	Journal voucher												
44	a	Goods were returned to supplier after clearing the invoice												
45	a	Issued to customer as request for payment on due date												
46	b	Petty cash balance + Amount on invoices + Amount on notes												
47	c	Cash payment book												
48	d	Prudence concept												
49	b	General journal												
50	a,b,c	• To record the cash receipts • To record the cheque receipts • To record the collection in bank accounts												

LEDGERS AND TRIAL BALANCE

1. Which of the following statement is NOT true in the context of 'Chart of Accounts'?
 - a) Unique code and heading for each account head
 - b) The structure and heading in the list aims to result in consistent posting of transactions
 - c) The aim of the chart of accounts is to ensure that all transactions are recognized in accordance with the requirement of business
 - d) The aim of the chart of accounts is to calculate profit or loss of business
2. Individual credit Sales invoice are recorded in
 - a) Sales day book and posted in receivables ledger
 - b) Cash book and posted in receivables ledger
 - c) Cash book and posted in general ledger
 - d) Sales day book and posted in general ledger
3. Which of the following statement(s) is/are true with reference to duality concept?
 1. There must be only two heads of account in one transaction one should be debit and other is credit
 2. There might be more than one debit or credit in one transaction but sum of debit must be equal to sum of credit.
 - a) Statement (1) only
 - b) Statement (2) only
 - c) Both Statements
 - d) None of above Statements
4. Which of the following statement is NOT correct with reference to double entry bookkeeping?
 - a) Recording is the way of entering transactions in Journal or other books of prime entry
 - b) Process of transferring transaction from Journal or other books of prime entry to ledger is posting
 - c) The totaling process of ledgers is termed as extraction
 - d) Extraction is process of moving balances from ledgers to trial balance
5. Following information is extracted from the books of Zamin Stores for the month of January 2022:
 1. Goods sold on credit to Abid for Rs. 25,000
 2. Goods sold on credit to Sajid for Rs. 15,000
 3. Goods sold to Nadir for cash for Rs. 20,000
 4. Goods bought from Javed on credit for Rs. 15,000.

What is the balance of list of customers extracted from receivable ledgers, after incorporating the above transaction?

- a) Rs. 75,000
- b) Rs. 60,000
- c) Rs. 55,000
- d) Rs. 40,000

6. Which of the following are types of ledgers:
- General ledger
 - Receivables ledger
 - Memorandum ledger
 - Payables ledger
7. "Goods returned by customer at Rs. 2,000 previously sold at 20% markup". The double entry shall be:
- Dr. Sales returns and Cr. Accounts receivables by Rs. 1,600
 - Dr. Sales returns and Cr. Accounts receivables by Rs. 2,000
 - Dr. Accounts payable and Cr. Purchase returns by Rs. 1,600
 - Dr. Accounts payable and Cr. Purchase returns by Rs. 2,000
8. Which of the following statement(s) is/are correct in relation to 'chart of accounts'?
- Each general ledger is identified by a unique code and heading.
 - The chart of accounts can be changed at any time by accounting personnel without specific written approval of head of department.
 - The aim of the chart is to ensure that all transactions are recognised in accordance with the requirements of the business.
 - Each major heading in the financial statements might be given a range of codes from which codes can be selected for individual general ledger accounts
9. 3D Limited recorded the following transactions in their books of prime entry:
- Goods purchased from Nasir on credit for Rs. 30,000.
 - Goods purchased from Yasir on credit for Rs. 20,000.
 - Furniture purchased for cash Rs. 40,000
 - Goods purchased by cheque, from Sabir for Rs. 10,000.
- What is the closing balance of list of suppliers taken from payables ledger, after posting of the above transactions?
- Rs. 60,000
 - Rs. 50,000
 - Rs. 90,000
 - Rs. 100,000
10. The statement including balances of ledgers and prepared normally at end of each month is termed as:
- General ledger
 - Statement of financial position
 - Trial balance
 - Bank reconciliation statement
11. Which of the following head of account balance shall be shown on credit side of trial balance?
- Carriage Inwards
 - Return Inwards
 - Return outwards
 - Carriage outwards

12. Discount allowed of Rs. 1,500 was recorded on the credit side and discount received of Rs. 1,800 was recorded on debit side of trial balance.

The difference in trial balance was?

- a) No difference
 - b) Rs. 300
 - c) Rs. 600
 - d) Rs. 3,300
13. Which of the following accounts are closed at the end of the financial year to statement of comprehensive income?
- a) Assets
 - b) Expenses
 - c) Liabilities
 - d) Income
 - e) Capital
14. Which of the following are carried forward to the next year, at the end of financial year?
- a) Assets
 - b) Expenses
 - c) Liabilities
 - d) Income
 - e) Capital
 - f) Drawings
15. Zohaib purchased goods on credit for Rs. 50,000 from Shadab on 21 January, 2022, on terms 2/10, n/30. He settled his account by paying cheque on 3 February, 2022 and purchased further goods on credit for Rs. 20,000 on 20 February, 2022 on same terms.
- What were the opening and closing balances of Shadab account in payables ledger for February 2022?
- | Opening Balance | Closing Balance |
|-----------------|-----------------|
|-----------------|-----------------|
16. The closing entry of Drawings of Rs. 18,000 at year-end will be
- a) Dr. Drawings Rs. 18,000; and Cr. Capital Rs. 18,000
 - b) Dr. Drawings Rs. 18,000; and Cr. Profit & Loss Rs. 18,000
 - c) Dr. Capital Rs. 18,000; and Cr. Drawings Rs. 18,000
 - d) No entry is required
17. Closing entry for expenses at the end of financial year shall be:
- a) Expenses account Debit, Statement of comprehensive income
 - b) Expenses account Debit, Statement of financial position
 - c) Statement of comprehensive income Debit, Expense account Credit
 - d) Expense account Debit, Statement of profit or loss Credit

18. Which of the following shall provide framework for entity for preparation of financial statements?

- a) Trial Balance
- b) Ledgers
- c) General Journal
- d) Books of prime entry

19. Which of the following accounts must be presented on the debit column of a trial balance?

- a) Sales
- b) Sales Return
- c) Purchases
- d) Purchases Return
- e) Discount Allowed
- f) Discount Received

20. Following data is extracted from the books of Zakir Traders as at 30 September 2022:

Accounts	Amount Rs.
Non-Current Assets	180,000
Current Asset	120,000
Non-Current Liabilities	70,000
Current Liabilities	80,000
Drawings	50,000
Net Profit	30,000
Capital	170,000

Which of the following statement is true?

- a) The total of debit and credit side of trial balance is Rs. 300,000
- b) The total of debit side of trial balance is Rs. 400,000 and credit side total is Rs. 300,000
- c) The total of debit side of trial balance is Rs. 300,000 and credit side total is Rs. 400,000
- d) The total of debit and credit side of trial balance is Rs. 350,000

21. Which of the following statement(s) is/are correct in relation to balance of ledger:

- a) Balance b/d shown on debit side of any ledger represents credit balance
- b) Balance b/d shown on debit side of any ledger represents debit balance
- c) Balance c/d shown on debit side of any ledger represents debit balance
- d) Balance c/d shown on debit side of any ledger represents credit balance

22. An accounting personnel may make change in chart of accounts with the permission of:

- a) Head of finance
- b) In charge of IT Department
- c) Head of internal audit department
- d) External Auditor

23. Gulshan Flowers (GF) deals in flowers and bouquet. Junior accountant of GF posted the following transactions in the account of a customer :

Naveed Account					
Date	Description	LF	Debit Rs.	Credit Rs.	Balance
March 1	Sales			50,000	
March 5	Discount allowed			5,000	
March 5	Cash received		42,000		
March 7	Sales return		5,000		

What will be the balance of Naveed's account after the correction of posting, if any?

- Rs. 2,000 Debit
 - Rs. 2,000 Credit
 - Rs. 18,000 Debit
 - Rs. 7,000 Credit
24. Following data is taken from the books of Saman:

	Rs.
Total sales (including 20% cash sales)	800,000
Cash received from credit customers	297,000
(After allowing 10% settlement discount, sales above was recorded assuming that customers might not avail settlement discount)	
Credit sales return	20,000

What will be the closing balance of receivables?

- Rs. 290,000
 - Rs. 330,000
 - Rs. 356,000
 - Rs. 396,000
25. Following data is taken from the books of Mr. Sultan:

	Rs.
Total Purchases (including Cash purchases which are 50% of credit purchase)	900,000
Cash paid to suppliers	300,000
Cheques issued to suppliers	100,000
Discount received	30,000
Credit purchases return	50,000

What will be the closing balance of payables?

- Rs. 200,000
- Rs. 150,000
- Rs. 120,000
- Rs. 40,000

26. Accounts officer of Maria & Maria (M&M) posted the journal entries into one of its supplier Mr. Sajid's account as:

Sajid Account					
Date	Description	LF	Debit Rs.	Credit Rs.	Balance
March 1	Purchases		10,000		
March 2	Purchases return		2,000		
March 3	Discount received			1,000	
March 3	Cheque issued		5,000		

What will be the balance of sajid's account after the correction of posting, if any?

- Rs. 16,000 Debit
 - Rs. 4,000 Debit
 - Rs. 2,000 Debit
 - Rs. 2,000 Credit
27. Which of the following account shall be balanced off rather than closed off?
- Furniture
 - Salaries
 - Sales
 - Discount allowed
28. The two objectives of trial balance are:
- To check the arithmetic accuracy of accounts
 - To provide framework for preparation of financial statements
 - To ensure that financial statements are free of errors and biasness
29. Iqra runs a school system. She had cash in hand Rs. 40,000 at the start of January 2022. During January 2022 following transactions took place:
- She purchased a laptop for Rs. 50,000, for office use. She paid Rs. 20,000 in cash and balance amount will be paid after two months.
 - Student fee received in cash for Rs. 60,000.
 - Rent of building paid in cash for Rs. 20,000.
 - Salaries for the month of December 2022 were paid in cash Rs. 10,000.
 - Electricity bill for the month of January 2022 was received for Rs. 15,000 but not paid till the end of the month.

What is the balance cash in hand at the end of January 2022?

- Rs. 60,000
- Rs. 50,000
- Rs. 45,000
- Rs. 35,000

30. Khadim Hussain started business of furniture and after one month he hired his daughter to look after the accounts of business at Rs. 20,000 per month. The double-entry for payment of remuneration to his daughter shall be:
- Dr. Drawings and Cr. Salaries
 - Dr. Salaries and Cr. Capital
 - Dr. Drawings and Cr. Cash
 - Dr. Salaries and Cr. Cash
31. Posting is a process of transferring the transactions from:
- Books of prime entry to ledgers
 - Ledger to another ledger
 - Ledger to trial balance
 - Books of prime entry to trial balance
32. Bank account of Jameel & Co shows a total on debit side Rs. 12,450 and total on credit side Rs. 14,250. It will be presented in statement of financial position as:
- Cash at bank Rs. 12,450 as current asset and Bank overdraft Rs. 14,250 as current liability
 - Cash at bank Rs. 12,450 as current asset and Bank overdraft Rs. 14,250 as non-current liability
 - Bank overdraft of Rs. 1,800 as current liability
 - Cash at bank of Rs. 1,800 as current asset
33. Which of the following statements is/are correct?
- T account format of ledgers are balanced after each transaction
 - Running balance account format of ledgers are balanced periodically
 - T account format of ledgers are balanced periodically
 - Running balance account format of ledgers are balanced after each transaction
34. Which of the following items would NOT appear on same side of trial balance?
- Carriage inwards and return inwards
 - Carriage outwards and return outwards
 - Drawings and return inwards
 - Capital and rental income
35. Journal entry to record payment of rent by cheque for the month of June 2022 shall be:
- Dr. Rent Expense and Cr. Cash
 - Dr. Rent Expense and Cr. Bank
 - Dr. Cash and Cr. Rent Expense
 - Dr. Bank and Cr. Rent Expense
36. Which of the following balances shown on both sides of trial balance are correct?
- | Debit Balances | Credit Balances |
|--|-------------------------------------|
| a) Furniture, Cash, Accrued expense | Capital, bank loan |
| b) Salaries, Furniture, Cash | Bank loan, accrued income |
| c) Furniture, Salaries, Cash, Accrued income | Capital, bank loan, accrued expense |
| d) Salaries, Drawings, Loan to friend | Accrued income, Bank loan |

37. Opening balance of Bank account was Rs. 6,200 overdrawn. During the month following transactions were taken place:
- Cheque of Rs. 9,300 was received from customer.
 - Cheque of Rs 2,400 was paid to supplier.
 - Cheque of Rs. 2,300 deposited into bank was dishonoured.
 - Cash is withdrawn from bank Rs. 500.
 - Closing balance of bank account shall be:
- a) Rs. 2,100 favourable
 - b) Rs. 2,100 overdrawn
 - c) Rs. 2,500 favourable
 - d) Rs. 2,500 overdrawn
38. Mr. Rashid transferred computer from business to home for his kid. The computer was bought one year ago at Rs. 25,000 but its current market value is equal to its carrying value of Rs. 16,000.
- What will be double entry for this transaction?
- a) Dr. Capital Rs. 25,000 and Cr. Computer Rs. 25,000
 - b) Dr. Drawings Rs. 25,000 and Cr. Computer Rs. 25,000
 - c) Dr. Capital Rs. 16,000 and Cr. Computer Rs. 16,000
 - d) Dr. Drawings Rs. 16,000 and Cr. Computer Rs. 16,000
39. Double entry for transaction "cash received of Rs. 12,300 from customer against full settlement of invoice of Rs. 12,500" shall be:
- a) Dr. Cash Rs. 12,300; Discount Allowed Rs. 200 and Cr. Accounts receivables Rs. 12,500
 - b) Dr. Cash Rs. 12,300; Discount Received Rs. 200 and Cr. Accounts receivables Rs. 12,500
 - c) Dr. Cash Rs. 12,300; Discount Allowed Rs. 200 and Cr. Accounts payables Rs. 12,500
 - d) Dr. Cash Rs. 12,300; Discount received Rs. 200 and Cr. Accounts payables Rs. 12,500
40. In "Balance c/d", c/d stands for and represents:
- a) Carried down; opening balance
 - b) Carried down; closing balance
 - c) Closing debit; opening balance
 - d) Closing debt; closing balance
41. Nominal ledger is alternative name of:
- a) Receivables ledger
 - b) Payables ledger
 - c) General ledger
 - d) Memorandum ledger
42. Loan taken from friend Rs. 20,000 for 6 months subject to 10% interest thereon. The correct double entry at time time of obtaining loan shall be:
- a) Dr. Cash Rs. 20,000; Interest Rs. 2,000 and Cr. Loan Rs. 22,000
 - b) Dr. Cash Rs. 20,000; Interest Rs. 2,000 and Cr. Loan Rs. 20,000 and Interest payable Rs. 2,000
 - c) Dr. Cash Rs. 20,000 and Cr. Loan Rs. 18,000 and interest payable Rs. 2,000
 - d) Dr. Cash Rs. 20,000 and Cr. Loan Rs. 20,000

43. At year-end, closing entry to close the sales account shall be:
- Sales account Debit, statement of financial position Credit
 - Sales account Debit, Statement of comprehensive income Credit
 - Statement of financial position Debit, Sales account Credit
 - Statement of comprehensive income Debit, Sales Credit
44. Posting for total of discount received column of cash book is made in the following:
- Receivables ledger
 - Payables ledger
 - Trial balance
 - General ledger
45. The process of extracting balances can be better explained as:
- Transferring balances from ledgers to trial balance
 - Transferring balances from journal to ledgers
 - Transferring balances from journal to trial balance
 - Transferring balances from transactions to trial balance
46. Chart of accounts is basically the list of accounts created by the business. Which of the following statement(s) is/are correct.
- Each general ledger account is identified by a unique code and heading.
 - A company can prepare its own chart of accounts as per its own requirements.
 - Generic chart of account issued by Government must be used by each businessman.
47. Total of debit and credit column of a trial balance should be equal. It indicates that there is no.
- Omission
 - Fraud
 - Embezzlement
 - Arithmetical error
48. Closing entry for expense at the end of financial year is:
- Debit Expenses account; Credit statement of comprehensive income
 - Debit Expenses account; Credit statement of financial position
 - Debit statement of comprehensive income; Credit Expense account
 - Debit statement of financial position; Credit Expense account
49. Credit Sales invoice shall be recorded in:
- Sales day book and posted in receivables ledger
 - Cash book and posted in receivables ledger
 - Cash book and posted in general ledger
 - Sales day book and posted in general ledger
50. Closing journal entry to transfer the net loss for the year is:
- Statement of comprehensive income Debit Capital account Credit
 - Capital account Debit Statement of comprehensive income Credit
 - Statement of financial position Debit Capital account Credit
 - Net loss Debit Statement of comprehensive income Credit

ANSWERS TO SELF TEST QUESTIONS

01	d	The aim of the chart of accounts is to calculate profit or loss of business									
02	a	Sales day book and posted in receivables ledger									
03	b	Only Statement (2) is correct.									
04	c	The totaling process of ledgers is termed as extraction									
05	d	<table><tr><th>Customer list</th><th>Rs.</th></tr><tr><td>Abid</td><td>25,000</td></tr><tr><td>Sajid</td><td>15,000</td></tr><tr><td>Total of receivables</td><td>40,000</td></tr></table>	Customer list	Rs.	Abid	25,000	Sajid	15,000	Total of receivables	40,000	
Customer list	Rs.										
Abid	25,000										
Sajid	15,000										
Total of receivables	40,000										
06	a,b,d	- General ledger - Receivables ledger - Payables ledger									
07	b	Dr. Sales returns and Cr. Accounts receivables by Rs. 2,000									
08	a,c,d	- Each general ledger is identified by a unique code and heading. - The aim of the chart is to ensure that all transactions are recognised in accordance with the requirements of the business. - Each major heading in the financial statements might be given a range of codes from which codes can be selected for individual general ledger accounts									
09	b	Rs. 30,000 + 20,000 = Rs. 50,000 (only credit sales.)									
10	c	Trial balance									
11	c	Return outwards									
12	c	Rs. 1,800 – 1,500 = Rs. 300									
13	b,d	- Expenses - Income									
14	a,c,e	- Assets - Liabilities - Capital									
15	b	Balance at end of January/start of February Rs. 50,000 Balance at end of February Rs. 20,000 (Previous Rs. 50,000 has been settled).									
16	c	Dr. Capital Rs. 18,000; and Cr. Drawings Rs. 18,000									
17	c	Statement of comprehensive income Debit, Expense account Credit									
18	a	Trial Balance									
19	a,b,e	- Sales Return - Purchases - Discount Allowed									

20	d	<table><tr><th>Head of Account</th><th>Debit Rs.</th><th>Credit Rs.</th></tr><tr><td>Non-current assets</td><td>180,000</td><td></td></tr><tr><td>Current assets</td><td>120,000</td><td></td></tr><tr><td>Non-current liabilities</td><td></td><td>70,000</td></tr><tr><td>Current liabilities</td><td></td><td>80,000</td></tr><tr><td>Drawings</td><td>50,000</td><td></td></tr><tr><td>Net profit</td><td></td><td>30,000</td></tr><tr><td>Capital</td><td></td><td>170,000</td></tr><tr><td>Total of trial balance</td><td>350,000</td><td>350,000</td></tr></table>	Head of Account	Debit Rs.	Credit Rs.	Non-current assets	180,000		Current assets	120,000		Non-current liabilities		70,000	Current liabilities		80,000	Drawings	50,000		Net profit		30,000	Capital		170,000	Total of trial balance	350,000	350,000	
Head of Account	Debit Rs.	Credit Rs.																												
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Total of trial balance	350,000	350,000																												
21	b,d	• Balance b/d shown on debit side of any ledger represents debit balance • Balance c/d shown on debit side of any ledger represents credit balance																												
22	a	Head of finance																												
23	b	Naveed Account <table><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Sales</td><td>50,000</td><td>Sales (discount)</td><td>5,000</td></tr><tr><td></td><td></td><td>Cash</td><td>42,000</td></tr><tr><td>Balance c/f</td><td>2,000</td><td>Sales return</td><td>5,000</td></tr><tr><td></td><td>52,000</td><td></td><td>52,000</td></tr><tr><td></td><td></td><td>Balance b/f</td><td>2,000</td></tr></table>		Rs.		Rs.	Sales	50,000	Sales (discount)	5,000			Cash	42,000	Balance c/f	2,000	Sales return	5,000		52,000		52,000			Balance b/f	2,000				
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24	a	Accounts receivables <table><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Sales</td><td></td><td>Cash</td><td>297,000</td></tr><tr><td>(800,000 x 80%)</td><td>640,000</td><td>Discount allowed</td><td></td></tr><tr><td></td><td></td><td>(297,000 x 10/90)</td><td>33,000</td></tr><tr><td></td><td></td><td>Sales returns</td><td>20,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>290,000</td></tr><tr><td></td><td>640,000</td><td></td><td>640,000</td></tr></table>		Rs.		Rs.	Sales		Cash	297,000	(800,000 x 80%)	640,000	Discount allowed				(297,000 x 10/90)	33,000			Sales returns	20,000			Balance c/f	290,000		640,000		640,000
	Rs.		Rs.																											
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25	c	Accounts payable <table><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Cash</td><td>300,000</td><td>Purchase</td><td></td></tr><tr><td>Bank</td><td>100,000</td><td>(900,000 x 100/150)</td><td>600,000</td></tr><tr><td>Discount received</td><td>30,000</td><td></td><td></td></tr><tr><td>Purchase returns</td><td>50,000</td><td></td><td></td></tr><tr><td>Balance c/f</td><td>120,000</td><td></td><td></td></tr><tr><td></td><td>600,000</td><td></td><td>600,000</td></tr></table>		Rs.		Rs.	Cash	300,000	Purchase		Bank	100,000	(900,000 x 100/150)	600,000	Discount received	30,000			Purchase returns	50,000			Balance c/f	120,000				600,000		600,000
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Discount received	30,000																													
Purchase returns	50,000																													
Balance c/f	120,000																													
	600,000		600,000																											

26	d	Sajid Account			
			Rs.		Rs.
		Purchase returns	2,000	Purchase	10,000
		Discount received	1,000		
		Bank	5,000		
		Balance c/f	2,000		
			10,000		10,000
27	a	Furniture is asset account it shall not be closed.			
28	a,b	To check the arithmetic accuracy of accounts To provide framework for preparation of financial statements			
29	b	Cash Account			
			Rs.		Rs.
		Balance b/f	40,000	Laptop	20,000
		Student fee	60,000	Rent expense	20,000
				Salaries expense	10,000
				Balance c/f	50,000
			100,000		100,000
30	d	Dr. Salaries and Cr. Cash			
31	a	Books of prime entry to ledgers			
32	c	Bank overdraft of Rs. 1,800 as current liability			
33		T account format of ledgers are balanced periodically. Running balance account format of ledgers are balanced after each transaction			
34	b	Carriage outwards and return outwards			
35	b	Dr. Rent Expense and Cr. Bank			
36	c	Debit: Furniture, Salaries, Cash, Accrued income Credit: Capital, bank loan, accrued expense			
37	b	Bank Account			
			Rs.		Rs.
		Debtor	9,300	Balance b/f	6,200
				Creditor	2,400
				Debtor	2,300
		Balance c/f	2,100	Cash	500
			11,400		11,400
38	d	Dr. Drawings Rs. 16,000 and Cr. Computer Rs. 16,000			
39	a	Dr. Cash Rs. 12,300; Discount Allowed Rs. 200 and Cr. Accounts receivables Rs. 12,500			

40	b	Carried down; closing balance
41	c	General ledger
42	d	Dr. Cash Rs. 20,000 and Cr. Loan Rs. 20,000
43	b	Sales account Debit, Statement of comprehensive income Credit
44	d	General ledger
45	a	Transferring balances from ledgers to trial balance
46	a,b	- Each general ledger account is identified by a unique code and heading. - A company can prepare its own chart of accounts as per its own requirements.
47	d	Arithmetical error
48	c	Debit statement of comprehensive income; Credit Expense account
49	a	Sales day book and posted in receivables ledger
50	b	Capital account Debit Statement of comprehensive income Credit

ACCRUALS AND PREPAYMENTS

1. Any expense which is related to current accounting period, but not paid till year-end, rather payable in subsequent year, is termed as:
 - a) Prepaid expense
 - b) Accrued expense
 - c) Unearned expense
 - d) Expense paid in advance

2. R Co. had paid two annual insurance premium; first for property on 1 April 2022 Rs. 120,000 and second for plant on 1 August 2022 Rs. 180,000. How much amount shall be charged to statement of comprehensive income and statement of financial position as at 30 September 2022?

Statement of comprehensive income

- a) Rs. 65,000
- b) Rs. 65,000
- c) Rs. 90,000
- d) Rs. 90,000

Statement of Financial position

- Rs. 225,000 accrued expense
- Rs. 225,000 prepaid expense
- Rs. 210,000 accrued expense
- Rs. 210,000 prepaid expense

3. Ali receives rent from different properties and total rent received during the year ended 30 September 2022 was Rs. 4,500,000. The balances at start and end of year are given below.

As at 30.09.22

Rent received in advance
Rent receivable

As at 30.09.21

Rs. 145,000 Rs. 332,000
Rs. 115,500 Rs. 181,500

The amount of rental income credited to profit and loss for the year ended 30 September 2022 was:

- a) Rs. 4,753,000
 - b) Rs. 4,247,000
 - c) Rs. 4,621,000
 - d) Rs. 4,500,000
4. Which of the following shall be recognized as current asset if its realisation or settlement is expected within one year period?
 - a) Accrued income
 - b) Unearned income
 - c) Prepaid expense
 - d) Accrued expense

5. Armaghan has paid annual insurance premium of Rs. 180,000 on 1 September 2022 and recorded as prepaid insurance.

What adjusting entry shall be passed on 31 December 2022?

- a) Dr. Insurance expense Rs. 120,000 and Cr. Prepaid insurance Rs. 120,000
- b) Dr. Insurance expense Rs. 60,000 and Cr. Prepaid insurance Rs. 60,000
- c) Dr. Prepaid Insurance Rs. 120,000 and Cr. Insurance expense Rs. 120,000
- d) Dr. Prepaid Insurance Rs. 120,000 and Cr. Insurance expense Rs. 120,000

6. Mohtashim received two-year rent amounting to Rs. 720,000 on 1 March 2022 for one of its properties. He closed his books on 30 June 2022.

What was correct treatment to recognise the unearned rental income as at 30 June 2022 in statement of financial position?

- Recognise Rs. 600,000 as current liability
- Recognise Rs. 240,000 as current liability and Rs. 360,000 as non-current liability
- Recognise Rs. 360,000 as current liability and Rs. 240,000 as non-current liability
- Recognise Rs. 600,000 as non-current liability

7. Following statements represent the accrual and prepayment concept:

- Any income which is recognized in the year of occurrence irrespective of received or not and is in arrears is termed as accrued.
- Any expense or income which is paid or received in advance and not related to current year shall be termed as prepayment

Which of the following statement(s) is/are correct?

- Statement (1) only
- Statement (2) only
- Both statements
- None of the statements

8. As at 1 January 2022, unpaid bill of utility was Rs. 55,000; during the year ended 31 December 2022 utility expense of Rs. 478,000 was paid and as at 31 December 2022, the unpaid bill of utility was Rs. 38,700.

The closing entry of utility expense for the year ended 31 December 2022 was:

- Dr. Utility Expense Rs. 461,700 and statement of comprehensive income Rs. 461,700
- Dr. Statement of comprehensive income Rs. 461,700 and Cr. Utility expense Rs. 461,700
- Dr. Utility Expense Rs. 494,300 and statement of comprehensive income Rs. 494,300
- Dr. Statement of comprehensive income Rs. 494,300 and Cr. Utility expense Rs. 494,300

9. Which TWO of the following are examples of prepaid expense?

- Rent of 12 months was paid in advance
- Electricity bill of last month was received and paid in following accounting year
- Annual insurance premium was paid at the time of agreement
- Salaries for the month were paid in subsequent month

10. Nasir Limited pays internet usage bills for the months of January 2022 to June 2022 in subsequent month in equal amount on monthly basis. The amount paid till 30 June 2022 is Rs. 181,000.

How much amount shall be charged to statement of comprehensive income and statement of financial position as at 30 June 2022?

Statement of comprehensive income

Statement of financial position

- | | |
|---------------------------|----------------------------|
| a) Rs. 181,000 as expense | Rs. 36,200 accrued expense |
| b) Rs. 181,000 as expense | Rs. 36,200 prepaid expense |
| c) Rs. 217,200 as expense | Rs. 36,200 accrued expense |
| d) Rs. 217,200 as expense | Rs. 36,200 prepaid expense |

11. A company has introduced new policy of paying commission to its salesperson at 1% of sales, in the month following the sales. The total sales from January 2022 to November 2022 was recorded at 3,780,000 and sales for the month of December 2022 was Rs. 360,000.

Which of the following statement is correct?

- a) Commission expense for the year ended 31 December 2022 was Rs. 37,800
 - b) Commission payable as at 31 December 2022 was Rs. 3,600
 - c) Commission payable as at 31 December 2022 should be recorded as non-current liability
 - d) Commission of Rs. 37,800 was recorded as income for the year
12. Nisar deposited Rs. 150,000 in deposit account at 12% p.a. on 1 July 2022. Interest on deposit shall be received on 30 June each year. Nisar closes its books on 31 December each year.

Which of the following statement is correct in relation to above statement on 31 December 2022?

- a) Interest income Rs. 18,000 and accrued interest income Rs. 9,000
 - b) Interest income Rs. 18,000 and accrued interest income Rs. 4,500
 - c) Interest income Rs. 9,000 and accrued interest income Rs. 9,000
 - d) Interest income Rs. 9,000 and accrued interest income Rs. 4,500
13. At reporting date, the accrued expense was identified and accountant make adjustment by subtracting the accrued expense from relevant expense and showed prepaid expense in statement of financial position.

Which of the statement(s) is/are true in relation to above error?

- a) The profit for the year was understated
 - b) The profit for the year was overstated
 - c) The net assets were understated
 - d) The net assets were overstated
14. Jamshaid paid maintenance expense on quarterly basis in arrears. It had paid first bill on 28 February 2022 Rs. 75,000; second bill on 31 May 2022 Rs. 65,000 and third bill on 31 August 2022 Rs. 66,000. Jamshaid closes its books on 30 June 2022.

Which of the following statement is true?

- a) Charge Rs. 140,000 as expense and record Rs. 66,000 as prepaid expense
 - b) Charge Rs. 162,000 as expense and record Rs. 44,000 as prepaid expense
 - c) Charge Rs. 184,000 as expense and record Rs. 22,000 as prepaid expense
 - d) Charge Rs. 162,000 as expense and record Rs. 22,000 as accrued expense
15. A business had balance of Prepaid Insurance as at 1 January 2022 of Rs. 65,000. On 1 May 2022, it paid annual insurance premium of Rs. 150,000 for year ended 30 April 2023.

How much amount shall be charged to statement of comprehensive income and statement of financial position as at 31 December 2022?

Statement of comprehensive income

- a) Rs. 100,000
- b) Rs. 165,000
- c) Rs. 100,000
- d) Rs. 165,000

Statement of Financial position

- Rs. 115,000 accrued expense
- Rs. 50,000 accrued expense
- Rs. 115,000 prepaid expense
- Rs. 50,000 prepaid expense

16. At start of year, accrued expense was Rs. 56,000 and end of year it was Rs. 60,000. The expense of Rs. 500,000 was charged in statement of comprehensive income.

How much amount was paid during the year?

- a) Rs. 496,000
 - b) Rs. 500,000
 - c) Rs. 504,000
 - d) Rs. 616,000
17. An accrued expense shall be recognizes as:
- a) Increase in expense and current asset
 - b) Increase in expense and current liability
 - c) Decrease in expense and current asset
 - d) Decrease in expense and current liability
18. Which of the following statement(s) is/are false?
- a) Recording accrued expense increases profit
 - b) Recording accrued income increases profit
 - c) Unearned income is current liability
 - d) Prepaid expense is current liability
19. Following data was extracted from the books of Najam Limited for the year ended 30 June 2022.
- | | |
|---|-------------|
| Accrued income as at 30 June 2022 | Rs. 41,500 |
| Income received during the year 30 June 2022 | Rs. 478,600 |
| Income credited to profit and loss for the year | Rs. 496,300 |
- What was the balance as at 30 June 2021?
- a) Unearned income Rs. 23,800
 - b) Accrued income Rs. 23,800
 - c) Unearned income Rs. 59,200
 - d) Accrued income Rs. 59,200
20. Which of the following are examples of accrued expense?
- a) Annual rental was paid at the time of an agreement
 - b) Expenses were paid in arrears
 - c) Salaries were paid to employees in subsequent month
 - d) Interest on loan taken from bank and paid on annual basis
21. Ninja Corporation entered into contract with Rashid on 1 September 2022 to provide annual maintenance services. Annual fee of Rs. 360,000 was received in advance and recorded as unearned income.
- What adjusting entry shall be passed in the books of Ninja Corporation as at 31 December 2022?
- a) Dr. Maintenance income Rs. 120,000 and Cr. Unearned income Rs. 120,000
 - b) Dr. Unearned income Rs. 120,000 and Cr. Maintenance income Rs. 120,000
 - c) Dr. Maintenance income Rs. 240,000 and Cr. Unearned income Rs. 240,000
 - d) Dr. Unearned income Rs. 240,000 and Cr. Maintenance income Rs. 240,000

22. Which of the following shall be recognized as current liability if its realisation or settlement is due within one year period?
- Accrued income
 - Unearned income
 - Accrued expense
 - Prepaid expense
23. Newson dealers hired property and also sub-let part of this property to other tenant. The balances in respect of rent of this property are given below:

	31 December 2021	31 December 2022
Property Main	Rs. 140,000 Cr.	Rs. 165,000 Cr.
Property Sub-let	Rs. 60,000 Cr.	Rs. 10,000 Dr.

How much net amount shall be charged to rent expense (net) for the year ended 31 December 2022, assuming that rent of Rs. 750,000 was paid and Rs. 300,000 was received during the year?

- Rs. 405,000
 - Rs. 775,000
 - Rs. 495,000
 - Rs. 1,075,000
24. Nishter Enterprises sub-let its block of building and received following rental income in advance on quarterly basis:
- | | |
|-----------------|------------|
| 1 May 2021 | Rs. 45,000 |
| 1 August 2021 | Rs. 45,000 |
| 1 November 2021 | Rs. 45,000 |
| 1 February 2022 | Rs. 45,000 |
| 1 May 2022 | Rs. 48,000 |
- Which of the following TWO statements are correct?
- Rental income for the year ended 30 June 2022 was Rs. 182,000
 - Accrued rental income as at 30 June 2022 was Rs. 48,000
 - Unearned rental income as at 1 July 2021 was Rs. 15,000
 - Unearned rental income as at 30 June 2022 was Rs. 48,000
25. Any expense paid in current year but relating to following year, is an example of:
- Prepaid expense
 - Accrued expense
 - Expense in arrear
 - Expense payable
26. Opening balance for accrued utility expense at 1 July 2021 was Rs. 12,500. Following payments were made during the year ended 30 June 2022.

1 September 2021	Rs. 36,800 (period covering from June 2021 to August 2021)
1 January 2022	Rs. 55,600 (period covering from September 2021 to December 2021)
1 May 2022	Rs. 33,600 (period covering from January 2022 to April 2022)
1 July 2022	Rs. 18,600 (period covering from May 2022 to June 2022)

How much amount shall be charged as expense for the year ended 30 June 2022 and in statement of financial position as at 30 June 2022?

- Rs. 130,300 as expense and Rs. 12,500 as current asset
- Rs. 132,100 as expense and Rs. 18,600 as current liability
- Rs. 121,700 as expense and Rs. 18,600 as current asset
- Rs. 121,700 as expense and Rs. 12,500 as current liability

27. Arvind paid its vendors for repair services after one month from invoice date. As at 1 April 2022 repair bill of Rs. 32,200 was outstanding. During the quarter ended 30 June 2022 Arvind paid Rs. 144,600 against repair bills including Rs. 30,000 from opening balance. On 31 July Arvind received bill of repairs Rs. 27,300 representing period from 16 June to 15 July 2022.

How much amount shall be charged as expense for quarter ended 30 June 2022?

- a) Rs. 139,700
b) Rs. 128,250
c) Rs. 126,050
d) Rs. 96,050

28. As at start of year, repair bill of Rs. 28,700 was outstanding. During the year an amount of Rs. 222,000 was paid for repairs, including Rs. 28,700. At end of year, no bill was pending.

Which of the following statement is true?

- The charge for the year was Rs. 222,000
- The charge for the year was Rs. 250,700
- The charge for the year was Rs. 193,300
- Current liability at end of year was Rs. 28,700

29. Journal entry to record the accrued expense at year-end is:

- a) Dr. Expense Cr. Prepaid expense
b) Dr. Prepaid expense Cr. Expense
c) Dr. Expense Cr. Accrued expense
d) Dr. Accrued expense Cr. Expense

30. Consider the following accounting treatment, and identify which of the following TWO statements are correct?

- Rent received in advance was recorded as current liability
- Salaries unpaid at year end was recorded as current liability
- Accrued interest expense was recorded as current asset
- Prepaid expense was recorded as non-current asset

31. A prepaid expense adjustment is recognized as:

- a) Increase in expense and increase in current asset
- b) Increase in expense and decrease in current liability
- c) Decrease in expense and increase in current asset
- d) Decrease in expense and decrease current liability

32. While finalising the accounts, Mujahid overlooked to record accrued expense of Rs. 37,800 and accrued income of Rs. 16,300.

What was impact on profit as result of above omission?

- Profit for the year was understated by Rs. 21,500
 - Profit for the year was overstated by Rs. 21,500
 - Profit for the year was understated by Rs. 54,100
 - Profit for the year was overstated by Rs. 54,100
33. If accrued expense was wrongly recorded as accrued income at end of year, then what will be impact on profit of this error?
- Profit was understated by amount of error
 - Profit was understated by double the amount of error
 - Profit was overstated by amount of error
 - Profit was overstated by double amount
34. Nasir had consumables as at 1 January 2022 of Rs. 16,000 and bill of consumables were unpaid as at 1 January 2022 of Rs. 22,500.
- During the year ended 31 December 2022 Nasir had paid Rs. 185,000 against purchase of consumables. At 31 December 2022, a bill of consumables of Rs. 16,800 was unpaid and unused consumables were Rs. 22,780.
- The amount of expense charged for the year ended 31 December 2022 was?
- Rs. 183,920
 - Rs. 172,520
 - Rs. 186,080
 - Rs. 197,480
35. On 1 July 2022, annual insurance premium of Rs. 150,000 was paid in advance and recorded as expense. What adjusting entry shall be passed at 30 September 2022?
- Dr. Insurance premium Rs. 37,500 and Cr. Prepaid expense Rs. 37,500
 - Dr. Prepaid expense Rs. 37,500 and Cr. Insurance premium Rs. 37,500
 - Dr. Insurance premium Rs. 112,500 and Cr. Prepaid expense Rs. 112,500
 - Dr. Prepaid expense Rs. 112,500 and Cr. Insurance premium Rs. 112,500
36. Balances of accrued internet expense and prepaid internet expense as at 30 June 2022 were Rs. 19,800 and Rs. 23,300 respectively. During the year ended 30 June 2022, payment of Rs. 196,850 were made for internet expense. The internet expense of Rs. 211,200 was charged to statement of profit and loss.
- If the balance of accrued internet expense was Rs. 16,600 as at 30 June 2021, then the balance of prepaid internet expense as at 30 June 2021 was:
- Rs. 5,750
 - Rs. 27,450
 - Rs. 34,450
 - Rs. 10,850
37. Meekal Enterprises hired property on lease on 1 September 2021 and paid rent for 12 months at Rs. 50,000 per month in advance. The part of property was sub-let to Anjum Associates on 1 February 2022 and received rent of 8 months at Rs. 30,000 per month in advance.
- How much amount shall be recognised in statement of financial position as at 30 June 2022?
- Prepaid expense of Rs. 100,000 and unearned income of Rs. 90,000
 - Unearned income of Rs. 100,000 and prepaid expense of Rs. 90,000
 - Prepaid expense of Rs. 500,000 and unearned income of Rs. 150,000
 - Unearned income of Rs. 500,000 and prepaid expense of Rs. 150,000

38. Opening and closing accrued salaries were Rs. 22,500 and Rs. 25,000 respectively and during the current year, salaries of Rs. 312,500 were paid. Which of the following statement(s) is/are correct?
- Salaries expense for the current year Rs. 310,000 will be shown in statement of comprehensive income
 - Salaries expense for the current year Rs. 315,000 will be shown in statement of comprehensive income
 - Accrued salaries expense shall be shown as current asset in statement of financial position
 - Accrued salaries expense shall be shown as current liability in statement of financial position
39. Which of the following statement is correct in relation to Accrual concept?
- If cash is received in current year for expense to be incurred in next year, income should be recorded when it was received
 - A person was hired at salary of Rs. 50,000 with salary payable on 5th of month following the month of salary, he worked for 7 months in current year but only 6 month salary was paid with one salary shall be paid next year. Expense of 6 months should be recognized.
 - Rent expense of Rs. 48,000 was paid for three-months and one month is related to next accounting year. The rent expense of Rs. 48,000 shall be recorded in current year statement of comprehensive income
 - Rent expense of Rs. 48,000 was paid for three-months and one month is related to next accounting year. The rent expense of Rs. 36,000 shall be recorded in current year statement of comprehensive income and Rs. 12,000 shall be shown in statement of financial position as current asset
40. If accrued expense was wrongly recorded as prepaid expense at end of year, then what will be impact on profit of this error?
- Profit was understated by amount of error
 - Profit was understated by double the amount of error
 - Profit was overstated by amount of error
 - Profit was overstated by double amount
41. The following data was related to Anjum Limited for the year ended 30 June 2022.
- | | |
|--|-------------|
| Accrued expense as at 1 July 2021 | Rs. 16,500 |
| Expense charged during the year 30 June 2022 | Rs. 125,000 |
| Prepaid expense as at 30 June 2022 | Rs. 19,600 |
- Expense paid during the year ended 30 June 2022 was?
- Rs. 88,900
 - Rs. 121,900
 - Rs. 128,100
 - Rs. 161,100
42. Which of the following are examples of unearned income?
- Insurance premium paid in advance
 - Sub-letting property where rent is in advance
 - Hiring of property where rent is in advance
 - Fee received at the time of service contract
43. At the time of making adjustments, the accountant omitted to adjust accrued income of Rs. 44,500 and unearned income of Rs. 36,500.
- After making above adjustments, the net profit for the year will:
- Increase by Rs. 8,000
 - Decrease by Rs. 8,000
 - Increase by Rs. 81,000
 - Decrease by Rs. 81,000

44. MPD was engaged in rental business and during the year ended 31 March 2022 he received Rs. 720,000 as rent from different tenants. The books showed the following balances at start and end of year:

	31 March 2021	31 March 2022
Rent in arrear	Rs. 80,000	Rs. 45,000
Rent in advance	Rs. 50,000	Rs. 100,000

How much amount shall be credited to rental income for the year ended 31 March 2022?

- Rs. 745,000
 - Rs. 695,000
 - Rs. 635,000
 - Rs. 805,000
45. The adjustment of accrued income impacts elements of financial statements as:
- Increase in income and decrease in current liability
 - Increase in income and increase in current asset
 - Decrease in income and decrease in current asset
 - Decrease in income and increase in current liability
46. What entry shall be passed to record the accrued income at year-end?
- Dr. Accrued income and Cr. Income
 - Dr. Unearned income and Cr. Income
 - Dr. Income and Cr. Accrued income
 - Dr. Income and Cr. Unearned income
47. Insurance premium (annual) was agreed with insurance company at Rs. 60,000 payable in advance on quarterly basis; the first payment was made at 1 November 2020. The annual insurance premium was increased by 10% w.e.f. 1 November 2021. What amount shall be shown in statement of financial position as at 30 June 2022?
- Rs. 11,000 accrued expense
 - Rs. 5,500 prepaid expense
 - Rs. 11,000 prepaid expense
 - Rs. 5,500 accrued expense
48. Which TWO of the following are an example of accrued income?
- Rental income for 6 months received in advance
 - Deposit an amount in fixed deposit, interest shall be receivable at each year end
 - Bill of maintenance was issued to customer after providing service
 - 50% payment was received in advance for supply of goods
49. The accrued income of Rs. 36,000 was wrongly recorded as Rs. 63,000 and unearned income of Rs. 63,000 was wrongly recorded as Rs. 36,000 at year end.
- What was the impact on net profit for the year?
- No effect
 - Profit was understated by Rs. 27,000
 - Profit was overstated by Rs. 27,000
 - Profit was overstated by Rs. 54,000

50. One year maintenance contract fee was received from Khan Traders on 1 August 2022 in advance. Company closes its books on 31 December each year.

