

Cutting, Overwriting, Erasing, Fluid painting and use of Lead Pencil will earn no marks.  
 Write answer of the Question No.1 and 2 on this sheet and handover it to the supervisory  
 staff of examination within first 35 minutes.

Time Allowed: 35 Minutes

(OBJECTIVE PART)

Max. Marks: 32

Sign of  
 Supdt.

1- a) Encircle the correct answer:

1x4

i) The focal point of the Accounting Equation is

- a) Financial Statements                      b) Trial Balance  
 c) Adjusted Trial Balance                      d) Work Sheet

ii) Which is the most widely held class of stock is?

- a) Par value common stock                      b) No par common stock  
 c) Par value preferred stock                      d) No Par value preferred stock

iii) According to the rules of Debit and Credit for Balance Sheet accounts are debited:

- a) Increase in Assets                      b) Decrease in Liabilities  
 c) Decrease in Owner's Equity                      d) All of the above

iv) The primary purpose of showing special types of events separately in the Income Statement is to:

- a) Increase Earning Per Share                      b) Present unusual losses from recurring.  
 c) Help users of the income statement in evaluating the probability of normal ongoing operations.  
 d) Minimizing the income taxes paid on the results of ongoing operations.

b) Encircle True or False as the case may be.

1x8

- i) Corporations pay less taxes as compared to other organizations. .... True / False  
 ii) Interest on Bonds payable is calculated on market value of bonds. .... True / False  
 iii) Closing entries are passed to close the nominal or temporary accounts to income and  
 expense summary account. .... True / False  
 iv) Declaration of stock dividend has no effect on Net Income and shareholders equity. .... True / False  
 v) Sales revenue minus the cost of goods sold in Gross Profit. .... True / False  
 vi) The price of goods sold and services rendered by a business is capital. .... True / False  
 vii) Operating Expenses are generally reported in two categories. .... True / False  
 viii) The person who pays the amount is called PAYEE. .... True / False

c) Fill in the blanks with meaningfully:

1x4

- i) All investments are recorded initially at its \_\_\_\_\_.  
 ii) Market value of stock is goes down if the EPS is \_\_\_\_\_.  
 iii) Methods of computing depreciation of assets are: i) \_\_\_\_\_ ii) \_\_\_\_\_.  
 iv) The amount of undistributed earnings of past periods is reported as \_\_\_\_\_ in the balance sheet.

2- Give short answers to the following questions:

2x8

i) How would you define EPS?

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ii) What is Treasury Stock?

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iii) Define Debentures.

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iv) What is Accounting Cycle?

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v) Why the Balance Sheet is prepared?

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vi) In short differentiate between Capital and Revenue Expenditures.

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vii) What you mean by Book Value Per Share?

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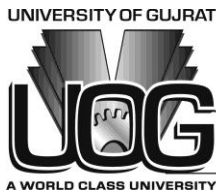
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viii) Define Invoice.

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Attempt **FOUR** Questions in all. All Questions carry equal marks.

**SUBJECTIVE PART**

- 3- The Halpal Sales Co. owns real estate acquired at the beginning of 1990. Account balances for this asset on January 2, 1999, appear as follows: 17

Land .....	\$ 50,000
Building .....	\$ 45,000
Less Accumulated Depreciation .....	<u>20,250</u>
	<u>24,750</u>
	\$ 74,750

An appraisal of this property as of January 2, 1999, indicated that the Land was worth \$ 85,000, that building had a reproduction cost, new, of \$ 60,000 and a present sound value of \$ 38,400. The appraisal is recorded in accounts. On July, 1, 2002, The company borrowed \$ 50,000, using a 10-year note secured by mortgage on the property; interest at 8% is payable annually on July 1<sup>st</sup>. On October 1, 2002 the company sold the Land and Building for 120,000. The purchaser assuming the mortgage note and accrued interest and making payment in cash for the difference.

- Required:** i) Prepare the entries to record the asset appraisal on January 2, 1990.  
ii) Prepare the entries to record straight line depreciation for the years 1999-2001.  
iii) Prepare the entry to record the sale of property on October 1, 2002.

- 4- The new tech construction company purchased 50 acres of land in the suburbs of a large city with the intension of improving, subdividing and selling it in one acre lots. The purchase price for the tract of land was \$ 210,000. The lots are given numbers and similar lots are grouped numerically. Lots 1-15 are choice lots and did not require extra improvements. They will sell for \$ 8000 each. Lots 16-30 required some extra improvements costing \$ 34,000. They will sell for \$ 7000 each. Lots 31-50 required extensive drainage and clearing costing \$ 40,000. They will sell for \$ 6500 each.

**REQUIRED:** Using the relative sales methods allocate the purchase and improvements costs to the various lots. 17

- 5- The following balances were taken from the books of Elahi Supply Corporation on December 31, 2002:

Cash Dividend Declared \$ .....	48,000	Purchase Discount .....	\$ 22,350
General and Admin Expense .....	176,000	Purchase return and Allowance .....	11,150
Interest Income .....	13,500	Sales .....	1,650,000
Loss on Retirement of Company Bonds.....	95,750	Sales Discount .....	28,250
Interest Expense .....	21,250	Sales return and Allowance .....	16,750
Merchandise Purchase.....	940, 500	Selling Expense .....	178,500

Income taxes for 2002 amounted to \$ 100,000; however, the income taxes applicable to net Income, exclusive of the loss on the retirement of the company bonds, amounted to \$ 147,875.

Merchandise Inventory:	January 1, 2002 .....	\$ 190,000
	December 31, 2002 .....	150,000
Retained Earnings:	January 1, 2002 .....	482,000

**REQUIRED:** Prepare a combined statement of income and retained earnings for the year ended December, 31, 2002. 17

- 6- The errors listed below were made by the Marshall Sales Corporation in 2002. Give the entry required in 2003 to correct each error. Assume that the company arrives at its inventory position by physical count and that the books for 2002 have been closed. Assume that all amounts are material:

- The company failed to record a sale on account of \$ 210 at the end of 2002. The merchandise had been shipped and was not included in the ending inventory. The sale was recorded in 2003 when cash was collected from the customers.
- The company failed to recognize \$400 due from a consignee as a result of goods sold by this party at the end of 2002. The consignee had failed to report the sale of consigned goods and the company included their cost of \$ 260 in inventory as goods on consignment.
- The company failed to recognize a purchase on account of \$1350 at the end of 2002 and also failed to include the goods purchased in the ending inventory. The purchase was recorded when payment was made to creditor in 2003.
- The company failed to make an entry for a purchase on account of \$60 at the end of 2002, although it included this merchandise in the ending inventory count. The purchase was recorded when payment was made to the creditor in 2003.
- The company overlooked goods of \$360 in the physical count of goods at the end of 2002. 17

- 7- On June 1, 2002, Jhonhson receives a \$ 2000 note from a customer on an overdue account. The note matures on August 30 and bears interest at 7%. On July 1, Jhohnson discounts the note at 8% and applies the proceeds to the payment of creditors. On August 30, the customer is unable to make payment to the bank and the bank charges Jhohnson account for maturity value of the note plus a \$ 3 protest fee. On September 29, Jhohnson accepts the customer's offer to cancel his liability with marketable securities valued at \$ 2050.

**REQUIRED:** Give all of the entries on Jhohnson books to record the foregoing. 17

- 8- Define Legal Capital. What Limitations are placed upon the Corporation by Law to Safeguard Legal Capital? 17