



UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Fourth Semester – 2019

Paper: Financial Accounting (Advanced)

Course Code: BBA-205 / BUS-22352 Part – I (Compulsory) Time: 15 Min. Marks: 10

Roll No. in Fig.

Roll No. in Words.

Signature of Supdt.:

ATTEMPT THIS PAPER ON THIS QUESTION SHEET ONLY.

Division of marks is given in front of each question.

This Paper will be collected back after expiry of time limit mentioned above.

Q.1. Encircle the right answer cutting and overwriting is not allowed. (10x1=10)

1. A general ledger account that summarizes the content of a specific subsidiary ledger, is called as:

- a. contra account b. subsidiary account c. controlling account d. joint account

2. _____ refers to the repeating sequence of transactions by which a business generates its revenue and cash receipts from customers.

- a. accounting cycle b. operating cycle
c. profit cycle d. sales cycle

3. The systematic allocation of the cost of a tangible asset to expense during the period of its useful life, is called:

- a. depreciation b. amortization c. depletion d. shrinkage

4. _____ is an obligation to deliver goods or render services in the future, stemming from the receipt of advance payment.

- a. prepaid expense b. accrued expense c. accrued revenue d. unearned revenue

5. Which of the following statements is produced to determine financial position of the business?

- a. Statement of owner's equity b. Statement of financial position
c. Statement of cash flows d. Income statement

6. Planning, controlling, and accounting for cash transactions and cash balances, is called:

- a. bank reconciliation b. cash book c. cash cycle d. cash management

7. Cash and assets convertible directly into known amounts of cash, are known as:

- a. plant assets b. financial assets c. tangible assets d. intangible assets

P.T.O.

8. _____ is a method of valuing all units in inventory at the same average per-unit cost, which is recomputed after every purchase.

- a. average-cost method
- b. last-in, first-out method
- c. specific identification
- d. first-in, first-out method

9. Journal entries made at the end of the period for the purpose of closing temporary accounts and transferring balances to the Retained Earnings account, are called:

- a. closing entries
- b. adjusting entries
- c. rectifying entries
- d. reverse entries

10. _____ is a generally accepted accounting principle that determines when expenses should be recorded in the accounting records.

- a. materiality principle
- b. realization principle
- c. cost principle
- d. matching principle



ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q2. Give short answers.

(10×2=20)

- I. What is meant by **Lower-of-cost-or-market (LCM)**?
- II. Define **Intangible Assets**.
- III. Define **Residual value**.
- IV. What is **Net realizable value**?
- V. Define **Marketable securities**.
- VI. What is meant by **Aging the accounts receivable**?
- VII. Define **Straight-line depreciation**.
- VIII. Define **Bank reconciliation**.
- IX. Define **Amortization**.
- X. Define **Periodic inventory system**.

Q3. Lamprino Appliance uses a perpetual inventory system. The following are three recent merchandising transactions:

June 10 Purchased 10 televisions from Mitsu Industries on account. Invoice price \$300 per unit, for a total of \$3,000. The terms of purchase were 2/10, n/30.

June 15 Sold one of these televisions for \$450 cash.

June 20 Paid the account payable to Mitsu Industries within the discount period.

Instructions:

- a. Prepare journal entries to record these transactions assuming that Lamprino records purchases of merchandise at:
 1. Net cost
 2. Gross invoice price
- b. Assume that Lamprino did not pay Mitsu Industries within the discount period but instead paid the full invoice price on July 10. Prepare journal entries to record this payment assuming that the original liability had been recorded at:
 1. Net cost
 2. Gross invoice price

(10)

Q4. The Audiophile sells high-performance stereo equipment. Massachusetts Acoustic recently introduced the Carnegie-440, a state-of-the-art speaker system. During the current year, The Audiophile purchased nine of these speaker systems at the following dates and acquisition costs:

| Date | Units Purchased | Unit Cost | Total Cost |
|------------------------------------|-----------------|-----------|------------|
| Oct. 1 | 2 | \$3,000 | \$6,000 |
| Nov. 17 | 3 | 3,200 | 9,600 |
| Dec. 1 | 4 | 3,250 | 13,000 |
| Available for sale during the year | 9 | | \$28,600 |

On November 21, The Audiophile sold four of these speaker systems to the Boston Symphony. The other five Carnegie-440s remained at December 31.

Instructions:

Assume that The Audiophile uses a perpetual inventory system. Compute:

- (1) the cost of goods sold relating to the sale of Carnegie-440 speakers to the Boston Symphony and
- (2) the ending inventory of these speakers at December 31, using each of the following flow assumptions:
 - a. Average cost
 - b. First-in, first-out (FIFO)
 - c. Last-in, first-out (LIFO)

Show the number of units and the unit costs of the cost layers comprising the cost of goods sold and the ending inventory. (10)

- Q5.** Mystic Masters, Inc., provides fortunetelling services over the internet. In recent years the company has experienced severe financial difficulty. Its accountant prepares adjusting entries on a monthly basis, and closing entries on an annual basis, at December 31. An adjusted trial balance dated December 31, 2018, follows:

MYSTIC MASTERS

Adjusted Trial Balance

December 31, 2018

| | Debits | Credits |
|--|----------|----------|
| Cash | \$960 | |
| Accounts receivable | 300 | |
| Unexpired insurance | 2,000 | |
| Prepaid rent | 1,500 | |
| Supplies | 200 | |
| Furniture and fixtures | 8,400 | |
| Accumulated depreciation: furniture and fixtures | | \$5,200 |
| Accounts payable | | 6,500 |
| Notes payable | | 24,000 |
| Salaries payable | | 1,700 |
| Interest payable | | 360 |
| Unearned client revenue | | 200 |
| Capital stock | | 4,000 |
| Retained earnings | | 2,600 |
| Client revenue earned | | 52,000 |
| Insurance expense | 6,000 | |
| Office rent expense | 9,000 | |
| Supplies expense | 440 | |
| Salary expense | 48,000 | |
| Depreciation expense: furniture and fixtures | 1,400 | |
| Office and telephone expense | 3,000 | |
| Internet service expense | 4,900 | |
| Legal expense | 1,500 | |
| Interest expense | 4,000 | |
| Miscellaneous expense | 5,000 | |
| | \$96,600 | \$96,600 |

Instructions:

- a. Prepare an income statement and statement of retained earnings for the year ended Dec. 31, 2018. Also prepare the studio's balance sheet dated Dec. 31, 2018.
- b. Prepare the necessary closing entries at Dec. 31, 2018.
- c. Prepare an after-closing trial balance dated Dec. 31, 2018. (10)