Which of the following term is NOT related to above statement.

- a) Unearned income
- b) Income received in advance
- c) Accrued income
- d) Advance income

ANSWERS TO SELF TEST QUESTIONS

01	b	Accrued expense																						
02	d	<table><tr><td colspan="2">Insurance expense</td><td></td><td>Rs.</td></tr><tr><td>Property</td><td></td><td>120,000 x 6/12</td><td></td><td>60,000</td></tr><tr><td>Plant</td><td></td><td>180,000 x 2/12</td><td></td><td>30,000</td></tr><tr><td colspan="3">Charged to SOCI</td><td></td><td>90,000</td></tr></table>				Insurance expense			Rs.	Property		120,000 x 6/12		60,000	Plant		180,000 x 2/12		30,000	Charged to SOCI				90,000
Insurance expense			Rs.																					
Property		120,000 x 6/12		60,000																				
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Charged to SOCI				90,000																				
03	c	Rental Income																						
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>181,500</td><td>Balance b/f</td><td>332,000</td></tr><tr><td>SOCI</td><td>4,621,000</td><td>Cash</td><td>4,500,000</td></tr><tr><td>Balance c/f</td><td>145,000</td><td>Balance c/f</td><td>115,500</td></tr><tr><td></td><td>4,947,500</td><td></td><td>4,947,500</td></tr></table>		Rs.		Rs.	Balance b/f	181,500	Balance b/f	332,000	SOCI	4,621,000	Cash	4,500,000	Balance c/f	145,000	Balance c/f	115,500		4,947,500		4,947,500		
	Rs.		Rs.																					
Balance b/f	181,500	Balance b/f	332,000																					
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	4,947,500		4,947,500																					
04	a,c	• Accrued income • Prepaid expense																						
05	b	Insurance Expense (180,000 x 4/12)= Rs. 60,000																						
06	c	<table><tr><td colspan="2">Unearned Rental Income</td><td>Rs.</td></tr><tr><td>Received</td><td></td><td>720,000</td></tr><tr><td>Credited as income</td><td>(720,000 x 4/24)</td><td>(120,000)</td></tr><tr><td></td><td></td><td>600,000</td></tr><tr><td>Current liability</td><td>(720,000 x 12/24)</td><td>(360,000)</td></tr><tr><td>Non-current liability</td><td></td><td>240,000</td></tr></table>				Unearned Rental Income		Rs.	Received		720,000	Credited as income	(720,000 x 4/24)	(120,000)			600,000	Current liability	(720,000 x 12/24)	(360,000)	Non-current liability		240,000	
Unearned Rental Income		Rs.																						
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		600,000																						
Current liability	(720,000 x 12/24)	(360,000)																						
Non-current liability		240,000																						
07	c	Both statements are correct																						
08	b	Utility Expense																						
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Cash</td><td>478,000</td><td>Balance b/f</td><td>55,000</td></tr><tr><td>Balance c/f</td><td>37,800</td><td>SOCI</td><td>461,700</td></tr><tr><td></td><td>516,700</td><td></td><td>516,700</td></tr></table>		Rs.		Rs.	Cash	478,000	Balance b/f	55,000	Balance c/f	37,800	SOCI	461,700		516,700		516,700						
	Rs.		Rs.																					
Cash	478,000	Balance b/f	55,000																					
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	516,700		516,700																					
09	a,c	• Rent of 12 months was paid in advance • Annual insurance premium was paid at the time of agreement																						

10	c	<table><tr><th colspan="2">Internet expense</th><th>Rs.</th></tr><tr><td>Paid till year-end</td><td></td><td>181,000</td></tr><tr><td>Accrued for June</td><td>(181,000/5)</td><td>36,200</td></tr><tr><td>Charged to SOCI</td><td></td><td>217,200</td></tr></table>	Internet expense		Rs.	Paid till year-end		181,000	Accrued for June	(181,000/5)	36,200	Charged to SOCI		217,200				
Internet expense		Rs.																
Paid till year-end		181,000																
Accrued for June	(181,000/5)	36,200																
Charged to SOCI		217,200																
11	b	Commission payable as at 31 December 2022 was Rs. 3,600																
12	c	Interest income Rs. 9,000 and accrued interest income Rs. 9,000																
13	b,d	• The profit for the year was overstated • The net assets were overstated																
14	d	<table><tr><th colspan="2">Maintenance expense</th><th>Rs.</th></tr><tr><td>Paid on 28.2.22</td><td></td><td>75,000</td></tr><tr><td>Paid on 31.5.22</td><td></td><td>65,000</td></tr><tr><td>Accrued 30.6.22</td><td>(66,000 x 1/3)</td><td>22,000</td></tr><tr><td>Charged to SOCI</td><td></td><td>162,000</td></tr></table>	Maintenance expense		Rs.	Paid on 28.2.22		75,000	Paid on 31.5.22		65,000	Accrued 30.6.22	(66,000 x 1/3)	22,000	Charged to SOCI		162,000	
Maintenance expense		Rs.																
Paid on 28.2.22		75,000																
Paid on 31.5.22		65,000																
Accrued 30.6.22	(66,000 x 1/3)	22,000																
Charged to SOCI		162,000																
15	d	Insurance Expense <table><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Balance b/f</td><td>65,000</td><td>SOCI</td><td>165,000</td></tr><tr><td>Cash</td><td>150,000</td><td>Balance c/f N-1</td><td>50,000</td></tr><tr><td></td><td>215,000</td><td></td><td>215,000</td></tr></table> N-1 Closing prepaid expense (150,000 x 4/12) = Rs. 50,000		Rs.		Rs.	Balance b/f	65,000	SOCI	165,000	Cash	150,000	Balance c/f N-1	50,000		215,000		215,000
	Rs.		Rs.															
Balance b/f	65,000	SOCI	165,000															
Cash	150,000	Balance c/f N-1	50,000															
	215,000		215,000															
16	a	Expense <table><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Cash</td><td>496,000</td><td>Balance b/f</td><td>56,000</td></tr><tr><td>Balance c/f</td><td>60,000</td><td>SOCI</td><td>500,000</td></tr><tr><td></td><td>556,000</td><td></td><td>556,000</td></tr></table>		Rs.		Rs.	Cash	496,000	Balance b/f	56,000	Balance c/f	60,000	SOCI	500,000		556,000		556,000
	Rs.		Rs.															
Cash	496,000	Balance b/f	56,000															
Balance c/f	60,000	SOCI	500,000															
	556,000		556,000															
17	b	Increase in expense and current liability																
18	a,d	• Recording accrued expense increases profit • Prepaid expense is current liability																

19	b	Income																								
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>23,800</td><td>Cash</td><td>478,600</td></tr><tr><td>SOCI</td><td>496,300</td><td>Balance c/f</td><td>41,500</td></tr><tr><td></td><td>520,100</td><td></td><td>520,100</td></tr></table>		Rs.		Rs.	Balance b/f	23,800	Cash	478,600	SOCI	496,300	Balance c/f	41,500		520,100		520,100								
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20	b,c,d	- Expenses were paid in arrears - Salaries were paid to employees in subsequent month - Interest on loan taken from bank and paid on annual basis																								
21	b	Income for the year (360,000 x 4/12) = Rs. 120,000																								
22	b,c	- Unearned income - Accrued expense																								
23	a	Rental Expense (net) <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Cash</td><td>750,000</td><td>Balance b/f</td><td>200,000</td></tr><tr><td>Balance c/f</td><td>165,000</td><td>Cash</td><td>300,000</td></tr><tr><td></td><td></td><td>SOCI</td><td>405,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>10,000</td></tr><tr><td></td><td>915,000</td><td></td><td>915,000</td></tr></table>		Rs.		Rs.	Cash	750,000	Balance b/f	200,000	Balance c/f	165,000	Cash	300,000			SOCI	405,000			Balance c/f	10,000		915,000		915,000
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24	a, c	<table><tr><td colspan="2">Rental Income</td><td>Rs.</td></tr><tr><td>July, 2021</td><td>(45,000 x 1/3)</td><td>15,000</td></tr><tr><td>August-October 2021</td><td></td><td>45,000</td></tr><tr><td>November 2021-January 2022</td><td></td><td>45,000</td></tr><tr><td>February 2022- April 2022</td><td></td><td>45,000</td></tr><tr><td>May 2022-June 2022</td><td>(48,000 x 2/3)</td><td>32,000</td></tr><tr><td>Credited to SOCI</td><td></td><td>182,000</td></tr></table>	Rental Income		Rs.	July, 2021	(45,000 x 1/3)	15,000	August-October 2021		45,000	November 2021-January 2022		45,000	February 2022- April 2022		45,000	May 2022-June 2022	(48,000 x 2/3)	32,000	Credited to SOCI		182,000			
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25	a	Prepaid expense																								
26	b	<table><tr><td colspan="2">Utility Expense</td><td>Rs.</td></tr><tr><td>1.9.21 payment</td><td>(36,800-12,500)</td><td>24,300</td></tr><tr><td>1.1.22 payment</td><td></td><td>55,600</td></tr><tr><td>1.5.22 payment</td><td></td><td>33,600</td></tr><tr><td>30.6.22 Accrued expense</td><td>Current liability</td><td>18,600</td></tr><tr><td>Charged to SOCI</td><td></td><td>132,100</td></tr></table>	Utility Expense		Rs.	1.9.21 payment	(36,800-12,500)	24,300	1.1.22 payment		55,600	1.5.22 payment		33,600	30.6.22 Accrued expense	Current liability	18,600	Charged to SOCI		132,100						
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27	b	Repair Expense																				
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Cash</td><td>144,600</td><td>Balance b/f</td><td>32,200</td></tr><tr><td>Balance c/f (27,300/2 +2,200)</td><td>15,850</td><td>SOCI</td><td>128,250</td></tr><tr><td></td><td>160,450</td><td></td><td>160,450</td></tr></table>		Rs.		Rs.	Cash	144,600	Balance b/f	32,200	Balance c/f (27,300/2 +2,200)	15,850	SOCI	128,250		160,450		160,450				
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30	a,b	• Rent received in advance was recorded as current liability • Salaries unpaid at year end was recorded as current liability																				
31	c	Decrease in expense and increase in current asset																				
32	b	Profit for the year was overstated by Rs. 21,500																				
33	d	Profit was overstated by double amount																				
34	b	Consumables																				
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>16,000</td><td>Balance b/f</td><td>22,500</td></tr><tr><td>Cash</td><td>185,000</td><td>SOCI</td><td>172,520</td></tr><tr><td>Balance c/f</td><td>16,800</td><td>Balance c.f</td><td>22,780</td></tr><tr><td></td><td>217,800</td><td></td><td>217,800</td></tr></table>		Rs.		Rs.	Balance b/f	16,000	Balance b/f	22,500	Cash	185,000	SOCI	172,520	Balance c/f	16,800	Balance c.f	22,780		217,800		217,800
	Rs.		Rs.																			
Balance b/f	16,000	Balance b/f	22,500																			
Cash	185,000	SOCI	172,520																			
Balance c/f	16,800	Balance c.f	22,780																			
	217,800		217,800																			
35	d	Prepaid insurance (150,000 x 9/12) = Rs. 112,500																				
36	c	Internet expense																				
		<table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>34,450</td><td>Balance b/f</td><td>16,600</td></tr><tr><td>Cash</td><td>196,850</td><td>SOCI</td><td>211,200</td></tr><tr><td>Balance c/f</td><td>19,800</td><td>Balance c.f</td><td>23,300</td></tr><tr><td></td><td>251,100</td><td></td><td>251,100</td></tr></table>		Rs.		Rs.	Balance b/f	34,450	Balance b/f	16,600	Cash	196,850	SOCI	211,200	Balance c/f	19,800	Balance c.f	23,300		251,100		251,100
	Rs.		Rs.																			
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Balance c/f	19,800	Balance c.f	23,300																			
	251,100		251,100																			
37	a,b	• Prepaid expense (50,000 x 2) = Rs. 100,000 • Unearned income (30,000 x 3)= Rs. 90,000																				
38	b,d	• Salaries expense for the current year Rs. 315,000 will be shown in statement of comprehensive income • Accrued salaries expense shall be shown as current liability in statement of financial position																				

39	d	Rent expense of Rs. 48,000 was paid for three-months and one month is related to next accounting year. The rent expense of Rs. 36,000 shall be recorded in current year statement of comprehensive income and Rs. 12,000 shall be shown in statement of financial position as current asset																							
40	d	Profit was overstated by double amount																							
41	d	Expense <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Cash</td><td>161,100</td><td>Balance b/f</td><td>16,500</td></tr><tr><td></td><td></td><td>SOCI</td><td>125,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>19,600</td></tr><tr><td></td><td>161,100</td><td></td><td>161,100</td></tr></table>					Rs.		Rs.	Cash	161,100	Balance b/f	16,500			SOCI	125,000			Balance c/f	19,600		161,100		161,100
	Rs.		Rs.																						
Cash	161,100	Balance b/f	16,500																						
		SOCI	125,000																						
		Balance c/f	19,600																						
	161,100		161,100																						
42	b,d	Sub-letting property where rent is in advance Fee received at the time of service contract																							
43	a	Increase by Rs. 8,000																							
44	c	Rental Income <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>80,000</td><td>Balance b/f</td><td>50,000</td></tr><tr><td>SOCI</td><td>635,000</td><td>Cash</td><td>720,000</td></tr><tr><td>Balance c/f</td><td>100,000</td><td>Balance c/f</td><td>45,000</td></tr><tr><td></td><td>815,000</td><td></td><td>815,000</td></tr></table>					Rs.		Rs.	Balance b/f	80,000	Balance b/f	50,000	SOCI	635,000	Cash	720,000	Balance c/f	100,000	Balance c/f	45,000		815,000		815,000
	Rs.		Rs.																						
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	815,000		815,000																						
45`	b	Increase in income and increase in current asset																							
46	a	Dr. Accrued income and Cr. Income																							
47	b	Prepaid expense $(60,000 \times 1.10 / 4 = 16,500 \times 1/3 = \text{Rs. } 5,500)$																							
48	b,c	- Deposit an amount in fixed deposit, interest shall be receivable at each year end - Bill of maintenance was issued to customer after providing service																							
49	d	<table><tr><td>Correct</td><td>Rs.</td><td>Wrong</td><td>Rs.</td></tr><tr><td>Accrued income</td><td>36,000</td><td>Accrued income</td><td>63,000</td></tr><tr><td>Unearned income</td><td>(63,000)</td><td>Unearned income</td><td>(36,000)</td></tr><tr><td>Impact on profit</td><td>(27,000)</td><td>Impact on profit</td><td>27,000</td></tr><tr><td colspan="4">Profit was overstated by Rs. 54,000</td></tr></table>				Correct	Rs.	Wrong	Rs.	Accrued income	36,000	Accrued income	63,000	Unearned income	(63,000)	Unearned income	(36,000)	Impact on profit	(27,000)	Impact on profit	27,000	Profit was overstated by Rs. 54,000			
Correct	Rs.	Wrong	Rs.																						
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Impact on profit	(27,000)	Impact on profit	27,000																						
Profit was overstated by Rs. 54,000																									
50	c	Accrued income																							

BAD AND DOUBTFUL DEBTS

- Which of the following is NOT a reason for recording the bad debts in books?
 - Customer was declared insolvent
 - Customer had died and he had left insufficient assets to its debts
 - Customer is in severe financial difficulties
 - Customer showed dishonesty and left without intimating
- Receivables at start of year was Rs. 100,000 and allowance for doubtful debts was Rs. 5,000. During the year ended 31 December 2022 bad debts of Rs. 4,000 were written off and at end of year receivables were Rs. 120,000. In addition, bad debts recovered were Rs. 3,000. Company's estimate of general allowance % remained same.
How much net amount shall be transfer to statement of comprehensive income for the year ended 31 December 2022?
 - Rs. 2,000 Dr.
 - Rs. 2,000 Cr.
 - Rs. 8,000 Dr.
 - Rs. 8,000 Cr.
- Baha Enterprises has provided the following data for year ended 30 June 2022.
Accounts receivables balance at 1 July 2021 Rs. 185,000
Credit sales during the year Rs. 645,000
Bad debts written off Rs. 5,000 and to be written off Rs. 3,000
Cash and cheques received from customers Rs. 627,800
Bad debts recovered Rs. 7,000 (included in above cash and cheques received)
Accounts receivables balance at 30 June 2022 Rs. 186,400 (calculated on the basis of entries already passed)
The amount of credit sales returns during the year ended 30 June 2022 was:
 - Rs. 7,800
 - Rs. 10,800
 - Rs. 17,800
 - Rs. 14,800
- The following ledger account was extracted from books of Haseeb:

Receivables Account

	Rs.		Rs.
Balance b/f	150,000	Cash	150,000
Sales	600,000	Bank	418,000
Payables (contra)	18,000	Discount received	5,000
Discount allowed	4,000	Bad debts	19,000
Sales returns	3,000	Increase in allowance	15,000
		Balance c/f	168,000
	775,000		775,000

After correction, the receivables balance at end of year.

- a) Rs. 146,000
- b) Rs. 138,000
- c) Rs. 133,000
- d) Rs. 118,000

5. Tipu's receivables ledger balance as at 30 June 2022 was Rs. 330,000 before making the following adjustment:
- 1. Tipu had identified that NM Enterprise's debt of Rs. 8,500 should be written off
 - 2. Tipu intends to make 100% allowance against receivables of Rs. 15,000 from Raja & Co.
 - 3. Tipu's estimate is to create general allowance of 5% of receivables balance whereas opening balance of the allowance was Rs. 22,100
- What will be corrected balance of receivables and allowance for doubtful debts which should be shown in statement of financial position as at 30 June 2022?
- a) Receivables Rs. 330,000 and allowance for doubtful debts of Rs. 9,400
 - b) Receivables Rs. 330,000 and allowance for doubtful debts of Rs. 31,500
 - c) Receivables Rs. 321,500 and allowance for doubtful debts of Rs. 30,325
 - d) Receivables Rs. 321,500 and allowance for doubtful debts of Rs. 31,075
6. Journal entry to record increase in allowance during the year is:
- a) Dr. Bad debt expense Cr. Allowance for doubtful debts
 - b) Dr. Accounts receivables Cr. Allowance for doubtful debts
 - c) Dr. Allowance for doubtful debts Cr. Bad debt expense
 - d) Dr. Allowance for doubtful debts Cr. Accounts receivables
7. Accountant of ABC Co has wrongly overstated the allowance for doubtful debts at year-end by Rs. 3,800. The impact is:
- a) Profit has been overstated by Rs. 3,800
 - b) Net current assets have been understated by Rs. 3,800
 - c) Profit has been understated by Rs. 3,800
8. A customer who owed Rs. 50,000 was declared bankrupt and it is expected that 20% shall be recovered from him as final settlement. The double entry to be recorded in books shall be:
- a) Dr. Bad and doubtful debts expense Rs. 50,000 and Cr. Receivables Rs. 50,000
 - b) Dr. Bad and doubtful debts expense Rs. 40,000 and Cr. Receivables Rs. 40,000
 - c) Dr. Bad and doubtful debts expense Rs. 10,000 and Cr. Receivables Rs. 10,000
 - d) Dr. Receivables Rs 40,000 and Cr. Bad and doubtful debts expense Rs. 40,000
9. Following data is provided by Sahib International for the year ended 30 September 2022.

Bad debts written off Rs. 1,800

Bad debts to be written off Rs. 2,500

Accounts receivables as at 30 September 2022 Rs. 325,000

Specific allowance Rs. 15,000

General allowance 4%

Total amount charged to statement of comprehensive income in respect of bad debts and doubtful debts Rs.16,200 including bad debts to be written off.

The allowance for doubtful debts as at 1 October 2021 of Sahib International was:

- a) Rs. 1,000
- b) Rs. 13,000
- c) Rs. 15,328
- d) Rs. 15,400

10. The journal entry to record the bad debts written off:

- a) Dr. Bad debts and Cr. Allowance for doubtful debts
- b) Dr. Bad debts and Cr. Accounts receivables
- c) Dr. Allowance for doubtful debts and Cr. Bad debts
- d) Dr. Accounts receivables and Cr. Bad debts

11. Samar International receivables as at 30 June 2022 included Rs. 50,000 from Junaid Sons. It included Rs. 15,000 related to work that Junaid Sons feels as sub-standard. Despite of the fact that Junaid Sons is a good customer, but Samar International is doubtful that Junaid Sons will ever pay Rs. 15,000.

What allowance of doubtful debts should be created by Samar International?

- a) General allowance of Rs. 15,000
- b) Specific allowance of Rs. 15,000
- c) Specific allowance of Rs. 50,000
- d) No allowance for doubtful debts as Junaid Sons is a good customer

12. Receivables balances at end of year was Rs. 250,000; however in reviewing the account it was discovered that following transactions were wrongly entered in receivables ledger.

- 1. Bad debts recovered of Rs. 5,000 was wrongly included in cash received from debtors
- 2. Decrease in allowance of Rs. 7,500 was wrongly credited in receivables ledger
- 3. Discount allowed of Rs. 2,200 was not entered in receivables ledger, rather discount received was wrongly debited in receivables ledger by Rs. 1,700.

What will be corrected receivable balance at end of year?

- a) Rs. 258,100
- b) Rs. 258,600
- c) Rs. 253,600
- d) Rs. 254,600

13. Customer cheque of Rs. 15,000 was returned dishonoured. What entry shall be passed for dishonour cheque?

- a) Dr. Bank and Cr. Receivables
- b) Dr. Receivables and Cr. Bank
- c) Dr. Allowance for doubtful debts and Cr. Bank
- d) Dr. Bad debts expense and Cr. Bank

14. Which TWO of the following statements are correct?

- a) Receivables shall be shown in statement of financial position after deducting the allowance for doubtful debts
- b) Receivables shall be shown in statement of financial position on gross value whereas allowance for doubtful debts shall be charged to profit and loss
- c) Increase in allowance for doubtful debts shall be charged as an expense in statement of profit and loss
- d) Credit limit and aged receivables analysis are interchangeable

15. Which of the following statement(s) is/are correct?
1. The amount received from customer whose account has already been written off in previous years, is termed as bad debts recovered.
 2. The customer who has not paid invoice since last four months, due to dispute in invoice, is termed as bad debts.
- a) Only statement (1) is correct
 - b) Only statement (2) is correct
 - c) Both statements are correct
 - d) Neither of the statements are correct
16. The allowance for doubtful debts of a company at start of year was Rs. 12,500. The receivables at end of the year were Rs. 400,000 and allowance of 5% was created. An amount of Rs. 16,000 was charged as expense during the year.
- The amount of specific allowance at end of year was:
- a) Rs. 3,500
 - b) Rs. 4,000
 - c) Rs. 8,500
 - d) Rs. 16,000
17. As at 1 July 2021, the balances of accounts receivables and allowance for doubtful debts were Rs. 350,000 and Rs. 14,000.
- During the year bad debts of Rs. 10,000 were written off and as at 30 June 2022, the receivables balance was Rs. 400,000. The estimate of creating general allowance was not changed.
- What amount should be charged to profit and loss account on account of increase in allowance?
- a) Rs. 1,600
 - b) Rs. 2,000
 - c) Rs. 11,600
 - d) Rs. 12,000
18. Accounts receivables at start and end of the year were Rs. 300,000 and 360,000 respectively. During the year bad debts of Rs. 5,000 were written off and bad debts previously written off, now recovered Rs. 2,000. Company's estimate is to create general allowance for doubtful debts at 4%.
- How much amount was charged to statement of comprehensive income as expense and how much net receivables were recorded in statement of financial position?
- | Statement of comprehensive income | Statement of financial position |
|--|--|
| a) Rs. 7,400 | Rs. 345,600 |
| b) Rs. 5,400 | Rs. 345,600 |
| c) Rs. 7,400 | Rs. 340,600 |
| d) Rs. 5,400 | Rs. 340,600 |
19. Accounts receivables balance of Inam Traders as at 30 June 2022 before making following adjustments was Rs. 410,000.
1. Inam Traders has decided to write off debts of Rs. 11,000 relating to customer who has disappeared.
 2. Inam Traders has identified a customer, JJ Sons, who is in financial crisis and owed Rs. 25,000. It was decided to create 80% allowance against JJ Sons receivables.
 3. The estimate of calculating general allowance was 5%.
 4. The allowance for doubtful debts as at 1 July 2021 was Rs. 18,500

How much amount shall be charged to statement of comprehensive income for the year ended 30 June 2022?

- a) Rs. 200
- b) Rs. 11,200
- c) Rs. 31,200
- d) Rs. 31,450

20. Which of the following best describes the purpose of aging analysis of accounts receivables?

- a) To calculate balance of receivables from individual customer
- b) To evaluate the most valuable customer on the basis of sales made by company
- c) To identify the regularities of receivables
- d) To evaluate and identify the irregularities in payments to help company estimate allowance for doubtful debts

21. Minahil, one of the customers, of JSS Industries paid Rs. 25,000 against bad debts written-off in previous year.

What entry should be passed in the books of JSS Industries?

- a) Dr. Cash and Cr. Accounts receivables
- b) Dr. Cash and Cr. Allowance for doubtful debts
- c) Dr. Cash and Cr. Bad debts expense
- d) Dr. Cash and Cr. Accounts payable

22. After finalising the adjustments, it was found that opening allowance for doubtful debts was overstated and wrong amount was charged to statement of profit and loss account.

What was impact on net profit and net assets for current year on account of above error?

- a) Profit was understated by double amount
- b) Profit was overstated by double amount
- c) Profit was understated by single amount
- d) Profit was overstated by single amount

23. Which TWO of following entries can be passed, if bad debts recovered during the year?

- a) Dr. Bad debts expense and Cr. Accounts receivables
- b) Dr. Accounts receivables and Cr. Bad debts expense
- c) Dr. Cash and Cr. Bad debts expense
- d) Dr. Cash and Cr. Bad debts recovered

24. The sales revenue of Noman Sons was Rs. 750,000 of which 20% is cash sales and receivable balance represents 60% of credit sales. Noman Sons has created specific allowance of Rs. 6,000 and also general allowance of 3%. As a result, new allowance for doubtful debts balance was 1.662 times more than opening allowance balance.

How much amount shall be charged to statement of comprehensive income?

- a) Rs. 6,620
- b) Rs. 16,692
- c) Rs. 20,000
- d) Cannot be calculated from above data

25. Nasir enterprises allowance for doubtful debts as at 1 July 2021 was Rs. 18,000. During the year, no bad debts were written off, however, at end of year, Nasir Enterprises created specific allowance of Rs. 16,000. The amount of Rs. 17,200 was charged to expense for the year ended 30 June 2022. The accounts receivables as at 30 June 2022 was Rs. 400,000.

The % of general allowance that was used to calculate above was:

- a) 4.00%
 - b) 4.30%
 - c) 4.50%
 - d) 5.00%
26. Shakeel books showed accounts receivable balance of Rs. 360,000 as at 30 June 2022 and 5% allowance was created. An amount of Rs. 6,300 was charged to statement of comprehensive income for the year ended 30 June 2022.

Subsequently, it was discovered that bad debts recovered was included in cash received from receivables amounting to Rs. 5,500 and further discount allowed of Rs. 3,500 was written on debit side of receivable ledger.

Which of the following statement is correct as result of above error?

- a) Charge for the year was overstated by Rs. 75
 - b) Charge for the year was understated by Rs. 75
 - c) Charge for the year was overstated by Rs. 100
 - d) Charge for the year was understated by Rs. 100
27. Armaghan's receivables ledger balance as at 30 June 2022 was Rs. 480,000 before making the following adjustments:
- 1. Armaghan had identified that Kashif Enterprise's debt of Rs. 8,500 should be written off.
 - 2. Armaghan intends to make 60% allowance against receivables of Rs. 15,000 from Rajput Co.
 - 3. Armaghan estimate is to create general allowance of 4% of receivables balance whereas opening balance of allowance was Rs. 16,800

Which of the following statement is true?

- a) Specific allowance Rs. 15,000 and general allowance Rs. 18,260 was created
 - b) Specific allowance Rs. 9,000 and general allowance Rs. 18,260 was created
 - c) An amount of Rs. 10,460 was charged to statement of comprehensive income
 - d) Net receivables of Rs. 438,240 was shown in statement of financial position
28. Which of the following treatment is correct?
- a) Bad debts written off are charged to profit and loss and deducted from accounts receivables as allowance for doubtful debts
 - b) Increase in allowance for doubtful debts is charged to profit and loss and closing balance of allowance for doubtful debts is deducted from accounts receivables
 - c) Bad debts written off are subtracted from increase in allowance and net amount is charged as expense
 - d) Bad debts written off and decrease in allowance are added and total amount is charged as expense

29. Receivables at start of year was Rs. 150,000 and company's estimate is to create allowance of 4% on receivables balance. During the year ended 31 December 2022 bad debts of Rs. 5,000 were written off and Rs. 3,000 were recovered from customer whose account was written off in 2020. At end of year receivables balance was Rs. 160,000 and company's estimate relating to allowance remained same.

How much net amount shall be charged to statement of comprehensive income for the year ended 31 December 2022?

- a) Rs. 2,400
 - b) Rs. 3,400
 - c) Rs. 5,400
 - d) Rs. 6,400
30. Which of the following TWO are treated as reduction in expense for the year?
- a) Bad debts written off
 - b) Increase in allowance for doubtful debts
 - c) Decrease in allowance for doubtful debts
 - d) Bad debts recovered
31. Accounts receivables as at 31 December 2022 was Rs. 475,000. At end of year, specific allowance was created against following customers:
- AM Traders Receivable Rs. 25,000 (80% allowance)
JM Traders Receivable Rs. 18,000 (50% allowance)
The estimate of general allowance was 5% of receivables.
- Which of the following is correct treatment of calculating general allowance.
- a) General allowance of 5% should be calculated on Rs. 475,000
 - b) General allowance of 5% should be calculated on Rs. 455,300
 - c) General allowance of 5% should be calculated on Rs. 446,000
 - d) General allowance of 5% should be calculated on Rs. 432,000
32. Which of the following is NOT a reason for recording the doubtful debts in books?
- a) Customer is in severe financial difficulties
 - b) Customer was declared bankrupt and liquidator confirmed that no amount could be paid to our business
 - c) Customer took too long to pay its debts
 - d) Customer facing operational difficulties like strikes etc.
33. The accounts receivables (net) of a company at June 30, 2022 was Rs. 342,000. The company created an allowance of Rs. 38,000 as at June 30, 2022 including 5% general allowance in respect of doubtful debts.
- The amount of specific allowance was:
- a) Rs. 20,000
 - b) Rs. 20,900
 - c) Rs. 19,000
 - d) Rs. 15,200
34. Allowance for doubtful debts is:
- a) Asset account
 - b) Liability account
 - c) Contra for asset account
 - d) Contra for liability account

35. While preparing the aging analysis of accounts receivables, following customers were highlighted who have not paid within credit period.

From company's point of view, which customer carries more risk of bad debts?

- a) Musa Trading owed Rs. 50,000 and classified in 30-60 days past due
 - b) Jamal Sons owed Rs. 40,000 and classified in 120 days past due
 - c) Rukhsar Enterprises owed Rs. 30,000 and classified in 1-30 days past due
 - d) Mukhtar Industries owed Rs. 100,000 and amount not yet due
36. Balances of Receivables and allowance for doubtful debts were Rs. 200,000 and Rs. 10,000 as at July 1, 2021. During the year ended June 30, 2022 no bad debts were written off. However, as at June 30, 2022 it was discovered that a customer who owed Rs. 8,000 was declared bankrupt and only 30% shall be expected to recover from his estate. As at June 30, 2022 receivables balance before making above adjustments was Rs. 225,000.

How much amount shall be charged to statement of comprehensive income for the year ended June 30, 2022, assuming the rate of allowance was not changed?

- a) Rs. 970
 - b) Rs. 8,970
 - c) Rs. 6,450
 - d) Rs. 6,850
37. Receivables account showed balance of Rs. 250,000 at start of year and Rs. 300,000 at end of year. Company's estimate was changed from 5% to 4% for creating general allowance for doubtful debts. What entry should be passed at end of year?
- a) Dr. Bad and doubtful debts expense Rs. 12,500 and Cr. Allowance for doubtful debts Rs. 12,500
 - b) Dr. Bad and doubtful debts expense Rs. 12,000 and Cr. Allowance for doubtful debts Rs. 12,000
 - c) Dr. Bad and doubtful debts expense Rs. 500 and Cr. Allowance for doubtful debts Rs. 500
 - d) Dr. Allowance for doubtful debts Rs. 500 and Cr. Bad and doubtful debts expense Rs. 500
38. Nishat showed net receivables of Rs. 220,800 in its statement of financial position at 30 June 2021 and at 30 June 2022 at Rs. 244,400. Allowance for doubtful debts was increased from 4% to 6% at 30 June 2022. Bad debts written off during the year were Rs. 6,000.

How much amount was charged to statement of comprehensive income for the year ended 30 June 2022 in relation to increase in allowance?

- a) Rs. 6,400
 - b) Rs. 5,832
 - c) Rs. 12,400
 - d) Rs. 11,832
39. Which of the following is NOT a benefit of providing credit to customers?
- a) May result in enhancing sales
 - b) Enhancing customer loyalty
 - c) Attracts new customers
 - d) Improves the cash flow of the business

40. The following balances relate to Suneel Sons:

Receivables as at 1-January-2022 Rs. 250,000

Increase in allowance for doubtful debts Rs. 6,000

Sales returns Rs. 5,000 (of which 80% is related to credit sales)

Total Sales Rs 700,000 (of which 20% is cash sales)

Cheque dishonoured Rs. 12,500

Bad debts written off Rs. 8,300

Discount received Rs. 3,500

Receivables as at 31-December-2022 Rs. 280,000

How much cash and cheques received from customers during the year ended 31 December 2022?

- a) Rs. 524,200
- b) Rs. 520,700
- c) Rs. 659,700
- d) Rs. 530,200

41. Which of the following statement(s) is/are correct?

- a) An example of doubtful debts includes customer delaying the payment because of facing financial difficulties.
- b) The entry to record doubtful debt is Dr. Bad debts expense and Cr. Accounts receivables
- c) When an allowance is created against doubtful debts, it is recognised as expense
- d) The journal entry of increase in allowance is Dr. Allowance for doubtful debts and Cr. bad debts expense

42. Mr. Khan is our customer and supplier as well. The amount due to Mr. Khan was Rs. 25,800 and amount due from Mr. Khan was Rs. 29,600.

Which of following entry is correct on account of above contra settlement?

- a) Dr. Receivables Rs. 3,800 and Cr. Payables Rs. 3,800
- b) Dr. Payables Rs. 3,800 and Cr. Receivables Rs. 3,800
- c) Dr. Payables Rs. 29,600 and Cr. Receivables Rs. 29,600
- d) Dr. Payables Rs. 25,800 and Cr. Receivables Rs. 25,800

43. The opening and closing allowances of doubtful debts of a company were Rs. 15,200 and 16,800. The accountant treated opening allowance as closing allowance and vice versa.

Which of the following statements is true as result of above error?

- a) Charge for the year was overstated by Rs. 1,600
- b) Charge for the year was understated by Rs. 1,600
- c) Charge for the year was overstated by Rs. 3,200
- d) Charge for the year was understated by Rs. 3,200

44. The accountant has made entry for increase in allowance during the year as "debit allowance for doubtful debts and credit bad debts expense by Rs. 12,500".

What was the impact of error?

- a) Profit was understated by Rs. 12,500
- b) Profit was understated by Rs. 25,000
- c) Profit was overstated by Rs. 12,500
- d) Profit was overstated by Rs. 25,000

45. Journal entry to record decrease in allowance during the year was:
- Dr. Bad debt expense Cr. Allowance for doubtful debts
 - Dr. Accounts receivables Cr. Allowance for doubtful debts
 - Dr. Allowance for doubtful debts Cr. Bad debt expense
 - Dr. Allowance for doubtful debts Cr. Accounts receivables
46. Accounts receivables, net of allowance were Rs. 66,500 as at 1 July 2021 and Rs. 76,000 as at 30 June 2022. Company's estimate is to create general allowance at 5% of receivable balance. During the year ended 30 June 2022 cash sales of Rs. 50,000 was made; cash of Rs. 125,500 and cheque of Rs. 130,000 were received, of which Rs. 5,500 was related to bad debts recovered. Irrecoverable debts written off were Rs. 9,000; discount allowed and received Rs. 3,000 and 2,000 respectively whereas contra settlement with payables was Rs. 6,000.
- What was the gross sales amount which shall be recognized as revenue in statement of comprehensive income for the year ended 30 June 2022?
- Rs. 279,000
 - Rs. 278,000
 - Rs. 277,500
 - Rs. 328,000
47. Which of the following net amount is charged to profit and loss account during the year.
- Bad debts written off + bad debts to be written off + Decrease in allowance – bad debts recovered
 - Bad debts written off + bad debts to be written off + increase in allowance – bad debts recovered
 - Bad debts written off + bad debts to be written off + Decrease in allowance + bad debts recovered
 - Bad debts written off + bad debts to be written off - Increase in allowance – bad debts recovered
48. Receivables balances at start and end of year were Rs. 175,000 and Rs. 193,000 (after already passed entries). Discount allowed Rs. 6,000; Discount received Rs. 3,000; Bad debts written off Rs. 2,000; Bad debts to be written off Rs. 4,000. Increase in allowance Rs. 6,700; Cheque received from suppliers Rs. 53,000 and from customers Rs. 356,000; Cash sales Rs. 45,000; Sales returns Rs. 6,000 (of which one-third related to cash sales)
- What will be net credit sales for the year?
- Rs. 382,000
 - Rs. 427,000
 - Rs. 425,000
 - Rs. 376,000
49. Balance of accounts receivables as at 1 January 2022 was Rs. 500,000 and company's estimate is to create general allowance of 5% of accounts receivables.
- As at 31 December 2022, the account receivable balance was Rs. 540,000 but it was discovered that one of the customer was declared bankrupt and an amount of Rs. 48,000 has to be written off. The company has changed its estimate to create general allowance and new estimate is 6% of accounts receivables.
- What journal entry should be passed at year end to adjust the above event?
- Dr. Bad and doubtful debts Rs. 4,520 and Cr. Allowance for doubtful debts Rs. 4,520
 - Dr. Allowance for doubtful debts Rs. 4,520 and Cr. Bad and doubtful debts Rs. 4,520
 - Dr. Bad and doubtful debts Rs. 52,520 and Cr. Accounts receivables Rs. 48,000; Allowance for doubtful debts Rs. 4,520
 - Dr. Bad and doubtful debts Rs. 52,520 and Cr. Allowance for doubtful debts Rs. 52,520

50. Which of the following accounting concept allows us to record allowance for doubtful debts, even the loss has not actually occurred?
- a) Prudence
 - b) Substance over form
 - c) Going concern
 - d) Accruals

ANSWERS TO SELF TEST QUESTIONS

01	c	Customer is in severe financial difficulties, in such case, allowance for doubtful debts shall be recorded.																																							
02	a	<table><tr><td></td><td></td><td></td><td>Rupees</td></tr><tr><td>Closing allowance (120,000 x 5% N-1)</td><td></td><td></td><td>6,000</td></tr><tr><td>Opening allowance</td><td></td><td></td><td>(5,000)</td></tr><tr><td>Increase in allowance</td><td></td><td></td><td>1,000</td></tr><tr><td>Bad debts written off</td><td></td><td></td><td>4,000</td></tr><tr><td>Bad debts recovered</td><td></td><td></td><td>(5,000)</td></tr><tr><td colspan="3">Charged to SOCI (Dr.)</td><td>2,000</td></tr><tr><td colspan="4">N-1 % allowance = 5,000/100,000 x 100 = 5%</td></tr></table>							Rupees	Closing allowance (120,000 x 5% N-1)			6,000	Opening allowance			(5,000)	Increase in allowance			1,000	Bad debts written off			4,000	Bad debts recovered			(5,000)	Charged to SOCI (Dr.)			2,000	N-1 % allowance = 5,000/100,000 x 100 = 5%							
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03	c	Accounts Receivables <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>185,000</td><td>Bad debts 5,000 + 3,000</td><td>8,000</td></tr><tr><td>Credit sales</td><td>645,000</td><td>Cash and bank 627,800 – 7,000</td><td></td></tr><tr><td></td><td></td><td>Sales returns</td><td>620,800</td></tr><tr><td></td><td></td><td>Balance c/f 186,400 – 3,000</td><td>17,800</td></tr><tr><td></td><td></td><td></td><td>183,400</td></tr><tr><td></td><td>830,000</td><td></td><td>830,000</td></tr></table>					Rs.		Rs.	Balance b/f	185,000	Bad debts 5,000 + 3,000	8,000	Credit sales	645,000	Cash and bank 627,800 – 7,000				Sales returns	620,800			Balance c/f 186,400 – 3,000	17,800				183,400		830,000		830,000								
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04	b	Receivables <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>150,000</td><td>Payables</td><td>18,000</td></tr><tr><td>Credit sales</td><td>600,000</td><td>Discount allowed</td><td>4,000</td></tr><tr><td></td><td></td><td>Sales returns</td><td>3,000</td></tr><tr><td></td><td></td><td>Cash</td><td>150,000</td></tr><tr><td></td><td></td><td>Bank</td><td>418,000</td></tr><tr><td></td><td></td><td>Bad debts</td><td>19,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>138,000</td></tr><tr><td></td><td>750,000</td><td></td><td>750,000</td></tr></table>					Rs.		Rs.	Balance b/f	150,000	Payables	18,000	Credit sales	600,000	Discount allowed	4,000			Sales returns	3,000			Cash	150,000			Bank	418,000			Bad debts	19,000			Balance c/f	138,000		750,000		750,000
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05	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>General allowance (330,000-8,500-15,000 x 5%)</td><td>15,325</td></tr><tr><td>Specific allowance</td><td>15,000</td></tr><tr><td>Closing allowance</td><td>30,325</td></tr><tr><td>Accounts Receivables</td><td>330,000</td></tr><tr><td>Less: Bad debts to be written off</td><td>(8,500)</td></tr><tr><td>Accounts Receivables to be shown in SOFP</td><td>321,500</td></tr></table>					Rupees	General allowance (330,000-8,500-15,000 x 5%)	15,325	Specific allowance	15,000	Closing allowance	30,325	Accounts Receivables	330,000	Less: Bad debts to be written off	(8,500)	Accounts Receivables to be shown in SOFP	321,500																						
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06	a	Dr. Bad debt expense Cr. Allowance for doubtful debts															
07	b,c	Net current asset have been understated by Rs. 3,800 (due to increase in allowance, receivable (net) would decrease) Profit has been understated by Rs. 3,800 (due to increase in allowance, bad debts expense will increase and profit will decrease)															
08	b	Dr. Bad and doubtful debts expense Rs. 40,000 and Cr. Receivables Rs. 40,000															
09	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Charged to SOCI</td><td>16,200</td></tr><tr><td>Less: Bad debts (1,800 + 2,500)</td><td>(4,300)</td></tr><tr><td>Charged on account of increase in allowance</td><td>11,900</td></tr><tr><td>Closing allowance*</td><td>27,300</td></tr><tr><td>Less: Increase in allowance</td><td>(11,900)</td></tr><tr><td>Opening allowance</td><td>15,400</td></tr></table> *(325,000 – 2,500 – 15,000) x 4% + 15,000			Rupees	Charged to SOCI	16,200	Less: Bad debts (1,800 + 2,500)	(4,300)	Charged on account of increase in allowance	11,900	Closing allowance*	27,300	Less: Increase in allowance	(11,900)	Opening allowance	15,400
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10	b	Dr. Bad debts and Cr. Accounts receivables															
11	b	Specific allowance of Rs. 15,000															
12	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Receivables-uncorrected</td><td>250,000</td></tr><tr><td>Bad debts recovered included in cash</td><td>5,000</td></tr><tr><td>Decrease in allowance wrongly credited</td><td>7,500</td></tr><tr><td>Discount allowed unrecorded</td><td>(2,200)</td></tr><tr><td>Discount received wrongly debited</td><td>(1,700)</td></tr><tr><td>Accounts receivables-Corrected</td><td>258,600</td></tr></table>			Rupees	Receivables-uncorrected	250,000	Bad debts recovered included in cash	5,000	Decrease in allowance wrongly credited	7,500	Discount allowed unrecorded	(2,200)	Discount received wrongly debited	(1,700)	Accounts receivables-Corrected	258,600
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13	b	Dr. Receivables and Cr. Bank															
14	a,c	Receivables shall be shown in statement of financial position after deducting the allowance for doubtful debts Increase in allowance for doubtful debts shall be charged as an expense in statement of profit and loss															
15	a	Neither of the statements are correct															
16	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Opening allowance</td><td>12,500</td></tr><tr><td>Charged to SOCI</td><td>16,000</td></tr><tr><td>Closing allowance</td><td>28,500</td></tr><tr><td>Less: General allowance (400,000 x 5%)</td><td>(20,000)</td></tr><tr><td>Specific Allowance</td><td>8,500</td></tr></table>			Rupees	Opening allowance	12,500	Charged to SOCI	16,000	Closing allowance	28,500	Less: General allowance (400,000 x 5%)	(20,000)	Specific Allowance	8,500		
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Less: General allowance (400,000 x 5%)	(20,000)																
Specific Allowance	8,500																

17	b		
			Rupees
		Closing allowance (400,000 x 4% N-1)	16,000
		Less: Opening allowance	(14,000)
		Increase in allowance	2,000
N-1 % Allowance = 14,000/350,000 x 100 = 4%			
18	b		
			Rupees
		Closing allowance (360,000 x 4%)	14,400
		Less: Opening allowance (300,000 x 4%)	(12,000)
		Increase in allowance	2,400
		Bad debts written off	5,000
		Bad debts recovered	(2,000)
		Charged to SOCI	5,400
		Accounts receivables	360,000
		Less: Allowance for doubtful debts	(14,400)
Net receivables to be shown in SOFP	345,600		
19	c		
			Rupees
		General allowance (410,000-11,000-25,000) x 5%	18,700
		Specific allowance (25,000 x 80%)	20,000
		Closing allowance	38,700
		Less: Opening allowance	(18,500)
		Increase in allowance	20,200
		Bad debts	11,000
Charged to SOCI	31,200		
20	d	To evaluate and identify the irregularities in payments to help company estimate allowance for doubtful debts	
21	c	Dr. Cash and Cr. Bad debts expense	
22	d	Profit was overstated by single amount	
23	c,d	Dr. Cash and Cr. Bad debts expense Dr. Cash and Cr. Bad debts recovered	
24	a		Rupees
		Accounts receivables (750,000 x 80% x 60%)	360,000
		General allowance (360,000-6,000) x 3%	10,620
		Specific allowance	6,000
		Closing allowance	16,620
		Less: Opening allowance (16,620/1.662)	(10,000)
		Increase in allowance charged to SOCI	6,620

25	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Opening allowance</td><td>18,000</td></tr><tr><td>Charged to SOCI</td><td>17,200</td></tr><tr><td>Closing allowance</td><td>35,200</td></tr><tr><td>Less: Specific allowance</td><td>(16,000)</td></tr><tr><td>General allowance</td><td>19,200</td></tr><tr><td colspan="2">% of General allowance (19,200/(400,000-16,000) x 100) = 5.00%</td></tr></table>		Rupees	Opening allowance	18,000	Charged to SOCI	17,200	Closing allowance	35,200	Less: Specific allowance	(16,000)	General allowance	19,200	% of General allowance (19,200/(400,000-16,000) x 100) = 5.00%	
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26	a	<table><tr><th></th><th>Rupees</th></tr><tr><td>Bad debts recovered included in cash</td><td>(5,500)</td></tr><tr><td>Discount allowed written on debit side</td><td>7,000</td></tr><tr><td>Accounts receivables overstated by</td><td>1,500</td></tr><tr><td>Closing allowance overstated by (1,500 x 5%)</td><td>75</td></tr><tr><td>Charge for the year was overstated by</td><td>75</td></tr></table>		Rupees	Bad debts recovered included in cash	(5,500)	Discount allowed written on debit side	7,000	Accounts receivables overstated by	1,500	Closing allowance overstated by (1,500 x 5%)	75	Charge for the year was overstated by	75		
	Rupees															
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27	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Specific allowance (15,000 x 60%)</td><td>9,000</td></tr><tr><td>General allowance (480,000-8,500-15,000) x 4%</td><td>18,260</td></tr></table>		Rupees	Specific allowance (15,000 x 60%)	9,000	General allowance (480,000-8,500-15,000) x 4%	18,260								
	Rupees															
Specific allowance (15,000 x 60%)	9,000															
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28	b	Increase in allowance for doubtful debts is charged to profit and loss and closing balance of allowance for doubtful debts is deducted from accounts receivables														
29	a	<table><tr><th></th><th>Rupees</th></tr><tr><td>Closing allowance (160,000 x 4%)</td><td>6,400</td></tr><tr><td>Less: Opening allowance (150,000 x 4%)</td><td>(6,000)</td></tr><tr><td>Increase in allowance</td><td>400</td></tr><tr><td>Bad debts written off</td><td>5,000</td></tr><tr><td>Bad debts recovered</td><td>(3,000)</td></tr><tr><td>Charged to SOCI</td><td>2,400</td></tr></table>		Rupees	Closing allowance (160,000 x 4%)	6,400	Less: Opening allowance (150,000 x 4%)	(6,000)	Increase in allowance	400	Bad debts written off	5,000	Bad debts recovered	(3,000)	Charged to SOCI	2,400
	Rupees															
Closing allowance (160,000 x 4%)	6,400															
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Increase in allowance	400															
Bad debts written off	5,000															
Bad debts recovered	(3,000)															
Charged to SOCI	2,400															
30	c,d	Decrease in allowance for doubtful debts Bad debts recovered														
31	d	General allowance of 5% should be calculated on Rs. 432,000														
32	b	Customer was declared bankrupt and liquidator confirmed that no amount could be paid to our business														

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41	a,c	An example of doubtful debts includes customer delaying the payment because of facing financial difficulties. When an allowance is created against doubtful debts, it is recognised as expense.																																																													
42	d	Dr. Payables Rs. 25,800 and Cr. Receivables Rs. 25,800																																																													
43	d	Charge for the year was understated by Rs. 3,200																																																													
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	Rupees
Closing allowance (540,000-48,000) x 6%	29,520
Less: Opening allowance (500,000 x 5%)	(25,000)
Increase in allowance	4,520
Bad debts	48,000
Bad and doubtful debts expense	52,520

PROPERTY, PLANT AND EQUIPMENT

1. Which of the following is NOT a property, plant and equipment?
 - a) Plant used in production
 - b) Vehicles purchased for rental to others
 - c) Building purchased for resale purposes
 - d) Furniture for use in sales manager office

2. Which of the following are covered under scope of IAS-16 as defined in Property, plant and equipment?
 - a) Tangible asset held for use in production
 - b) Land and Building held for capital appreciation
 - c) Building held for use as factory
 - d) Tangible asset held for use in administration

3. Which of the following items shall be included in cost of Property, plant and equipment at its initial measurement in accordance with IAS-16:
 - a) Purchase cost less trade discounts
 - b) Refundable taxes
 - c) Transportation cost
 - d) Extra cost incurred due to negligence in installation
 - e) Present value of future decommissioning cost

4. In case of import of any item of property, plant and equipment, which of the following shall NOT be included in cost of asset?
 - a) Demurrage charges
 - b) Custom duty
 - c) Excise duty (non-refundable)
 - d) Refundable taxes

5. Calculate the cost of machinery to be recognized in books at its initial recognition from the following data:

Purchase cost of machine Rs. 750,000
 Sales tax 10% non-adjustable
 Refundable income tax Rs. 100,000
 Transportation cost Rs. 60,000
 Administration cost Rs. 40,000
 Installation cost Rs. 50,000
 Abnormal losses Rs. 10,000

 - a) Rs. 860,000
 - b) Rs. 935,000
 - c) Rs. 975,000
 - d) Rs. 985,000

6. IAS 16 specified few examples which should not be included in cost of property, plant and equipment. Which of the following should be included in cost of asset:
- Cost of opening new facility
 - Cost of introducing new product or service
 - Administration and general overheads
 - Architecture fee for construction of building
7. Subsequent expenditure on any item of property, plant and equipment shall be capitalized only if the following condition(s) is/are fulfilled:
- Enhances the useful life of asset
 - Enhances the efficiency or profit earning capacity of business
- Which of the above statement(s) is/are correct
- Statement 1 only
 - Statement 2 only
 - Both statements
 - None of above statements
8. Which of the following subsequent expenditure is likely to be capitalized in the context of vehicle?
- Replacement of small parts
 - Replacement of engine
 - Cost of oil change and tuning
 - Cost of change of wheels caps
9. Saleem entered into agreement to purchase of machine for Rs. 500,000 and paid 20% amount on spot whereas balance shall be payable after one month when the machine shall be delivered. The double entry at the time of agreement shall be:
- Machine Dr. 500,000; Cash Cr. 100,000 and Payable Cr. 400,000
 - Machine Dr. 100,000 and Cash Cr. 100,000
 - Advance Dr. 100,000; Machine Dr. 400,000 and Cash Cr. 100,000; Payable Cr. 400,000
 - Advance Dr. 100,000 and Cash Cr. 100,000
10. Which of the following term is NOT used in calculation of depreciation of any asset:
- Depreciable amount
 - Residual value
 - Economic life
 - Useful life
11. Which of the following statement best describes the definition of depreciation as specified in IAS 16?
- Systematic allocation of depreciable amount over its useful life
 - Normal wear and tear by its regular use
 - Depreciation is calculated to match the benefits derived from its use
 - None of the above

12. Depreciation shall start from the:
 - a) Date when advance is paid against asset
 - b) Date when asset is purchased
 - c) Date when asset shall be available for use
 - d) Date when asset shall be used
13. Which of the following statements are NOT correct in relation to depreciation?
 - a) Accumulated depreciation shall be charged as expense in statement of comprehensive income
 - b) Depreciation expense shall be charged as expense in statement of comprehensive income
 - c) Accumulated depreciation shall be recognized as asset in statement of financial position
 - d) Depreciation expense shall be recognized as asset in statement of financial position
14. Which of the depreciation method NOT depends upon useful life of asset in years?
 - a) Straight line method
 - b) Reducing balance method
 - c) Sum-of-the-digits-method
 - d) Units of production method
15. Sarfaraz purchased machine on 1 April 2022 for Rs. 200,000 and Rs. 20,000 was incurred to bring it into useable condition. The estimated useful life of asset was determined at 10 years with Rs. 5,000 as residual value. What will be correct entry for recording depreciation for the year ended 31 December 2022 using straight line method?
 - a) Depreciation expense Dr. 21,500 and Accumulated depreciation Cr. Rs. 21,500
 - b) Accumulated depreciation Dr. 21,500 and Depreciation expense Cr. 21,500
 - c) Depreciation expense Dr. 16,125 and Accumulated depreciation Cr. Rs. 16,125
 - d) Accumulated depreciation Dr. 16,125 and Depreciation expense Cr. 16,125
16. Machine was purchased by Ramiz for Rs. 600,000 and its residual value was estimated at 10% of cost of asset with useful life of 6 year. Ramiz intends to use reducing balance method to depreciate its machine. What will be depreciation rate which enabled Ramiz to bring carrying value at end of its useful life to its residual value? (Rounded to nearest %)
 - a) 28%
 - b) 29%
 - c) 30%
 - d) 32%
17. Which of the following statement/s regarding depreciation calculated as per sum-of-digits methods and reducing balance is/are correct?
 1. Depreciation in each year under sum-of-digit method declines at constant rate
 2. Depreciation in each year under reducing balance method declines by constant amount
 - a) Statement (1) only
 - b) Statement (2) only
 - c) Both statements
 - d) None of the above statements

18. An asset was purchased on 1 January 2020 for Rs. 60,000 with residual value of Rs. 4,000. The useful life was estimated at 7 years. What will be depreciation for the year ended 31 December 2022 if sum-of-years-digit method is used?
- Rs. 8,000
 - Rs. 10,000
 - Rs. 12,000
 - Rs. 14,000
19. Hassan purchased specific machine whose life was determined in usage of machine hours. Machine was bought on 1 March 2022 for Rs. 250,000 with residual value of Rs. 20,000 and expected machine hours shall be 100,000 hours. For the year ended 31 December 2022, machine had used 15,000 machine hours.
- What was the depreciation charge for the year ended 31 December 2022 and net amount reported in statement of financial position as at 31 December 2022?
- Rs. 34,500 depreciation and net amount in statement of financial position Rs. 215,500
 - Rs. 34,500 depreciation and net amount in statement of financial position Rs. 195,500
 - Rs. 28,750 depreciation and net amount in statement of financial position Rs. 215,500
 - Rs. 28,750 depreciation and net amount in statement of financial position Rs. 215,500
20. On 1 October 2021, furniture was capitalized at cost of Rs. 80,000. It was estimated that residual value of furniture shall be Rs. 5,000 at end of 5 years useful life. After recording all adjustments and preparing financial statements, it was discovered that fitting cost of Rs. 6,000 was charged as expense rather than being capitalised.
- How much profit was under stated or over stated for the year ended 30 June 2022 due to above error, if depreciation is charged under straight line method?
- Profit was understated by Rs. 6,000
 - Profit was overstated by Rs. 5,100
 - Profit was overstated by Rs. 6,000
 - Profit was understated by Rs. 5,100
21. Property, plant and equipment of Basir Co. showed balance of Rs. 336,000 (net of accumulated depreciation of Rs. 114,000) as at 1 January 2022. On 1 April 2022, an addition was made in PPE at Rs. 115,000 including installation cost of Rs. 12,000. Basir Co normally depreciates its PPE at 20% reducing balance method. What will be depreciation charge for the year ended 31 December 2022 in accordance with IAS 16?
- Rs. 67,200
 - Rs. 82,650
 - Rs. 84,450
 - Rs. 90,200
22. An inexperienced accountant was given task to calculate depreciation for the year ended 31 December 2022. Although he has calculated correct depreciation but selected the wrong method of depreciation. Relevant data is given below:
- PPE Balance b/d as at 1 January 2022 Rs. 250,000
- Accumulated depreciation Balance b/d as at 1 January 2022 Rs. 65,000
- 1 April 2022 Addition to PPE Rs. 75,000

Company normally depreciates the PPE on straight line based on 8 years useful life on monthly basis; but accountant has calculated depreciation on reducing balance method at 20% p.a. on monthly basis. What will be impact on profit and net assets of business caused by above error?

- a) Profit was understated by Rs. 9,969 but net assets were overstated by Rs. 9,969
- b) Profit was overstated by Rs. 9,969 but net assets were understated by Rs. 9,969
- c) Both profit and net assets were understated by Rs. 9,969
- d) Both profit and net assets were overstated by Rs. 9,969

23. Which of the following statement are correct, in relation to Property, plant and Equipment?

- a) The residual value of asset is estimated sales value after deduction of estimated cost of disposal, at the end of its useful life.
- b) Property, plant and equipment are tangible items that are expected to be used for more than one accounting period and are held for use in production; for rental to others and for administrative purposes
- c) Administration cost should be included in initial cost of Property, plant and equipment
- d) Depreciation is systematic allocation of depreciable amount over useful life of asset

24. The plant and equipment in the record of Amjad & Co. represented the following data:

Cost of Plant and equipment as at 1 July 2021 Rs. 250,000

(Purchased on 1 April 2020)

On 1 December 2021, Amjad & Co. purchased another equipment for Rs. 150,000. Amjad & Co. depreciates plant and equipment at 20% p.a. on reducing balance method.

The depreciation for the year ended 30 June 2022 shall be:

- a) Rs. 55,500
- b) Rs. 57,500
- c) Rs. 67,500
- d) Rs. 68,000

25. On 1 January 2022, Ali purchased an equipment and following costs were incurred on its acquisition:

Listed price	Rs. 150,000
Trade discount	5%
Administrative cost	Rs. 10,000
Installation cost	Rs. 20,000
Transportation and taxes	Rs. 25,000

Above installation cost included Rs. 5,000 incurred as result of negligence whereas half of "transportation and taxes cost" relates to taxes of which 60% were non-refundable.

The cost of equipment as at 1 January 2022 shall be:

- a) Rs. 157,500
- b) Rs. 165,000
- c) Rs. 177,500
- d) Rs. 180,000

26. The written down value of Furniture in the books of Akhtar as at 30 June 2022 was Rs. 86,400. The furniture was originally purchased on 1 January 2020 and company depreciates furniture at 20% p.a. on reducing balance method. The purchase cost of furniture as at 1 January 2020 was:
- a) Rs. 129,600
 - b) Rs. 135,000
 - c) Rs. 150,000
 - d) Rs. 168,750
27. Which of the following shall definitely be capitalised as part of property, plant and equipment?
- a) Furniture purchased for resale purpose
 - b) Printing of company logo and design on new vehicles
 - c) Replacement of minor parts of machine
 - d) Legal expenses incurred in acquisition of land and building
28. A bill was received from supplier of Rs. 200,000 which included purchase of generator Rs. 150,000; repairs cost of existing generators Rs. 20,000 and routine replacement parts of existing generators Rs. 30,000. Which of the following is correct accounting treatment?
- a) Capitalize Rs. 200,000
 - b) Capitalize Rs. 150,000 and charge Rs. 50,000 as expense
 - c) Capitalize Rs. 180,000 and charge Rs. 20,000 as expense
 - d) Capitalize Rs. 170,000 and charge Rs. 30,000 as expense
29. Naqash purchased machine on 1 April 2019 for Rs. 200,000. It was estimated that residual value will be Rs. 20,000 and useful life 10 years. At 30 June 2022, review of useful life and residual value was made in accordance with IAS-16, and it was observed that residual value was revised at Rs. 25,000 and estimate of total useful life was reduced from 10 years to 8 years. The depreciation charge for the year ended 30 June 2022 (nearest to Rs.) shall be:
- a) Rs. 24,174
 - b) Rs. 23,167
 - c) Rs. 22,417
 - d) Rs. 23,391
30. The reducing balance method of depreciating property, plant and equipment is more appropriate as compared to straight line method in which of the following situation?
- a) When the asset life could not be reliably measured
 - b) When the residual value of asset is estimated at zero
 - c) The asset has shorter useful life
 - d) The benefit from use of asset in subsequent years will decline at slow pace than in early period.
31. An asset was purchased by Majid on 1 September 2021 for Rs. 250,000. It was estimated that residual value shall be 10% of cost and useful life will be estimated at 20 years. The company adopted sum-of-years-digit method for calculation of depreciation on monthly basis, but accountant has recognized depreciation at 10% p.a. on reducing balance method. What was impact on net assets of Majid as at 30 June 2022 as result of above mistake?
- a) Overstated by Rs. 3,571
 - b) Understated by Rs. 3,571
 - c) Overstated by Rs. 2,976
 - d) Understated by Rs. 2,976

32. Jamal purchased generator on 1 March 2022 for Rs. 135,000, it is estimated that useful life shall be 5 years. Accountant has calculated correct depreciation of Rs. 20,000 for the year ended 31 December 2022 on straight line method.
- What amount of residual value was estimated by accountant in calculating above depreciation?
- Rs. 20,000
 - Rs. 15,000
 - Rs. 10,000
 - Rs. 5,000
33. The written down value of Machine as at 30 June 2022 was Rs. 100,000 based on sum-of-the-years digit method with estimated useful life of 8 years.
- The cost of machine as at 1 July 2019 was:
- Rs. 100,000
 - Rs. 140,000
 - Rs. 240,000
 - Rs. 280,000
34. Which of the following costs shall be capitalized as property, plant and equipment?
- Oil change cost relating to machine
 - Replacement of Engine of aircraft
 - Up-gradation cost on machine which resulted enhancement of efficiency
 - Routing maintenance cost of machine
35. Which of the following statement(s) is/are correct?
- At end of each year, review of useful life and residual value is made and if change is material, then it shall be accounted for as change in accounting estimate.
 - The change in depreciation method cannot be changed as it is contrary to consistency principle of accounting.
- Statement (1) and (2) are correct
 - Only statement (1) is correct
 - Only statement (2) is correct
 - Both statements are incorrect
36. The machine was purchased on 1 October 2019 and was depreciated at straight line method. The cost of machine, residual value and written down value as at 30 June 2021 were Rs. 200,000; Rs. 25,000 and Rs. 138,750. The depreciation expense for the year ended 30 June 2022 shall be:
- Rs. 26,250
 - Rs. 35,000
 - Rs. 61,250
 - Not possible to calculate from above data
37. Your firm bought a machine for Rs. 140,000 on 1 July 2019, which had expected life of 10 years and expected residual value of Rs. 15,000. The machine was to be depreciated on sum-of-the-years digit method.
- What amount should be recorded for depreciation expense for the year ended 30 June 2022? (to the nearest rupee)
- Rs. 22,909
 - Rs. 20,455
 - Rs. 20,363
 - Rs. 18,182

38. Jamal Sons purchased machine by paying Rs. 150,000 and other directly attributed cost of Rs. 25,000 was also capitalized on 1 March 2022. Estimated residual value of machine was Rs. 10,000 and useful life 5 years. It was observed that refundable taxes of Rs. 12,000 were wrongly capitalized and depreciation was calculated on straight line basis for full year on 31 December 2022.

Due to above error, the net assets of Jamal sons were understated by:

- a) Rs. 7,500
 - b) Rs. 2,400
 - c) Rs. 2,000
 - d) Rs. 3,100
39. Vehicle was purchased by GM Enterprises for Rs. 900,000 on 1 January 2021 which has estimated residual value of Rs. 100,000 after 5-years of useful life. Management used straight-line method of depreciation for vehicle. From 1 January 2022, management has decided to change the method to apply 30% rate using reducing balance method.
- The depreciation expense for the year ended 31 December 2022 shall be:
- a) Rs. 270,000
 - b) Rs. 222,000
 - c) Rs. 189,000
 - d) Rs. 168,000
40. Which one of following would occur, if capital expenditure was wrongly charged as an expense in an accounting period?
- a) Overstatement of profit and understatement of net assets
 - b) Understatement of profit and overstatement of net assets
 - c) Overstatement of both profit and net assets
 - d) Understatement of both profit and net assets
41. An equipment was purchased on 1 October 2020 for Rs. 200,000 and another equipment was purchased on 1 February 2022 for Rs. 300,000. Both equipment had estimated residual value of 20% of cost of asset and useful life of 10 years. Company depreciates equipment on straight line method from month of purchase.
- The amount of accumulated depreciation as at 30 June 2022 shall be:
- a) Rs. 56,000
 - b) Rs. 52,000
 - c) Rs. 42,000
 - d) Rs. 38,000
42. Equipment was purchased by Nishat & Co. on 1 July 2020 with no residual value and expected useful life was 6 years. The asset has been depreciated using straight line method. The net book value of Equipment as at 31 December 2022 was Rs. 87,500. The cost of equipment as at 1 July 2020 was:
- a) Rs. 124,000
 - b) Rs. 150,000
 - c) Rs. 162,500
 - d) Not possible to calculate from above information

43. The machine was purchased for Rs. 200,000 on 1 October 2020; the expected residual value was Rs. 40,000. The written down value as at 31 December 2022 was Rs. 128,000. The remaining useful life of machine at 31 December 2022 shall be, if depreciation was calculated at straight line method:
- 2.25 years
 - 2.75 years
 - 4 years
 - 5 years
44. Karim entered into agreement with M Limited on 1 March 2022 to buy specialized machine for Rs. 450,000 and paid 20% advance. On 1 July 2022, machine was delivered by M Limited and balance amount was paid.
- What journal entry shall be passed in the books of Karim on 1 July 2022?
- Dr. Machine Rs. 360,000 and Cr. Cash Rs. 360,000
 - Dr. Machine Rs. 450,000; Cr. Cash Rs. 360,000 and Payables Rs. 90,000
 - Dr. Machine Rs. 360,000; Cr. Cash Rs. 270,000 and Advance Rs. 90,000
 - Dr. Machine Rs. 450,000; Cr. Cash Rs. 360,000 and Advance Rs. 90,000
45. Which of the following is correct in relation to nature of 'Accumulated Depreciation' account?
- Expense
 - Liability
 - Contra asset
 - Asset
46. Junaid Limited purchase two machines; first on 1 January 2021 for Rs. 150,000 and second on 1 July 2022 for Rs. 200,000. The residual values of both machines are estimated at 20% of cost of asset. The useful life was estimated at 10 years. The depreciation expense for the year ended 31 December 2022 shall be:
- Rs. 20,000
 - Rs. 24,000
 - Rs. 32,000
 - Rs. 44,000
47. Rizwan bought a machine on 1 March 2021 for Rs. 150,000. Depreciation was provided at 25% using reducing balance method. The management has decided to use straight line method instead of reducing balance method from 2022. It was estimated that residual value shall be Rs. 18,750 after 5 years.
- The depreciation expense for the year ended 31 December 2022 shall be:
- Rs. 30,000
 - Rs. 26,250
 - Rs. 23,750
 - Rs. 20,000
48. Mujahid bought specialized machine on 15 January 2021 for Rs. 1,000,000. It was estimated that residual value shall be Rs. 100,000 and useful life shall be 200,000 units. Machine was put into use on 5 February 2021 and 15,000 units were produced till 30 June 2021 and total 55,000 units were produced during the year ended 30 June 2022. The depreciation expense for the year ended 30 June 2022 shall be:
- Rs. 67,500
 - Rs. 75,000
 - Rs. 180,000
 - Rs. 247,500

49. The depreciation expense for the years ended 31 December 2020, 2021 and 2022 were calculated at Rs. 48,000; Rs. 33,600 and Rs. 23,520 by reducing balance method. The depreciation rate used for calculation of depreciation expense was:
- a) 20%
 - b) 30%
 - c) 50%
 - d) 70%
50. The cost of machine wrongly included maintenance cost. Which of the following statement correctly reflect the impact of above error?
- a) The net assets were understated
 - b) Depreciation expense for the year was understated
 - c) Profit for the year was understated
 - d) Depreciation expense for the year was overstated

ANSWERS TO SELF TEST QUESTIONS

01	c	Building purchased for resale purposes is inventory.	
02	a,c,d	Tangible asset held for use in production Building held for use as factory Tangible asset held for use in administration	
03	a,c,e	Purchase cost less trade discounts Transportation cost Present value of future decommissioning cost	
04	a,d	Demurrage charges Refundable taxes	
05	b	Cost of PPE	Rs.
		Purchase cost of machine	750,000
		Sales tax (750,000 x 10%)	75,000
		Transportation cost	60,000
		Installation cost	50,000
			935,000
06	d	Architecture fee for construction of building	
07	c	Both statements	
08	b	Replacement of engine	
09	d	Advance Dr. 100,000 and Cash Cr. 100,000	
10	c	Economic life	
11	a	Systematic allocation of depreciable amount over its useful life	
12	c	Date when asset shall be available for use	
13	a,c,d	Accumulated depreciation shall be charged as expense in statement of comprehensive income Accumulated depreciation shall be recognized as asset in statement of financial position Depreciation expense shall be recognized as asset in statement of financial position	
14	d	Units of production method	
15	c	Depreciation expense (200,000+20,000-5,000)/10 x 9/12 = Rs. 16,125	
16	d	$1 - \sqrt[6]{\frac{60,000}{600,000}} = 32\%$	
17	d	None of the statements is correct.	
18	b	Sum of year digit= 7(7+1)/2	28
			Rupees
		Depreciation for 2022 (60,000-4,000) x 5/28	10,000

19	a	Depreciation rate per machine hour (250,000-20,000)/100,000	2.30
			Rupees
		Depreciation Expense for 2022 (15,000 x 2.30)	34,500
			Rupees
		Cost of machine	250,000
		Less: Depreciation Expense	(34,500)
		Amount to be shown in SOFP	215,500
20	d		Rupees
		Fitting cost charged as expense	(6,000)
		Depreciation was understated (6,000/5 x 9/12)	900
		Net profit was understated	(5,100)
21	c		Rupees
		Depreciation for 2022 (336,000 x 20%) +(115,000 x 20% x 9/12)	84,450
22	c		Rupees
		<i>Depreciation on Straight Line Method-Correct</i>	
		Balance (250,000/8)	31,250
		Addition (75,000/8 x 9/12)	7,031
			38,281
		<i>Depreciation on Reducing Balance Method-Incorrect</i>	
		Balance (250,000-65,000) x 20%	37,000
		Addition (75,000 x 20% x 9/12)	11,250
			48,250
		Depreciation was overstated and profit was understated	9,969

23		The residual value of asset is estimated sales value after deduction of estimated cost of disposal, at the end of its useful life. Property, plant and equipment are tangible items that are expected to be used for more than one accounting period and are held for use in production; for rental to others and for administrative purposes Depreciation is systematic allocation of depreciable amount over useful life of asset																						
24	a	<table><tr><th></th><th>Rupees</th></tr><tr><td>Cost of plant as at 1.4.2020</td><td>250,000</td></tr><tr><td>Depreciation on 30.6.2020 $(250,000 \times 20\% \times 3/12)$</td><td>(12,500)</td></tr><tr><td>WDV as at 30.6.2020</td><td>237,500</td></tr><tr><td>Depreciation on 30.6.2021 $(237,500 \times 20\%)$</td><td>(47,500)</td></tr><tr><td>WDV as at 30.6.2021</td><td>190,000</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation for year ended 30.6.2022</td><td></td></tr><tr><td>Balance b/f $(190,000 \times 20\%)$</td><td>38,000</td></tr><tr><td>Addition $(150,000 \times 20\% \times 7/12)$</td><td>17,500</td></tr><tr><td>Depreciation expense</td><td>55,500</td></tr></table>		Rupees	Cost of plant as at 1.4.2020	250,000	Depreciation on 30.6.2020 $(250,000 \times 20\% \times 3/12)$	(12,500)	WDV as at 30.6.2020	237,500	Depreciation on 30.6.2021 $(237,500 \times 20\%)$	(47,500)	WDV as at 30.6.2021	190,000		Rupees	Depreciation for year ended 30.6.2022		Balance b/f $(190,000 \times 20\%)$	38,000	Addition $(150,000 \times 20\% \times 7/12)$	17,500	Depreciation expense	55,500
	Rupees																							
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25	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>Listed price</td><td>150,000</td></tr><tr><td>Trade discount $(150,000 \times 5\%)$</td><td>(7,500)</td></tr><tr><td>Installation cost $(20,000 - 5,000)$</td><td>15,000</td></tr><tr><td>Transportation and taxes $[25,000 - (25,000 \times 50\% \times 40\%)]$</td><td>20,000</td></tr><tr><td>Cost of equipment</td><td>177,500</td></tr></table>		Rupees	Listed price	150,000	Trade discount $(150,000 \times 5\%)$	(7,500)	Installation cost $(20,000 - 5,000)$	15,000	Transportation and taxes $[25,000 - (25,000 \times 50\% \times 40\%)]$	20,000	Cost of equipment	177,500										
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Cost of equipment	177,500																							
26	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>WDV of furniture as at 30.6.2022</td><td>86,400</td></tr><tr><td>Depreciation for 2022 $(86,400 \times 20/80)$</td><td>21,600</td></tr><tr><td>WDV of furniture as at 30.6.2021</td><td>108,000</td></tr><tr><td>Depreciation for 2022 $(108,000 \times 20/80)$</td><td>27,000</td></tr><tr><td>WDV of furniture as at 30.6.2020</td><td>135,000</td></tr><tr><td>Depreciation for 2022 $(135,000 \times 10/90)$</td><td>15,000</td></tr><tr><td>Cost of furniture as at 01.01.2020</td><td>150,000</td></tr></table>		Rupees	WDV of furniture as at 30.6.2022	86,400	Depreciation for 2022 $(86,400 \times 20/80)$	21,600	WDV of furniture as at 30.6.2021	108,000	Depreciation for 2022 $(108,000 \times 20/80)$	27,000	WDV of furniture as at 30.6.2020	135,000	Depreciation for 2022 $(135,000 \times 10/90)$	15,000	Cost of furniture as at 01.01.2020	150,000						
	Rupees																							
WDV of furniture as at 30.6.2022	86,400																							
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WDV of furniture as at 30.6.2020	135,000																							
Depreciation for 2022 $(135,000 \times 10/90)$	15,000																							
Cost of furniture as at 01.01.2020	150,000																							

27	d	Legal expenses incurred in acquisition of land and building															
28	b	Capitalize Rs. 150,000 and charge Rs. 50,000 as expense															
29	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of machine as at 01.04.2019</td><td>200,000</td></tr><tr><td>Accumulated depreciation till 30.06.2021 (200,000-20,000)/10 x 2.25</td><td>(40,500)</td></tr><tr><td>WDV as at 30.06.2021</td><td>159,500</td></tr><tr><td colspan="2"></td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation for year ended 30.06.2022 (159,500-25,000)/(8-2.25)</td><td>23,391</td></tr></table>			Rupees	Cost of machine as at 01.04.2019	200,000	Accumulated depreciation till 30.06.2021 (200,000-20,000)/10 x 2.25	(40,500)	WDV as at 30.06.2021	159,500				Rupees	Depreciation for year ended 30.06.2022 (159,500-25,000)/(8-2.25)	23,391
	Rupees																
Cost of machine as at 01.04.2019	200,000																
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WDV as at 30.06.2021	159,500																
	Rupees																
Depreciation for year ended 30.06.2022 (159,500-25,000)/(8-2.25)	23,391																
30	d	The benefit from use of asset in subsequent years will decline at slow pace than in early period.															
31	d	<table><tr><td>Sum of year digit= $20(20+1)/2$</td><td>210</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation to be recorded $(250,000-25,000) \times 20/210 \times 10/12$</td><td>17,857</td></tr><tr><td>Depreciation wrongly charged $(250,000 \times 10\% \times 10/12)$</td><td>20,833</td></tr><tr><td>Depreciation was overstated and net assets were understated</td><td>2,976</td></tr></table>		Sum of year digit= $20(20+1)/2$	210		Rupees	Depreciation to be recorded $(250,000-25,000) \times 20/210 \times 10/12$	17,857	Depreciation wrongly charged $(250,000 \times 10\% \times 10/12)$	20,833	Depreciation was overstated and net assets were understated	2,976				
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32	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation for year ended 31.12.2022 for 10 months</td><td>20,000</td></tr><tr><td>Annual Depreciation $(20,000 \times 12/10)$</td><td>24,000</td></tr><tr><td>Depreciable amount $(24,000 \times 5)$</td><td>120,000</td></tr><tr><td>Residual value $(135,000-120,000)$</td><td>15,000</td></tr></table>			Rupees	Depreciation for year ended 31.12.2022 for 10 months	20,000	Annual Depreciation $(20,000 \times 12/10)$	24,000	Depreciable amount $(24,000 \times 5)$	120,000	Residual value $(135,000-120,000)$	15,000				
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33	c	<table><tr><td>Sum of year digit= $8(8+1)/2$</td><td>36</td></tr><tr><td>Expired life 3 years (digit expired $(8+7+6)$)</td><td>21</td></tr><tr><td>Remaining life digit $(36-21)$</td><td>15</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Cost of machine as at 01.07.2018 $(100,000 \times 36/15)$</td><td>240,000</td></tr></table>		Sum of year digit= $8(8+1)/2$	36	Expired life 3 years (digit expired $(8+7+6)$)	21	Remaining life digit $(36-21)$	15		Rupees	Cost of machine as at 01.07.2018 $(100,000 \times 36/15)$	240,000				
Sum of year digit= $8(8+1)/2$	36																
Expired life 3 years (digit expired $(8+7+6)$)	21																
Remaining life digit $(36-21)$	15																
	Rupees																
Cost of machine as at 01.07.2018 $(100,000 \times 36/15)$	240,000																

34	b,c	Replacement of Engine of aircraft Up-gradation cost on machine which resulted enhancement of efficiency													
35	b	Only statement (1) is correct													
36	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Accumulated Depreciation (200,000-138,750)</td><td>61,250</td></tr><tr><td>Expired life 1.75 years on 30 June 2021</td><td></td></tr><tr><td>Annual depreciation (61,250/1.75)</td><td>35,000</td></tr></table>		Rupees	Accumulated Depreciation (200,000-138,750)	61,250	Expired life 1.75 years on 30 June 2021		Annual depreciation (61,250/1.75)	35,000					
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37	d	<table><tr><td>Sum of year digit= $10(10+1)/2$</td><td>55</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation to be recorded (140,000-15,000) x 8/55</td><td>18,182</td></tr></table>	Sum of year digit= $10(10+1)/2$	55		Rupees	Depreciation to be recorded (140,000-15,000) x 8/55	18,182							
Sum of year digit= $10(10+1)/2$	55														
	Rupees														
Depreciation to be recorded (140,000-15,000) x 8/55	18,182														
38	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Correct depreciation $(150,000+25,000-12,000-10,000)/5 \times 10/12$</td><td>25,500</td></tr><tr><td>Wrong depreciation $(150,000+25,000-10,000)/5$</td><td>33,000</td></tr><tr><td>Depreciation was overstated and net assets were understated</td><td>7,500</td></tr></table>		Rupees	Correct depreciation $(150,000+25,000-12,000-10,000)/5 \times 10/12$	25,500	Wrong depreciation $(150,000+25,000-10,000)/5$	33,000	Depreciation was overstated and net assets were understated	7,500					
	Rupees														
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Wrong depreciation $(150,000+25,000-10,000)/5$	33,000														
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39	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of asset</td><td>900,000</td></tr><tr><td>Depreciation-2021 $(900,000-100,000)/5$</td><td>(160,000)</td></tr><tr><td>WDV as at 31.12.2021</td><td>740,000</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation-2022 (740,000 x 30%)</td><td>222,000</td></tr></table>		Rupees	Cost of asset	900,000	Depreciation-2021 $(900,000-100,000)/5$	(160,000)	WDV as at 31.12.2021	740,000		Rupees	Depreciation-2022 (740,000 x 30%)	222,000	
	Rupees														
Cost of asset	900,000														
Depreciation-2021 $(900,000-100,000)/5$	(160,000)														
WDV as at 31.12.2021	740,000														
	Rupees														
Depreciation-2022 (740,000 x 30%)	222,000														
40	d	Understatement of both profit and net assets because of extra expense.													
41	d	<table><tr><td>Accumulated depreciation as at 30.06.2022</td><td>Rupees</td></tr><tr><td>Equipment bought on 1.10.2020 $(200,000-40,000)/10 \times 1.75$</td><td>28,000</td></tr><tr><td>Equipment bought on 01.02.2022 $(300,000-60,000)/10 \times 5/12$</td><td>10,000</td></tr><tr><td></td><td>38,000</td></tr></table>	Accumulated depreciation as at 30.06.2022	Rupees	Equipment bought on 1.10.2020 $(200,000-40,000)/10 \times 1.75$	28,000	Equipment bought on 01.02.2022 $(300,000-60,000)/10 \times 5/12$	10,000		38,000					
Accumulated depreciation as at 30.06.2022	Rupees														
Equipment bought on 1.10.2020 $(200,000-40,000)/10 \times 1.75$	28,000														
Equipment bought on 01.02.2022 $(300,000-60,000)/10 \times 5/12$	10,000														
	38,000														

42	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of equipment (87,500 x 6/3.5)</td><td>150,000</td></tr></table>		Rupees	Cost of equipment (87,500 x 6/3.5)	150,000												
	Rupees																	
Cost of equipment (87,500 x 6/3.5)	150,000																	
43	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Accumulated depreciation (200,000-128,000)</td><td>72,000</td></tr><tr><td>Annual depreciation (72,000/2.25 years passed)</td><td>32,000</td></tr><tr><td>Depreciable amount (200,000-40,000)</td><td>160,000</td></tr><tr><td></td><td>Years</td></tr><tr><td>Total life (160,000/32,000) in years</td><td>5</td></tr><tr><td>Expired life</td><td>2.25</td></tr><tr><td>Remaining useful life</td><td>2.75</td></tr></table>		Rupees	Accumulated depreciation (200,000-128,000)	72,000	Annual depreciation (72,000/2.25 years passed)	32,000	Depreciable amount (200,000-40,000)	160,000		Years	Total life (160,000/32,000) in years	5	Expired life	2.25	Remaining useful life	2.75
	Rupees																	
Accumulated depreciation (200,000-128,000)	72,000																	
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	Years																	
Total life (160,000/32,000) in years	5																	
Expired life	2.25																	
Remaining useful life	2.75																	
44	d	Dr. Machine Rs. 450,000; Cr. Cash Rs. 360,000 and Advance Rs. 90,000																
45	c	Contra asset																
46	a	<table><tr><td>Depreciation for year ended 31.12.2022</td><td>Rupees</td></tr><tr><td>Machine 1 (150,000-30,000)/10</td><td>12,000</td></tr><tr><td>Machine 2 (200,000-40,000)/10 x 6/12</td><td>8,000</td></tr><tr><td></td><td>20,000</td></tr></table>	Depreciation for year ended 31.12.2022	Rupees	Machine 1 (150,000-30,000)/10	12,000	Machine 2 (200,000-40,000)/10 x 6/12	8,000		20,000								
Depreciation for year ended 31.12.2022	Rupees																	
Machine 1 (150,000-30,000)/10	12,000																	
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	20,000																	
47	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of machine as at 01.03.2021</td><td>150,000</td></tr><tr><td>Depreciation expense-2021 (150,000 x 25% x 10/12)</td><td>(31,250)</td></tr><tr><td>WDV as at 31.12.2021</td><td>118,750</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation-2022 (118,750 - 18,750)/5</td><td>20,000</td></tr></table>		Rupees	Cost of machine as at 01.03.2021	150,000	Depreciation expense-2021 (150,000 x 25% x 10/12)	(31,250)	WDV as at 31.12.2021	118,750		Rupees	Depreciation-2022 (118,750 - 18,750)/5	20,000				
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48	d	<table><tr><td>Depreciation rate per machine hour (1,000,000-100,000)/200,000</td><td>4.50</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Depreciation Expense for 30.06. 2022 (55,000 x 4.50)</td><td>247,500</td></tr></table>	Depreciation rate per machine hour (1,000,000-100,000)/200,000	4.50		Rupees	Depreciation Expense for 30.06. 2022 (55,000 x 4.50)	247,500										
Depreciation rate per machine hour (1,000,000-100,000)/200,000	4.50																	
	Rupees																	
Depreciation Expense for 30.06. 2022 (55,000 x 4.50)	247,500																	
49	b	Depreciation rate= [1- (33,600/48,000)] x 100 = 30%																
50	d	Depreciation expense for the year was overstated.																

IAS 2: INVENTORIES

1. Which of the following shall NOT be a part of cost of inventory?
 - a) Purchase cost
 - b) Transportation in
 - c) Insurance in transit
 - d) Selling cost

2. Which of the following statement(s) is/are correct?
 1. Inventories are held for sale in ordinary course of business
 2. Assets which are designated as held for sale but not in ordinary course of business are also classified as inventory
 - a) Statement 1 only
 - b) Statement 2 only
 - c) Both statements
 - d) None of the above

3. Raw material of Imtiaz Company as at June 30, 2023 was Rs. 185,000 at cost. 30% of the raw material was damaged due to mishandling and its NRV is estimated at 80% of cost whereas remaining raw material inventory's NRV was higher than its cost. What should be inventory of raw material of Imtiaz Company as at June 30, 2023 for inclusion of statement of financial position?
 - a) Rs. 185,000
 - b) Rs. 173,900
 - c) Rs. 159,100
 - d) Rs. 148,000

4. Which of the following statements are true in the context of IAS-2 Inventories:
 - a) Sales tax adjustable is eventually recovered from tax authorities therefore it should not be included in cost of inventory
 - b) Cost of storage of finished goods should not be included in cost of inventories
 - c) Storage cost of raw materials necessary in the production process before a further production stage are included in cost of inventories

5. RT sons purchased 500 units of Product K from Karachi at cost per unit of Rs. 550 which includes 10% adjustable sales tax. RT brought these goods to Islamabad outlet for sales purposes. Transportation and handling cost of Rs. 40,000 was paid to bring inventory at present location; which included Rs. 3,000 as insurance in transit and selling cost of Rs. 7,000.
 What will be cost per unit in accordance with IAS-2?
 - a) Rs. 616
 - b) Rs. 610
 - c) Rs. 566
 - d) Rs. 560

6. IAS 2 inventories states two main methods of recording inventory i.e. periodic and perpetual inventory system. Which of the following statements are correct in relation to these inventory methods?
- Both inventory systems are same
 - Under periodic system, purchases account is used to record all purchase
 - Under perpetual system, purchase account is not used to record purchase, rather it shall be debited in inventory account
7. Farrukh maintains perpetual inventory system and at start of month inventory account showed Rs. 150,000. During the month, goods of Rs. 320,000 were purchased and sales for the year was Rs. 402,000. Goods are normally sold at cost plus 20% and goods valued Rs. 15,000 were lost during the month. What shall be closing balance of inventory account?
- Rs. 120,000
 - Rs. 135,000
 - Rs. 133,400
 - Rs. 53,000
8. Adjusting entry for recording inventory at year-end under periodic inventory system shall be:
- Dr. Inventory and Cr. Sales
 - Dr. Sales and Cr. Inventory
 - Dr. Inventory and Cr. Cost of sales
 - Dr. Cost of Sales and Cr. Inventory
9. Mr. Khan runs the business of construction building material and during the year ended 30 June 2023, he consumed building material costing Rs. 150,000, having sales price of Rs. 175,000 for construction of office.
- Which of the following statement(s) is/are correct in relation to above transaction.
- Material consumed shall be added in the cost of building by Rs. 175,000
 - Material consumed shall be added in the cost of building by Rs. 150,000
 - Material consumed shall be recorded as operating expense
 - Material consumed shall be added in the cost of building by Rs. 175,000 and difference of Rs. 25,000 shall be credited to income
10. Shaukat maintains perpetual inventory system and as at 1 March 2022 inventory balance was Rs. 120,000. Goods valued at Rs. 253,000 were purchased and goods valued at Rs. 8,000 were returned. Total sales accounted for the month was Rs. 285,250 which includes sales of Rs. 35,250 made to special customer at discount of 6% on normal sales price. Shaukat normally sells goods at 25% markup. Goods at sales value of Rs. 10,000 were totally damaged and 60% was recovered from insurance company as compensation. What shall be balance of inventory as at 31 March 2022?
- Rs. 131,000
 - Rs. 129,800
 - Rs. 125,000
 - Rs. 127,000
11. Double entry, for loss of stock of Rs. 80,000 of which 70% was recovered in cash from insurance company, under perpetual system shall be:
- Dr. Abnormal Loss Rs. 24,000 and Cr. Inventory Rs. 24,000
 - Dr. Cash Rs. 56,000; Dr. Abnormal Loss Rs. 24,000 and Cr. Inventory Rs. 80,000
 - Dr. Abnormal Loss Rs. 24,000 and Cr. Purchases Rs. 24,000
 - Dr. Cash Rs. 56,000; Dr. Abnormal Loss Rs. 24,000 and Cr. Purchases Rs. 80,000

12. Which of the statement is correct in relation to cost formulas specified in IAS 2?
- Inventory calculated under AVCO method shall always be same under perpetual and periodic inventory system
 - Inventory calculated under FIFO method shall always be same under perpetual and periodic inventory system
 - Inventory calculated under AVCO method shall always be higher under perpetual inventory system as compared to periodic inventory system
 - Inventory calculated under FIFO method shall always be higher under perpetual inventory system as compared to periodic inventory system

13. At end of accounting period, three inventory items were valued and related information is given below:

Item A	Cost Rs. 20,000	Sales price 10% markup	Commission 6%
Item B	Cost Rs. 28,500	Sales price 5% margin	Commission 6%
Item C	Cost Rs. 15,000	Sales price Rs. 16,300	Selling expenses Rs. 2,000

What will be value of inventory at period end in accordance with IAS-2 Inventories?

- Rs. 63,500
 - Rs. 68,300
 - Rs. 62,500
 - Rs. 64,500
14. In case of rising prices, which of the following statement is true?
- Inventory and profit shall be higher but cost of sales shall be lower under FIFO method in comparison with AVCO method
 - Inventory and profit shall be higher but cost of sales shall be lower under AVCO method in comparison with FIFO method
 - Inventory, cost of sales and profit shall be higher under FIFO method in comparison with AVCO method
 - Inventory, cost of sales and profit shall be lower under FIFO method in comparison with AVCO method
15. Double entry, for loss of stock of Rs. 100,000 of which 60% was recovered in cash from insurance company, under periodic system shall be:
- Dr. Abnormal Loss Rs. 40,000 and Cr. Inventory Rs. 40,000
 - Dr. Cash Rs. 60,000; Dr. Abnormal Loss Rs. 40,000 and Cr. Inventory Rs. 100,000
 - Dr. Abnormal Loss Rs. 40,000 and Cr. Purchases Rs. 40,000
 - Dr. Cash Rs. 60,000; Dr. Abnormal Loss Rs. 40,000 and Cr. Purchases Rs. 100,000

16. Following transactions relate to the month of April 2022:

April 1	Balance b/d	500 units at Rs. 20 each
April 5	Purchase	300 units at Rs. 21 each
April 10	Sales	450 units at Rs. 30 each
April 15	Purchase	400 units at Rs. 22 each
April 20	Sales	450 units at Rs. 30 each
April 25	Sales return	100 units at Rs. 30 each
April 30	Sales	200 units at Rs. 30 each

What shall be value of inventory at 30 April 2022 under FIFO method?

- a) Rs. 4,000
- b) Rs. 4,200
- c) Rs. 4,400
- d) Rs. 6,000

17. Which of the following statements about requirements of IAS 2 Inventories are correct?

- a) In valuing manufactured inventories, fixed production overheads should not be included in cost of finished goods
- b) Cost of inventory can be measured using FIFO or Weighted average Formulas
- c) The amount of any write down of inventories shall be recognised as an expense
- d) The inventories should be recorded at lower of replacement cost or realizable value

18. In the year ended 30 June 2022, the closing inventory was lower than opening inventory in units. Which of the following statement is correct assuming that prices have fallen throughout the year?

- a) Closing inventory and profit are higher in FIFO rather than in AVCO
- b) Closing inventory and profit are higher in AVCO rather than in FIFO
- c) Closing inventory is higher and profit lower in FIFO rather than in AVCO
- d) Closing inventory is higher and profit lower in AVCO rather than in FIFO

19. Following transactions relate to the month of April 2022:

April 1	Balance b/d	600 units at Rs. 20 each
April 5	Purchase	400 units at Rs. 21 each
April 10	Sales	650 units at Rs. 30 each
April 15	Purchase	400 units at Rs. 22 each
April 18	Purchase return	100 units at Rs. 22 each
April 20	Sales	250 units at Rs. 30 each
April 30	Sales	50 units at Rs. 30 each

What shall be value of inventory at month of April 2022 under FIFO method assuming perpetual inventory system is in operation?

- a) Rs. 7,450
- b) Rs. 7,350
- c) Rs. 7,700
- d) Rs. 7,650

20. What will be impact on profit if an inventory item costing Rs. 20,000 with net realizable value of Rs. 22,000 was omitted from list of inventory?

- a) Understated by Rs. 2,000
- b) Understated by Rs. 20,000
- c) Understated by Rs. 22,000
- d) No effect on profit

21. An inventory item was purchased for Rs. 7,000 per unit. The estimated sales price was Rs. 10,000 but selling cost of Rs. 3,200 will be incurred at time of sales. The replacement cost of inventory will be Rs. 7,500. What will be value of inventory item?
- Rs. 10,000
 - Rs. 7,500
 - Rs. 7,000
 - Rs. 6,800
22. Which of the following statement(s) is/are disclosure requirements, specified in IAS 2?
- The amount of inventories recognized as an expense during the period
 - The amount of any write-down of inventories recognized as an expense
- Statement 1 only
 - Statement 2 only
 - Both Statements
 - None of the above statements
23. What are the possible reasons for difference in inventory account and physical inventory count?
- Theft of inventory
 - Unrecorded damage of goods
 - Failure to record an issue
 - Cash paid to supplier was not recorded in books
 - Failure to record a receipt
24. If opening inventory was overstated by Rs. 12,500 and closing inventory was understated by Rs. 7,500, what will be impact on cost of goods sold for the period?
- Overstated by Rs. 5,000
 - Overstated by Rs. 7,500
 - Overstated by Rs. 12,500
 - Overstated by Rs. 20,000
25. Goods costing Rs. 75,000 were withdrawn by owner for personal use. Normally, goods are sold at 20% markup. The correct entry of recording the drawing of goods under periodic system of inventory shall be:
- Dr. Drawings Rs. 75,000 and Cr. Purchases Rs. 75,000
 - Dr. Drawings Rs. 75,000 and Cr. Inventory Rs. 75,000
 - Dr. Drawings Rs. 90,000 and Cr. Purchase Rs. 90,000
 - Dr. Drawings Rs. 90,000 and Cr. Inventory Rs. 90,000
26. In accordance with IAS-2 Inventories, fixed and variable cost of conversion included in inventory in which of the following way?
- Variable and fixed conversion costs both on actual production level
 - Variable and fixed conversion costs both on normal production level
 - Variable conversion cost on normal production level and fixed conversion cost on actual production level
 - Variable conversion cost on actual production level and fixed conversion cost on normal production level, if actual production level does not exceed normal production level

27. Following data is related to ABC Enterprises as at 30 June 2023:

Opening Stock	Rs. 25,000
Purchases	Rs. 500,000
Sales	Rs. 525,000
Business earns 25% margin on sales	

What will be value of inventory, if retail method is used?

- Zero
 - Rs. 50,000
 - Rs. 105,000
 - Rs. 131,250
28. Which of the following is NOT disclosure requirements, as specified in IAS 2?
- The accounting policies adopted in measuring inventories, including the cost formulas used
 - The total carrying amount of inventories and the carrying amounts in classification appropriate to the entity
 - The amount of inventories recognised as an expense during the period
 - The carrying amount of inventories carried at their historical cost less cost to sell
29. Nasir Limited imported raw materials with intention to use in production and following costs were incurred.
- | | |
|--------------------------------------|-------------|
| List price of imported raw materials | Rs. 900,000 |
| Trade discounts | 5% |
| Custom and excise duty | Rs. 100,000 |
| Adjustable taxes | Rs. 25,000 |
| Carriage | Rs. 35,000 |
| Selling costs | Rs. 12,000 |
- The cost of inventory of raw material shall be?
- Rs. 1,027,000
 - Rs. 1,015,000
 - Rs. 990,000
 - Rs. 964,350
30. Goods of sales value of Rs. 60,000 were withdrawn by owner for personal use and normal sales price is based on 20% markup. The correct entry of recording the drawings of goods under perpetual inventory system shall be:
- Dr. Drawings Rs. 48,000 and Cr. Inventory Rs. 48,000
 - Dr. Drawings Rs. 50,000 and Cr. Inventory Rs. 50,000
 - Dr. Drawings Rs. 60,000 and Cr. Inventory Rs. 60,000
 - Dr. Drawings Rs. 72,000 and Cr. Inventory Rs. 72,000
31. Rashid Limited is engaged in manufacturing of baby toys and following data is related to one of its products "AB201" for the month of April 2022.

Direct materials per unit	Rs. 150
Direct labour per unit	Rs. 100
Variable production overheads per unit	50% of labour cost
Fixed production overheads	Rs. 220,000
Normal production level	2,000 units
Actual production	2,200 units

The cost of product AB201 per unit shall be:

- a) Rs. 250
- b) Rs. 300
- c) Rs. 400
- d) Rs. 410

32. According to IAS-2 Inventories, which TWO of the following shall be included in cost of inventory in manufacturing company?

- a) Carriage Inwards
- b) Storage cost of finished goods
- c) Depreciation of furniture
- d) Depreciation of plant

33. A company values its inventory on FIFO basis and adopts perpetual inventory system. At 1 January 2022 it had 5,000 units on hand at price of Rs. 60 per unit. Following transactions have taken place during the month of January 2022.

10.01.22	Purchase	3,000 units at Rs. 62 per unit
22.01.22	Purchase	2,500 units at Rs. 63 per unit
15.01.22	Sales	6,500 units
31.01.22	Sales	3,300 units

The value of inventory at 31 January 2022 shall be:

- a) Rs. 44,100
- b) Rs. 43,400
- c) Rs. 42,600
- d) Rs. 42,000

34. A company has valued its stock as at 30 June 2022 at Rs. 275,000. It was observed that one of the inventory item included in above stock at Rs. 35,000 was shop-soiled and it can only be sold at Rs. 32,000 after incurring packing cost of Rs. 1,500.

What was the correct value of stock as at 30 June 2022 after incorporating the above adjustment?

- a) Rs. 275,000
- b) Rs. 279,500
- c) Rs. 270,500
- d) Rs. 272,000

35. Following data is relevant for calculation of conversion cost per unit of inventory of Product Beta.

Variable production overheads	Rs. 350,000
Fixed production overheads	Rs. 525,000
Normal production	17,500 units
Actual production	12,500 units

The conversion cost per unit of Beta is:

- a) Rs. 70
- b) Rs. 62
- c) Rs. 58
- d) Rs. 50

36. Stock as at 1 May 2022 of Nisar & Co. was 2,000 units at Rs. 120 per unit. Nisar & Co. purchased 2,500 units at Rs. 125 per unit on 6 May 2022 and further 1,500 units at Rs. 123 per unit on 21 May 2022. As at 31 May 2022, stock on hand was 1,600 units.

If Nisar & Co. used weighted average method and periodic inventory system is followed, then stock value as at 31 May 2022 (rounded to nearest Rs.) shall be:

- a) Rs. 196,533
 - b) Rs. 196,444
 - c) Rs. 198,800
 - d) Rs. 196,800
37. Which of the following statement(s) is/are correct?
- a) Inventory valuation of work in process shall include direct materials, direct labour and production overheads (both variable and fixed).
 - b) Cost of inventory can be valued either on First in First out basis or weighted average cost basis.
 - c) Inventory shall be measured at lower of cost or net realizable value and replacement cost
 - d) Inventory shall be measured at high of cost and net realisable value.
38. Kiran valued its stock on 30 April 2022 at cost Rs. 425,000. However, it was discovered that one of the inventory item costing Rs. 30,000 included in above, can be sold at 70% of normal sales price. Kiran normally sells goods at cost plus 20%.
- Based upon above adjustment, which of the following statement(s) is/are correct?
1. Profit of Kiran was overstated by Rs. 4,800.
 2. Cost of sales of Kiran was understated by Rs. 4,800.
 3. Net assets of Kiran were understated by Rs. 4,800.
- a) Statement (1) only
 - b) Statement (2) only
 - c) Statement (1) and (2) only
 - d) All statements
39. Opening stock of Majid was Rs. 150,000 and during the month of June 2022, he purchased stock of Rs. 200,000 and sales for the period was Rs. 240,000. It sells all goods at 20% markup.
- The value of closing stock at end of June 2022 shall be:
- a) Rs. 158,000
 - b) Rs. 110,000
 - c) Rs. 150,000
 - d) Rs. 190,000
40. During the period of inflation, the value of inventory under weighted average method as against First in First out method, will result in which of the following:

	Stock	CGS	Profit
a)	Lower	Higher	Lower
b)	Higher	Lower	Higher
c)	Lower	Higher	Higher
d)	Higher	Lower	Lower

41. Opening stock of Mujtaba was Rs. 540,000 and total purchase during the month of October 2022 was Rs. 1,150,000. Total sales for the month of October 2022 was Rs. 1,240,000 and stock at end of October 2022 was recorded at Rs. 555,000.

The gross profit of Mujtaba for the month of October 2022 was:

- a) Rs. 90,000
 - b) Rs. 105,000
 - c) Rs. 75,000
 - d) Rs. 100,000
42. Opening stock was understated by Rs.17,800 and error occurred while carrying forward the balance of closing stock from last year.

What will be impact on net profit caused by above error?

- a) Profit of current year was understated by Rs. 17,800 and profit of last year was overstated by Rs. 17,800
- b) Profit of current year was overstated by Rs. 17,800 and profit of last year was understated by Rs. 17,800
- c) Profit of current year was understated by Rs. 17,800 with no effect on last year profit
- d) Profit of current year was overstated by Rs. 17,800 with no effect on last year profit

43. Samra has provided following data for the month of July, 2022.

Stock as at 1 July 2022	500 units at Rs. 50 each
Purchase - 7 July 2022	700 units at Rs. 53 each
Sales - 15 July 2022	400 units at Rs. 70 each
Purchase - 22 July 2022	600 units at Rs. 52 each
Sales - 29 July 2022	650 units at Rs. 70 each

Samra adopted perpetual inventory system and weighted average method for valuation of inventory.

The gross profit for the month of July 2022 was (to the nearest rupee):

- a) Rs. 19,075
 - b) Rs. 19,091
 - c) Rs. 19,246
 - d) Rs. 18,900
44. The work in progress inventory of ABC Company as at 30 June 2023 was measured at Rs. 175,000. It is estimated that further Rs. 45,000 shall be incurred to convert work in progress in finished goods. The selling price of final product will be Rs. 250,000 subject to 5% commission.

The value of work in progress inventory of ABC Company to be shown in statement of financial position as at 30 June 2023 is:

- a) Rs. 175,000
 - b) Rs. 192,500
 - c) Rs. 205,000
 - d) Rs. 237,500
45. The journal entry to record normal loss under periodic inventory system is:
- a) Dr. Normal Loss; Cr. Inventory
 - b) Dr. Normal Loss; Cr. Cost of sales
 - c) Dr. Cost of sales; Cr. Inventory
 - d) No journal entry

46. As at 1 August 2022, the stock on hand was 1,500 units at Rs. 150 each and during the month of August 2022, 6,000 units were purchased at Rs. 160 per unit. At 31 August 2022, the stock on hand was 1,800 units.

Trainee accountant has calculated correct value on FIFO basis whereas company's policy is to value the inventory on weighted average basis.

Which TWO of the following statements is correct in relation to above adjustment?

- a) Closing stock was overvalued by Rs. 3,600 and Cost of sales was understated by Rs. 3,600.
 - b) Closing stock was undervalued by Rs. 3,600 and Cost of sales was overstated by Rs. 3,600.
 - c) Both closing stock and profit were overstated by Rs. 3,600
 - d) Both closing stock and profit were understated by Rs. 3,600
47. Opening and closing stock of Zahid Traders were Rs. 72,500 and 86,200. During the period, Zahid Traders have purchased goods worth Rs. 444,000 and sold goods at Rs. 526,000.

While calculating the profit, opening stock was treated as closing stock and vice-versa. What was the impact of above error on profit?

- a) Profit was overstated by Rs. 27,400
 - b) Profit was understated by Rs. 27,400
 - c) Profit was overstated by Rs. 54,800
 - d) Profit was understated by Rs. 54,800
48. The journal entry to record normal loss under perpetual inventory system is:
- a) Dr. Normal Loss; Cr. Inventory
 - b) Dr. Normal Loss; Cr. Cost of sales
 - c) Dr. Cost of sales; Cr. Inventory
 - d) No journal entry
49. Which of the following are possible differences between periodic inventory system and perpetual inventory system:
- a) Purchase account is used in periodic inventory system and inventory account is used in perpetual inventory system, to record purchases of goods
 - b) In perpetual inventory system purchase return is recorded in inventory account whereas in periodic inventory system, purchase return account is used
 - c) Losses shall not be recorded in perpetual inventory system, whereas in periodic inventory system losses shall be recorded
 - d) Periodic inventory system is suitable for large size items or low inventory whereas perpetual inventory system is suitable when inventory movements are frequent
50. Arif valued its inventory at Rs. 222,500 at cost using FIFO method of valuation. It was observed that an inventory item costing Rs. 18,500 was damaged and Rs. 5,500 shall be required to repair it and sell it at 20% markup which is normal sales price. This inventory item was not included in above inventory value.

What will be value of inventory after making the above adjustment?

- a) Rs. 205,800
- b) Rs. 220,700
- c) Rs. 239,200
- d) Rs. 241,000

ANSWERS TO SELF TEST QUESTIONS

01	d	Selling cost are not included in cost of inventory.																											
02	a	Only Statement 1 is correct.																											
03	b	<table><tr><td></td><td>Rs.</td></tr><tr><td>Damaged inventory of raw materials Cost (185,000 x 30%)</td><td>55,500</td></tr><tr><td>NRV (55,500 x 80%)</td><td>44,400</td></tr><tr><td>Value of damaged raw materials</td><td>44,400</td></tr><tr><td>Value of remaining raw materials (185,000 x 70%)</td><td>129,500</td></tr><tr><td>Raw material inventory</td><td>173,900</td></tr></table>					Rs.	Damaged inventory of raw materials Cost (185,000 x 30%)	55,500	NRV (55,500 x 80%)	44,400	Value of damaged raw materials	44,400	Value of remaining raw materials (185,000 x 70%)	129,500	Raw material inventory	173,900												
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Value of remaining raw materials (185,000 x 70%)	129,500																												
Raw material inventory	173,900																												
04	a,b,c	Sales tax adjustable is eventually recovered from tax authorities therefore it should not be included in cost of inventory Cost of storage of finished goods should not be included in cost of inventories Storage cost of raw materials necessary in the production process before a further production stage are included in cost of inventories																											
05	c	<table><tr><td>Unit purchase cost</td><td>Rupees</td><td>Rupees</td></tr><tr><td>Purchase (550 x 100/110)</td><td></td><td>500</td></tr><tr><td>Transportation and handling cost</td><td>40,000</td><td></td></tr><tr><td>Less: Selling cost</td><td>(7,000)</td><td></td></tr><tr><td></td><td>33,000</td><td></td></tr><tr><td>Units</td><td>500</td><td></td></tr><tr><td>Unit cost</td><td></td><td>66</td></tr><tr><td>Unit purchase cost</td><td></td><td>566</td></tr></table>				Unit purchase cost	Rupees	Rupees	Purchase (550 x 100/110)		500	Transportation and handling cost	40,000		Less: Selling cost	(7,000)			33,000		Units	500		Unit cost		66	Unit purchase cost		566
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06	c,d	Under periodic system, purchases account is used to record all purchase Under perpetual system, purchase account is not used to record purchase, rather it shall be debited in inventory account																											
07	a	Inventory <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>150,000</td><td>CGS (402,000/1.20)</td><td>335,000</td></tr><tr><td>Purchases</td><td>320,000</td><td>Loss</td><td>15,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>120,000</td></tr><tr><td></td><td>470,000</td><td></td><td>470,000</td></tr></table>					Rs.		Rs.	Balance b/f	150,000	CGS (402,000/1.20)	335,000	Purchases	320,000	Loss	15,000			Balance c/f	120,000		470,000		470,000				
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	470,000		470,000																										

08	c	Dr. Inventory and Cr. Cost of sales																																																					
09	b	Material consumed shall be added in the cost of building by Rs. 150,000																																																					
10	d	Rs. 127,000 Inventory <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>120,000</td><td>Purchase returns</td><td>8,000</td></tr><tr><td>Purchases</td><td>253,000</td><td>CGS W-1</td><td>230,000</td></tr><tr><td></td><td></td><td>Loss 10,000 x 100 / 125</td><td>8,000</td></tr><tr><td></td><td></td><td>Balance c/f</td><td>127,000</td></tr><tr><td></td><td>373,000</td><td></td><td>373,000</td></tr></table> <table><tr><td colspan="3">W-1</td><td colspan="3">Rupees</td></tr><tr><td colspan="3">Sales at discount (35,250/0.94 x 100/125)</td><td colspan="3">30,000</td></tr><tr><td colspan="3">Normal sales (285,250-35,250) x 100/125</td><td colspan="3">200,000</td></tr><tr><td colspan="3">Cost of goods sold</td><td colspan="3">230,000</td></tr></table>							Rs.		Rs.	Balance b/f	120,000	Purchase returns	8,000	Purchases	253,000	CGS W-1	230,000			Loss 10,000 x 100 / 125	8,000			Balance c/f	127,000		373,000		373,000	W-1			Rupees			Sales at discount (35,250/0.94 x 100/125)			30,000			Normal sales (285,250-35,250) x 100/125			200,000			Cost of goods sold			230,000		
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11	b	Dr. Cash Rs. 56,000; Dr. Abnormal Loss Rs. 24,000 and Cr. Inventory Rs. 80,000																																																					
12	b	Inventory calculated under FIFO method shall always be same under perpetual and periodic inventory system																																																					
13	c	<table><tr><td>Items</td><td>Cost</td><td>Sales price/Unit</td><td>Cost to sell/unit</td><td>NRV</td><td>Inventory</td></tr><tr><td>A</td><td>20,000</td><td>22,000</td><td>1,320</td><td>20,680</td><td>20,000</td></tr><tr><td>B</td><td>28,500</td><td>30,000</td><td>1,800</td><td>28,200</td><td>28,200</td></tr><tr><td>C</td><td>15,000</td><td>16,300</td><td>2,000</td><td>14,300</td><td>14,300</td></tr><tr><td colspan="5">Value of Inventory</td><td>62,500</td></tr></table>						Items	Cost	Sales price/Unit	Cost to sell/unit	NRV	Inventory	A	20,000	22,000	1,320	20,680	20,000	B	28,500	30,000	1,800	28,200	28,200	C	15,000	16,300	2,000	14,300	14,300	Value of Inventory					62,500																		
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14	a	Inventory and profit shall be higher but cost of sales shall be lower under FIFO method in comparison with AVCO method																																																					
15	d	Dr. Cash Rs. 60,000; Dr. Abnormal Loss Rs. 40,000 and Cr. Purchases Rs. 100,000																																																					
16	c	<table><tr><td colspan="5"></td><td>Units</td></tr><tr><td colspan="5">Stock on hand (500+300-450+400-450+100-200)</td><td>200</td></tr><tr><td colspan="5"></td><td>Rupees</td></tr><tr><td colspan="5">Value of stock</td><td></td></tr><tr><td colspan="5">200 units at Rs. 22 each</td><td>4,400</td></tr></table>											Units	Stock on hand (500+300-450+400-450+100-200)					200						Rupees	Value of stock						200 units at Rs. 22 each					4,400																		
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17		Cost of inventory can be measured using FIFO or Weighted average Formulas The amount of any write down of inventories shall be recognised as an expense																																																					

18	b	Closing inventory and profit are higher in AVCO rather than in FIFO															
19	d	<table><tr><td></td><td>Units</td></tr><tr><td>Stock on hand (600+400-650+400-100-250-50)</td><td>350</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Value of stock</td><td></td></tr><tr><td>300 units at Rs. 22 each</td><td>6,600</td></tr><tr><td>50 units at Rs. 21 each</td><td>1,050</td></tr><tr><td></td><td>7.650</td></tr></table>		Units	Stock on hand (600+400-650+400-100-250-50)	350		Rupees	Value of stock		300 units at Rs. 22 each	6,600	50 units at Rs. 21 each	1,050		7.650	
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Stock on hand (600+400-650+400-100-250-50)	350																
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20	b	Understated by Rs. 20,000															
21	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost</td><td>7,000</td></tr><tr><td>Net Realisable Value (10,000-3,200)</td><td>6,800</td></tr><tr><td>Lower of cost or NRV</td><td>6,800</td></tr></table>		Rupees	Cost	7,000	Net Realisable Value (10,000-3,200)	6,800	Lower of cost or NRV	6,800							
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22	c	Both Statements															
23	a,b,d,e	Theft of inventory Unrecorded damage of goods Cash paid to supplier was not recorded in books Failure to record a receipt															
24	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Opening Inventory overstated</td><td>12.500</td></tr><tr><td>Closing Inventory understated</td><td>7,500</td></tr><tr><td>Cost of goods sold was overstated</td><td>20,000</td></tr></table>		Rupees	Opening Inventory overstated	12.500	Closing Inventory understated	7,500	Cost of goods sold was overstated	20,000							
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25	a	Dr. Drawings Rs. 75,000 and Cr. Purchases Rs. 75,000															
26	d	Variable conversion cost on actual production level and fixed conversion cost on normal production level, if actual production level does not exceed normal production level.															
27	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Opening stock</td><td>25,000</td></tr><tr><td>Add: Purchase</td><td>500,000</td></tr><tr><td>Less: Cost of sales (525,000 x 75%)</td><td>(393,750)</td></tr><tr><td>Value of closing stock</td><td>131,250</td></tr></table>		Rupees	Opening stock	25,000	Add: Purchase	500,000	Less: Cost of sales (525,000 x 75%)	(393,750)	Value of closing stock	131,250					
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Value of closing stock	131,250																

28	d	The carrying amount of inventories carried at their historical cost less cost to sell																				
29	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Purchase price</td><td>900,000</td></tr><tr><td>Trade discount (900,000 x 5%)</td><td>(45,000)</td></tr><tr><td>Custom and excise duty</td><td>100,000</td></tr><tr><td>Carriage</td><td>35,000</td></tr><tr><td>Cost of inventory of raw materials</td><td>990,000</td></tr></table>				Rupees	Purchase price	900,000	Trade discount (900,000 x 5%)	(45,000)	Custom and excise duty	100,000	Carriage	35,000	Cost of inventory of raw materials	990,000						
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30	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost (60,000 x 100/120)</td><td>50,000</td></tr></table>				Rupees	Cost (60,000 x 100/120)	50,000														
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31	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Direct materials per unit</td><td>150</td></tr><tr><td>Direct labour per unit</td><td>100</td></tr><tr><td>Variable production overheads per unit (100 x 50%)</td><td>50</td></tr><tr><td>Fixed production overheads per unit (220,000/2,200)</td><td>100</td></tr><tr><td>Cost of product AB201 per unit</td><td>400</td></tr></table>				Rupees	Direct materials per unit	150	Direct labour per unit	100	Variable production overheads per unit (100 x 50%)	50	Fixed production overheads per unit (220,000/2,200)	100	Cost of product AB201 per unit	400						
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32	a,d	Carriage Inwards Depreciation of plant																				
33	a	<table><tr><td></td><td>Units</td></tr><tr><td>Stock on hand (5,000+5,500-9,800)</td><td>700</td></tr><tr><td></td><td>Rupees</td></tr><tr><td>Value of stock 700 units at Rs. 63 each</td><td>44,100</td></tr></table>				Units	Stock on hand (5,000+5,500-9,800)	700		Rupees	Value of stock 700 units at Rs. 63 each	44,100										
	Units																					
Stock on hand (5,000+5,500-9,800)	700																					
	Rupees																					
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34	c	<table><tr><td></td><td>Rupees</td><td>Rupees</td></tr><tr><td>Stock before adjustment</td><td></td><td>275,000</td></tr><tr><td>Shop-soiled stock</td><td></td><td></td></tr><tr><td>Cost</td><td>35,000</td><td></td></tr><tr><td>NRV (32,000-1,500)</td><td>30,500</td><td>(4,500)</td></tr><tr><td>Value of inventory</td><td></td><td>270,500</td></tr></table>				Rupees	Rupees	Stock before adjustment		275,000	Shop-soiled stock			Cost	35,000		NRV (32,000-1,500)	30,500	(4,500)	Value of inventory		270,500
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35	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Variable production overheads per unit (350,000/12,500)</td><td>28</td></tr><tr><td>Fixed production overheads (525,000/17,500)</td><td>30</td></tr><tr><td>Conversion cost per unit</td><td>58</td></tr></table>		Rupees	Variable production overheads per unit (350,000/12,500)	28	Fixed production overheads (525,000/17,500)	30	Conversion cost per unit	58													
	Rupees																						
Variable production overheads per unit (350,000/12,500)	28																						
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36	a	<table><tr><th>Units</th><th>Unit cost</th><th>Rupees</th></tr><tr><td>2,000</td><td>120</td><td>240,000</td></tr><tr><td>2,500</td><td>125</td><td>312,500</td></tr><tr><td>1,500</td><td>123</td><td>184,500</td></tr><tr><td>6,000</td><td></td><td>737,000</td></tr></table> <table><tr><td></td><td>Rupees</td></tr><tr><td>Weighted Average Cost (737,000/6,000)</td><td>122.83</td></tr><tr><td>Value of inventory (1,600 x 122.83)</td><td>196,533</td></tr></table>	Units	Unit cost	Rupees	2,000	120	240,000	2,500	125	312,500	1,500	123	184,500	6,000		737,000		Rupees	Weighted Average Cost (737,000/6,000)	122.83	Value of inventory (1,600 x 122.83)	196,533
Units	Unit cost	Rupees																					
2,000	120	240,000																					
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37	a, b	Inventory valuation of work in process shall include direct materials, direct labour and production overheads (both variable and fixed). Cost of inventory can be valued either on First in First out basis or weighted average cost basis.																					
38	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of damaged stock</td><td>30,000</td></tr><tr><td>NRV (30,000 x 1.20 x 0.70)</td><td>25,200</td></tr><tr><td>Written off inventory</td><td>4,800</td></tr><tr><td>Closing inventory was overstated by</td><td>4,800</td></tr><tr><td>Cost of sales was understated by</td><td>4,800</td></tr></table>		Rupees	Cost of damaged stock	30,000	NRV (30,000 x 1.20 x 0.70)	25,200	Written off inventory	4,800	Closing inventory was overstated by	4,800	Cost of sales was understated by	4,800									
	Rupees																						
Cost of damaged stock	30,000																						
NRV (30,000 x 1.20 x 0.70)	25,200																						
Written off inventory	4,800																						
Closing inventory was overstated by	4,800																						
Cost of sales was understated by	4,800																						
39	c	Inventory <table><tr><td></td><td>Rs.</td><td></td><td>Rs.</td></tr><tr><td>Balance b/f</td><td>150,000</td><td>CGS (240,000/1.20)</td><td>200,000</td></tr><tr><td>Purchases</td><td>200,000</td><td>Balance c/f</td><td>150,000</td></tr><tr><td></td><td>350,000</td><td></td><td>350,000</td></tr></table>		Rs.		Rs.	Balance b/f	150,000	CGS (240,000/1.20)	200,000	Purchases	200,000	Balance c/f	150,000		350,000		350,000					
	Rs.		Rs.																				
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	350,000		350,000																				
40	a	Lower closing inventory. This would result in higher cost of goods sold. This would result in lower profit.																					

41	b	<table><tr><td></td><td>Rupees</td><td>Rupees</td></tr><tr><td>Sales</td><td></td><td>1,240,000</td></tr><tr><td>Cost of sales</td><td></td><td></td></tr><tr><td>Opening inventory</td><td>540,000</td><td></td></tr><tr><td>Add: Purchases</td><td>1,150,000</td><td></td></tr><tr><td></td><td>1,690,000</td><td></td></tr><tr><td>Less: Closing inventory</td><td>(555,000)</td><td>(1,135,000)</td></tr><tr><td>Gross profit</td><td></td><td>105,000</td></tr></table>		Rupees	Rupees	Sales		1,240,000	Cost of sales			Opening inventory	540,000		Add: Purchases	1,150,000			1,690,000		Less: Closing inventory	(555,000)	(1,135,000)	Gross profit		105,000																																		
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42	d	Profit of current year was overstated by Rs. 17,800 with no effect on last year profit.																																																										
43	b	<table><tr><th>Date</th><th>Description</th><th>Units</th><th>Unit cost</th><th>Rupees</th></tr><tr><td>01.07.22</td><td>Opening inventory</td><td>500</td><td>50.00</td><td>25,000</td></tr><tr><td>07.07.22</td><td>Purchase</td><td>700</td><td>53.00</td><td>37,100</td></tr><tr><td></td><td></td><td>1,200</td><td>51.75</td><td>62,100</td></tr><tr><td>15.07.22</td><td>Sales</td><td>(400)</td><td>51.75</td><td>(20,700)</td></tr><tr><td></td><td></td><td>800</td><td>51.75</td><td>41,400</td></tr><tr><td>22.07.22</td><td>Purchase</td><td>600</td><td>52.00</td><td>31,200</td></tr><tr><td></td><td></td><td>1,400</td><td>51.86</td><td>72,600</td></tr><tr><td>29.07.22</td><td>Sales</td><td>(650)</td><td>51.86</td><td>(33,709)</td></tr><tr><td></td><td>Closing inventory</td><td>750</td><td>51.85</td><td>38,891</td></tr></table> <table><tr><td></td><td>Rupees</td></tr><tr><td>Cost of goods sold (20,700+33,709)</td><td>54,409</td></tr><tr><td>Sales (400+650) x 70</td><td>73,500</td></tr><tr><td>Gross profit (73,500-54,409)</td><td>19,091</td></tr></table>	Date	Description	Units	Unit cost	Rupees	01.07.22	Opening inventory	500	50.00	25,000	07.07.22	Purchase	700	53.00	37,100			1,200	51.75	62,100	15.07.22	Sales	(400)	51.75	(20,700)			800	51.75	41,400	22.07.22	Purchase	600	52.00	31,200			1,400	51.86	72,600	29.07.22	Sales	(650)	51.86	(33,709)		Closing inventory	750	51.85	38,891		Rupees	Cost of goods sold (20,700+33,709)	54,409	Sales (400+650) x 70	73,500	Gross profit (73,500-54,409)	19,091
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44	a	Cost Rs. 175,000 (Lower) NRV Rs. 250,000 x 95% - 45,000 = Rs. 192,500 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. In this question, we do not even need to calculate NRV because finished goods are expected to be sold higher than cost.																																																										
45	d	No journal entry																																																										

46		<table><tr><th colspan="2">Calculation of Inventory-FIFO</th><th>Rupees</th></tr><tr><td colspan="2">1,800 units at Rs. 160 each</td><td>288,000</td></tr><tr><th colspan="2">Calculation of Inventory-AVCO</th><th>Rupees</th></tr><tr><td colspan="2">1,800 units at Rs. 158 N-1 each</td><td>284,400</td></tr><tr><td colspan="2">Closing stock was overstated by (288,000-284,400)</td><td>3,600</td></tr><tr><td colspan="2">Cost of goods sold was understated by</td><td>3,600</td></tr><tr><td colspan="2">Profit was overstated by</td><td>3,600</td></tr><tr><td colspan="3">N-1</td></tr></table> <table><tr><th>Units</th><th>Unit cost</th><th>Rupees</th></tr><tr><td>1,500</td><td>150</td><td>225,000</td></tr><tr><td>6,000</td><td>160</td><td>960,000</td></tr><tr><td>7,500</td><td></td><td>1,185,000</td></tr></table> <table><tr><th colspan="2"></th><th>Rupees</th></tr><tr><td colspan="2">Weighted Average Cost (1,185,000/7,500)</td><td>158</td></tr><tr><td colspan="3">Closing stock was overvalued by Rs. 3,600 and Cost of sales was understated by Rs. 3,600.</td></tr><tr><td colspan="3">Both closing stock and profit were overstated by Rs. 3,600</td></tr></table>	Calculation of Inventory-FIFO		Rupees	1,800 units at Rs. 160 each		288,000	Calculation of Inventory-AVCO		Rupees	1,800 units at Rs. 158 N-1 each		284,400	Closing stock was overstated by (288,000-284,400)		3,600	Cost of goods sold was understated by		3,600	Profit was overstated by		3,600	N-1			Units	Unit cost	Rupees	1,500	150	225,000	6,000	160	960,000	7,500		1,185,000			Rupees	Weighted Average Cost (1,185,000/7,500)		158	Closing stock was overvalued by Rs. 3,600 and Cost of sales was understated by Rs. 3,600.			Both closing stock and profit were overstated by Rs. 3,600		
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47	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Correct [526,000 – (72,500+444,000-86,200)]</td><td>95,700</td></tr><tr><td>Wrong [526,000 – (86,200+444,000-72,500)]</td><td>68,300</td></tr><tr><td>Profit was understated by</td><td>27,400</td></tr></table>		Rupees	Correct [526,000 – (72,500+444,000-86,200)]	95,700	Wrong [526,000 – (86,200+444,000-72,500)]	68,300	Profit was understated by	27,400																																								
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48	c	Dr. Cost of sales; Cr. Inventory																																																
49	a,b,d	Purchase account is used in periodic inventory system and inventory account is used in perpetual inventory system, to record purchases of goods In perpetual inventory system purchase return is recorded in inventory account whereas in periodic inventory system, purchase return account is used Periodic inventory system is suitable for large size items or low inventory whereas perpetual inventory system is suitable when inventory movements are frequent																																																
50	c	<table><tr><th></th><th>Rupees</th><th>Rupees</th></tr><tr><td>Stock before adjustment</td><td></td><td>222,500</td></tr><tr><td>Damaged stock</td><td></td><td></td></tr><tr><td>Cost</td><td>18,500</td><td></td></tr><tr><td>NRV (18,500 x 1.20-5,500)</td><td>16,700</td><td>16,700</td></tr><tr><td>Value of inventory</td><td></td><td>239,200</td></tr></table>		Rupees	Rupees	Stock before adjustment		222,500	Damaged stock			Cost	18,500		NRV (18,500 x 1.20-5,500)	16,700	16,700	Value of inventory		239,200																														
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CORRECTION OF ERRORS

1. Insurance premium paid of Rs. 1,305 was correctly recorded in cash book but was not posted to Insurance expense account. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 1,305 and CREDIT: Insurance expense Rs. 1,305
 - b) DEBIT: Insurance expense Rs. 1,305 and CREDIT: Suspense Rs. 1,305
 - c) DEBIT: Prepaid insurance Rs. 1,305 and CREDIT: Insurance expense Rs. 1,305
 - d) DEBIT: Insurance expense Rs. 1,305 and CREDIT: Prepaid insurance Rs. 1,305
2. Insurance premium paid of Rs. 1,305 was correctly recorded in cash book but was not posted to Insurance expense account. What is effect of correcting this error on gross profit and net profit?
 - a) GROSS PROFIT: Increase by Rs. 1,305 and NET PROFIT: Increase by Rs. 1,305
 - b) GROSS PROFIT: Decrease by Rs. 1,305 and NET PROFIT: Decrease by Rs. 1,305
 - c) GROSS PROFIT: No effect and NET PROFIT: Decrease by Rs. 1,305
 - d) GROSS PROFIT: Increase by Rs. 1,305 and NET PROFIT: No effect
3. At 31 October 2004, insurance expense includes an amount of Rs. 1,500 paid in advance but no period-end adjustment entry has been recorded. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 1,500 and CREDIT: Insurance expense Rs. 1,500
 - b) DEBIT: Insurance expense Rs. 1,500 and CREDIT: Suspense Rs. 1,500
 - c) DEBIT: Prepaid insurance Rs. 1,500 and CREDIT: Insurance expense Rs. 1,500
 - d) DEBIT: Insurance expense Rs. 1,500 and CREDIT: Prepaid insurance Rs. 1,500
4. At 31 October 2004, insurance expense includes an amount of Rs. 1,500 paid in advance but no period-end adjustment entry has been recorded. What is effect of correcting this error on gross profit and net profit?
 - a) GROSS PROFIT: Increase by Rs. 1,500 and NET PROFIT: Increase by 1,500
 - b) GROSS PROFIT: Decrease by Rs. 1,500 and NET PROFIT: Decrease by Rs. 1,500
 - c) GROSS PROFIT: No effect and NET PROFIT: Increase by Rs. 1,500
 - d) GROSS PROFIT: Decrease by Rs. 1,500 and NET PROFIT: No effect
5. The credit side of rent income account has been under-casted by Rs. 400. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 800 and CREDIT: Rent income Rs. 800
 - b) DEBIT: Rent income Rs. 800 and CREDIT: Suspense Rs. 800
 - c) DEBIT: Suspense Rs. 400 and CREDIT: Rent income Rs. 400
 - d) DEBIT: Rent income Rs. 400 and CREDIT: Suspense Rs. 400
6. The credit side of trial balance exceeded the debit side by Rs. 1,175. Afterwards, following two errors were identified and corrected:
 - Insurance premium of Rs. 1,305 was correctly recorded in cash book but was not posted to Insurance expense account.
 - The credit side of rent income account has been under-casted by Rs. 400.

What will be balance of suspense account after the above corrections?

- a) DEBIT Rs. 270
- b) DEBIT Rs. 2,080
- c) DEBIT Rs. 530
- d) NIL

7. A credit purchase of Rs. 360 had been correctly entered into purchase day book but had been entered at Rs. 630 on the credit side of the supplier's account in the purchase ledger (Payable ledgers). What journal entry must be recorded to correct this error?
- a) DEBIT: Suspense Rs. 990 and CREDIT: Supplier account Rs. 990
 - b) DEBIT: Supplier account Rs. 990 and CREDIT: Suspense Rs. 990
 - c) DEBIT: Suspense Rs. 270 and CREDIT: Supplier account Rs. 270
 - d) DEBIT: Supplier account Rs. 270 and CREDIT: Suspense Rs. 270

8. The credit side of trial balance exceeded the debit side by Rs. 1,175. Afterwards, following two errors were identified and corrected:
- A credit purchase of Rs. 360 had been correctly entered into purchase day book but had been entered at Rs. 630 on the credit side of the supplier's account in the purchase ledger.
 - The credit side of rent income account has been under-casted by Rs. 400.

What will be balance of suspense account after the above corrections?

- a) DEBIT Rs. 1,305
- b) DEBIT Rs. 1,045
- c) CREDIT Rs. 1,045
- d) CREDIT Rs. 505

9. The draft net profit is Rs. 48,200. Afterwards, following two errors were identified and corrected:
- Insurance premium of Rs. 1,305 was correctly recorded in cash book but was not posted to Insurance expense account.
 - The credit side of rent income account has been over-casted by Rs. 400.

What will be the net profit after the above corrections?

- a) Rs. 48,200
- b) Rs. 47,295
- c) Rs. 49,105
- d) Rs. 46,495

10. The draft net profit is Rs. 48,200. Afterwards, following two errors were identified and corrected:
- A credit purchase of Rs. 360 had been correctly entered into purchase day book but had been entered at Rs. 630 on the credit side of the supplier's account in the purchase ledger.
 - The credit side of rent income account has been under-casted by Rs. 400.

What will be the net profit after the above corrections?

- a) Rs. 48,200
- b) Rs. 48,330
- c) Rs. 48,600
- d) Rs. 47,970

11. An error where correct amount is recorded in correct accounts but on wrong sides of both accounts is called:
 - a) Error of commission
 - b) Complete reversal of entries
 - c) Error of principal
 - d) Compensating error
12. Which TWO of the following errors shall not cause the need to create a suspense account?
 - a) Overcasting of sales return daybook
 - b) Complete reversal of entries
 - c) The balance of motor vehicle account listed on credit side of trial balance
 - d) A purchase invoice overlooked and unrecorded
13. Inventory costing Rs. 440,000 received on 30 December 2020 were included in the closing inventory. The invoice for the same was not received till year end. The entity uses periodic inventory method to record the inventory. What journal entry must be recorded to correct this error?
 - a) DEBIT: Purchases Rs. 440,000 and CREDIT: Trade payable Rs. 440,000
 - b) DEBIT: Inventory Rs. 440,000 and CREDIT: Trade payable Rs. 440,000
 - c) DEBIT: Inventory Rs. 440,000 and CREDIT: Cost of sales Rs. 440,000
 - d) DEBIT: Cost of sales Rs. 440,000 and CREDIT: Inventory Rs. 440,000
14. A selling expense amounting to Rs. 35,000 has been posted in the other expenses account as Rs. 53,000. What journal entry must be recorded to correct this error?
 - a) DEBIT: Other expenses Rs. 35,000 & Suspense Rs. 18,000 and CREDIT: Selling expenses Rs. 53,000
 - b) DEBIT: Selling expense Rs. 35,000 & Suspense Rs. 18,000 and CREDIT: Other expenses Rs. 53,000
 - c) DEBIT: Selling expense Rs. 18,000 & Suspense Rs. 35,000 and CREDIT: Other expenses Rs. 53,000
 - d) DEBIT: Selling expense Rs. 18,000 & Other expenses Rs. 17,000 and CREDIT: Suspense Rs. 35,000
15. Payment of office rent expense amounting to Rs. 120,000 was recorded as a credit entry in the cash book and also credited to rent income account. What journal entry must be recorded to correct this error?
 - a) DEBIT: Office rent expense Rs. 120,000 and CREDIT: Rent income Rs. 120,000
 - b) DEBIT: Rent income Rs. 120,000 and CREDIT: Office rent expense Rs. 120,000
 - c) DEBIT: Office rent expense Rs. 120,000 & Rent income Rs. 120,000 and CREDIT: Suspense Rs. 240,000
 - d) DEBIT: Suspense Rs. 240,000 and CREDIT: Office rent expense Rs. 120,000 & Rent income Rs. 120,000
16. A purchase of Rs. 352,000 was entered in the purchase day book as Rs. 325,000 and posted to the creditor's account as Rs. 235,000. What journal entry must be recorded to correct this error?
 - a) DEBIT: Trade payable Rs. 117,000 and CREDIT: Purchases Rs. 90,000 & Suspense Rs. 27,000
 - b) DEBIT: Purchases Rs. 90,000 & Suspense Rs. 27,000 and CREDIT: Trade payable Rs. 117,000
 - c) DEBIT: Trade payable Rs. 117,000 and CREDIT: Purchases Rs. 27,000 & Suspense Rs. 90,000
 - d) DEBIT: Purchases Rs. 27,000 & Suspense Rs. 90,000 and CREDIT: Trade payable Rs. 117,000
17. The draft net profit is Rs. 290,000. Afterwards, following two errors were identified and corrected:
 - Inventory costing Rs. 440,000 received on 30 December 2020 were included in the closing inventory. The invoice for the same was not received till year end. The entity uses periodic inventory method to record the inventory.
 - A selling expense amounting to Rs. 35,000 has been posted in the other expenses account as Rs. 53,000.

What will be the net profit after the above corrections?

- a) Net loss Rs. 132,000
- b) Net profit Rs. 132,000
- c) Net loss Rs. 23,000
- d) Net profit Rs. 23,000

18. The draft net profit is Rs. 290,000. Afterwards, following two errors were identified and corrected:

- Payment of office rent expense amounting to Rs. 120,000 was recorded as a credit entry in the cash book and also credited to rent income account.
- A purchase of Rs. 352,000 was entered in the purchase day book as Rs. 325,000 and posted to the creditor's account as Rs. 235,000.

What will be the net profit after the above corrections?

- a) Net loss Rs. 132,000
- b) Net profit Rs. 132,000
- c) Net loss Rs. 23,000
- d) Net profit Rs. 23,000

19. The credit side of trial balance was short by Rs. 290,000. Afterwards, following two errors were identified and corrected:

- Inventory costing Rs. 440,000 received on 30 December 2020 were included in the closing inventory. The invoice for the same was not received till year end. The entity uses periodic inventory method to record the inventory.
- A selling expense amounting to Rs. 35,000 has been posted in the other expenses account as Rs. 53,000.

What will be balance of suspense account after the above corrections?

- a) Rs. 272,000 DEBIT
- b) Rs. 272,000 CREDIT
- c) Rs. 440,000 CREDIT
- d) Rs. 440,000 DEBIT

20. The credit side of trial balance was short by Rs. 290,000. Afterwards, following two errors were identified and corrected:

- Payment of office rent expense amounting to Rs. 120,000 was recorded as a credit entry in the cash book and also credited to rent income account.
- A purchase of Rs. 352,000 was entered in the purchase day book as Rs. 325,000 and posted to the creditor's account as Rs. 235,000.

What will be balance of suspense account after the above corrections?

- a) Rs. 272,000 DEBIT
- b) Rs. 272,000 CREDIT
- c) Rs. 440,000 CREDIT
- d) Rs. 440,000 DEBIT

21. A sales invoice of Rs. 24,000 was debited to the debtor's account as Rs. 42,000. What journal entry must be recorded to correct this error?

- a) DEBIT: Suspense Rs. 18,000 and CREDIT: Receivables Rs. 18,000
- b) DEBIT: Receivables Rs. 18,000 and CREDIT: Suspense Rs. 18,000
- c) DEBIT: Suspense Rs. 66,000 and CREDIT: Receivables Rs. 66,000
- d) DEBIT: Receivables Rs. 66,000 and CREDIT: Suspense Rs. 66,000

22. The entity started using an inventory item as office machine effective from 1 October 2018. No adjustment has been recorded and this item is included in closing inventory. The cost and selling price of this item are Rs. 145,000 and Rs. 182,000 respectively. Entity is using periodic inventory system.
- What journal entry or entries must be recorded to correct this error?
- DEBIT: PPE (machine) Rs. 145,000 and CREDIT: Purchases Rs. 145,000
 - DEBIT: PPE (machine) Rs. 182,000 and CREDIT: Purchases Rs. 182,000
 - DEBIT: Cost of sales Rs. 145,000 and CREDIT: Inventory Rs. 145,000
 - DEBIT: Cost of sales Rs. 182,000 and CREDIT: Inventory Rs. 182,000
23. The entity started using an inventory item as office machine effective from 1 October 2018. No adjustment has been recorded and this item is included in closing inventory. The cost and selling price of this item are Rs. 145,000 and Rs. 182,000 respectively. Entity is using perpetual inventory system. What will be the effect of correcting this error on gross profit and net profit?
- GROSS PROFIT: Increase by Rs. 145,000 and NET PROFIT: Increase by 145,000
 - GROSS PROFIT: Decrease by Rs. 145,000 and NET PROFIT: Decrease by Rs. 145,000
 - GROSS PROFIT: Increase by Rs. 182,000 and NET PROFIT: Increase by 182,000
 - GROSS PROFIT: No effect and NET PROFIT: No effect
24. Year-end physical count sheets include a third-party stock of Rs. 1,320,000. The Entity has already passed the closing stock journal entry. The entity uses periodic stock method. What journal entry must be recorded to correct this error?
- DEBIT: Cost of sales Rs. 1,320,000 and CREDIT: Inventory Rs. 1,320,000
 - DEBIT: Inventory Rs. 1,320,000 and CREDIT: Cost of sales Rs. 1,320,000
 - DEBIT: Third party stock Rs. 1,320,000 and CREDIT: Purchases Rs. 1,320,000
 - No entry is required for this type of third party stock
25. An unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. It was discovered that the credit was a settlement of an old outstanding balance previously written off. The amount was net of 2% bank charges. What journal entry must be recorded to correct this error?
- DEBIT: Bank Rs. 294,000 and CREDIT: Bad debts expense Rs. 294,000
 - DEBIT: Suspense Rs. 294,000 and CREDIT: Bad debts expense Rs. 294,000
 - DEBIT: Bank Rs. 294,000 & Bank Charges Rs. 6,000 and CREDIT: Bad debts expense Rs. 300,000
 - DEBIT: Suspense Rs. 294,000 & Bank Charges Rs. 6,000 and CREDIT: Bad debts expense Rs. 300,000
26. Operating expenses include insurance premium of Rs. 900,000 paid during the year, out of which Rs. 200,000 pertain to owner's residential premises. All insurance policies are valid up to 30 June 2020. What journal entry must be recorded to correct this error at year end of 31 December 2019?
- DEBIT: Prepaid insurance Rs. 900,000 and CREDIT: Operating expenses Rs. 900,000
 - DEBIT: Prepaid insurance Rs. 450,000 and CREDIT: Operating expenses Rs. 450,000
 - DEBIT: Drawings Rs. 200,000 & Prepaid insurance Rs. 700,000 and CREDIT: Operating expenses Rs. 900,000
 - DEBIT: Drawings Rs. 200,000 & Prepaid insurance Rs. 350,000 and CREDIT: Operating expenses Rs. 550,000
27. Total sales of 26 December 2019 was Rs. 167,000. This was posted in trade receivable accounts as Rs. 671,000. What journal entry must be recorded to correct this error at year end of 31 December 2019?
- DEBIT: Sales Rs. 504,000 and CREDIT: Trade receivables Rs. 504,000
 - DEBIT: Sales Rs. 838,000 and CREDIT: Trade receivables Rs. 838,000
 - DEBIT: Suspense Rs. 504,000 and CREDIT: Trade receivables Rs. 504,000
 - DEBIT: Suspense Rs. 838,000 and CREDIT: Trade receivables Rs. 838,000

28. The following errors have been corrected recently:

- An unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. It was discovered that the credit was a settlement of an old outstanding balance previously written off. The amount was net of 2% bank charges.
- Total sales of 26 December 2019 was Rs. 167,000. This was posted in trade receivable accounts as Rs. 671,000.

What was balance of suspense account before correcting the above errors?

- a) Rs. 798,000 Debit
- b) Rs. 798,000 Credit
- c) Rs. 210,000 Debit
- d) Rs. 210,000 Credit

29. The following errors have been corrected recently:

- An unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. It was discovered that the credit was a settlement of an old outstanding balance previously written off. The amount was net of 2% bank charges.
- Total sales of 26 December 2019 was Rs. 167,000. This was posted in trade receivable accounts as Rs. 671,000.

What would be effect of correcting the above errors on net profit?

- a) Rs. 294,000 increase
- b) Rs. 294,000 decrease
- c) Rs. 210,000 Increase
- d) Rs. 210,000 decrease

30. The following errors have been corrected recently:

- An unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. It was discovered that the credit was a settlement of an old outstanding balance previously written off. The amount was net of 2% bank charges.
- Operating expenses include insurance premium of Rs. 900,000 paid during the year, out of which Rs. 200,000 pertain to owner's residential premises. The policy is valid up to 30 June 2020.

What would be effect of correcting the above errors on net profit?

- a) Rs. 294,000 Increase
- b) Rs. 210,000 Increase
- c) Rs. 550,000 Increase
- d) Rs. 844,000 Increase

31. An amount of Rs. 100 was received from Dawood on 31st December 2016 but was not recorded in cash book. However, Dawood's account was credited by Rs. 100. What journal entry must be recorded to correct this error?

- a) DEBIT: Cash Rs. 100 and CREDIT: Suspense Rs. 100
- b) DEBIT: Suspense Rs. 100 and CREDIT: Cash Rs. 100
- c) DEBIT: Cash Rs. 100 and CREDIT: Dawood Rs. 100
- d) DEBIT: Dawood Rs. 100 and CREDIT: Cash Rs. 100

32. The Returns Inwards Book for December has been under-casted by Rs. 100. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 100 and CREDIT: Sales return Rs. 100
 - b) DEBIT: Sales return Rs. 100 and CREDIT: Suspense Rs. 100
 - c) DEBIT: Trade receivables Rs. 100 and CREDIT: Sales return Rs. 100
 - d) DEBIT: Sales return Rs. 100 and CREDIT: Trade receivables Rs. 100
33. The purchase of an office table on credit costing Rs.300 had been passed through the Purchase day Book. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 300 and CREDIT: Purchases Rs. 300
 - b) DEBIT: Furniture Rs. 300 and CREDIT: Suspense Rs. 300
 - c) DEBIT: Furniture Rs. 300 and CREDIT: Purchases Rs. 300
 - d) DEBIT: Purchases Rs. 300 and CREDIT: Furniture Rs. 300
34. Rs. 375 paid for wages to workmen for making Furniture had been charged to Wages account. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 375 and CREDIT: Wages Rs. 375
 - b) DEBIT: Furniture Rs. 375 and CREDIT: Suspense Rs. 375
 - c) DEBIT: Furniture Rs. 375 and CREDIT: Wages Rs. 375
 - d) DEBIT: Wages Rs. 375 and CREDIT: Furniture Rs. 375
35. A purchase of 617 from purchase day book had been posted to the debit of the Creditor's account as Rs.671. The creditor is Pakistan Stores. What journal entry must be recorded to correct this error?
 - a) DEBIT: Pakistan Stores Rs. 671 and CREDIT: Suspense Rs. 671
 - b) DEBIT: Suspense Rs. 617 and CREDIT: Pakistan Stores Rs. 617
 - c) DEBIT: Pakistan Stores Rs. 1,288 and CREDIT: Suspense Rs. 1,288
 - d) DEBIT: Suspense Rs. 1,288 and CREDIT: Pakistan Stores Rs. 1,288
36. A cheque for Rs.200 received from Josh Traders has been dishonoured on maturity and dishonour has been recorded to the debit of the Allowance Account and credited to Bank account. What journal entry must be recorded to correct this error?
 - a) DEBIT: Josh Traders Rs. 200 and CREDIT: Allowance Rs. 200
 - b) DEBIT: Allowance Rs. 200 and CREDIT: Josh Traders Rs. 200
 - c) DEBIT: Josh Traders Rs. 200 and CREDIT: Bank Rs. 200
 - d) DEBIT: Allowance Rs. 200 and CREDIT: Bank Rs. 200
37. Goods amounting to Rs. 100 had been returned by a customer and were taken into the stock but no entry in respect thereof was made in the books. What journal entry must be recorded to correct this error?
 - a) DEBIT: Inventory Rs. 100 and CREDIT: Cost of sales Rs. 100
 - b) DEBIT: Cost of Sales Rs. 100 and CREDIT: Inventory Rs. 100
 - c) DEBIT: Sales return Rs. 100 and CREDIT: Debtor Rs. 100
 - d) DEBIT: Debtor Rs. 100 and CREDIT: Cost of sales Rs. 100
38. Rs. 20,000 paid for the purchase for motor-cycle for personal use of Mr. Jott (a partner of 50% in the business) had been charged to Miscellaneous Expense Account. What journal entry must be recorded to correct this error?
 - a) DEBIT: Misc expenses Rs. 20,000 and CREDIT: Capital of Mr. Jott Rs. 20,000
 - b) DEBIT: Misc expenses Rs. 10,000 and CREDIT: Capital of Mr. Jott Rs. 10,000
 - c) DEBIT: Drawings Rs. 10,000 and CREDIT: Misc. expenses Rs. 10,000
 - d) DEBIT: Drawings Rs. 20,000 and CREDIT: Misc. expenses Rs. 20,000

39. A sale of Rs. 200 recorded in sales day book to BTS & Co was credited to their account. What journal entry must be recorded to correct this error?
- a) DEBIT: BTS & Co Rs. 200 and CREDIT: Sales Rs. 200
 - b) DEBIT: BTS & Co Rs. 200 and CREDIT: Suspense Rs. 200
 - c) DEBIT: BTS & Co Rs. 400 and CREDIT: Sales Rs. 400
 - d) DEBIT: BTS & Co Rs. 400 and CREDIT: Suspense Rs. 400
40. A sale of Rs. 1,000 had been passed through the Purchase Day Book. The customer's account has, however, been correctly debited. What TWO of the following are true?
- a) Profit will increase by Rs. 2,000
 - b) Suspense account must be debited by Rs. 2,000
 - c) There will be no effect on profit (on net basis)
 - d) Suspense account must be debited by Rs. 1,000
41. While carrying forward the total of the sales book from one page to the next, the amount was written as Rs 176,658 instead of Rs. 167,568. What journal entry must be recorded to correct this error?
- a) DEBIT: Sales Rs. 9,090 and CREDIT: Suspense Rs. 9,090
 - b) DEBIT: Suspense Rs. 9,090 and CREDIT: Sales Rs. 9,090
 - c) DEBIT: Sales Rs. 344,226 and CREDIT: Suspense Rs. 344,226
 - d) DEBIT: Suspense Rs. 344,226 and CREDIT: Sales Rs. 344,226
42. A sale invoice of Rs. 315,000 was posted to sales day book as 351,000 and to trade receivable account as 135,000. What journal entry must be recorded to correct this error?
- a) DEBIT: Sales Rs. 36,000 and CREDIT: Suspense Rs. 36,000
 - b) DEBIT: Trade receivable Rs. 36,000 and CREDIT: Suspense Rs. 36,000
 - c) DEBIT: Sales Rs. 36,000 & Trade receivables Rs. 180,000 and CREDIT: Suspense Rs. 216,000
 - d) DEBIT: Sales Rs. 180,000 & Trade receivables Rs. 36,000 and CREDIT: Suspense Rs. 216,000
43. A purchase return amounting to Rs. 500,000 was mistakenly debited to trade receivable account from purchase return journal. What journal entry must be recorded to correct this error?
- a) DEBIT: Trade receivable Rs. 500,000 and CREDIT: Trade payable Rs. 500,000
 - b) DEBIT: Trade payable Rs. 500,000 and CREDIT: Trade receivable Rs. 500,000
 - c) DEBIT: Trade payable Rs. 500,000 and CREDIT: Purchase return Rs. 500,000
 - d) DEBIT: Trade receivable Rs. 500,000 and CREDIT: Purchase return Rs. 500,000
44. An unidentified credit of Rs. 209,000 appearing in the bank statement for the month of June 2021 was credited to the suspense account. It was discovered that the amount, net of settlement discount of 5%, was an online transfer by a customer. The revenue was earlier recognised at gross amount. What would be effect of correcting this error on revenue?
- a) Revenue will increase by Rs. 11,000
 - b) Revenue will decrease by Rs. 11,000
 - c) Revenue will increase by Rs. 209,000
 - d) There will be no effect on revenue.

45. A cheque of Rs. 450,000, issued by a customer as an advance, was dishonoured and returned by the bank on 30 June 2021. What journal entry must be recorded to correct this error?
 - a) DEBIT: Receivable Rs. 450,000 and CREDIT: Bank Rs. 450,000
 - b) DEBIT: Bank Rs. 450,000 and CREDIT: Receivable Rs. 450,000
 - c) DEBIT: Advance from customer Rs. 450,000 and CREDIT: Bank Rs. 450,000
 - d) DEBIT: Bank Rs. 450,000 and CREDIT: Advance from customer Rs. 450,000
46. A purchase return amounting to Rs. 500,000 was mistakenly debited to trade receivable account from purchase return journal. Which TWO of the following are true?
 - a) Net profit will change by Rs. 500,000
 - b) There will be no effect on net profit
 - c) There would be difference in trial balance due to above error
 - d) The trial balance is not affected by such error
47. An unidentified credit of Rs. 209,000 appearing in the bank statement for the month of June 2021 was credited to the suspense account. It was discovered that the amount, net of settlement discount of 5%, was an online transfer by a customer. The revenue was earlier recognised at gross amount. What journal entry must be recorded to correct this error?
 - a) DEBIT: Suspense Rs. 209,000 and CREDIT: Trade receivables Rs. 209,000
 - b) DEBIT: Trade receivable Rs. 209,000 and CREDIT: Suspense Rs. 209,000
 - c) DEBIT: Suspense Rs. 209,000 & Revenue Rs. 11,000 and CREDIT: Trade receivables Rs. 220,000
 - d) DEBIT: Suspense Rs. 11,000 & Revenue Rs. 209,000 and CREDIT: Trade receivables Rs. 220,000
48. The Suspense Account is used in correcting accounting errors primarily to:
 - a) Record adjustments in capital accounts
 - b) Balance discrepancies caused by errors
 - c) To close accounts of income and expenses at year-end
 - d) Maintain perpetual inventory records
49. Which type of error occurs when a transaction is completely omitted from the books of accounts?
 - a) Error of Principle
 - b) Error of Commission
 - c) Error of Omission
 - d) Compensating Error
50. If goods worth Rs. 10,000 are entered as Rs. 1,000 in the Sales Journal, what type of error does this represent?
 - a) Error of Original Entry
 - b) Error of Omission
 - c) Error of Principle
 - d) Transposition Error
51. An amount of Rs. 200 written off as bad debt in previous year was received from Faryal and was credited to Faryal's personal account. The rectification of this error will:
 - a) Increase net profit by Rs. 200
 - b) Reduce net profit by Rs. 200
 - c) Increase net profit by Rs. 400
 - d) Reduce net profit by Rs. 200

52. A bad debt of Rs.500 was written off by debiting "Bad and Doubtful Debts Expense" but wrongly credited to "Payables" instead of "Receivables". What is the impact of this error?
- Net profit is overstated
 - Net profit is understated
 - Liabilities are overstated
 - Assets are understated
53. An increase of Rs. 600 in allowance for doubtful debts was recorded incorrectly by debiting "Bad and Doubtful Debts Expense" and crediting "Receivables." What is the correcting entry to rectify this error?
- Debit Allowance for Doubtful Debts Rs.600, Credit Receivables Rs.600
 - Debit Receivables Rs.600, Credit Allowance for Doubtful Debts Rs.600
 - Debit Allowance for Doubtful Debts Rs.600, Credit Bad and Doubtful Debts Expense Rs.600
 - Debit Receivables Rs.600, Credit Bad and Doubtful Debts Expense Rs.600
54. Opening allowance for doubtful debts was Rs. 300. Closing receivables are Rs. 10,000. A bad debt of Rs. 1,000 was written off before calculation of the closing allowance, but the accountant missed the written off amount while calculating closing allowance. The allowance is 5% of receivables. What is the impact on profit due to this mistake?
- Profit is understated by Rs.50
 - Profit is overstated by Rs.50
 - Profit is overstated by Rs.1,000
 - No impact on profit
55. The draft accounts of Qureshi's business for the year ended 31 July 2020 showed a profit of Rs. 54,250 prior to the correction of the following errors:
- Debts amounting to Rs.420, which were provided against in full during the year, should have been written off as irrecoverable.
 - On the last day of the accounting period, Rs.200 in cash was received from a customer, but no bookkeeping entries have yet been made.
- What is the corrected profit of the business for the year?
- Rs. 53,580
 - Rs. 53,830
 - Rs. 54,250
 - Rs. 55,830
56. A bad debt of Rs. 700 was written off by debiting "Sales" and crediting "Receivables". What is the correcting entry to rectify this error?
- Debit Sales Rs.700, Credit Bad and Doubtful Debts Expense Rs.700
 - Debit Bad and Doubtful Debts Expense Rs.700, Credit Sales Rs.700
 - Debit Sales Rs.700, Credit Receivables Rs.700
 - Debit Bad and Doubtful Debts Expense Rs.700, Credit Sales Rs.700

57. A bad debt of Rs. 900 was recorded by debiting "Allowance for Doubtful Debts" and crediting "Receivables." The closing allowance was determined to be Rs.400 more than the opening balance. The accountant again debited "Receivables" and credited "Allowance for doubtful debts" by Rs. 400. What is the correcting entry to rectify both errors?
- Debit Bad and Doubtful Debts Expense Rs.900, Credit Allowance for Doubtful Debts Rs.900
 - Debit Bad and Doubtful Debts Expense Rs.1,300, Credit Receivables Rs.1,300
 - Debit Bad and Doubtful Debts Expense Rs.1,300, Credit Allowance for Doubtful Debts Rs.900, Credit Receivable Rs.400
 - Debit Bad and Doubtful Debts Expense Rs.1,300, Credit Receivable Rs.900, Credit Allowance for Doubtful Debts Rs.400
58. A bad debt of Rs.600 previously written off was recovered. The accountant recorded the entry by debiting Cash/Bank and wrongly credited the amount to "Receivables". What is the correct rectification entry?
- Debit Bad and Doubtful Debts Expense Rs.600, Credit Receivables Rs.600
 - Debit Receivables Rs.600, Credit Bad and Doubtful Debts Expense Rs.600
 - Debit Bad and Doubtful Debts Expense Rs.600, Credit Cash/Bank Rs.600
 - Debit Receivables Rs.600, Credit Cash/Bank Rs.600
59. An increase of Rs.700 in allowance for doubtful debts was required, but the accountant wrongly recorded it as a decrease in allowance. What is the correcting entry to fix this mistake?
- Debit Bad and Doubtful Debts Expense Rs. 1400, Credit Allowance for Doubtful Debts Rs. 1400
 - Debit Allowance for Doubtful Debts Rs. 1400, Credit Bad and Doubtful Debts Expense Rs. 1400
 - Debit Bad and Doubtful Debts Expense Rs. 700, Credit Allowance for Doubtful Debts Rs. 700
 - Debit Allowance for Doubtful Debts Rs. 700, Credit Bad and Doubtful Debts Expense Rs. 700
60. A bad debt of Rs.500 was written off by debiting "Bad and Doubtful Debts Expense" but instead of crediting "Receivables," the accountant credited "Sales." What will be the impact of this error on the net profit?
- Profit is overstated by Rs. 500
 - Profit is understated by Rs. 500
 - No impact on profit
 - Profit is overstated by Rs. 1,000
61. Opening inventory of Rs.31,763 had been entered on the credit side of the trial balance as Rs.31,673. Which side of trial balance will be short and by what amount?
- Credit side by Rs. 63,526
 - Debit side by Rs. 63,346
 - Credit side by Rs. 63,436
 - Debit side by Rs. 63,436
62. Closing inventory includes an item valued at cost of Rs. 12,000. The net realizable value of this item is Rs.10,000. The entity uses perpetual inventory system. What journal entry is required to correct the above error?
- Debit Inventory Rs. 10,000 and Credit Cost of Sales Rs. 10,000
 - Debit Inventory Rs. 2,000 and Credit Cost of Sales Rs. 2,000
 - Debit Cost of sales Rs. 2,000 and Credit Inventory Rs. 2,000
 - No journal entry is required

63. Closing inventory includes an item valued at cost of Rs. 12,000. The net realizable value of this item is Rs.14,000. The entity uses perpetual inventory system. What journal entry is required to correct the above error?
- a) Debit Inventory Rs. 14,000 and Credit Cost of Sales Rs. 14,000
 - b) Debit Inventory Rs. 2,000 and Credit Cost of Sales Rs. 2,000
 - c) Debit Cost of sales Rs. 2,000 and Credit Inventory Rs. 2,000
 - d) No journal entry is required
64. The owner took inventory costing Rs. 10,000 and having selling price of Rs. 12,000 for personal use. The accountant recorded this transaction by debiting Drawings Rs. 12,000 and crediting Cash Rs. 12,000. The entity uses perpetual inventory system. What will be the correcting journal entry?
- a) Debit Cash Rs. 12,000; Credit Purchase Rs. 12,000
 - b) Debit Cash Rs. 12,000; Credit Inventory Rs. 12,000
 - c) Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Purchases Rs. 10,000
 - d) Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Inventory Rs. 10,000
65. The owner took inventory costing Rs. 10,000 and having selling price of Rs. 12,000 for personal use. The accountant recorded this transaction by debiting Drawings Rs. 12,000 and crediting Cash Rs. 12,000. The entity uses periodic inventory system. What will be the correcting journal entry?
- a) Debit Cash Rs. 12,000; Credit Purchase Rs. 12,000
 - b) Debit Cash Rs. 12,000; Credit Inventory Rs. 12,000
 - c) Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Purchases Rs. 10,000
 - d) Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Inventory Rs. 10,000
66. Nudrat Limited (NL) deals in photocopier machines. On 1 May 2025, NL started using a photocopier machine (Cost Rs. 85,000 and Sales price Rs. 97,000) in its own office. The machine has useful life of 5 years and residual value of Rs. 10,000 at the end of its useful life. Which TWO of the following journal entries are required if NL uses perpetual inventory system?
- a) Debit Property, plant and equipment Rs. 85,000; Credit Inventory Rs. 85,000
 - b) Debit Depreciation Rs. 10,000; Credit Accumulated depreciation Rs. 10,000
 - c) Debit Property, plant and equipment Rs. 97,000; Credit Inventory Rs. 97,000
 - d) Debit Depreciation Rs. 11,600; Credit Accumulated depreciation Rs. 11,600
67. ARQ Traders uses perpetual inventory method. The inventory account is showing a balance of Rs. 986,000. However, it was noted that the adjustment of normal loss of Rs. 6,000 and abnormal loss of Rs. 80,000 due to damage identified during physical inspection has been omitted. Which TWO of the following journal entries are required?
- a) Debit Inventory Rs. 900,000; Credit Cost of Sales Rs. 900,000
 - b) Debit Cost of sales Rs. 6,000; Credit Inventory Rs. 6,000
 - c) Debit Abnormal loss Rs. 80,000; Credit Inventory Rs. 80,000
 - d) Debit Inventory Rs. 900,000 and Debit Abnormal loss Rs. 80,000; Credit Cost of Sales Rs. 980,000
68. Amjad Limited (AL) sold goods costing Rs. 15,000 for Rs. 18,000 on credit. Ten days later, the customer returned half the goods which did not meet the required specification. However, no entry was recorded on return of these goods. AL uses perpetual inventory system. What TWO of following are effect of this error of omission?
- a) Sales understated by Rs. 9,000
 - b) Sales overstated by Rs. 9,000
 - c) Cost of Sales understated by Rs. 7,500
 - d) Cost of Sales overstated by Rs. 7,500

69. Adeel Limited (AL) uses perpetual inventory method. For which of following transactions, AL needs to Debit Cost of Sales and Credit Inventory?
- Sales to customer
 - Write down to net realisable value
 - Normal loss
 - All of the above
70. Adeel Limited (AL) has just recorded its year-end inventory at cost under periodic inventory system. For which of following transactions, AL needs to Debit Cost of Sales and Credit Inventory?
- Sales to customer
 - Write down to net realisable value
 - Normal loss
 - All of the above
71. ARQ Trader's draft financial statements for 2025 showed a profit of Rs.630,000. Subsequent checking revealed that the cost of an item of plant of Rs. 48,000 had been recorded in the plant account as 4,800. Depreciation at the rate of 10% per year (Rs. 480) had been charged. What would be profit after correction of errors?
- Rs. 625,680
 - Rs. 625,200
 - Rs. 629,520
 - Rs. 586,800
72. A manufacturing company received an invoice on 28 February 2026 for work done on one of its machines. Invoice includes Rs.25,500 that is related to a machine upgrade, which will improve efficiency. The accounts department did not notice this and charged the whole amount to maintenance costs. Machinery is depreciated at 25% per annum on a straight-line basis, with a proportional charge in the years of acquisition and disposal. By what amount will the profit for the year to 30 June 2026 be understated?
- Rs. 19,125
 - Rs. 25,500
 - Rs. 23,375
 - Rs. 21,250
73. A company purchased a machine for Rs.60,000 but mistakenly recorded the cost as Rs.6,000 in the asset account. Depreciation is charged at 10% per year on the cost. What is the impact on profit for the first year due to this error?
- Profit is overstated by Rs. 5,400
 - Profit is understated by Rs. 5,400
 - Profit is overstated by Rs. 6,000
 - Profit is understated by Rs. 6,000
74. A company purchased machinery costing Rs.120,000 on 1 July 2022. The company's depreciation policy is to use the reducing balance method at 20% per annum with time apportionment. However, the accountant incorrectly charged depreciation at 20% using the straight-line method for the full year. What is the impact on profit for the year ended 31 December 2022?
- Profit is overstated by Rs.12,000
 - Profit is understated by Rs.12,000
 - Profit is overstated by Rs.8,000
 - Profit is understated by Rs.8,000

75. Kashif Limited (KL) bought a computer at cost of Rs. 120,000 on 1 July 2025. The computer has useful life of 5 years and estimated residual value of Rs. 20,000. KL determined that reducing balance method is suitable for depreciating this computer. However, accountant incorrectly applied straight line method while calculating depreciation at year end of 31 December 2025. Which of the following is correct regarding depreciation expense?
- No adjustment is needed
 - Increase depreciation expense by Rs. 8,072
 - Decrease depreciation expense by Rs. 1,928
 - Increase depreciation expense by Rs. 4,000
76. A company incurred Rs.15,000 on repairs and maintenance of machinery during the year, which should have been treated as revenue expenditure. However, the accountant wrongly capitalized this amount as part of the machinery cost. Depreciation is charged at 10% per annum on the machinery cost. What is the effect of this error on the profit for the year?
- Profit is overstated by Rs.13,500
 - Profit is understated by Rs.13,500
 - Profit is overstated by Rs.1,500
 - Profit is understated by Rs.1,500
77. Depreciation expense of Rs.5,000 for the year was wrongly recorded by crediting the Depreciation Expense account and debiting Accumulated Depreciation. What is the correct journal entry to rectify this error?
- Debit Depreciation Expense Rs.5,000, Credit Accumulated Depreciation Rs.5,000
 - Debit Depreciation Expense Rs.10,000, Credit Accumulated Depreciation Rs.5,000
 - Debit Depreciation Expense Rs.10,000, Credit Accumulated Depreciation Rs.10,000
 - Debit Depreciation Expense Rs.5,000, Credit Accumulated Depreciation Rs.10,000
78. A company purchased land and building for a total cost of Rs. 400,000. The land was valued at Rs. 150,000 and the building at Rs.250,000. Depreciation is charged at 10% per annum on a straight-line basis. A junior accountant mistakenly charged depreciation on the entire Rs. 400,000. How should this error be corrected?
- Debit Depreciation Expense Rs.15,000, Credit Accumulated Depreciation Rs.15,000
 - Debit Accumulated Depreciation Rs.25,000, Credit Depreciation Expense Rs.25,000
 - Debit Accumulated Depreciation Rs.15,000, Credit Depreciation Expense Rs.15,000
 - Debit Depreciation Expense Rs.40,000, Credit Accumulated Depreciation Rs.40,000
79. A company constructed a building at a cost of Rs. 500,000. A junior accountant also capitalized the following amounts as part of the building cost:
- Map approval fee: Rs.10,000
 - Dismantling cost of old structure: Rs.20,000
 - Inauguration party expense: Rs.15,000
- What is the correct journal entry to rectify the error related to the wrongly capitalized inauguration party expense?
- Debit Entertainment Expense Rs.15,000, Credit Building Rs.15,000
 - Debit Building Rs.15,000, Credit Entertainment Expense Rs.15,000
 - Debit Capital Reserve Rs.15,000, Credit Entertainment Expense Rs.15,000
 - Debit Entertainment Expense Rs.15,000, Credit Cash Rs.15,000

80. A company constructed a new office building at a cost of Rs. 800,000. A junior accountant mistakenly capitalized an additional Rs. 25,000 related to the opening ceremony expense. Depreciation at 5% per annum was charged on the total amount of Rs. 825,000. What is the combined impact of these errors on the company's assets and profit for the year?
- a) Assets overstated by Rs.25,000; Profit overstated by Rs.25,000
 - b) Assets overstated by Rs.23,750; Profit overstated by Rs.23,750
 - c) Assets overstated by Rs.25,000; Profit overstated by Rs.1,250
 - d) Assets overstated by Rs.23,750; Profit understated by Rs.23,750

ANSWERS TO SELF TEST QUESTIONS																								
01	B	DEBIT: Insurance expense Rs. 1,305 and CREDIT: Suspense Rs. 1,305																						
02	C	GROSS PROFIT: No effect and NET PROFIT: Decrease by Rs. 1,305																						
03	C	DEBIT: Prepaid insurance Rs. 1,500and CREDIT: Insurance expense Rs. 1,500																						
04	C	GROSS PROFIT: No effect and NET PROFIT: Increase by Rs. 1,500																						
05	C	DEBIT: Suspense Rs. 400 and CREDIT: Rent income Rs. 400																						
06	A	Difference Rs. 1,175 debit – Rs. 1,305 insurance + Rs. 400 rent income = Debit balance Rs. 270																						
		<table><tr><th colspan="4">Suspense Account</th></tr><tr><th></th><th>Rs.</th><th></th><th>Rs.</th></tr><tr><td>Trial Balance difference</td><td>1,175</td><td>Insurance Exp</td><td>1,305</td></tr><tr><td>Rent Income</td><td>400</td><td>c/d</td><td>270</td></tr><tr><td></td><td>1,575</td><td></td><td>1,575</td></tr></table>			Suspense Account					Rs.		Rs.	Trial Balance difference	1,175	Insurance Exp	1,305	Rent Income	400	c/d	270		1,575		1,575
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Trial Balance short	1,175	Payable	270																					
Rent Income	400	c/d	1,305																					
	1,575		1,575																					
09	D	As given Rs. 48,200 – 1,305 insurance expense - 400 rent income overstated = Rs. 46,495																						
10	C	As given Rs. 48,200 + 400 rent income = Rs. 48,600																						
11	B	Complete reversal of entries																						
12	b d	Complete reversal of entries A purchase invoice overlooked and unrecorded (Complete omission)																						
13	A	DEBIT: Purchases Rs. 440,000 and CREDIT: Trade payable Rs. 440,000																						
14	B	DEBIT: Selling expense Rs. 35,000 & Suspense Rs. 18,000 and CREDIT: Other expenses Rs. 53,000																						
15	C	DEBIT: Office rent expense Rs. 120,000 & Rent income Rs. 120,000 and CREDIT: Suspense Rs. 240,000																						
16	D	DEBIT: Purchases Rs. 27,000 & Suspense Rs. 90,000 and CREDIT: Trade payable Rs. 117,000																						
17	A	Rs. 290,000 profit – 440,000 purchases – 35,000 selling expense + 53,000 other expenses = Rs. 132,000 loss																						

18	D	Rs. 290,000 profit – 120,000 rent expense – 120,000 reversal of rent income – 27,000 purchases = Rs. 23,000 profit			
19	B	Rs. 290,000 Credit – 0 – 18,000 = Rs. 272,000 Credit			
		Suspense Account			
			Rs. 000		Rs.000
		Other Exp / Selling Exp	18	Trial Balance short	290
		c/d	272		
			290		290
		DEBIT: Purchases Rs. 440,000 and CREDIT: Trade payable Rs. 440,000 (this has no effect on suspense account). DEBIT: Selling expense Rs. 35,000 & Suspense Rs. 18,000 and CREDIT: Other expenses Rs. 53,000			
20	C	Rs. 290,000 Credit + 240,000 – 90,000 = Rs. 440,000 Credit			
		Suspense Account			
			Rs. 000		Rs.000
		Purchase/Trade PA	90	Trial Balance short	290
		c/d	440	Rent Exp/Rent Income	240
			530		530
		DEBIT: Office rent expense Rs. 120,000 & Rent income Rs. 120,000 and CREDIT: Suspense Rs. 240,000 DEBIT: Purchases Rs. 27,000 & Suspense Rs. 90,000 and CREDIT: Trade payable Rs. 117,000			
21	A	DEBIT: Suspense Rs. 18,000 and CREDIT: Receivables Rs. 18,000			
22	a	For correction of machine used: DEBIT: PPE (machine) Rs. 145,000 and CREDIT: Purchases Rs. 145,000			
	c	For Adjustment of Closing Stock: DEBIT: Cost of sales Rs. 145,000 and CREDIT: Inventory Rs. 145,000			
23	D	GROSS PROFIT: No effect and NET PROFIT: No effect The Journal entry for correction is DEBIT: PPE (machine) Rs. 145,000 and CREDIT: Inventory Rs. 145,000			
24	A	DEBIT: Cost of sales Rs. 1,320,000 and CREDIT: Inventory Rs. 1,320,000			
25	D	DEBIT: Suspense Rs. 294,000 & Bank Charges Rs. 6,000 and CREDIT: Bad debts expense Rs. 300,000			
26	D	DEBIT: Drawings Rs. 200,000 & Prepaid insurance Rs. 350,000 and CREDIT: Operating expenses Rs. 550,000 Alternatively, separate entries for drawings and business expenses: DEBIT: Drawings Rs. 200,000 and CREDIT: Operating expenses Rs. 200,000 DEBIT: Prepaid insurance Rs. 350,000 and CREDIT: Operating expenses Rs. 350,000			
27	c	DEBIT: Suspense Rs. 504,000 and CREDIT: Trade receivables Rs. 504,000			

28	b	Rs. 798,000 Credit			
		Suspense Account			
			Rs.		Rs.
		Bad debts	294	Trial Balance short	798
		Trade Receivable 671-167	504	c/d	-
			798		798
		Correcting entries: For an unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. Suspense Dr 294,000 Bank Charges Dr 6,000 Bad Debt Cr 300,000 Total sales of 26 December 2019 was Rs. 167,000. This was posted in trade receivable accounts as Rs. 671,000 (a difference of Rs. 504,000 on credit side of Suspense account arose). Suspense Dr 504,000 Debtor Cr 504,000			
29	a	Bad debts recovery Rs. 300,000 – bank charges 6,000 = Rs. 294,000 increase			
30	d	Bad debts recovery Rs. 300,000 – bank charges 6,000 + drawings 200,000 + prepaid 350,000= Rs. 844,000 Increase			
31	a	DEBIT: Cash Rs. 100 and CREDIT: Suspense Rs. 100			
32	b	DEBIT: Sales return Rs. 100 and CREDIT: Suspense Rs. 100			
33	c	DEBIT: Furniture Rs. 300 and CREDIT: Purchases Rs. 300			
34	c	DEBIT: Furniture Rs. 375 and CREDIT: Wages Rs. 375			
35	d	DEBIT: Suspense Rs. 1,288 and CREDIT: Pakistan Stores Rs. 1,288			
36	a	DEBIT: Josh Traders Rs. 200 and CREDIT: Allowance Rs. 200			
37	c	DEBIT: Sales return Rs. 100 and CREDIT: Debtor Rs. 100			
38	d	DEBIT: Drawings Rs. 20,000 and CREDIT: Misc. expenses Rs. 20,000			
39	d	DEBIT: BTS & Co Rs. 400 and CREDIT: Suspense Rs. 400			
40	a	Profit will increase by Rs. 2,000			
	b	Suspense account must be debited by Rs. 2,000			
41	a	DEBIT: Sales Rs. 9,090 and CREDIT: Suspense Rs. 9,090			
42	c	DEBIT: Sales Rs. 36,000 & Trade receivables Rs. 180,000 and CREDIT: Suspense Rs. 216,000			
43	b	DEBIT: Trade payable Rs. 500,000 and CREDIT: Trade receivable Rs. 500,000			
44	b	Revenue will decrease due to recording discount allowed of Rs. 11,000 (i.e. Rs. 209,000 / 95 x 5)			
45	c	DEBIT: Advance from customer Rs. 450,000 and CREDIT: Bank Rs. 450,000			
46	b	There will be no effect on net profit			
	d	The trial balance is not affected by such error			

47	c	DEBIT: Suspense Rs. 209,000 & Revenue Rs. 11,000 and CREDIT: Trade receivables Rs. 220,000
48	b	Balance discrepancies caused by errors
49	c	Error of Omission
50	a	Error of Original Entry
51	a	Increase net profit by Rs. 200
52	c	Liabilities are overstated
53	b	Debit Receivables Rs.600, Credit Allowance for Doubtful Debts Rs.600
54	a	Reduction in receivable Rs. 1,000 x 5% = Rs. 50 reduction in allowance (not recording this reduction understated the profit by Rs. 50).
55	c	Profit would remain Rs. 54,250. The first correction has net effect of NIL on overall expenses. The second correction is Debit Cash Credit Receivables i.e. no income or expense is involved in this correction.
56	d	Debit Bad and Doubtful Debts Expense Rs.700, Credit Sales Rs.700
57	c	Debit Bad and Doubtful Debts Expense Rs.1,300, Credit Allowance for Doubtful Debts Rs.900, Credit Receivable Rs.400
58	b	Debit Receivables Rs.600, Credit Bad and Doubtful Debts Expense Rs.600
59	a	Debit Bad and Doubtful Debts Expense Rs. 1400, Credit Allowance for Doubtful Debts Rs. 1400
60	a	Profit is overstated by Rs. 500
61	d	Debit side by Rs. 63,436
62	c	Debit Cost of sales Rs. 2,000 and Credit Inventory Rs. 2,000
63	d	No journal entry is required
64	d	Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Inventory Rs. 10,000
65	c	Debit Cash Rs. 12,000; Credit Drawings Rs. 2,000 and Credit Purchases Rs. 10,000
66	a & b	Debit Property, plant and equipment Rs. 85,000; Credit Inventory Rs. 85,000 Debit Depreciation Rs. 10,000; Credit Accumulated depreciation Rs. 10,000
67	b & c	Debit Cost of sales Rs. 6,000; Credit Inventory Rs. 6,000 Debit Abnormal loss Rs. 80,000; Credit Inventory Rs. 80,000
68	b & d	Sales overstated by Rs. 9,000 Cost of Sales overstated by Rs. 7,500
69	d	All of the above
70	b	Write down to net realisable value
71	a	Increase in depreciation to be recorded Rs. 4,800 – 480 = Rs. 4,320 Corrected profit = Rs. 630,000 – 4,320 = Rs. 625,680
72	c	Depreciation effect = Rs. 25,500 x 25% x 4/12 = Rs. 2,125 Reversal of maintenance expense Rs. 25,500 – depreciation effect Rs. 2,125 = Rs. 23,375

73	a	Increase in depreciation to be recorded Rs. 6,000 – 600 = Rs. 5,400 Profit is overstated by Rs. 5,400
74	b	Correct depreciation = Rs. 120,000 x 20% x 6/12 = Rs. 12,000 Incorrect depreciation = Rs. 120,000 x 20% x 12/12 = Rs. 24,000 Profit is understated by Rs.12,000
75	b	Depreciation rate under reducing balance method = $1 - \sqrt[5]{\frac{20,000}{120,000}} = 30.12\%$ Correct depreciation = Rs. 120,000 x 30.12% x 6/12 = Rs. 18,072 Incorrect depreciation = (Rs. 120,000 – 20,000) / 5 years x 6/12 = Rs. 10,000 Increase by Rs. 8,072
76	a	Profit is overstated by Rs.13,500 (i.e. 15,000 – depreciation effect Rs. 1,500)
77	c	Debit Depreciation Expense Rs.10,000, Credit Accumulated Depreciation Rs.10,000
78	c	Debit Accumulated Depreciation Rs.15,000, Credit Depreciation Expense Rs.15,000
79	a	Debit Entertainment Expense Rs.15,000, Credit Building Rs.15,000
80	b	Assets overstated by Rs.23,750; Profit overstated by Rs.23,750

BANK RECONCILIATIONS

1. The following Bank Reconciliation has been prepared by a trainee accountant.

	Rupees
Overdraft as per bank statement	45,600
Less: Unpresented cheques	51,800
	6,200
Add: Uncredited cheques	18,800
Balance as per cash book	25,000

What should be the correct balance of cash book?

- Rs. 25,000 overdraft
 - Rs. 78,600 at bank
 - Rs. 78,600 overdraft
 - Rs. 25,000 at bank
2. Which of the following statement is correct in relation to direct debit and standing order issued to bank by a business?
- Standing order is instruction to make payment whereas direct debit is instruction to collect amount
 - Standing order and direct debit are both instruction to bank for payment and there is no difference
 - Standing order allows for payment for same amount on payment date whereas direct debit allows for payment for different amount on payment date
 - Standing order allows for payment for different amount on payment date whereas direct debit allows for payment for same amount on payment date
3. Cheques given to supplier on 20th April 2022 for Rs. 25,000 but supplier has not yet deposited the cheque into his bank for clearance. The difference in Bank statement and cash book balances will arise at 30th April 2022, caused by:
- Dishonoured cheque
 - Unpresented cheque
 - Uncredited cheque
 - Outdated cheque
4. Which of the following item is NOT required to be adjusted in revised cash book?
- Bank charges shown in bank statement
 - A bank transfer shown in bank statement by one of customer
 - Amount debited in bank statement as per standing instructions
 - Amount debited in bank statement against cheque serial number not related to us

5. Which of the following statements are correct in relation to balance of cash book and bank statement?
- Favorable balance of cash book shall represent credit balance
 - Favorable balance of bank statement represents credit balance
 - Unfavorable balance of bank statement represents credit balance
 - Unfavorable balance of cash book represents credit balance
6. Which of the following statement(s) is/are correct about bank reconciliation?
- Uncredited amount shall always be deducted from bank reconciliation statement
 - Expired cheque should be reversed in adjusted cash book
- Statement (1) only
 - Statement (2) only
 - Both statements
 - None of above Statement
7. Which of the following is NOT shown in bank reconciliation statement?
- Bank charges
 - Outstanding cheques
 - Outstanding lodgments
 - Bank Error
8. Which of the following statements about bank reconciliations are correct?
- Bank charges of Rs. 100 shown in bank statement should be credited in adjusted cash book
 - Unpresented cheques of Rs. 3,000 should be added in cash book balance
 - Bank error should be shown in bank reconciliation statement
 - An overdrawn balance in bank statement represents credit balance
9. Balance of cash book was Rs. 23,500 credit as at 30 June 2022. Bank charges of Rs. 500 and standing order of Rs. 2,000 were shown in bank statement only. Similarly, bank statement has shown direct credit of Rs. 12,100. In addition, outstanding cheques were Rs. 3,050 and bank has wrongly debited our account with Rs. 600.
- What will be revised balance of cash book as at 30 June 2022?
- Rs. 13,900 credit
 - Rs. 11,450 credit
 - Rs. 13,900 debit
 - Rs. 11,450 debit
10. Cash book of Umair as at June 30, 2022 showed Dr. 250 balance whereas bank statement showed Cr. 425 on same date. Which of the following statement explained the difference in full?
- Outstanding cheque of Rs. 125 and bank charges of Rs. 50
 - Outstanding lodgment of Rs. 125 and bank charges of Rs. 50
 - Outstanding cheque of Rs. 125 and credit by bank as interest Rs. 50
 - Outstanding lodgment of Rs. 125 and credit by bank as interest Rs. 50

11. As at 30 June 2022, bank statement balance of Rs. 112,500 was shown as debit. Accountant has identified correctly un-presented cheques of Rs. 38,500 and uncredited amounts of Rs. 22,500. Accountant has prepared bank reconciliation in which un-presented cheques were added and uncredited cheque was subtracted. The resultant balance was shown on liability side of statement of financial position as bank overdraft. What was the impact of the error on current liabilities of business?
 - a) Understated by Rs. 128,500
 - b) Overstated by Rs. 128,500
 - c) Overstated by Rs. 32,000
 - d) Understated by Rs. 32,000

12. Bank statement balance of Raja Brothers as at May 31, 2022 was 23,808 overdrawn. While reconciling the balances of cash book with bank statement, following matters were highlighted:
 1. Cheques of Rs. 17,253 not yet presented for payment.
 2. Online transfer (direct credit) of Rs. 33,152 was shown on bank statement only.
 3. Payment of Rs. 2,200 was recorded as receipt in cash book.
 4. Bank charges of Rs. 700 were recorded twice in cash book.
 5. Deposit of Rs. 11,526 were not credited in bank statement

How much amount should be recognized in statement of financial position as at May 31, 2022?

 - a) Rs. 58,987 Dr.
 - b) Rs. 58,987 Cr.
 - c) Rs. 29,535 Dr.
 - d) Rs. 29,535 Cr.

13. Balance of bank book as at 31 July 2022 was Rs. 253,000 but it contains few errors. The bank charges of Rs. 2,250 were recorded twice in cash book; direct debit of Rs. 3,000 was put on wrong side of cash book and online credit of Rs. 5,000 by customer not entered in cash book. What will be correct balance of bank book as at 31 July 2022?
 - a) Rs. 256,500
 - b) Rs. 251,500
 - c) Rs. 254,250
 - d) Rs. 251,250

14. Which of the following best describes timing difference in bank reconciliation statement?
 - a) Outstanding cheques
 - b) Standing order payment not entered in cash book
 - c) Outstanding lodgment
 - d) Dishonour cheque not entered in cash book

15. Which TWO of the following error/omission resulted overstatement of overdraft balance of cash book?
 - a) Bank charges recorded on debit side of cash book
 - b) A customer directly deposited amount in our bank account, and not entered in cash book
 - c) Receipt was recorded on payment side
 - d) Payment was recorded on receipt side

16. Correction of the following would not result in reduction of favourable balance of cash book, after adjustment?
- Bank charges recorded twice in cash book
 - Bank charges were not recorded in cash book
 - Standing order payment was omitted to be recorded in cash book
 - Standing order payment was recorded on wrong side of cash book

17. Bank statement had shown following cheques in the month of March 2022:

Date	Cheque No.	Amount	Remarks
02-03-22	212253	Rs. 2,500	debited by bank
05-03-22	212263	Rs. 3,700	debited by bank
11-03-22	212266	Rs. 4,100	debited by bank
15-03-22	5263563	Rs. 3,200	debited by bank (not issued by us)
20-03-22	212270	Rs. 5,500	debited by bank

Total cheques issued during the month were amounting to Rs. 37,300 as per cash book. Which of the following statement is true in this context?

- Total un-presented cheques for March were Rs. 18,300
 - Total un-presented cheques for March were Rs. 21,500
 - Total un-presented cheques for March were Rs. 21,500 and bank error of Rs. 3,200
 - Total un-presented cheques for March were Rs. 18,300 and bank error of Rs. 3,200
18. Balance shown by bank statement was Rs. 27,500 overdrawn and cash book balance was 27,500 favorable at specific date.
- The both balances are not reconciled and difference is Rs. 55,000
 - The both balances are not reconciled and difference is Rs. 27,500
 - The both balances are reconciled as there is no difference in amount

Which of the following statement(s) is/are correct?

- Statement (1) only
 - Statement (2) only
 - Statement (3) only
 - None of above Statement
19. Which of the following shall NOT require adjustment in cash book?
- Error or omission by bank
 - Error or omission in cash book
 - Unpresented cheques
 - Uncredited cheques
20. Which of the following shall require reversal of previously recorded entry in cash book?
- Unpresented cheques
 - Uncredited cheques
 - Dishonour cheques
 - All of the above

21. The balances of cash book and bank statement were not reconciled as at December 31, 2022. On investigation, following matters were highlighted:

1. Bank charges of Rs. 1,500 were recorded in cash book as Rs. 5,100.
2. Direct credit of Rs. 1,900 after 10% tax deduction was not recorded in cash book.
3. Unpresented cheques of Rs. 12,400 and uncredited cheques of Rs. 15,200 correctly identified by accountant.

The difference between cash book and bank statement balance as at December 31, 2022 was:

- a) Rs. 8,400
- b) Rs. 8,300
- c) Rs. 2,800
- d) Rs. 2,700

22. Balance of cash book of Rizwan Traders as at 30 November 2022 was Rs. 118,200, which was not reconciled with balance of bank statement. The following differences were identified:

1. Cheque of Rs.14,300 was issued to supplier, but recorded as Rs. 13,400 in cash book.
2. A page total of payment side of the bank book amounting to Rs. 9,000 was carried forward to the next page as Rs. 8,000.
3. A cheque of Rs. 4,000 issued to a supplier bearing an incorrect payee's name. The cheque was returned and recorded on 5 January 2023.
4. Bank charges of Rs. 1,250 were erroneously charged to our account.

The corrected cash book balance as at 30 November 2022 shall be:

- a) Rs. 122,100
- b) Rs. 122,300
- c) Rs. 121,550
- d) Rs. 120,300

23. Which of the following is NOT the reason for difference in cash book and bank statement balances?

- a) Cheque of Rs. 15,000 returned from customer, but not recorded in cash book
- b) Bank charges of Rs. 2,500 were debited in bank statement of which Rs. 1,750 were not related to our account. Bank charges of Rs. 2,500 were recorded in cash book
- c) Payment of Rs. 12,500 was recorded on debit side of cash book
- d) Standing order payment of Rs. 12,000 was omitted in cash book

24. Balance of cash book as at 31 October 2022 was Rs. 19,500 Dr. whereas balance of bank statement was Rs. 10,500 overdrawn. Which of the following will cause the difference of both balances?

- a) Cheque of Rs. 9,000 was issued but not presented till 31 October 2022
- b) Cheque of Rs. 30,000 was issued but not presented till 31 October 2022
- c) Cheque of Rs. 9,000 was deposited into bank but not credited till 31 October 2022
- d) Cheque of Rs. 30,000 was deposited into bank but not credited till 31 October 2022

25. Balance of bank statement of JAM Enterprises as at 30 November 2022 was Rs. 125,000 overdrawn. Following discrepancies were highlighted by accountant of JAM Enterprises.

1. A cheque of Rs. 3,000 drawn in favour of a supplier was recorded in the bank statement as Rs. 30,000
2. Dividend of Rs. 54,000 after 10% withholding tax deduction was collected by the bank and credited in bank statement but recorded in cash book at gross amount
3. The receipt side of the bank book was overcasted by Rs. 9,000
4. Cheques of Rs. 68,000 issued to suppliers but only Cheques of Rs. 44,000 were presented to the bank till 30 November 2022

The unadjusted balance of cash book of JAM Enterprises as at 30 November 2022 was:

- a) Rs. 107,000 Dr.
- b) Rs. 107,000 Cr.
- c) Rs. 113,000 Dr.
- d) Rs. 113,000 Cr.

26. The following information relates to a bank reconciliation:

1. The bank balance in the cash book before adjustments was Rs. 14,730 overdrawn.
2. Bank charges of Rs. 1,750 were recorded in cash column of cash book in three column cash book
3. Bank has credited Rs. 4,200 to our account which was related to another account
4. Deposit of Rs. 17,140 was recorded in bank book as Rs. 1,740
5. Cheques of Rs. 22,200 were issued but cheques of Rs. 14,200 were not presented to bank for payment

The balance of bank statement was:

- a) Rs. 17,320 overdrawn
- b) Rs. 17,320 balance at bank
- c) Rs. 21,400 overdrawn
- d) Rs. 21,400 balance at bank

27. Which of the following is NOT recorded in calculating adjusted bank book balance?

- a) Uncredited cheques
- b) Bank charges
- c) Dividend received
- d) Online deposit by customer

28. Which of the following statement(s) is/are TRUE in relation to bank reconciliation statement?

- The purpose of bank reconciliation is to ensure that all differences in cash book balance and bank statement balances are identified.
- The balance of bank statement overdrawn shall be recorded as current liability in the statement of financial position.
- The balance of cash book before adjustment should not be shown in statement of financial position.

29. Which of the following is correct in relation to uncredited cheques?

- a) Cheques deposited into bank but cleared before period end
- b) Cheques deposited into bank but not cleared before period end
- c) Cheques issued but presented for payment before period end
- d) Cheques issued but not presented for payment before period end

30. Which TWO of the following statements are correct?
- A cheque is an agreement of payment between two individuals or organizations. Uncredited cheques
 - Cheque issued by businessman is treated as receipt in cash book
 - Overstatement of bank charges in bank statement represents timing difference
 - Pay order is issued by the bank on behalf of customer stating an order to pay a specified amount to a specified person
31. Balance of bank book of Anjum Traders (AT) as at June 30, 2022 was Rs. 215,175 which was not reconciled with balance of bank statement on same date. The differences were highlighted as under:
- Cheques of Rs. 32,500 were deposited on June 30, 2022 but cleared on July 4, 2022.
 - Online payment of Rs. 72,300 by AT was not reflected in bank book.
 - Payment of Rs. 14,500 was recorded on receipt side at Rs. 1,450.
 - Bank charges of Rs. 2,400 were recorded twice in cash book.
- The correct bank book balance of AT as at June 30, 2022 will be:
- Rs. 96,825
 - Rs. 129,325
 - Rs. 132,225
 - Rs. 161,825
32. Listed below some of the causes of differences between cash book and bank statement balances when preparing bank reconciliation statement.
- Which of the following shall require entry in cash book?
- Bank charges correctly recorded in cash book
 - Bank charges recorded twice in cash book
 - Bank has wrongly debited our account
 - Receipt side of cash book was overstated

33. Accountant has provided following list of unpresented cheques as at 31 August 2022.

Cheque No.	Amount in Rs.	Remarks
1253	125,250	Presented on 5 September 2022
1263	105,410	Presented on 22 August 2022
1273	145,540	Time-barred cheque
1283	100,100	Cheque returned for cancellation
1293	125,635	Not yet presented

The total of unpresented cheques as at 31 August 2022 shall be:

- Rs. 125,635
- Rs. 250,885
- Rs. 350,985
- Rs. 496,525

34. Balance of cash book of Irha Stores was Rs. 110,180 as at 30 November 2022. The unpresented cheques and uncredited cheques were Rs. 15,200 and 16,800 respectively. Receipt of Rs. 800 was recorded on payment side of cash book.

Which of the following statement is correct?

- a) Balance of bank statement showed Rs. 110,180 favourable balance
 - b) As balance of bank statement reconciled with cash book balance, therefore, no need to prepare bank reconciliation statement
 - c) Balance of bank statement showed Rs. 110,180 overdraft balance
 - d) Balance of bank statement did not reconcile with cash book balance
35. Bank statement balance of Shahid Traders as at 30 September 2022 was Cr. 45,450. While preparing bank reconciliation statement, the trainee accountant overstated unpresented cheques by Rs. 2,500 and understated uncredited cheques by Rs. 3,200. Which of the following statement is TRUE in relation to bank reconciliation statement?
- a) Bank overdraft was overstated by Rs. 5,700
 - b) Bank overdraft was understated by Rs. 5,700
 - c) Cash at bank was overstated by Rs. 5,700
 - d) Cash at bank was understated by Rs. 5,700
36. Akhtar's cash book as at 30 November 2022 showed overdrawn balance of Rs. 105,750 which was not reconciled with bank statement balance. Following discrepancies were identified:
- 1. Total unpresented cheques list showed total of Rs. 75,780 which included outdated cheque of Rs. 7,460.
 - 2. Total uncredited amount list prepared from cash book was Rs. 185,850 which included wrong amount of Rs. 56,450 in cash book instead of 65,450.
 - 3. Bank charges of Rs. 2,250 were recorded in cash book as Rs. 250 on debit side.

The balance of bank statement of Akhtar as 30 November 2022 was:

- a) Rs. 234,780 cash at bank
 - b) Rs. 234,780 overdrawn
 - c) Rs. 227,320 cash at bank
 - d) Rs. 227,320 overdrawn
37. In preparing bank reconciliation statement, following items are causing difference between cash book and bank statement balances.
- 1. Outdated cheque of Rs. 1,200 not yet reversed
 - 2. Cheques of Rs. 12,100 were not yet presented for payment
 - 3. Bank has wrongly credited interest of Rs. 200 to our bank account
 - 4. Dividend received was not recorded in cash book
 - 5. Standing order payments debited in bank statement only

Which of these items will require adjustment in cash book?

- a) 1, 2 and 4
- b) 1, 2 and 5
- c) 1, 3 and 5
- d) 1, 4 and 5

38. Consider the following statements.

1. Post dated cheque is cheque drawn with a future date written on it.
2. Outdated cheque that is still uncashed and date has been expired.
3. Post dated cheque and outdated cheques have similar meanings.

Which of the above statement(s) is/are true?

- a) Statement (1) only
- b) Statement (2) only
- c) Statement (1) and (2)
- d) All statements

39. When the cheque was returned from bank, then which of the following are reasons of dishonour cheque?

- a) Insufficient funds
- b) Signatures not matched
- c) Overwriting on cheque
- d) Time-barred cheque

40. Following information has been collected from the books of Riaz as at 31st January, 2023:

- Balance as per Cash Book Rs. 150,000 Debit
- Balance as Per Bank Statement Rs. 142,000 Credit

The possible cause of difference in both balances might be:

- a) Cheque of Rs. 4,000 was paid to supplier, but recorded on receipt side of cash book
- b) Omission of receipt of Rs. 8,000 in cash Book
- c) A cheque of Rs. 4,000, received from a customer was wrongly credited in the cash book
- d) Bank has wrongly credited the Riaz's account with Rs. 8,000

41. Which of the following statement is correct about bank reconciliation statement?

- a) Bank charges should be recorded in bank reconciliation statement and no need to pass entry in cash book
- b) Cheques issued during specific month but not yet presented for payment to bank are treated as unrepresented cheques and shall always be included in cash book
- c) Cheques deposited into bank but not credited till date of preparation of bank reconciliation statement shall be treated as uncredited amounts and shall be included in bank reconciliation statement
- d) Any omission or error committed by bank should be adjusted in cash book.

42. Listed below are potential causes of differences between cash book and bank statement balances.

1. Cheques dishonoured.
2. Unpresented cheques.
3. Direct debit by bank.
4. Uncredited cheques.
5. Understatement of receipt total in cash book.

Which one of the following alternatives requiring entry in cash book and featuring in bank reconciliation statement is correct regarding above items?

Cash book	Bank reconciliation statement
a) 1, 3 and 4	2 and 5
b) 2, 3 and 4	1 and 5
c) 3, 4 and 5	1 and 2
d) 1, 3 and 5	2 and 4

43. Receipt of Rs. 750 was overstated and payment of Rs. 500 was understated. The balance of cash book was:
- Overstated by Rs. 1,250
 - Understated by Rs. 1,250
 - Overstated by Rs. 2,500
 - Understated by Rs. 2,500
44. Bank statement of Mohtashim Sons showed balance of Rs. 458,500 Cr. as at May 31, 2022 which was not reconciled with balance of bank book. Following causes of differences were identified.
- Rs. 47,000 was deposited into bank which was credited by bank on June 2, 2022.
 - A standing order for payment of annual subscription fees of Rs. 20,000 for a magazine had not been recorded in the bank book.
 - Bank has erroneously credited Rs. 2,500 as interest to our bank account.
 - Cheques deposited into bank but not presented for payment amounting to Rs. 72,500.
- Balance of cash book to be shown in statement of financial position as at May 31, 2022 shall be:
- Rs. 481,500
 - Rs. 450,500
 - Rs. 430,500
 - Rs. 410,500
45. Which of the following statement is NOT correct in relation to bank reconciliation statement?
- Omission of bank charges of Rs. 780 would require an entry on credit side of cash book by Rs. 780
 - Receipt of Rs. 1,750 was recorded as Rs. 7,150 would require an entry on credit side of cash book by Rs. 8,900
 - Unpresented cheques should be reconciled in bank reconciliation statement
 - Bank error shall not require any entry in cash book
46. If unpresented cheques amount is greater than uncredited cheques amount by Rs. 7,500, assuming no other cause of difference between cash book and bank statement balance, then which of the following statement is correct?
- Cash book balance will be greater than bank statement by Rs. 7,500
 - Cash book balance will be less than bank statement by Rs. 7,500
 - Cash book balance will be greater than bank statement by Rs. 15,000
 - Cash book balance will be less than bank statement by Rs. 15,000
47. Balance of bank statement was Rs. 75,500 debit as at 30 June 2022. Bank interest income of Rs. 4,200 and direct debit of Rs. 5,200 were shown in bank statement. Similarly, cash book has shown credit balance of Rs. 68,100. Outstanding cheques were Rs. 6,050 and it was also identified that bank has wrongly debited our account with Rs. 600.
- What is the unidentified difference in bank reconciliation statement, after incorporating above adjustments, as at 30 June 2022?
- Rs. 950
 - Rs. 2,950
 - Rs. 11,850
 - Rs. 13,850

48. As at 30 June 2022, Asghar's cash book of current account showed debit balance of Rs. 4,610 whereas his bank statement showed favourable balance of Rs. 7,280. He noted the following reasons for difference between two balances:
1. A cheque for Rs. 270 drawn by Aslam was incorrectly cleared by the bank through this account.
 2. Uncredited cheques were for Rs. 2,500.
 3. A cheque for Rs. 730 from debtors was dishonoured.
 4. Payment side of cash book was overstated by Rs. 10.
 5. Asghar had omitted to record standing order payment of Rs. 100 and bank charges of Rs. 420 in cash book.
 6. Outstanding cheques, excluding those written back, totaled Rs. 6,300.
 7. Dividend directly paid into the bank Rs. 380.
- Balance of adjusted cash book as at 30 June 2022 shall be:
- a) Rs. 11,350 Cr.
 - b) Rs. 11,350 Dr.
 - c) Rs. 3,750 Cr.
 - d) Rs. 3,750 Dr.
49. The cash book showed overdrawn balance which was not reconciled with bank statement balance. On scrutiny, it was found that cheque received from customer amounting to Rs. 35,000 was not recorded in cash book whereas direct debit of Rs. 25,000 was recorded in cash book as Rs. 2,500. The overdraft cash book balance after adjustments shall be:
- a) Declined by Rs. 12,500
 - b) Declined by Rs. 57,500
 - c) Increased by Rs. 12,500
 - d) Increased by Rs. 57,500
50. Which of the following shall require entry on debit side of cash book when preparing bank reconciliation statement?
- a) Receipt of Rs. 7,500 was overstated
 - b) Bank charges of Rs. 150 were not recorded
 - c) Payment of Rs. 1,200 was overstated
 - d) Payment of Rs. 1,200 was understated

ANSWERS TO SELF TEST QUESTIONS

01	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Overdraft as per bank statement</td><td>(45,600)</td></tr><tr><td>Add: Unpresented cheques</td><td>(51,800)</td></tr><tr><td>Less: Uncredited cheques</td><td>18,800</td></tr><tr><td>Overdraft as per adjusted cash book</td><td>(78,600)</td></tr></table>		Rupees	Overdraft as per bank statement	(45,600)	Add: Unpresented cheques	(51,800)	Less: Uncredited cheques	18,800	Overdraft as per adjusted cash book	(78,600)		
	Rupees													
Overdraft as per bank statement	(45,600)													
Add: Unpresented cheques	(51,800)													
Less: Uncredited cheques	18,800													
Overdraft as per adjusted cash book	(78,600)													
02	c	Standing order allows for payment for same amount on payment date whereas direct debit allows for payment for different amount on payment date												
03	b	Unpresented cheque												
04	d	Amount debited in bank statement against cheque serial number not related to us												
05	c,d	Favorable balance of bank statement represents credit balance Unfavorable balance of cash book represents credit balance												
06	b	Only Statemnet 2 is correct.												
07	a	Bank charges are recorded in cash book.												
08	a,c	Bank charges of Rs. 100 shown in bank statement should be credited in adjusted cash book Bank error should be shown in bank reconciliation statement												
09	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Balance as per cash book Cr.</td><td>(23,500)</td></tr><tr><td>Less: Bank charges not recorded in cash book</td><td>(500)</td></tr><tr><td>Less: Standing orders unrecorded in cash book</td><td>(2,000)</td></tr><tr><td>Add: Direct credit by bank</td><td>12,100</td></tr><tr><td>Overdraft as per adjusted cash book Cr.</td><td>13,900</td></tr></table>		Rupees	Balance as per cash book Cr.	(23,500)	Less: Bank charges not recorded in cash book	(500)	Less: Standing orders unrecorded in cash book	(2,000)	Add: Direct credit by bank	12,100	Overdraft as per adjusted cash book Cr.	13,900
	Rupees													
Balance as per cash book Cr.	(23,500)													
Less: Bank charges not recorded in cash book	(500)													
Less: Standing orders unrecorded in cash book	(2,000)													
Add: Direct credit by bank	12,100													
Overdraft as per adjusted cash book Cr.	13,900													
10	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Balance as per cash book Dr.</td><td>250</td></tr><tr><td>Less: Outstanding cheque</td><td>125</td></tr><tr><td>Less: Interest credited by bank</td><td>50</td></tr><tr><td>Balance as per bank statement Cr.</td><td>425</td></tr></table>		Rupees	Balance as per cash book Dr.	250	Less: Outstanding cheque	125	Less: Interest credited by bank	50	Balance as per bank statement Cr.	425		
	Rupees													
Balance as per cash book Dr.	250													
Less: Outstanding cheque	125													
Less: Interest credited by bank	50													
Balance as per bank statement Cr.	425													
11	d	<table><tr><td>Corrected BRS</td><td>Rupees</td></tr><tr><td>Balance as per Bank Statement Dr.</td><td>(112,500)</td></tr><tr><td>Add: unpresented cheque</td><td>(38,500)</td></tr><tr><td>Less: uncredited amounts</td><td>22,500</td></tr><tr><td>Adjusted balance as per cash book overdrawn</td><td>(128,500)</td></tr></table>	Corrected BRS	Rupees	Balance as per Bank Statement Dr.	(112,500)	Add: unpresented cheque	(38,500)	Less: uncredited amounts	22,500	Adjusted balance as per cash book overdrawn	(128,500)		
Corrected BRS	Rupees													
Balance as per Bank Statement Dr.	(112,500)													
Add: unpresented cheque	(38,500)													
Less: uncredited amounts	22,500													
Adjusted balance as per cash book overdrawn	(128,500)													

		<table><tr><th>Incorrect BRS prepared by accountant</th><th>Rupees</th></tr><tr><td>Balance as per Bank Statement Dr.</td><td>(112,500)</td></tr><tr><td>Less: unpresented cheque</td><td>38,500</td></tr><tr><td>Add: uncredited amounts</td><td>(22,500)</td></tr><tr><td>Adjusted balance as per cash book overdrawn</td><td>(96,500)</td></tr><tr><td>Current liabilities of business were understated</td><td>32,000</td></tr></table>	Incorrect BRS prepared by accountant	Rupees	Balance as per Bank Statement Dr.	(112,500)	Less: unpresented cheque	38,500	Add: uncredited amounts	(22,500)	Adjusted balance as per cash book overdrawn	(96,500)	Current liabilities of business were understated	32,000				
Incorrect BRS prepared by accountant	Rupees																	
Balance as per Bank Statement Dr.	(112,500)																	
Less: unpresented cheque	38,500																	
Add: uncredited amounts	(22,500)																	
Adjusted balance as per cash book overdrawn	(96,500)																	
Current liabilities of business were understated	32,000																	
12	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per bank statement overdrawn</td><td>(23,808)</td></tr><tr><td>Add: Unpresented cheque</td><td>(17,253)</td></tr><tr><td>Less: Uncredited deposits</td><td>11,526</td></tr><tr><td>Balance as per adjusted cash book Cr.</td><td>(29,535)</td></tr></table>		Rupees	Balance as per bank statement overdrawn	(23,808)	Add: Unpresented cheque	(17,253)	Less: Uncredited deposits	11,526	Balance as per adjusted cash book Cr.	(29,535)						
	Rupees																	
Balance as per bank statement overdrawn	(23,808)																	
Add: Unpresented cheque	(17,253)																	
Less: Uncredited deposits	11,526																	
Balance as per adjusted cash book Cr.	(29,535)																	
13	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per bank book Cr.</td><td>253,000</td></tr><tr><td>Add: Bank charges recorded twice in cash book</td><td>2,250</td></tr><tr><td>Less: Direct debit put on wrong side of cash book</td><td>(6,000)</td></tr><tr><td>Add: Online credit by bank unrecorded in cash book</td><td>5,000</td></tr><tr><td>Adjusted balance of cash book Dr.</td><td>254,250</td></tr></table>		Rupees	Balance as per bank book Cr.	253,000	Add: Bank charges recorded twice in cash book	2,250	Less: Direct debit put on wrong side of cash book	(6,000)	Add: Online credit by bank unrecorded in cash book	5,000	Adjusted balance of cash book Dr.	254,250				
	Rupees																	
Balance as per bank book Cr.	253,000																	
Add: Bank charges recorded twice in cash book	2,250																	
Less: Direct debit put on wrong side of cash book	(6,000)																	
Add: Online credit by bank unrecorded in cash book	5,000																	
Adjusted balance of cash book Dr.	254,250																	
14	a,c	Outstanding cheques Outstanding lodgment																
15	b,c	A customer directly deposited amount in our bank account, and not entered in cash book Receipt was recorded on payment side																
16	a	Bank charges recorded twice in cash book																
17	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>Cheques issued during March 2022</td><td>37,300</td></tr><tr><td>Less: Cheques presented during March 2022</td><td></td></tr><tr><td> 02.03.22 Ch. 212253</td><td>(2,500)</td></tr><tr><td> 05.03.22 Ch. 212263</td><td>(3,700)</td></tr><tr><td> 11.03.22 Ch. 212266</td><td>(4,100)</td></tr><tr><td> 20.03.22 Ch. 212270</td><td>(5,500)</td></tr><tr><td>Unpresented cheques</td><td>21,500</td></tr></table>		Rupees	Cheques issued during March 2022	37,300	Less: Cheques presented during March 2022		02.03.22 Ch. 212253	(2,500)	05.03.22 Ch. 212263	(3,700)	11.03.22 Ch. 212266	(4,100)	20.03.22 Ch. 212270	(5,500)	Unpresented cheques	21,500
	Rupees																	
Cheques issued during March 2022	37,300																	
Less: Cheques presented during March 2022																		
02.03.22 Ch. 212253	(2,500)																	
05.03.22 Ch. 212263	(3,700)																	
11.03.22 Ch. 212266	(4,100)																	
20.03.22 Ch. 212270	(5,500)																	
Unpresented cheques	21,500																	

18	a	Only Statement (1) is correct.														
19	a,c,d	Error or omission by bank Unpresented cheques Uncredited cheques														
20	c	Dishonoured cheque														
21	d	Let's assume balance as per cash book is Zero: Unadjusted balance Rs. 0 + Bank charges overstated 3,600 + Direct credit 1,900 = Adjusted cash book balance Rs. 5,500 <table><tr><th>BRS</th><th>Rupees</th></tr><tr><td>Adjusted cash book balance</td><td>5,500</td></tr><tr><td>Add: Unpresented cheques</td><td>12,400</td></tr><tr><td>Less: Uncredited cheques</td><td>(15,200)</td></tr><tr><td>Balance as per bank statement</td><td>2,700</td></tr></table> Difference Rs. 2,700 – 0 = Rs. 2,700	BRS	Rupees	Adjusted cash book balance	5,500	Add: Unpresented cheques	12,400	Less: Uncredited cheques	(15,200)	Balance as per bank statement	2,700				
BRS	Rupees															
Adjusted cash book balance	5,500															
Add: Unpresented cheques	12,400															
Less: Uncredited cheques	(15,200)															
Balance as per bank statement	2,700															
22	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per cash book Dr.</td><td>118,200</td></tr><tr><td>Less: Issued cheque less recorded in cash book</td><td>(900)</td></tr><tr><td>Less: Payment side was understated</td><td>(1,000)</td></tr><tr><td>Add: Cancelled cheque</td><td>4,000</td></tr><tr><td>Adjusted balance of cash book Dr.</td><td>120,300</td></tr></table>		Rupees	Balance as per cash book Dr.	118,200	Less: Issued cheque less recorded in cash book	(900)	Less: Payment side was understated	(1,000)	Add: Cancelled cheque	4,000	Adjusted balance of cash book Dr.	120,300		
	Rupees															
Balance as per cash book Dr.	118,200															
Less: Issued cheque less recorded in cash book	(900)															
Less: Payment side was understated	(1,000)															
Add: Cancelled cheque	4,000															
Adjusted balance of cash book Dr.	120,300															
23	b	Bank charges of Rs. 2,500 were debited in bank statement of which Rs. 1,750 were not related to our account. Bank charges of Rs. 2,500 were recorded in cash book.														
24	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per cash book Dr.</td><td>19,500</td></tr><tr><td>Less: Uncredited amount</td><td>(30,000)</td></tr><tr><td>Balance as per bank statement overdrawn</td><td>(10,500)</td></tr></table>		Rupees	Balance as per cash book Dr.	19,500	Less: Uncredited amount	(30,000)	Balance as per bank statement overdrawn	(10,500)						
	Rupees															
Balance as per cash book Dr.	19,500															
Less: Uncredited amount	(30,000)															
Balance as per bank statement overdrawn	(10,500)															
25	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per bank statement overdrawn</td><td>(125,000)</td></tr><tr><td>Add: Payment cheque was overstated</td><td>27,000</td></tr><tr><td>Add: Dividend recorded at gross amount</td><td>6,000</td></tr><tr><td>Add: Receipt side of bank book was overcast</td><td>9,000</td></tr><tr><td>Less: Unpresented cheques (68,000-44,000)</td><td>(24,000)</td></tr><tr><td>Balance as per cash book overdrawn Cr.</td><td>(107,000)</td></tr></table>		Rupees	Balance as per bank statement overdrawn	(125,000)	Add: Payment cheque was overstated	27,000	Add: Dividend recorded at gross amount	6,000	Add: Receipt side of bank book was overcast	9,000	Less: Unpresented cheques (68,000-44,000)	(24,000)	Balance as per cash book overdrawn Cr.	(107,000)
	Rupees															
Balance as per bank statement overdrawn	(125,000)															
Add: Payment cheque was overstated	27,000															
Add: Dividend recorded at gross amount	6,000															
Add: Receipt side of bank book was overcast	9,000															
Less: Unpresented cheques (68,000-44,000)	(24,000)															
Balance as per cash book overdrawn Cr.	(107,000)															

26	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per cash book overdrawn</td><td>(14,730)</td></tr><tr><td>Bank charges not recorded in bank book</td><td>(1,750)</td></tr><tr><td>Bank has wrongly credit our account</td><td>4,200</td></tr><tr><td>Receipt was recorded on payment side</td><td>15,400</td></tr><tr><td>Unpresented cheques</td><td>14,200</td></tr><tr><td>Balance as per bank statement favourable</td><td>17,320</td></tr></table>		Rupees	Balance as per cash book overdrawn	(14,730)	Bank charges not recorded in bank book	(1,750)	Bank has wrongly credit our account	4,200	Receipt was recorded on payment side	15,400	Unpresented cheques	14,200	Balance as per bank statement favourable	17,320
	Rupees															
Balance as per cash book overdrawn	(14,730)															
Bank charges not recorded in bank book	(1,750)															
Bank has wrongly credit our account	4,200															
Receipt was recorded on payment side	15,400															
Unpresented cheques	14,200															
Balance as per bank statement favourable	17,320															
27	a	Uncredited cheques														
28	a,c	The purpose of bank reconciliation is to ensure that all differences in cash book balance and bank statement balances are identified. The balance of cash book before adjustment should not be shown in statement of financial position.														
29	b	Cheques deposited into bank but not cleared before period end														
30	a,d	A cheque is an agreement of payment between two individuals or organizations. Uncredited cheques Pay-order is issued by the bank on behalf of customer stating an order to pay a specified amount to a specified person.														
31	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per bank book Dr.</td><td>215,175</td></tr><tr><td>Less: Online payment by AT in bank book</td><td>(72,300)</td></tr><tr><td>Less: Payment was recorded as receipt (14,500+1,450)</td><td>(15,950)</td></tr><tr><td>Add: Bank charges recorded twice</td><td>2,400</td></tr><tr><td>Corrected balance of bank book Dr.</td><td>129,325</td></tr></table>		Rupees	Balance as per bank book Dr.	215,175	Less: Online payment by AT in bank book	(72,300)	Less: Payment was recorded as receipt (14,500+1,450)	(15,950)	Add: Bank charges recorded twice	2,400	Corrected balance of bank book Dr.	129,325		
	Rupees															
Balance as per bank book Dr.	215,175															
Less: Online payment by AT in bank book	(72,300)															
Less: Payment was recorded as receipt (14,500+1,450)	(15,950)															
Add: Bank charges recorded twice	2,400															
Corrected balance of bank book Dr.	129,325															
32	b,d	Bank charges recorded twice in cash book. Receipt side of cash book was overstated.														
33	b	<table><tr><th></th><th>Rupees</th></tr><tr><td>Ch. 1253</td><td>125,250</td></tr><tr><td>Ch. 1293</td><td>125,635</td></tr><tr><td>Total unpresented cheques</td><td>250,885</td></tr></table>		Rupees	Ch. 1253	125,250	Ch. 1293	125,635	Total unpresented cheques	250,885						
	Rupees															
Ch. 1253	125,250															
Ch. 1293	125,635															
Total unpresented cheques	250,885															
34	a	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per cash book Dr.</td><td>110,180</td></tr><tr><td>Add: Unpresented cheques</td><td>15,200</td></tr><tr><td>Less: Uncredited cheques</td><td>(16,800)</td></tr><tr><td>Add: Receipt was recorded as payment</td><td>1,600</td></tr><tr><td>Balance as per bank statement favourable</td><td>110,180</td></tr></table>		Rupees	Balance as per cash book Dr.	110,180	Add: Unpresented cheques	15,200	Less: Uncredited cheques	(16,800)	Add: Receipt was recorded as payment	1,600	Balance as per bank statement favourable	110,180		
	Rupees															
Balance as per cash book Dr.	110,180															
Add: Unpresented cheques	15,200															
Less: Uncredited cheques	(16,800)															
Add: Receipt was recorded as payment	1,600															
Balance as per bank statement favourable	110,180															

35	d	<table><tr><th></th><th>Rupees</th></tr><tr><td>Unpresented cheques were overstated</td><td>2,500</td></tr><tr><td>Uncredited cheques were understated</td><td>3,200</td></tr><tr><td>Cash at bank was understated</td><td>5,700</td></tr></table>		Rupees	Unpresented cheques were overstated	2,500	Uncredited cheques were understated	3,200	Cash at bank was understated	5,700				
	Rupees													
Unpresented cheques were overstated	2,500													
Uncredited cheques were understated	3,200													
Cash at bank was understated	5,700													
36	b	Unadjusted balance Rs. – 105,750 - Bank charges to be recorded 2,250 – reversal of incorrect bank charges recorded 250 = Adjusted cash book balance Rs. -108,250 (alternatively, prepare T account of cash book, bank column). <table><tr><th>BRS</th><th>Rupees</th></tr><tr><td>Balance as per cash book overdrawn (adsuted)</td><td>(108,250)</td></tr><tr><td>Less: Unpresented cheques (75,780-7,460)</td><td>68,320</td></tr><tr><td>Add: Uncredited cheques [185,850+(65,450-56,450)]</td><td>(194,850)</td></tr><tr><td>Balance as per bank statement overdrawn</td><td>(234,780)</td></tr></table>	BRS	Rupees	Balance as per cash book overdrawn (adsuted)	(108,250)	Less: Unpresented cheques (75,780-7,460)	68,320	Add: Uncredited cheques [185,850+(65,450-56,450)]	(194,850)	Balance as per bank statement overdrawn	(234,780)		
BRS	Rupees													
Balance as per cash book overdrawn (adsuted)	(108,250)													
Less: Unpresented cheques (75,780-7,460)	68,320													
Add: Uncredited cheques [185,850+(65,450-56,450)]	(194,850)													
Balance as per bank statement overdrawn	(234,780)													
37	d	Statement 1, 4 and 5 require adjustment in cash book.												
38	c	Both statements are correct.												
39	a to d	Insufficient funds Signatures not matched Overwriting on cheque Time-barred cheque												
40	a	Cheque of Rs. 4,000 was paid to supplier, but recorded on receipt side of cash book												
41	c	Cheques deposited into bank but not credited till date of preparation of bank reconciliation statement shall be treated as uncredited amounts and shall be included in bank reconciliation statement												
42	d	Cash book: Adjustments 3, 4 and 5 Bank reconciliation: Adjustment 1 and 2												
43	a	Overstated by Rs. 1,250												
44	c	<table><tr><th></th><th>Rupees</th></tr><tr><td>Balance as per bank statement Cr</td><td>458,500</td></tr><tr><td>Add: Uncredited cheques</td><td>47,000</td></tr><tr><td>Less: bank has wrongly credited our account</td><td>(2,500)</td></tr><tr><td>Less: Unpresented cheques</td><td>(72,500)</td></tr><tr><td>Cash book balance Dr. to be shown in SOFP</td><td>430,500</td></tr></table>		Rupees	Balance as per bank statement Cr	458,500	Add: Uncredited cheques	47,000	Less: bank has wrongly credited our account	(2,500)	Less: Unpresented cheques	(72,500)	Cash book balance Dr. to be shown in SOFP	430,500
	Rupees													
Balance as per bank statement Cr	458,500													
Add: Uncredited cheques	47,000													
Less: bank has wrongly credited our account	(2,500)													
Less: Unpresented cheques	(72,500)													
Cash book balance Dr. to be shown in SOFP	430,500													
45	b	Receipt of Rs. 1,750 was recorded as Rs. 7,150 would require an entry on credit side of cash book by Rs. 8,900.												
46	b	Cash book balance will be less than bank statement by Rs. 7,500												

47	c		
			Rupees
		Balance as per bank statement Dr.	(75,500)
		Add: Outstanding cheques	(6,050)
		Less: Bank has wrongly debit our account	600
		Revised cash book balance Cr.	(80,950)
			Rupees
		Balance as per Cash book Cr.	(68,100)
		Less: Unrecorded bank interest income	4,200
		Add: Unrecorded direct debit by bank	(5,200)
48	d	Revised cash book balance Cr.	(69,100)
		Unidentified Difference in bank reconciliation statement (80,950-69,100)	11,850
49	a		Rupees
		Balance as per bank statement Cr.	7,280
		Add: Bank has wrongly charged to our account	270
		Add: Uncredited cheques	2,500
		Less: Outstanding cheques	(6,300)
		Corrected cash book balance Dr.	3,750
50	c		Rupees
		Cheque received from customer not recorded	(35,000)
		Direct deposit was recorded with less amount	22,500
		Overdraft cash book balance shall be declined	(12,500)
50	c	Payment of Rs. 1,200 was overstated	

PREPARATION OF FINANCIAL STATEMENTS

1. Which of the following statement(s) is/are correct?
 1. The comparative figures for financial statements should be disclosed.
 2. Financial statements should present financial performance, financial position and cash position on fair basis.
 - a) Statement (1) only
 - b) Statement (2) only
 - c) Both statements are correct
 - d) Neither of the statements is correct
2. Which of the following information relating to each component of financial statements must be prominently displayed for proper identification:
 - a) The name of the reporting entity
 - b) The date or period of the financial statements
 - c) The currency in which the figures are reported
 - d) The level of rounding used in the figures
3. Which of the following is NOT treated as 'material item'?
 - a) Cost of restructuring
 - b) Payment of charity
 - c) Discontinued operations
 - d) Disposal of furniture items having significant value
4. The capital of Nisar & Co. as at 1 January 2022 was Rs. 2,452,000. During the year ended 31 December 2022, Nisar & Co. earned gross profit of Rs. 785,600; operating profit of Rs. 485,500 and net profit of Rs. 341,500. The drawing for the year ended 31 December 2022 was Rs. 200,000 in cash and Rs. 25,000 in goods.
 The capital of Nisar & Co. as at 31 December 2022 was:
 - a) Rs. 3,037,600
 - b) Rs. 2,712,500
 - c) Rs. 2,593,500
 - d) Rs. 2,568,500
5. Raja Enterprises took 12% loan on 1 January 2022 amounting to Rs. 500,000; repayable in ten equal bi-annual principal repayments along with interest. The first installment was paid on 30 June 2022 and second on 31 December 2022.
 The statement of financial position of Raja Enterprises as at 31 December 2022 would represent the loan as:
 - a) Rs. 400,000 as non-current liability
 - b) Rs. 300,000 as non-current liability and Rs. 100,000 as current liability
 - c) Rs. 350,000 as non-current liability and Rs. 50,000 as current liability
 - d) Rs. 400,000 as non-current liability and Rs. 100,000 as current liability

6. The list of non-current assets provided by trainee accountant which is given below:

Furniture & Fixtures	Rs. 110,000
Brand and Trade mark	Rs. 300,000
Vehicle	Rs. 750,000
Inventory	Rs. 100,000

The total of tangible non-current assets are:

- a) Rs. 1,260,000
 - b) Rs. 1,160,000
 - c) Rs. 860,000
 - d) Rs. 750,000
7. Net profit for the year ended 30 June 2022 was Rs. 158,000 before adjustments. The following adjustments have to be made:
- 1. Prepaid expense for the year Rs. 11,200 as at 30 June 2021
 - 2. Accrued income for the year Rs. 16,800 as at 30 June 2022

The net profit for the year ended 30 June 2022 after adjustments will be:

- a) Rs. 186,000
 - b) Rs. 163,600
 - c) Rs. 152,400
 - d) Rs. 130,000
8. Rizwan Co has provided following data relating to liabilities of his business.

Long term loan	Rs. 276,000
Trade payables	Rs. 125,000
Accrued expenses	Rs. 16,200
Bank overdraft	?
Unearned income	Rs. 11,800

If the current liabilities were two-third of non-current liabilities, then the value of bank overdraft was:

- a) Rs. 156,000
 - b) Rs. 59,000
 - c) Rs. 47,200
 - d) Rs. 31,000
9. The list of assets of Bizcom Enterprises were given below:

Prepaid Expenses	Rs. 41,500
Cash in hand	Rs. 22,800
Fixtures	Rs. 72,300
Inventories	Rs. 87,500
Bank overdraft	Rs. 11,650
Receivables	Rs. 66,350

The total of current assets of Bizcom Enterprises are:

- a) Rs. 206,500
- b) Rs. 218,150
- c) Rs. 229,800
- d) Rs. 290,450

10. Which of the following combination is true in relation to non-current assets?
- Equipment, Furniture and inventory
 - Plant, Equipment, Furniture and Receivables
 - Plant, Furniture and delivery vehicles
 - Equipment, Vehicles and inventory
11. Which of the following would decrease the capital?
- Payment to creditors by cheque
 - Purchase furniture on credit
 - Received cash from debtor in cash
 - Payment of utility bill
12. Accountant has just prepared its financial statement for the year ended 30 September 2022 and its gross profit and net profit were Rs. 186,500 and 65,400 respectively. Afterwards, it was observed that owner withdrew goods worth Rs. 15,800 from business, which was unrecorded.

What would be corrected gross profit and net profit for the year ended 30 September 2022 was:

- Gross profit Rs. 202,300 and net profit Rs. 81,200
 - Gross profit Rs. 170,700 and net profit Rs. 49,600
 - Gross profit Rs. 202,300 and net profit Rs. 65,400
 - Gross profit Rs. 186,500 and net profit Rs. 81,200
13. The following is extract of trial balance of Irha & Co. as at June, 2022.

	Debit Rs.	Credit Rs.
Cost of sales	1,525,000	
Administration expenses	415,000	
Revenue		2,480,000
Selling & Distribution expenses	376,000	
Other expenses and income	116,000	85,500

The net profit for the year ended 30 June 2022 was:

- Rs. 133,500
 - Rs. 164,000
 - Rs. 194,500
 - Rs. 280,000
14. Which of the following are component of financial statements?
- Statement of financial position
 - Bank reconciliation statement
 - Statement of comprehensive income
 - Statement of cash flows

15. The extract of trial balance of Jamal Sons as at 30 June 2022 was given below.

	Debit Rs.	Credit Rs.
Accounts receivables	700,000	
Allowance for doubtful debts 1 July 2021		22,500

Which of the following statement is correct in relation to adjustment of allowance for doubtful debts, assuming Jamal sons estimate that allowance for doubtful debts should be at 5% of accounts receivables.

- Charge Rs. 35,000 as expense in statement of profit and loss and show net receivable of Rs. 665,000 in statement of financial position
 - Charge Rs. 12,500 as expense in statement of profit and loss and show net receivable of Rs. 665,000 in statement of financial position
 - Charge Rs. 12,500 as expense in statement of profit and loss and show net receivable of Rs. 687,500 in statement of financial position
 - Charge Rs. 35,000 as expense in statement of profit and loss and show net receivable of Rs. 687,500 in statement of financial position
16. Which of the following are NOT related to statement of profit and loss of an entity:
- Interest expense
 - Cost of goods sold
 - Revaluation surplus
 - Income tax expense
17. The sales of Irfan Store for the year ended 30 September 2022 was Rs. 4,500,000 and normal gross profit margin was 12.5% of cost. The stock as at 30 September 2022 was Rs. 250,000 and during the year ended 30 September 2022 the purchases were Rs. 4,062,500. The stock as at 30 September 2021 was:
- Rs. 312,500
 - Rs. 187,500
 - Rs. 125,000
 - Rs. 250,000
18. The following information relates to Salman:
- | | |
|-------------------|-------------|
| Opening stock | Rs. 28,700 |
| Closing stock | Rs. 21,400 |
| Distribution cost | Rs. 14,000 |
| Audit Fee | Rs. 25,000 |
| Carriage in | Rs. 16,000 |
| Carriage out | Rs. 18,000 |
| Purchases | Rs. 185,000 |
| Depreciation | Rs. 45,000 |
- 80% of depreciation was related to cost of sales and remaining to administration cost.
Based on above information, what was the cost of sales of Salman?
- Rs. 253,300
 - Rs. 246,300
 - Rs. 244,300
 - Rs. 228,300

19. The sales of Minahil Stores was Rs. 2,400,000 and average gross profit was 20% of cost. The opening stock was Rs. 150,000 and total purchase during the period was Rs. 2,100,000.

What was the value of closing stock?

- a) Rs. 250,000
 - b) Rs. 330,000
 - c) Rs. 30,000
 - d) Rs. 50,000
20. Which of the following statements is true?
- a) There is no difference between financial statements of service industry and manufacturing industry
 - b) Unit cost of goods manufactured can be calculated by dividing the cost of goods manufactured to total units produced
 - c) Unit cost of goods manufactured can be calculated by dividing the cost of goods manufactured to total units sold
 - d) Statement of changes in equity is not the component of financial statement
21. Which THREE of the following must be disclosed on the face of statement of profit and loss?
- a) Sales
 - b) Closing inventory
 - c) Finance cost
 - d) Depreciation expense
 - e) Drawings
 - f) Tax expense
22. Which of the following is NOT criteria for classification as current asset?
- a) The asset is held for trading purpose
 - b) The asset is in use of business with benefit exceeding one year
 - c) The entity expects to realise the asset or sell or consume it, in its normal operating cycle.
 - d) The entity expects to realise the asset within 12 months.
23. The trial balance extract of JSS Enterprises for the year ended 31 December 2022 is given below.

	Debit Rs.	Credit Rs.
Operating expenses	158,200	
Other income		3,850

Following adjustments are required:

1. Above operating expenses includes Rs. 7,380 prepaid expenses relating to next year and Rs. 4,350 accrued expenses paid relating to previous year.
2. Other income includes Rs. 1,250, services to be provided next year.

Which of the following statement is correct, after adjusting of above?

- a) Operating expenses Rs. 146,470 and other income Rs. 2,600
- b) Operating expenses Rs. 146,470 and other income Rs. 5,100
- c) Operating expenses Rs. 155,170 and other income Rs. 2,600
- d) Operating expenses Rs. 155,170 and other income Rs. 5,100

24. Which TWO of the following statements are correct in relation to cost of sales?
- a) Increase in inventory shall be added to purchase for calculation of cost of sales
 - b) Increase in inventory shall be subtracted from purchase to calculate cost of sales
 - c) Decrease in inventory shall be added to purchase for calculation of cost of sales
 - d) Decrease in inventory shall be subtracted from purchase to calculate cost of sales
25. The cost of goods sold of a business for August 2022 was 765,000 and inventories were decreased by Rs. 50,000. If direct expenses were 10% of the purchase price, then direct expenses included in cost of sales were:
- a) Rs. 76,500
 - b) Rs. 81,500
 - c) Rs. 71,500
 - d) Rs. 65,000
26. Which of the following statement(s) is/are correct?
- 1. Statement of profit and loss and statement of comprehensive income can be prepared in combination or can be separate statements
 - 2. The sum of profit and loss and other comprehensive income is termed as total comprehensive income
- a) Statement (1) only
 - b) Statement (2) only
 - c) Both statement are correct
 - d) Neither of the statements is correct
27. Calculate the value of total assets from the following data:
- | | |
|-------------------------------|-------------|
| Trade receivables | Rs. 181,500 |
| Website cost | Rs. 76,200 |
| Prepaid expenses | Rs. 16,800 |
| Accrued expenses | Rs. 18,600 |
| Unearned income | Rs. 32,000 |
| Property, plant and equipment | Rs. 338,000 |
- a) Rs. 595,700
 - b) Rs. 612,500
 - c) Rs. 631,100
 - d) Rs. 644,500
28. "Wages included Rs. 85,000 paid to SAM (owner of business)". Which of the following statement is true relating to above adjustment.
- a) No adjustment is required
 - b) Subtract Rs. 85,000 from wages and add Rs. 85,000 in capital
 - c) Subtract Rs. 85,000 from wages and subtract Rs. 85,000 from drawings
 - d) Subtract Rs. 85,000 from wages and also subtract Rs. 85,000 from capital

29. The following information relates to Nina Beauty Parlour in the year ended 30 September 2022.

Opening inventory	Rs. 71,000
Closing inventory	Rs. 85,000
Purchases, net of returns	Rs. 228,000
Purchase return	Rs. 5,000
Drawings of inventory	Rs. 10,000 (no adjustment made yet)
Gross profit margin	20%

The amount of net sales for the year ended 30 September 2022 was:

- a) Rs. 273,750
 - b) Rs. 248,750
 - c) Rs. 255,000
 - d) Rs. 261,250
30. Which of the following is usually a non-current liability?
- a) Bank overdraft
 - b) Bank loan
 - c) Tax payable
 - d) Accrued expense

ANSWERS TO SELF TEST QUESTIONS

01	c	Both statements are correct															
02	a to d	The name of the reporting entity The date or period of the financial statements The currency in which the figures are reported The level of rounding used in the figures															
03	b	Payment of charity is usual item therefore it is not usually treated as ‘material item’.															
04	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Capital as at 01.01.2022</td><td>2,452,000</td></tr><tr><td>Add: Net profit</td><td>341,500</td></tr><tr><td>Less: Drawings (200,000+25,000)</td><td>(225,000)</td></tr><tr><td>Capital as at 31.12.2022</td><td>2,568,500</td></tr></table>			Rupees	Capital as at 01.01.2022	2,452,000	Add: Net profit	341,500	Less: Drawings (200,000+25,000)	(225,000)	Capital as at 31.12.2022	2,568,500				
	Rupees																
Capital as at 01.01.2022	2,452,000																
Add: Net profit	341,500																
Less: Drawings (200,000+25,000)	(225,000)																
Capital as at 31.12.2022	2,568,500																
05	b	<table><tr><td></td><td>Rupees</td></tr><tr><td>Current liability (500,000/10 x 2)</td><td>100,000</td></tr><tr><td>Non-current liability (500,000-100,000-100,000)</td><td>300,000</td></tr></table>			Rupees	Current liability (500,000/10 x 2)	100,000	Non-current liability (500,000-100,000-100,000)	300,000								
	Rupees																
Current liability (500,000/10 x 2)	100,000																
Non-current liability (500,000-100,000-100,000)	300,000																
06	c	<table><tr><td></td><td>Rupees</td></tr><tr><td>Furniture & Fixtures</td><td>110,000</td></tr><tr><td>Vehicle</td><td>750,000</td></tr><tr><td>Tangible non-current assets</td><td>860,000</td></tr></table>			Rupees	Furniture & Fixtures	110,000	Vehicle	750,000	Tangible non-current assets	860,000						
	Rupees																
Furniture & Fixtures	110,000																
Vehicle	750,000																
Tangible non-current assets	860,000																
07	a	<table><tr><td></td><td>Rupees</td></tr><tr><td>Net profit before adjustments</td><td>158,000</td></tr><tr><td>Add: prepaid expense</td><td>11,200</td></tr><tr><td>Add: Accrued income</td><td>16,800</td></tr><tr><td>Net profit after adjustments</td><td>186,000</td></tr></table>			Rupees	Net profit before adjustments	158,000	Add: prepaid expense	11,200	Add: Accrued income	16,800	Net profit after adjustments	186,000				
	Rupees																
Net profit before adjustments	158,000																
Add: prepaid expense	11,200																
Add: Accrued income	16,800																
Net profit after adjustments	186,000																
08	d	<table><tr><td></td><td>Rupees</td></tr><tr><td>Non-current liabilities</td><td>276,000</td></tr><tr><td>Total current liabilities (276,000 x 2/3)</td><td>184,000</td></tr><tr><td>Less: Trade payables</td><td>(125,000)</td></tr><tr><td>Less: Accrued expenses</td><td>(16,200)</td></tr><tr><td>Less: Unearned income</td><td>(11,800)</td></tr><tr><td>Bank overdraft</td><td>31,000</td></tr></table>			Rupees	Non-current liabilities	276,000	Total current liabilities (276,000 x 2/3)	184,000	Less: Trade payables	(125,000)	Less: Accrued expenses	(16,200)	Less: Unearned income	(11,800)	Bank overdraft	31,000
	Rupees																
Non-current liabilities	276,000																
Total current liabilities (276,000 x 2/3)	184,000																
Less: Trade payables	(125,000)																
Less: Accrued expenses	(16,200)																
Less: Unearned income	(11,800)																
Bank overdraft	31,000																

09	b			
			Rupees	
		Prepaid expenses	41,500	
		Cash in hand	22,800	
		Inventories	87,500	
		Receivables	66,350	
		Total of current assets	218,150	
10	c	Plant, Furniture and delivery vehicles		
11	d	Payment of utility bill		
12	a			
			Gross Profit Rupees	Net Profit Rupees
		Before adjustment	186,500	65,400
		Add: Drawings of goods unrecorded	15,800	15,800
		Profits after adjustments	202,300	81,200
13	a			
			Rupees	
		Sales	2,480,000	
		Less: Cost of sales	(1,525,000)	
		Gross profit	955,000	
		Less: Administrative expenses	(415,000)	
		Less: Selling & Distribution expenses	(376,000)	
		Less: Other expenses	(116,000)	
		Add: Other income	85,500	
		Net profit	133,500	
14	a,c,d	Statement of financial position Statement of comprehensive income Statement of cash flows		
15	b			
			Rupees	
		Allowance for doubtful debts (700,000 x 5%)	35,000	
		Less: Opening allowance	(22,500)	
		Expense for the year	12,500	
			Rupees	
		Accounts receivables	700,000	
		Less: Allowance for doubtful debts	(35,000)	
		Accounts receivables to be shown in SOFP	665,000	

16	c,d	Revaluation surplus Income tax expense			
17	b	Inventory			
			Rs.		Rs.
		Balance b/f	187,500	Sales (4,500,000/1.125)	4,000,000
		Purchases	4,062,500	Balance c/f	250,000
			4,250,000		4,250,000
18	c				
				Rupees	Rupees
		Opening inventory			28,700
		Purchases		185,000	
		Add: Carriage-in		16,000	
		Add: Depreciation (45,000 x 80%)		36,000	237,000
					265,700
		Less: Closing stock			(21,400)

24	a,c	Increase in inventory shall be subtracted from purchase to calculate cost of sales Decrease in inventory shall be added to purchase for calculation of cost of sales	
25	d		

LONG QUESTIONS

1. Question

The following trial balance is extracted from the books of Sunshine Associates as at December 31, 2022.

Sunshine Associates

Trial Balance

As at December 31, 2022

	Debit Rs.	Credit Rs.
Purchases	90,000	
Sales		150,000
Cash in hand	8,000	
Cash at bank	2,000	
Capital		66,000
Drawings	3,000	
Office Furniture	26,000	
Rent	5,000	
Salaries	15,000	
Other fee		4,000
Discount received		5,000
Discount allowed	2,000	
Debtors	45,000	
Creditors		15,000
Opening stock	4,000	
Vehicles	40,000	
Total	240,000	240,000

Additional information:

- Cost of Stock as at December 31, 2022 was Rs. 5,000 while the Net Realizable Value was Rs. 6,000.
- Bad debts to be written off for Rs. 1,000.
- Salaries included salaries paid in advance for January 2023, Rs. 1,500.
- Rent expense included rent of the owner's house, Rs. 800.
- Depreciation is to be charged on office furniture at 10% p.a reducing balance method and on vehicles at 15% p.a reducing balance method.
- A 15% loan was obtained from bank for Rs. 2,000 on November 1, 2022 but omitted to record in the books. The loan is repayable only on October 31, 2023 along with interest.

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

Sunshine Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and distribution expenses	Choose an item.
Operating Profit	
Other Income	Choose an item.
Interest expense	Choose an item.
Net profit	

Sunshine Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Stock	Choose an item.
Debtors	Choose an item.
Prepaid salaries	
Cash at bank	Choose an item.
Cash in hand	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Add: Net profit	
Less: Drawings	Choose an item.
Total Equity	
<i>Current Liabilities:</i>	
Creditors	
15% loan	Choose an item.
Accrued interest expense	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

2. Question

Shan Enterprises deals in electronic equipment and trial balance as at June 30, 2022 is given below.

Shan Enterprises

Trial Balance

As at June 30, 2022

	Debit Rs.	Credit Rs.
Purchases and Sales	140,000	420,000
Cash and bank	125,000	35,000
Discounts	5,000	8,000
Commission	15,000	7,000
Returns	12,000	6,000
Interest	6,000	5,000
Debtors and Creditors	608,000	389,000
Capital		180,000
Drawings	13,000	
Furniture and Fixtures	62,000	
Insurance expense	5,000	
Salaries expense	15,000	
Stock as at July 1, 2021	4,000	
Machines	40,000	
Total	1,050,000	1,050,000

Additional Information:

- Value of stock as at June 30, 2022 was Rs. 9,000.
- Salaries expense represents salaries paid from July 2021 to April 2022. Salaries for the month of May and June 2022 are still outstanding.
- One fourth of the insurance expense was paid for the next year.
- Commission income was accrued for Rs. 1,000.
- Bad Debts to be written off for Rs. 3,000
- Allowance for doubtful debts is to be provided for 5% of the debtors.
- Depreciation is to be charged at
- Furniture and Fixtures 10% p.a. Reducing Balance Method
- Machines 20% p.a. Reducing Balance Method

Required:

Prepare statement of profit or loss for the year ended on June 30, 2022; and statement of financial position as at June 30, 2022.

Shan Enterprises

Statement of profit or loss

For the year ended June 30, 2022

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other income-Commission	Choose an item.
Less: Financial charges-net	Choose an item.
Net Profit	

Shan Enterprises

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees
Non-current assets:	
Property, plant and equipment	Choose an item.
Current assets:	
Stock	
Debtors and Other Receivables	Choose an item.
Prepayments	Choose an item.
Cash in hand	Choose an item.
<i>Total current assets</i>	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
Equity:	
Capital	
Add: Net profit	
Less: Drawings	Choose an item.
<i>Total Equity</i>	
Current Liabilities:	
Bank overdraft	Choose an item.
Creditors and Other Payables	Choose an item.
<i>Total current liabilities</i>	
TOTAL EQUITY AND LIABILITIES	

3. Question

The trial balance of Shanzy as at December 31, 2022 is given below.

Shanzy

Trial Balance

As at December 31, 2022

	Debit Rs.	Credit Rs.
Wages and salaries	200,000	
Office expenses	120,000	
Drawings	15,000	
Debtors and Creditors	254,000	370,000
Van	542,000	
Plant and Machinery	452,000	
Insurance expense	48,000	
Rent expense	60,000	
Carriage inwards	15,000	
Interest	22,000	
Carriage outwards	25,000	
Opening stock	18,000	
Return inwards	16,000	
Return outwards		28,000
Discount allowed	20,000	
Bank overdraft		315,000
Capital as at January 1, 2022		680,000
Purchases	533,000	
Sales		957,000
Sundry expenses	10,000	
Total	2,350,000	2,350,000

Additional Information:

- Cost of stock as at December 31, 2022 was Rs. 12,000. It includes some damaged stock costing Rs. 4,000, which can be sold for Rs. 3,000 only.
- Bad debts recovered by cheque but not recorded in the books for Rs.5,000
- Shanzy decided to make the allowance for doubtful debts for Rs. 4,000.
- In the books of Shanzy, Mr. Luqman has debit balance of Rs. 3,000 and a credit balance of Rs. 2,000. Shanzy decided to adjust the balance of Mr. Luqman.
- A cheque for Rs. 2,500 was issued to a supplier during December 2022, but not presented in the bank for payment till year end.
- Rent expense for Rs. 5,000 was wrongly debited to Insurance account.
- Shanzy made advance payment of Rs. 50,000 against machinery and debited to Plant and Machinery account. The machinery will be received in February 2023.
- Depreciation is to be charged on all types of depreciable assets at 10% p.a. Reducing Balance Method.

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

Shanzy

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Other operating expenses	Choose an item.
Operating Loss	
Other Incomes	Choose an item.
Less: Financial charges	
Net Loss	

Shanzy

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees
Non-current assets:	
Property, plant and equipment	Choose an item.
Current assets:	
Stock	Choose an item.
Debtors	Choose an item.
Advances	Choose an item.
<i>Total current assets</i>	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
Equity:	
Capital	
Less: Net Loss	
Less: Drawings	Choose an item.
<i>Total Equity</i>	
Current Liabilities:	
Bank overdraft	Choose an item.
Creditors	Choose an item.
<i>Total current liabilities</i>	
TOTAL EQUITY AND LIABILITIES	

4. Question

Accountant of Zubair & Co. prepared the following trial balance as at March 31, 2022 for preparation of financial statements:

Zubair & Co.

Trial Balance

As at March 31, 2022

	Debit Rs.	Credit Rs.
Drawings	13,000	
Bank balance	186,000	
Capital		553,000
Bad debts	14,000	
Debtors and creditors	257,000	203,000
Equipment	250,000	
Fittings	120,000	
Sales		487,000
Purchases	280,000	
Utilities	42,000	
Rates	12,000	
Salaries	58,000	
Allowance for doubtful debts as at April 1, 2021		5,000
Stock as at April 1, 2021	28,000	
Purchase returns		12,000
Total	1,260,000	1,260,000

Additional information:

- Value of stock as at March 31, 2022 was Rs. 5,000 and Net Realisable Value of the stock was Rs. 5,100.
- Depreciation is to be charged on equipment and fittings at Rs. 10,000 and Rs. 5,000 respectively.
- Salaries were outstanding at year-end amounting to Rs. 2,000.
- Allowance for doubtful debts is to be maintained at Rs. 6,000.
- Electricity bill for the month of March 2022 was received but not yet paid for Rs. 4,000
- Goods withdrawn for personal use worth Rs. 2,000 but not recorded in the books.
- Zubair & Co rent out their godown on March 1, 2022. Rent is receivable quarterly in arrears, Rs. 15,000.
- Cash and Bank balance included Bank Overdraft of Rs. 80,000.
- Debtors include Rs. 10,000 of those debtors which are also creditors for the business for Rs. 7,000.

Required:

Prepare statement of profit or loss for the year ended on March 31, 2022; and statement of financial position as at March 31, 2022.

Zubair & Co.

Statement of Profit or Loss

For the year ended March 31, 2022

	Rupees
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Incomes	Choose an item.
Net profit	

Zubair & Co.

Statement of Financial Position

As at March 31, 2022

ASSETS	Rupees
Non-current assets:	
Property, plant and equipment	Choose an item.
Current assets:	
Stock	Choose an item.
Debtors	Choose an item.
Accrued Rent	Choose an item.
Cash and Bank	Choose an item.
<i>Total current assets</i>	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
Equity:	
Capital	
Add: Net profit	
Less: Drawings	Choose an item.
<i>Total Equity</i>	
Current Liabilities:	
Creditors and Other Payables	Choose an item.
Accrued Salaries	Choose an item.
Bank Overdraft	Choose an item.
<i>Total current liabilities</i>	
TOTAL EQUITY AND LIABILITIES	

5. Question

Junaid started business on 1 January 2022 in the name of Smile Stationery Shop and he has prepared following trial balance for 9-month ending as at September 30, 2022:

Smile Stationery Shop

Trial Balance

As at September 30, 2022

	Debit Rs.	Credit Rs.
Capital		790,000
Carriage outwards	13,000	
Carriage inwards	18,000	
Return inwards	23,000	
Return outwards		17,000
Drawings	25,000	
Bank	125,000	
Accounts payable		333,000
Accounts receivables	444,000	
Premises	555,000	
General expenses	28,000	
Utilities expense	42,000	
Office expenses	52,000	
Delivery expenses	22,000	
Insurance	32,000	
Warehouse rent	34,000	
Salaries and wages	57,000	
Sales		660,000
Purchases	330,000	
Total	1,800,000	1,800,000

Additional information:

- Closing stock valued at Rs. 25,000.
- Office expenses included prepaid office expenses Rs. 12,000.
- Warehouse rent is outstanding for the month of September 2022 amounting to Rs. 6,000.
- Bad debts to be written off Rs. 5,000.
- Depreciation is to be charged on premises Rs. 55,000.
- Allowance for doubtful debts is to be created at Rs. 8,000.
- General expenses included 40% of the expenses related to owner's personal payments.
- Insurance expense covering 16 months was paid in advance for Rs. 32,000 on January 1, 2022.
- Goods returned by a customer for Rs. 10,000 were not recorded in the books. These goods are included in the cost of closing stock.

Required:

Prepare statement of profit or loss for the year ended on September 30, 2022; and statement of financial position as at September 30, 2022.

Smile Stationery Shop

Statement of Profit or Loss

For the nine-month ended September 30, 2022

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Other expenses	Choose an item.
Net Profit	

Smile Stationery Shop

Statement of Financial Position

As at September 30, 2022

ASSETS	Rupees
Non-current assets:	
Property, plant and equipment	Choose an item.
Current assets:	
Prepayments and Advances	Choose an item.
Stock	
Accounts receivables	Choose an item.
Bank	
<i>Total current assets</i>	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
Equity:	
Capital	
Add: Net Profit	
Less: Drawings	Choose an item.
<i>Total Equity</i>	
Current Liabilities:	
Accounts payables	
Accrued warehouse rent	Choose an item.
<i>Total current liabilities</i>	
TOTAL EQUITY AND LIABILITIES	

6. Question

Following trial balance was extracted from the books of EZ Tech:

EZ Tech

Trial Balance

As at June 30, 2022

	Debit Rs.	Credit Rs.
Capital		878,532
Cash	56,784	
Trade payables		543,782
Trade receivables	653,415	
Plant and machinery	879,187	
Commission		1,480
Bank	145,820	
Returns		7,264
Accumulated depreciation		234,517
Allowance for doubtful debts		2,318
Drawings	3,542	
Sales		987,927
Purchases	677,846	
Salaries	76,859	
Rent	76,824	
Utilities	82,772	
Opening stock	2,771	
Total	2,655,820	2,655,820

Additional information:

- Cost of closing stock was Rs. 4,552 while the net realisable value was Rs. 5,442.
- EZ Tech purchased goods for Rs. 2,000 on credit in the month of June 2022 but omitted to record in the books.
- Accrued commission at year-end was Rs. 520.
- Rent expense was outstanding Rs. 2,500.
- Allowance for doubtful debts to be increased by Rs. 1,000.
- Depreciation is to be charged to all items of property, plant and equipment @ 10% p.a. on reducing balance method.
- Bad debts recovered during the year Rs. 200 were credited to Commission account.
- Purchases included purchase of a machine for Rs. 30,000 on June 20, 2022.

Required:

- Prepare statement of profit or loss for the year ended on June 30, 2022; and
- Prepare statement of financial position as at June 30, 2022.

EZ Tech

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and distribution expenses	Choose an item.
Operating Profit	
Other Income	Choose an item.
Net profit	

EZ Tech

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Stock	Choose an item.
Trade receivables	Choose an item.
Accrued commission income	Choose an item.
Bank	
Cash	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Add: Net profit	
Less: Drawings	
Total Equity	
<i>Current Liabilities:</i>	
Trade payables	Choose an item.
Accrued Rent	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

7. Question

The following information relates to Tycon Associates for the year ended on December 31, 2022:

Tycon Associates

Trial Balance

As at December 31, 2022

	Debit Rs. 000	Credit Rs. 000
Fixed Assets	550	
Accumulated depreciation		120
Inventory	25	
Trade receivables	670	
Allowance for doubtful debts		6
Prepayments and other receivables	90	
Cash and bank balances	150	
Capital		550
Drawings	10	
Trade payables		490
Accruals and other payables		70
Sales		1,250
Return inwards	20	
Purchases	680	
Salaries	130	
Discounts	9	11
Utility charges	73	
Carriage inwards	27	
Running and maintenance expenses	45	
Other expenses	15	
Financial charges	16	
Miscellaneous income		13
Total	2,510	2,510

Additional information:

- Inventory as at December 31, 2022 was Rs. 20,000. It includes some stock having cost Rs. 5,000 which has become out of fashion and can only be sold at Rs. 3,000.
- Bad debts to be written off amounting to Rs. 14,000.
- Allowance for doubtful debts is to be increased to Rs. 8,000.
- Miscellaneous income included unearned rental income Rs. 1,000.
- Salaries included advanced salary paid to the workers for the next year Rs. 12,000.
- Cash and bank balances included bank overdraft of Rs. 30,000.
- Depreciation expense on fixed assets is to be charged at 10% p.a. by using straight line method.
- Cheque received from a customer for Rs. 5,000 was dishonoured and returned by the bank at the end of the year, no transaction was recorded in the business books in this respect.

Required:

- Prepare statement of profit or loss for the year ended on December 31, 2022; and
- Prepare statement of financial position as at December 31, 2022.

Tycon Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating profit	
Other Income	Choose an item.
Finance cost	
Net profit	

Tycon Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Fixed assets	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	Choose an item.
Inventory	
Trade receivables	Choose an item.
Cash and bank balances	Choose an item.
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	Choose an item.
Total Equity	
<i>Current Liabilities:</i>	
Trade payables	
Accruals and other payables	Choose an item.
Bank overdraft	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

8. Question

Following is the trial balance of Roshni Traders for the year ended on January 31, 2023:

Roshni Traders

Trial Balance

As at January 31, 2023

	Debit Rs.	Credit Rs.
Purchases and sales	357,000	645,000
Land	500,000	
Allowance for doubtful debts at 1 February 2022		15,000
Discounts	10,000	12,000
15% Loan to friend	100,000	
Rent	25,000	27,000
Interest on loan	6,000	10,000
Debtors and creditors	440,000	355,000
Capital		618,000
Cash and bank	55,000	25,000
Furniture and fixtures	160,000	
Accumulated depreciation		20,000
10% Bank loan		80,000
Stationery	15,000	
Returns		10,000
Salaries	115,000	
Opening stock	14,000	
Electricity expense	20,000	
Total	1,817,000	1,817,000

Additional information:

- Cost of closing stock was Rs. 50,000 and it included stock having cost of Rs. 8,000 which can be sold at Rs. 5,000.
- Bank Loan was obtained on May 1, 2022, whereas loan to friend was given on May 31, 2022.
- Allowance for doubtful debts is to be maintained at 5% of debtors.
- Electricity bill for the month of January 2023 was received but not paid till 31 January 2022 amounting to Rs. 3,500.
- Stationery expense included Rs. 3,000 paid in advance but stationery was received in February 2023.
- Depreciation expense on depreciable assets is to be charged at 10% p.a. by using reducing balance method.

Required:

Prepare statement of profit or loss for the year ended on January 31, 2023; and statement of financial position as at January 31, 2023.

Roshni Traders

Statement of Profit or Loss

For the year ended January 31, 2023

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating profit	
Other Income	
Net Interest Income	Choose an item.
Net profit	

Roshni Traders

Statement of Financial Position

As at January 31, 2023

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepaid stationery	
Stock	Choose an item.
15% loan to friend	
Debtors	Choose an item.
Cash	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Total Equity	
<i>Non-current Liabilities:</i>	
10% bank loan	
Total non-current liabilities	
<i>Current Liabilities:</i>	
Creditors	
Bank overdraft	
Accrued Electricity Expense	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

9. Question

Usmania Traders prepared the following trial balance for the year ended on December 31, 2022:

Usmania Traders

Trial Balance

As at December 31, 2022

	Debit Rs.	Credit Rs.
Drawings	25,000	
Bank		125,000
Capital		528,000
Bad debts	18,000	
Debtors and creditors	450,000	355,000
Furniture	300,000	
Building	700,000	
Sales		890,000
Purchases	530,000	
10% bank loan		90,000
Advertisement expense	42,000	
Carriage inwards	6,000	
Other expense	2,000	
Allowance for doubtful debts	52,000	
Opening stock		5,000
Returns outwards	28,000	
Accumulated depreciation-Furniture		10,000
Accumulated depreciation-Building		50,000
		100,000
Total	2,153,000	2,153,000

Additional information:

- Cost of closing stock was Rs. 30,000.
- Loan was taken from bank on April 1, 2022 and repayable in five annual equal principal repayments along with interest starting from April 1, 2023.
- Further bad debts to be written off amounting to Rs. 2,000.
- Allowance for doubtful debts is to be maintained at 2% of the debtors.
- Advertisement expense is outstanding Rs. 3,000
- Depreciation expense is to be charged as follows:

Furniture	10% p.a.	Reducing balance method
Building	5% p.a.	Straight line method

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

Usmania Traders

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Interest expense	
Net profit	

Usmania Traders

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Stock	
Debtors	Choose an item.
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	
Total Equity	
<i>Non-current Liabilities:</i>	
10% bank loan	Choose an item.
Total non-current liabilities	
<i>Current Liabilities:</i>	
Creditors	
Current portion of 10% bank loan	Choose an item.
Bank overdraft	
Accrued Interest expense	
Accrued Advertisement	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

10. Question

Majid owns a retail outlet with the name Majid General Store. The trial balance as at 30 June 2022 is as follows:

Majid General Store

Trial Balance

As at June 30, 2022

	Debit Rs.	Credit Rs.
Shop equipment-net	350,000	
Motor vehicle-net	500,000	
Inventory as at 1 July 2021	750,000	
Prepaid rent	150,000	
Cash at bank	235,000	
Cash in hand	68,500	
Loan from friend		600,000
Accounts payables		189,850
Sales		2,900,000
Purchases	1,875,000	
Freight inwards	115,300	
Carriage outwards	68,700	
Accounts receivables	335,000	
Commission	75,000	
Electricity expense	155,900	
Shop maintenance expenses	11,450	
Bad debts expense	12,000	
Allowance for doubtful debts as at 1 July 2021		12,000
Capital as at 30 June 2021		1,000,000
Total	4,701,850	4,701,850

Additional Information:

- Inventory as at June 30, 2022 was Rs. 890,000.
- Goods worth Rs. 95,000 were taken by owner for personal purposes but no entry was passed in the books.
- Rent of Rs. 50,000 was expired as at June 30, 2022.
- Allowance for doubtful debts is to be created at 5% of accounts receivables.
- Loan from friend is interest-free and shall be repayable on December 31, 2022.
- Electricity bill of June 30, 2022 amounting to Rs. 15,320 was paid in July 2022.
- Depreciation on all items of property, plant and equipment is to be charged at 15% on reducing balance method.

Required:

Prepare statement of profit or loss for the year ended on June 30, 2022; and statement of financial position as at June 30, 2022.

Majid General Store

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Net Profit	

Majid General Store

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepaid rent	
Inventory	
Accounts receivables	Choose an item.
Cash at bank	
Cash in hand	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	
Total Equity	
<i>Current Liabilities:</i>	
Loan from friend	
Accounts payable	
Accrued electricity expense	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

11. Question

Following is trial balance of Safina Traders as at June 30, 2022.

Safina Traders

Trial Balance

As at June 30, 2022

	Debit Rs.	Credit Rs.
Sales		957,000
Cost of sales	650,000	
Capital		250,000
Drawings	15,000	
Plant and Machinery	200,000	
Accumulated Depreciation-Plant and machinery		35,000
Rent	68,000	
Salaries	72,500	
Other payables		7,500
Cash in hand	16,800	
Cash at bank	66,500	
Discount allowed	8,900	
Debtorss	75,000	
Creditors		66,100
Stock	22,900	
Delivery Vehicles	150,000	
Accumulated Depreciation-Delivery Vehicles		50,000
Office furniture	35,000	
Accumulated Depreciation-Office Furniture		15,000
Total	1,380,600	1,380,600

Additional Information:

- The net realizable value of stock at year-end was Rs. 20,800.
- Depreciation is to be charged on plant and machinery at 15% on reducing balance method, whereas depreciation on delivery vehicles and office furniture at 10% on straight line method.
- Depreciation expense on plant and machinery is to be charged to cost of sales, delivery vehicles on selling and distribution expenses and office furniture to administration expenses.
- Rent included Rs. 28,000 relating to owner's personal residence.
- A machine costing Rs. 30,000 was purchased on credit on 1 May 2022 but omitted to be recorded in books.
- Allowance of doubtful debts is to be maintained at 4%.
- Outstanding salaries were Rs. 11,400 at year-end.

Required:

Prepare statement of profit or loss for the year ended on June 30, 2022; and statement of financial position as at June 30, 2022.

Safina Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Net Profit	

Safina Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Stock	Choose an item.
Debtors	Choose an item.
Cash at bank	
Cash in hand	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	Choose an item.
Total Equity	
<i>Current Liabilities:</i>	
Creditors	
Other payables	Choose an item.
Accrued salaries	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

12. Question

Following trial balance was extracted from the books of Yoyo Enterprises as at December 31, 2022.

Yoyo Enterprises

Trial Balance

As at December 31, 2022

	Debit Rs. 000	Credit Rs. 000
Machine-cost	42,000	
Accumulated depreciation-Machine		9,600
Sales		121,344
Return inwards	3,600	
Running and maintenance expenses	3,948	
Financial charges	696	
Inventory	840	
Trade receivables	24,000	
Allowance for doubtful debts		900
Prepayments and other receivables	2,820	
Cash and bank balances	1,560	
Capital		31,728
Drawings	5,400	
Trade payables		12,240
Accruals and other payables		6,372
Purchases	84,000	
Wages and salaries	7,080	
Carriage inwards	1,632	
Miscellaneous income		132
Discount	1,920	
Utility charges	2,820	
Total	182,316	182,316

Additional Information:

- Cost of closing inventory was Rs. 500,000. Out of this, 75% of the inventory was in good condition while the remaining inventory was slightly damaged and can be sold at 60% of normal sale price. Normal sale price of Yoyo Enterprises is cost plus 20%.
- Yoyo Enterprises maintains 7% allowance against trade receivables.
- Prepayments included Rs. 200,000 paid as advance rent for four months starting from 1 October, 2022.
- Insurance paid in cash Rs. 90,000 was correctly recorded in cash book but wrongly debited to wages and salaries account.
- Bad debts to be written off amounting to Rs. 25,000.
- The total production capacity of the machine is 100,000 units. During 2022, 8,000 units were produced. Depreciation is to be charged by using units of production method and charged to cost of sales.

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

Yoyo Enterprises

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Income	
Financial Charges	
Net Profit	

Yoyo Enterprises

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	Choose an item.
Inventory	Choose an item.
Trade receivables	Choose an item.
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	
Total Equity	
<i>Current Liabilities:</i>	
Trade payables	
Accruals and other payables	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

13. Question

Accountant of Cares & Shares has prepared the following trial balance as at March 31, 2022.

Cares & Shares

Trial Balance

As at March 31, 2022

	Debit Rs. 000	Credit Rs. 000
Building- Cost	5,550	
Accumulated depreciation-Building		2,154
Capital		4,500
Selling and administrative expenses	8,783	
10% long term loan		7,500
Sales		43,350
Sales returns	135	
Equipment-Cost	9,975	
Accumulated depreciation-Equipment		3,621
Stock in trade	1,568	
Purchases	24,000	
Purchase returns		330
Trade receivables	5,400	
Allowance for doubtful debts		270
Prepayments and other receivables	570	
Trade and other payables		3,120
Cash and bank balances	8,864	
Total	64,845	64,845

Additional Information:

- Cost of closing stock was Rs. 900,000. Physical stock taking revealed that, stock received from a supplier before year end was taken into stock but purchase of Rs. 150,000 was not recorded in the books, due to non-receipt of invoice.
- Loan was obtained on July 1, 2021. Loan is payable in six annual equal principal repayments along with interest, starting from July 1, 2022.
- Allowance for doubtful debts is to be maintained as follows:

Specific doubtful debts	Rs. 115,000
General doubtful debts	Rs. 325,000
- Utilities bill received but not paid till year end for Rs. 100,000. Utilities expenses are included in selling and administrative expenses in above trial balance.
- Equipment included equipment purchased on 31 December 2021 for Rs. 2,000,000.
- Selling and administration expenses included life insurance premium of owner's personal insurance policy Rs. 150,000.
- Depreciation expense is to be charged as follows:

Equipment	10% p.a.	Reducing balance method
Building	2% p.a.	Straight line method

Required:

Prepare statement of profit or loss for the year ended on March 31, 2022; and statement of financial position as at March 31, 2022.

Cares & Shares

Statement of Profit or Loss

For the year ended March 31, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and selling expenses	Choose an item.
Operating Profit	
Interest expense	
Net profit	

Cares & Shares

Statement of Financial Position

As at March 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	
Stock	
Trade receivables	Choose an item.
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	
Total Equity	
<i>Non-current liabilities:</i>	
10% Long-term Loan	Choose an item.
Total non-current liabilities	
<i>Current Liabilities:</i>	
Current portion of long term loan	Choose an item.
Accruals and other payables	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

14. Question

Following trial balance was provided by Armaghan & Co. as at 30 June 2022.

Armaghan & Co

Trial Balance

As at June 30, 2022

	Debit Rs. 000	Credit Rs. 000
Property, plant and equipment	322,840	
Cash and bank balances	6,440	
Inventory	94,920	
Capital		329,000
Administrative expenses	36,260	
Bank loan		48,300
Trade receivables	132,720	
Accumulated depreciation as at 30 June 2022		62,020
Other income		3,640
Selling expenses	41,160	
Prepayments	4,200	
Trade payables		57,960
Other receivables	7,420	
Sales revenue		682,920
Cost of sales	496,580	
Depreciation expense	27,720	
Interest on bank loan	13,580	
Total	1,183,840	1,183,840

Additional Information:

1. An equipment was purchased on 1 January 2022 for Rs. 5,000,000 on credit but not accounted for. Depreciation is to be charged at 5% p.a. on reducing balance method.
2. Prepayments included Rent paid of Rs. 450,000 for fifteen months, starting from 1 December 2021.
3. Other income included unearned income for Rs. 140,000.
4. Allowance for doubtful debts is to be maintained at 4% of the trade receivables.
5. Loan of Rs. 10,000,000 was repaid at the end of the year but included in interest on bank loan.
6. Armaghan & Co.'s policy is to charge 60% depreciation to administration expenses and remainder to selling and distribution expenses

Required:

Prepare statement of profit or loss for the year ended on June 30, 2022; and statement of financial position as at June 30, 2022.

Armaghan & Co.

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Income	Choose an item.
Financial Charges	Choose an item.
Net Profit	

Armaghan & Co.

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepayments	Choose an item.
Inventory	
Trade receivables	Choose an item.
Other receivables	
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Add: Net profit	
Total Equity	
<i>Non-current liabilities:</i>	
Bank Loan	
Total non-current liabilities	
<i>Current Liabilities:</i>	Choose an item.
Trade payables	
Other payables	
Unearned income	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

15. Question

MA Associates prepare the following trial balance as at 31 December 2022:

MA Associates

Trial Balance

As at December 31, 2022

	Debit Rs. 000	Credit Rs. 000
Inventory as at 1 January 2022	1,400	
Debtors	4,280	
Allowance for doubtful debts		176
Bad debts	85	
Insurance	240	
Cash and bank	496	
Interest income		40
Discount allowed	216	
Prepaid insurance as at 1 January 2022	112	
Advances	307	
Fixed deposit (till mature on 31.12.2023)	1,120	
Rent	800	
Salaries	2,232	
Returns	760	
Purchases	16,800	
Sales		22,880
Creditors		5,800
Drawings	282	
Capital		4,234
Electricity expense	800	
Equipment	3,600	
Accumulated depreciation-equipment		1,840
Furniture	2,400	
Accumulated depreciation-furniture		960
Total	35,930	35,930

Additional Information:

- Cost of closing inventory was Rs. 850,000.
- MA Associates received a cheque from a customer for Rs. 38,000 after allowing him 5% cash discount. MA Associates recorded this transaction with net amount only. .
- Allowance for doubtful debts is to be decreased by Rs. 50,000
- Electricity bill of Rs. 80,000 received but not paid till year end.
- Prepaid insurance in trial balance represents insurance paid in advance for next 16 months.
- Owner withdrew goods for personal use worth Rs. 320,000 but not recorded in the books.
- Depreciation expense is to be charged on all assets at 10% p.a. reducing balance method.

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

MA Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and distribution expenses	Choose an item.
Operating Profit	
Interest income	
Net profit	

MA Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepaid insurance	Choose an item.
Inventory	
Trade receivables	Choose an item.
Advances	
Fixed deposit	
Cash and bank	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Less: Drawings	Choose an item.
Total Equity	
<i>Current Liabilities:</i>	
Creditors	
Accrued electricity expense	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

16. Question

The trial balance of Mohtashim Enterprises as at 31 December 2022 is given below.

Mohtashim Enterprises

Trial Balance

As at December 31, 2022

	Debit Rs. 000	Credit Rs. 000
Furniture-cost	3,550	
Vehicle-cost	7,540	
Inventories	1,320	
Trade receivables	3,200	
Office supplies	250	
Bank	320	
Purchases	11,460	
Returns	350	
Salaries	1,000	
Commission	330	
Insurance	650	
Repairs	230	
Drawings	135	
Allowance for doubtful debts		40
Accumulated depreciation-Furniture		825
Accumulated depreciation-Vehicles		1,630
Capital		4,780
8% loan (Taken on May 1, 2022)		1,800
Sales		17,690
Other income		730
Trade payables		2,840
Total	30,335	30,335

Additional Information:

- Cost of inventory on hand was Rs. 1,320,000 as at 31 December 2022. Inventory having cost Rs. 175,000 is damaged and can only be sold for Rs. 160,000 and included in inventory value at cost.
- Depreciation expense is to be charged as follows:
Furniture 10% p.a. Straight line method
Vehicles 10% p.a. Reducing balance method
- Cheque received from a customer for Rs. 50,000 and deposited into the bank. The cheque was subsequently dishonoured and not recorded in the books.
- At end of year, unused supplies were Rs. 50,000.
- Discount received from suppliers Rs. 20,000 and allowed to customers Rs. 30,000 were not recorded in the books.
- Bad debts of Rs. 20,000 to be written off.
- Allowance for doubtful debts is provided for 4% of debtors.

Required:

Prepare statement of profit or loss for the year ended on December 31, 2022; and statement of financial position as at December 31, 2022.

Mohtashim Enterprises

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Income	
Financial Charges	
Net Profit	

Mohtashim Enterprises

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Office supplies	
Inventory	Choose an item.
Trade receivables	Choose an item.
Bank	Choose an item.
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	
Total Equity	
<i>Non-current liabilities:</i>	
8% Bank Loan	
Total non-current liabilities	
<i>Current Liabilities:</i>	
Trade payables	Choose an item.
Accrued interest expense	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

17. Question

Following is the summarised trial balance of Rizwan Traders for the year ended 30 June 2022:

Rizwan Traders

Trial Balance

As at June 30, 2022

	Debit Rs. 000	Credit Rs. 000
Fixed assets-cost	35,000	
Accumulated depreciation		8,000
Inventory	8,200	
Trade receivables	12,500	
Allowance for doubtful debts		750
Prepayments and other receivables	2,350	
Cash and bank balances	1,300	
Capital		25,500
Drawings	4,500	
Trade payables		10,200
Accruals and other payables		5,310
Sales		101,120
Return inwards	3,000	
Purchases	70,000	
Salaries	5,900	
Discount Allowed and Received	1,600	940
Utility charges	2,350	
Carriage inwards	1,360	
Maintenance expenses	3,290	
Financial charges	580	
Miscellaneous income		110
Total	151,930	151,930

Additional Information:

- Cost of closing inventory was Rs. 9,000,000 at year-end.
- Bad debts to be written off Rs. 500,000 and allowance is to be created at 5% of trade receivables.
- Salaries amounting to Rs. 900,000 was outstanding at year-end.
- Depreciation on fixed assets is to be calculated at 10% on reducing balance. The depreciation expense shall be apportioned between administrative and selling expenses in the ratio of 60:40.
- Maintenance expenses included prepayment of Rs. 350,000.
- Goods worth Rs. 400,000 were withdrawn by owner for personal use, but no entry was passed in the books.

Required:

Prepare statement of profit or loss for the year ended on June 30, 2022; and statement of financial position as at June 30, 2022.

Rizwan Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Income	
Financial Charges	
Net Profit	

Rizwan Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Fixed assets	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	Choose an item.
Inventory	
Trade receivables	Choose an item.
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Drawings	Choose an item.
Total Equity	
<i>Current Liabilities:</i>	
Trade payables	
Accruals and other payables	
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

18. Question

Following is the summarised trial balance of Rainbow Lights (RL) for the year ended 31 December 2022:

Rainbow Lights

Trial Balance

As at December 31, 2022

	Debit Rs. 000	Credit Rs. 000
Capital as at 1 January 2022		100,000
Profit and loss as at 1 January 2022	30,000	
Drawings	50,000	
Fixed assets-cost	270,000	
Accumulated depreciation		150,000
Inventory	170,000	
Trade debtors	388,000	
Prepayments and other receivables	45,000	
Cash and bank balances	20,000	
10% Loan from HBL		120,000
Trade creditors		240,000
Accruals and other payables		28,000
Sales		750,000
Cost of sales	304,000	
Selling expenses	86,000	
Administration expenses	60,000	
Financial charges	10,000	
Miscellaneous income		45,000
Total	1,433,000	1,433,000

Additional Information:

- Administration expenses includes annual insurance premium of Rs. 18 million paid in advance till 31 March 2023.
- An expense of advertisement of Rs. 11 million was not recorded in books due to non-receipt of invoices.
- Depreciation on fixed assets shall be at 10% on WDV. 60% depreciation is to be charged to cost of sales while remaining to selling and administration expenses equally.
- Bad debts to be written of Rs. 8 million and allowance to be created at 5% of remaining trade debts.
- Interest on loan for 2 months was payable as at 31 December 2022.
- Electricity bills of Rainbow Lights amounting to Rs. 1.25 million were paid by owner from personal bank account, but no entry was recorded in the books.

Required:

- A statement of comprehensive income for the year ended 31 December 2022.
- A statement of financial position as at 31 December 2022.

Rainbow Lights

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000
Sales	
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit	
Other Income	
Financial Charges	Choose an item.
Net Profit	

Rainbow Lights

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Fixed assets	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	Choose an item.
Inventory	
Trade debtors	Choose an item.
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	Choose an item.
Profit and Loss	Choose an item.
Total Equity	
<i>Non-current Liabilities:</i>	
10% Loan from HBL	
Total non-current liabilities	
<i>Current Liabilities:</i>	
Trade creditors	
Accruals and other payables	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

19. Question

Following is the summarised trial balance of Farhan Traders (FT) for the year ended 30 June 2022:

Farhan Traders

Trial Balance

As at June 30, 2022

	Debit Rs. 000	Credit Rs. 000
Building-cost	3,700	
Building-accumulated depreciation		1,436
Machine-cost	6,650	
Machine-accumulated depreciation		2,414
Stock-in-trade as at 1 July 2021	1,045	
Purchases	16,000	
Purchase returns		220
Sales		28,900
Sales returns	90	
Capital as at 1 July 2021		3,000
Selling and administration expenses	5,855	
12% loan payable		5,000
Trade receivables	3,600	
Discount received		180
Prepayments and other receivables	380	
Trade and other payables		2,080
Cash and bank balances	5,850	
Discount allowed	60	
Total	43,230	43,230

Additional Information:

- Closing stock-in-trade was valued at 30 June 2022 at 1,560,000.
- Purchase invoice of Rs. 780,000 was omitted to be recorded in books.
- Prepayments and other receivables included Rs. 80,000 which was expired during the year, but no adjustment was recorded in the books.
- Depreciation is to be recorded at 5% p.a. on building on straight line basis whereas depreciation on machine at 10% p.a. on reducing balance method.
- One of the machine costing Rs. 1,000,000 was purchased on 1 October 2021 and included in machine cost given in above trial balance.
- Loan was taken on 1 January 2022 and shall be repayable in five equal principal repayments starting from 1 January 2023 along with interest due on loan.
- Salaries of Rs. 450,000 and utility expenses of Rs. 250,000 were unpaid till year end and not yet been adjusted in administration and selling expenses above.

Required:

- A statement of comprehensive income for the year ended 30 June 2022.
- A statement of financial position as at 30 June 2022.

Farhan Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and selling expenses	Choose an item.
Operating Profit	
Interest expense	Choose an item.
Net profit	

Farhan Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepayments and other receivables	Choose an item.
Stock	
Trade receivables	
Cash and bank balances	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net profit	
Total Equity	
<i>Non-current Liabilities:</i>	
12% Loan payable	Choose an item.
Total non-current liabilities	
<i>Current Liabilities:</i>	
Current portion of 12% loan payables	Choose an item.
Tade and other payables	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

20. Question

Shahid owns a retail outlet with the name Shahid Store. The trial balance as at 30 June 2022 is as follows:

Shahid store

Trial Balance

As at June 30, 2022

	Debit Rs. 000	Credit Rs. 000
Furniture & Fixtures	1,200	
Shop equipment	2,100	
Accumulated depreciation-Furniture & Fixtures		300
Accumulated depreciation-Shop equipment		650
Supplies on hand	300	
Inventory	3,500	
Bank overdraft		770
Cash in hand	480	
Sales		14,460
Purchases	9,260	
Returns inwards	600	
Carriage inwards	450	
Bank loan		1,000
Returns outwards		185
Maintenance expenses	50	
Salaries expenses	2,110	
Insurance expense	360	
Interest expense	200	
Commission paid	600	
Advertisement expense	750	
Free sampling	850	
Accounts receivables	2,450	
Trade payables		1,765
Other income		150
Allowance for doubtful debts		125
Capital		6,500
Drawings	645	
Total	25,905	25,905

Additional Information:

- Inventory as at 30 June 2022 was measured at cost Rs. 3,110,000. It included inventory costing 310,000 was shop-soiled and can be sold at 70% of normal sales price, after incurring Rs. 15,000 expenses. Normal sales price is cost plus 20%.
- Goods worth Rs. 250,000 were taken by owner for personal use.
- Supplies consumed during the year were Rs. 265,000.
- Salaries Rs. 175,000 were accrued at 30 June 2022.
- Insurance expense was paid on 1 January 2022 as annual insurance premium in advance.
- Allowance for doubtful debts is to be maintained at 6% of accounts receivables and bad debts of Rs. 50,000 to be written off.
- A bill of advertisement of Rs. 150,000 for June 2022 was paid in July 2022.
- Depreciation is to be provided on furniture at 10% and shop equipment at 20% on reducing balance method.

Required:

Prepare statement of comprehensive income for the year ended 30 June 2022; and a statement of financial position as at 30 June 2022.

Shahid Store

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000
Sales	Choose an item.
Cost of goods sold	Choose an item.
Gross Profit	
Administrative and general expenses	Choose an item.
Selling and Distribution expenses	Choose an item.
Operating Profit/(Loss)	
Other Income	
Financial Charges	
Net Profit/(Loss)	

Shahid Store

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000
<i>Non-current assets:</i>	
Property, plant and equipment	Choose an item.
<i>Current assets:</i>	
Prepaid insurance	
Supplies	Choose an item.
Inventories	Choose an item.
Accounts receivables	Choose an item.
Cash in hand	
Total current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES:	
<i>Equity:</i>	
Capital	
Net Profit/(loss)	
	Choose an item.
Drawings	
Total Equity	
<i>Non-current Liabilities:</i>	
Bank loan	
Total non-current liabilities	
<i>Current Liabilities:</i>	
Bank overdraft	
Trade and other payables	Choose an item.
Total current liabilities	
TOTAL EQUITY AND LIABILITIES	

SOLUTIONS OF LONG QUESTIONS

1. Solution

Sunshine Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees	Marks
Sales	150,000 - 2,000 = 148,000	1
Cost of goods sold	4,000+90,000-5,000-5,000=84,000	2½
Gross Profit	64,000	
Administrative and general expenses	5,000+15,000+2,600-1,500-800=20,300	3
Selling and distribution expenses	1,000+6,000=7,000	1
Operating Profit	36,700	
Other Income	4,000	½
Interest expense	50	1
Net profit	40,650	9

Sunshine Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	26,000-2,600+40,000-6,000=57,400	2½
<i>Current assets:</i>		
Stock	5000	1
Debtors	45,000-1,000=44,000	1
Prepaid salaries	1,500	½
Cash at bank	2,000+2,000=4,000	1
Cash in hand	8,000	½
Total current assets	62,500	
TOTAL ASSETS	119,900	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	66,000	½
Add: Net profit	40,650	½
	106,650	
Less: Drawings	3,000+800=3,800	1
Total Equity	102,850	
<i>Current Liabilities:</i>		
Creditors	15,000	½
15% loan	2,000	1
Accrued interest expense	50	1
Total current liabilities	17,050	
TOTAL EQUITY AND LIABILITIES	119,900	11

2. Solution

Shan Enterprises

Statement of profit or loss

For the year ended June 30, 2022

	Rupees	Marks
Sales	$420,000 - 5,000 - 12,000 = 403,000$	1½
Cost of goods sold	$4,000 + 140,000 - 8,000 - 6,000 - 9,000 = 121,000$	2½
Gross Profit	282,000	
Administrative and general expenses	$15,000 + 3,000 + 5,000 - 1,250 + 14,200 = 35,950$	3
Selling and Distribution expenses	$15,000 + 3,000 + 30,250 = 48,250$	1
Operating Profit	197,800	
Other income-Commission	$7,000 + 1,000 = 8,000$	1
Less: Financial charges-net	$6,000 - 5,000 = 1,000$	1
Net Profit	204,800	10

Shan Enterprises

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees	Marks
Non-current assets:		
Property, plant and equipment	$40,000 + 62,000 - 8,000 - 6,200 = 87,800$	2½
Current assets:		
Stock	9,000	½
Debtors and Other Receivables	$608,000 + 1,000 - 3,000 - 30,250 = 575,750$	2½
Prepayments	1,250	½
Cash in hand	125,000	½
<i>Total current assets</i>	711,000	
TOTAL ASSETS	798,800	
EQUITY AND LIABILITIES:		
Equity:		
Capital	180,000	½
Add: Net profit	204,800	½
	384,800	
Less: Drawings	13,000	1
<i>Total Equity</i>	371,800	
Current Liabilities:		
Bank overdraft	35,000	½
Creditors and Other Payables	$389,000 + 3,000 = 392,000$	1
<i>Total current liabilities</i>	427,000	
TOTAL EQUITY AND LIABILITIES	798,800	10

3. Solution

Shanzy

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees	Marks
Sales	$957,000 - 16,000 - 20,000 = 921,000$	1
Cost of goods sold	$18,000 + 533,000 - 28,000 + 15,000 - 11,000 = 527,000$	2½
Gross Profit	394,000	
Administrative and general expenses	$200,000 + 120,000 + 43,000 + 65,000 + 40,200 = 468,200$	2½
Selling and Distribution expenses	$25,000 + 4,000 + 54,200 = 83,200$	1½
Other operating expenses	10,000	1
Operating Loss	-167,400	
Other Incomes	5,000	1
Less: Financial charges	22,000	½
Net Loss	-184,400	10

Shanzy

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees	Marks
Non-current assets:		
Property, plant and equipment	$542,000 + 452,000 - 54,200 - 40,200 - 50,000 = 849,600$	2½
Current assets:		
Stock	$12,000 - 1,000 = 11,000$	1
Debtors	$254,000 - 4,000 - 2,000 = 248,000$	1½
Advances	50,000	1
Total current assets	309,000	
TOTAL ASSETS	1,158,600	
EQUITY AND LIABILITIES:		
Equity:		
Capital	680,000	½
Less: Net Loss	-184,400	½
	495,600	
Less: Drawings	15,000	1
Total Equity	480,600	
Current Liabilities:		
Bank overdraft	$315,000 - 5,000 = 310,000$	1
Creditors	$370,000 - 2,000 = 368,000$	1
Total current liabilities	678,000	
TOTAL EQUITY AND LIABILITIES	1,158,600	10

4. Solution

Zubair & Co.

Statement of Profit or Loss

For the year ended March 31, 2022

	Rupees	Marks
Sales	487,000	½
Cost of goods sold	28,000+280,000-2,000-12,000-5,000=289,000	3
Gross Profit	198,000	
Administrative and general expenses	46,000+12,000+60,000+10,000+5,000=133,000	3
Selling and Distribution expenses	14,000+1,000=15,000	1
Operating Profit	50,000	
Other Incomes	5,000	1
Net profit	55,000	8½

Zubair & Co.

Statement of Financial Position

As at March 31, 2022

ASSETS	Rupees	Marks
Non-current assets:		
Property, plant and equipment	250,000-10,000+120,000-5,000=355,000	2
Current assets:		
Stock	5,000	1
Debtors	257,000-6,000-7,000=244,000	2
Accrued Rent	5,000	1
Cash and Bank	186,000+80,000=266,000	1
<i>Total current assets</i>	520,000	
TOTAL ASSETS	875,000	
EQUITY AND LIABILITIES:		
Equity:		
Capital	553,000	½
Add: Net profit	55,000	½
	608,000	
Less: Drawings	13,000+2,000=15,000	1
<i>Total Equity</i>	593,000	
Current Liabilities:		
Creditors and Other Payables	203,000+4,000-7,000=200,000	1½
Accrued Salaries	2,000	½
Bank Overdraft	80,000	½
<i>Total current liabilities</i>	282,000	
TOTAL EQUITY AND LIABILITIES	875,000	11½

5. Solution

Smile Stationery Shop

Statement of Profit or Loss

For the nine-month ended September 30, 2022

	Rupees	Marks
Sales	660,000-23,000-10,000=627,000	2
Cost of goods sold	330,000-17,000+18,000-25,000=306,000	3
Gross Profit	321,000	
Administrative and general expenses	42,000+40,000+18,000+57,000+55,000=212,000	3
Selling and Distribution expenses	13,000+22,000+40,000+13,000=88,000	2
Other expenses	16,800	1
Net Profit	4,200	11

Smile Stationery Shop

Statement of Financial Position

As at September 30, 2022

ASSETS	Rupees	Marks
Non-current assets:		
Property, plant and equipment	555,000-55,000=500,000	1½
Current assets:		
Prepayments and Advances	14,000+12,000=26,000	1½
Stock	25,000	½
Accounts receivables	444,000-10,000-5,000-8,000=421,000	2
Bank	125,000	½
Total current assets	597,000	
TOTAL ASSETS	1,097,000	
EQUITY AND LIABILITIES:		
Equity:		
Capital	790,000	½
Add: Net Profit	4,200	½
	794,200	
Less: Drawings	25,000+11,200=36,200	1
Total Equity	758,000	
Current Liabilities:		
Accounts payables	333,000	½
Accrued warehouse rent	6,000	½
Total current liabilities	339,000	
TOTAL EQUITY AND LIABILITIES	1,097,000	9

6. Solution

EZ Tech

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees	Marks
Sales	987,927	½
Cost of goods sold	2,771+677,846-30,000+2,000-7,264-4552=640,801	3
Gross Profit	347,126	
Administrative and general expenses	76859+79324+82772+64467=303,422	3
Selling and distribution expenses	1,000	1½
Operating Profit	42,704	
Other Income	1,280+200+320=2,000	2
Net profit	44,704	10

EZ Tech

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	879,187+30,000-234,517-64,467=610,203	2
<i>Current assets:</i>		
Stock	4,552	1
Trade receivables	653,415-2,318-1,000=650,097	1½
Accrued commission income	520	1
Bank	145,820	½
Cash	56,784	½
Total current assets	857,773	
TOTAL ASSETS	1,467,976	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	878,532	½
Add: Net profit	44,704	½
	923,236	
Less: Drawings	3,542	½
Total Equity	919,694	
<i>Current Liabilities:</i>		
Trade payables	543,782+2,000=545,782	1
Accrued Rent	2,500	1
Total current liabilities	548,282	
TOTAL EQUITY AND LIABILITIES	1,467,976	10

7. Solution

Tycon Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000	Marks
Sales	1,250-9-20=1,221	1½
Cost of goods sold	25+680-11+27-18=703	3
Gross Profit	518	
Administrative and general expenses	130-12+73+45+15+55=306	3
Selling and Distribution expenses	14+2=16	1
Operating profit	196	
Other Income	13-1=12	1
Finance cost	16	½
Net profit	192	10

Tycon Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Fixed assets	550-175=375	1
<i>Current assets:</i>		
Prepayments and other receivables	90+12=102	1
Inventory	18	½
Trade receivables	670+5-8-14=653	2
Cash and bank balances	150+30=180	1
Total current assets	953	
TOTAL ASSETS	1,328	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	550	½
Net profit	192	½
	742	
Drawings	10	1
Total Equity	732	
<i>Current Liabilities:</i>		
Trade payables	490	½
Accruals and other payables	70+1=71	1
Bank overdraft	30+5=35	1
Total current liabilities	596	
TOTAL EQUITY AND LIABILITIES	1,328	10

8. Solution

Roshni Traders

Statement of Profit or Loss

For the year ended January 31, 2023

	Rupees	Marks
Sales	645,000-10,000=635,000	1½
Cost of goods sold	14,000+357,000-12,000-10,000-47,000=302,000	3
Gross Profit	333,000	
Administrative and general expenses	25,000+15,000-3,000+115,000+20,000+3,500+14,000=189,500	4
Selling and Distribution expenses	22,000-15,000=7,000	1
Operating profit	136,500	
Other Income	27,000	½
Net Interest Income	10,000-6,000=4,000	1
Net profit	168,500	11

Roshni Traders

Statement of Financial Position

As at January 31, 2023

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	500,000+160,000-20,000-14,000=626,000	2
<i>Current assets:</i>		
Prepaid stationery	3,000	½
Stock	50,000-3,000=47,000	1
15% loan to friend	100,000	½
Debtors	440,000-22,000=418,000	1½
Cash	55,000	½
Total current assets	623,000	
TOTAL ASSETS	1,249,000	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	618,000	½
Net profit	167,500	½
Total Equity	785,500	
<i>Non-current Liabilities:</i>		
10% bank loan	80,000	½
Total non-current liabilities	80,000	
<i>Current Liabilities:</i>		
Creditors	355,000	½
Bank overdraft	25,000	½
Accrued Electricity Expense	3,500	½
Total current liabilities	383,500	
TOTAL EQUITY AND LIABILITIES	1,249,000	9

9. Solution

Usmania Traders

Statement of Profit or Loss

For the year ended December 31, 2022

	Rupees	Marks
Sales	890,000	½
Cost of goods sold	28,000+530,000-10,000+6,000-30,000=524,000	3
Gross Profit	366,000	
Administrative and general expenses	52,000+2,000+60,000=114,000	2½
Selling and Distribution expenses	18,000+2,000+3,960+42,000+3,000=68,960	2½
Operating Profit	183,040	
Interest expense	(6,750)	½
Net profit	176,290	9

Usmania Traders

Statement of Financial Position

As at December 31, 2022

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	300,000-50,000-25,000+700,000-100,000-35,000=790,000	3½
<i>Current assets:</i>		
Stock	30,000	½
Debtors	450,000-2,000-8,960=439,040	1½
Total current assets	469,040	
TOTAL ASSETS	1,259,040	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	528,000	½
Net profit	176,290	½
	704,290	
Drawings	25,000	½
Total Equity	679,290	
<i>Non-current Liabilities:</i>		
10% bank loan	90,000-18,000=72,000	1
Total non-current liabilities		
<i>Current Liabilities:</i>		
Creditors	355,000	½
Current portion of 10% bank loan	18,000	1
Bank overdraft	125,000	½
Accrued Interest expense	6,750	½
Accrued Advertisement	3,000	½
Total current liabilities	507,750	
TOTAL EQUITY AND LIABILITIES	1,259,040	11

10. Solution

Majid General Store

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees	Marks
Sales	2,900,000	½
Cost of goods sold	750,000+1,875,000-95,000+115,300-890,000=1,755,300	4
Gross Profit	1,144,700	
Administrative and general expenses	155,900+15,320+11,450+50,000+127,500=360,170	3½
Selling and Distribution expenses	68,700+75,000+16,750=160,450	2
Net Profit	624,080	10

Majid General Store

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	350,000-52,500+500,000-75,000=722,500	3
<i>Current assets:</i>		
Prepaid rent	100,000	½
Inventory	890,000	½
Accounts receivables	335,000-16,750=318,250	2
Cash at bank	235,000	½
Cash in hand	68,500	½
Total current assets	1,611,750	
TOTAL ASSETS	2,334,250	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	1,000,000	½
Net profit	624,080	½
	1,624,080	
Drawings	95,000	½
Total Equity	1,529,080	
<i>Current Liabilities:</i>		
Loan from friend	600,000	½
Accounts payable	189,850	½
Accrued electricity expense	15,320	½
Total current liabilities	805,170	
TOTAL EQUITY AND LIABILITIES	2,334,250	

11. Solution

Safina Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rupees	Marks
Sales	957,000-8,900=948,100	1
Cost of goods sold	650,000+25,500+2,100=677,600	3
Gross Profit	270,500	
Administrative and general expenses	68,000-28,000+72,500+11,400+3,500=127,400	4
Selling and Distribution expenses	15,000+3,000=18,000	1
Net Profit	125,100	9

Safina Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rupees	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	200,000+30,000-60,500+150,000-65,000+35,000-18,500=271,000	4
<i>Current assets:</i>		
Stock	20,800	1
Debtors	75,000-3,000=72,000	1
Cash at bank	66,500	½
Cash in hand	16,800	½
<i>Total current assets</i>	176,100	
TOTAL ASSETS	447,100	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	250,000	½
Net profit	125,100	½
	375,100	
Drawings	15,000+28,000=43,000	1
<i>Total Equity</i>	332,100	
<i>Current Liabilities:</i>		
Creditors	66,100	½
Other payables	7,500+30,000=37,500	1
Accrued salaries	11,400	½
<i>Total current liabilities</i>	115,000	
TOTAL EQUITY AND LIABILITIES	447,100	

12. Solution

Yoyo Enterprises

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000	Marks
Sales	121,344-1,920-3,600=115,824	1½
Cost of goods sold	840+84,000+1,632+3,360-465=89,367	3½
Gross Profit	26,457	
Administrative and general expenses	3,948+7,080-90+2,820+90+150=13,998	3½
Selling and Distribution expenses	25+1,678-900=803	1½
Operating Profit	11,656	
Other Income	132	½
Financial Charges	696	½
Net Profit	11,092	11

Yoyo Enterprises

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	42,000-9,600-3,360=29,040	2½
<i>Current assets:</i>		
Prepayments and other receivables	2,820-150=2,670	1
Inventory	500-35=465	1
Trade receivables	24,000-25-1,678=22,297	1½
Cash and bank balances	1,560	½
<i>Total current assets</i>	26,992	
TOTAL ASSETS	56,032	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	31,728	½
Net profit	11,092	½
	42,820	
Drawings	5,400	½
<i>Total Equity</i>	37,420	
<i>Current Liabilities:</i>		
Trade payables	12,240	½
Accruals and other payables	6,372	½
<i>Total current liabilities</i>	18,612	
TOTAL EQUITY AND LIABILITIES	56,032	9

13. Solution

Cares & Shares

Statement of Profit or Loss

For the year ended March 31, 2022

	Rs. 000	Marks
Sales	43,350-135=43,215	1
Cost of goods sold	1,568+24,000+150-330-900=24,488	3½
Gross Profit	18,727	
Administrative and selling expenses	8,783+170+100-150-596=9,499	4
Operating Profit	9,228	
Interest expense	(563)	½
Net profit	8,665	9

Cares & Shares

Statement of Financial Position

As at March 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	9,975-4,106+5,550-2,265=9,154	2½
<i>Current assets:</i>		
Prepayments and other receivables	570	½
Stock	900	½
Trade receivables	5,400-440=4,960	1
Cash and bank balances	8,864	½
<i>Total current assets</i>	15,294	
TOTAL ASSETS	24,448	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	4,500	½
Net profit	8,665	½
	13,165	
Drawings	150	½
<i>Total Equity</i>	13,015	
<i>Non-current liabilities:</i>		
10% Long-term Loan	7,500-1,250=6,250	1
<i>Total non-current liabilities</i>		
<i>Current Liabilities:</i>		
Current portion of long term loan	1,250	1
Accruals and other payables	3,120+563+100+150=3,933	2½
<i>Total current liabilities</i>	5,433	
TOTAL EQUITY AND LIABILITIES	24,448	11

14. Solution

Armaghan & Co.

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000	Marks
Sales	682,920	½
Cost of goods sold	496,580	1½
Gross Profit	186,340	
Administrative and general expenses	36,260+16,707+210=53,177	3
Selling and Distribution expenses	41,160+11,138+5,309=57,607	3
Operating Profit	75,556	
Other Income	3,640-140=3,500	1
Financial Charges	13,580-10,000=3,580	1
Net Profit	75,476	10

Armaghan & Co.

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	322,840+5,000-62,020-125=265,695	3
<i>Current assets:</i>		
Prepayments	4,200-210=3,990	1
Inventory	94,920	½
Trade receivables	132,720-5,309=127,411	1
Other receivables	7,420	½
Cash and bank balances	6,440	½
<i>Total current assets</i>	240,181	
TOTAL ASSETS	505,876	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	329,000	½
Add: Net profit	75,476	½
<i>Total Equity</i>	404,476	
<i>Non-current liabilities:</i>		
Bank Loan	48,300-10,000=38,300	1
<i>Total non-current liabilities</i>	38,300	
<i>Current Liabilities:</i>		
Trade payables	57,960	½
Other payables	5,000	½
Unearned income	140	½
<i>Total current liabilities</i>	63,100	
TOTAL EQUITY AND LIABILITIES	505,876	10

15. Solution

MA Associates

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000	Marks
Sales	$22,880 - 218 - 760 = 21,902$	1½
Cost of goods sold	$1,400 + 16,800 - 320 - 850 = 17,030$	3
Gross Profit	4,872	
Administrative and general expenses	$240 + 84 + 800 + 2232 + 800 + 80 + 320 = 4,556$	3½
Selling and distribution expenses	$85 - 50 = 35$	1
Operating Profit	281	
Interest income	40	½
Net profit	321	9½

MA Associates

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	$3,600 - 2,016 + 2,400 - 1,104 = 2,880$	3
<i>Current assets:</i>		
Prepaid insurance	$112 - 84 = 28$	1
Inventory	850	½
Trade receivables	$4,280 - 2 - 126 = 4,152$	1½
Advances	307	½
Fixed deposit	1,120	½
Cash and bank	496	½
<i>Total current assets</i>	6,953	
TOTAL ASSETS	9,833	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	4,234	½
Net profit	321	½
	4,555	
Less: Drawings	$282 + 320 = 602$	1
<i>Total Equity</i>	3,953	
<i>Current Liabilities:</i>		
Creditors	5,800	½
Accrued electricity expense	80	½
<i>Total current liabilities</i>	5,880	
TOTAL EQUITY AND LIABILITIES	9,833	10½

16. Solution

Mohtashim Enterprises

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000	Marks
Sales	$17,690 - 30 - 350 = 17,310$	1½
Cost of goods sold	$1,320 + 11,460 - 20 - 1,305 = 11,455$	2½
Gross Profit	5,855	
Administrative and general expenses	$250 - 50 + 1,000 + 650 + 230 + 946 = 3,026$	3½
Selling and Distribution expenses	$20 + 128 - 40 + 330 = 438$	1½
Operating Profit	2,391	
Other Income	730	½
Financial Charges	96	½
Net Profit	3,025	10

Mohtashim Enterprises

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	$3,550 - 825 - 335 + 7,540 - 1,630 - 591 = 7,689$	3
<i>Current assets:</i>		
Office supplies	50	½
Inventory	$1,320 - 15 = 1,305$	1
Trade receivables	$3,220 - 20 - 128 = 3,072$	1½
Bank	$320 - 50 = 270$	1
Total current assets	4,697	
TOTAL ASSETS	12,386	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	4,780	½
Net profit	3,025	½
	7,805	
Drawings	135	½
Total Equity	7,670	
<i>Non-current liabilities:</i>		
8% Bank Loan	1,800	½
Total non-current liabilities	1,800	
<i>Current Liabilities:</i>		
Trade payables	$2,840 - 20 = 2,820$	½
Accrued interest expense	96	½
Total current liabilities	2,916	10
TOTAL EQUITY AND LIABILITIES	12,386	

17. Solution

Rizwan Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000	Marks
Sales	$10,120 - 1,600 - 3,000 = 96,520$	1½
Cost of goods sold	$8,200 + 70,000 - 940 - 400 + 1,360 - 9,000 = 69,220$	3½
Gross Profit	27,300	
Administrative and general expenses	$5,900 + 900 + 2,350 + 3,290 - 350 + 1,620 = 13,710$	3½
Selling and Distribution expenses	$500 + 600 - 750 + 1080 = 1,430$	2
Operating Profit	12,160	
Other Income	110	½
Financial Charges	580	½
Net Profit	11,690	11½

Rizwan Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Fixed assets	$35,000 - 8,000 - 2,700 = 24,300$	2
<i>Current assets:</i>		
Prepayments and other receivables	$2,350 + 350 = 2,700$	1
Inventory	9,000	½
Trade receivables	$12,500 - 500 - 600 = 11,400$	1½
Cash and bank balances	1,300	½
<i>Total current assets</i>	24,400	
TOTAL ASSETS	48,700	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	25,500	½
Net profit	11,690	½
	37,190	
Drawings	$4,500 + 400 = 4,900$	1
<i>Total Equity</i>	32,290	
<i>Current Liabilities:</i>		
Trade payables	10,200	½
Accruals and other payables	6,210	½
<i>Total current liabilities</i>	16,410	
TOTAL EQUITY AND LIABILITIES	48,700	8½

18. Solution

Rainbow Lights

Statement of Profit or Loss

For the year ended December 31, 2022

	Rs. 000	Marks
Sales	750,000	½
Cost of goods sold	304,000+7,200=311,200	1
Gross Profit	438,800	
Administrative and general expenses	60,000-4,500+2,400+1,250=59,150	3½
Selling and Distribution expenses	86,000+11,000+2,400+8,000+19,000=126,400	3½
Operating Profit	253,250	
Other Income	45,000	½
Financial Charges	10,000+2,000=12,000	1
Net Profit	286,250	10

Rainbow Lights

Statement of Financial Position

As at December 31, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Fixed assets	270,000-150,000-12,000=108,000	1½
<i>Current assets:</i>		
Prepayments and other receivables	45,000+4,500=49,500	1
Inventory	170,000	½
Trade debtors	388,000-8,000-19,000=361,000	1½
Cash and bank balances	20,000	½
Total current assets	600,500	
TOTAL ASSETS	708,500	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	100,000+1,250=101,250	1
Profit and Loss	286,250-30,000-50,000=206,250	2
Total Equity	307,500	
<i>Non-current Liabilities:</i>		
10% Loan from HBL	120,000	½
Total non-current liabilities	120,000	
<i>Current Liabilities:</i>		
Trade creditors	240,000	½
Accruals and other payables	28,000+11,000+2,000=41,000	1
Total current liabilities	281,000	
TOTAL EQUITY AND LIABILITIES	708,500	10

19. Solution

Farhan Traders

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000	Marks
Sales	28,900-60-90=28,750	1½
Cost of goods sold	1,045+16,000-180-220+780-1,560=15,865	4
Gross Profit	12,885	
Administrative and selling expenses	5,855+80+584+450+250=7,219	3½
Operating Profit	5,666	
Interest expense	300	½
Net profit	5,366	9½

Farhan Traders

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	3,236+1,000-399+3,700-1,436-185=5,916	3
<i>Current assets:</i>		
Prepayments and other receivables	380-80=300	1
Stock	1,560	½
Trade receivables	3,600	½
Cash and bank balances	5,850	½
Total current assets	11,310	
TOTAL ASSETS	17,226	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	3,000	½
Net profit	5,366	½
Total Equity	8,366	
<i>Non-current Liabilities:</i>		
12% Loan payable	5,000-1,000=4,000	1
Total non-current liabilities	4,000	
<i>Current Liabilities:</i>		
Current portion of 12% loan payables	1,000	½
Tade and other payables	2,080+780+300+450+250=3,860	1½
Total current liabilities	4,860	
TOTAL EQUITY AND LIABILITIES	17,226	10½

20. Solution

Shahid Store

Statement of Profit or Loss

For the year ended June 30, 2022

	Rs. 000	Marks
Sales	14,460-600=13,860	1
Cost of goods sold	3,500+9,260-185-250+450-3,045=9,730	3
Gross Profit	4,130	
Administrative and general expenses	50+2,110+175+360-180+265+380=3,160	3½
Selling and Distribution expenses	600+900+850+69=2,419	1½
Operating Profit/(Loss)	-1,449	
Other Income	150	½
Financial Charges	200	½
Net Profit/(Loss)	-1,499	10

Shahid Store

Statement of Financial Position

As at June 30, 2022

ASSETS	Rs. 000	Marks
<i>Non-current assets:</i>		
Property, plant and equipment	1,200-300-90+2,100-650-290=1,970	2
<i>Current assets:</i>		
Prepaid insurance	180	½
Supplies	300-265=35	1
Inventories	3,110-65=3,045	1
Accounts receivables	2,450-50-144=2,256	1
Cash in hand	480	½
Total current assets	5,996	
TOTAL ASSETS	7,966	
EQUITY AND LIABILITIES:		
<i>Equity:</i>		
Capital	6,500	½
Net Profit/(loss)	-1,499	½
	5,001	
Drawings	645+250=895	1
Total Equity	4,106	
<i>Non-current Liabilities:</i>		
Bank loan	1,000	½
Total non-current liabilities	1,000	
<i>Current Liabilities:</i>		
Bank overdraft	770	½
Trade and other payables	1,765+175+150=2,090	1
Total current liabilities	2,860	
TOTAL EQUITY AND LIABILITIES	7,966	10