



THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Answer the following short questions: (10X3=30)

- i.* Describe the difference between accrual basis and cash basis of accounting.
- ii.* Define the term financial assets and state two examples of financial assets?
- iii.* What is meant by cash equivalents?
- iv.* Define perpetual inventory system.
- v.* What is difference between tangible and intangible assets?
- vi.* Define the term marketable securities?
- vii.* State the journal entry for acquisition of notes receivable?
- viii.* What is contingent liability and state its accounting treatment?
- ix.* What is meant by NSF checks in bank reconciliation?
- x.* What is meant by deposit in transit?

Answer the following questions: (3X10=30)

Q.2 Moon & Star Arts is a partnership firm organized by X and Y. A condensed balance sheet for the business on September 30 is shown below. On this date the two partners agreed to admit a new partner, Z. X and Y have been dividing profits in the ratio of 60% and 40%. The new partnership will have a profit and loss sharing ratio of Z, 50%: X, 25% and Y, 25%.

<i>Current assets</i>	\$ 360,000	<i>Liabilities</i>	\$ 320,000
<i>Plant and equipment</i>	840,000	<i>Partner's capital:</i>	
		<i>X, Capital</i>	\$ 560,000
		<i>Y, Capital</i>	\$ 320,000
	<u>\$ 1,200,000</u>		<u>\$ 1,200,000</u>

Required:

Described below are four different situations under which Z might be admitted to partnership. Considering each independently, prepare the journal entries necessary to record the admission of Z to the firm.

- i.* Z purchases a one-half interest in the partnership from X for \$520,000. Payment is made to X as an individual.
- ii.* Z purchases one-half of X's interest and one-half of Y's interest, paying X \$336,000 and Y \$192,000.
- iii.* Z invests \$600,000 in the firm and receives a one-half interest in capital and income. In addition to the journal entry to record Z's admission, show computation of the equity interest received and bonus (if any) to either the old partners or to Z.
- iv.* Z invests \$1,120,000 in the firm and receives a one-half interest in the capital and profits of the business. In addition to the journal entry to record Z's admission, show computation of the equity interest received and bonus (if any) to either the old partners or to Z.

Q. 3 The cash transactions and cash balances of California Corporation for July were as follows:

- i.** The ledger account for cash showed a balance of on July 31 of \$125,568.
- ii.** The July bank statement showed a closing balance of \$114,828.
- iii.** The cash received on July 31 amounted to \$16,000. It was left at the bank after banking hours on July 31 and therefore was not recorded by the bank on the July statement.
- iv.** Also included in the July bank statement was a debit memorandum from the bank for \$50 representing service charges for July.
- v.** A credit memorandum enclosed with the July bank statement indicated that a note receivable for \$4,000 collected by bank from a customer and credited to the account of California Corporation.
- vi.** Comparison of paid checks returned by bank with the entries in the accounting records revealed that check number 821 for \$519, issued July 15 in payment for office equipment, had been erroneously entered in California records as \$915.
- vii.** Examination of paid checks also revealed that three checks, all issued in July, had not yet been paid by the bank amounting to \$314, \$625 and for \$175.
- viii.** Included with the July bank statement was a \$200 check drawn a customer was marked NSF.

Required: Prepare a bank reconciliation statement for California Corporation on July 31.

Q. 4 Electro Gallery sells satellite tracking systems for receiving television broadcasts from communications satellites in space. On December 31, 2020, the company's inventory amounted to \$44,000. During the first week of January 2021, Electro Gallery made only one purchase and one sale. These transactions were as follows:

Jan. 3 Sold tracking systems to Four Seasons Hotel for \$20,000 cash. The system had total cost of \$11,200.

Jan. 7 Purchased two Model 400 and Model 800 satellite dishes from Suzuki Corporation. The total cost of this purchase amounted to \$10,000; terms 2/10, n/30.

Electro Gallery records purchase of merchandise at net cost.

Required:

- i.** Prepare journal entries to record these transactions, assuming that Electro Gallery uses a perpetual inventory system.
- ii.** Compute the balance in Inventory Account on January 7.
- iii.** Prepare journal entries to record the two transactions, assuming that Electro Gallery uses a periodic inventory system.
- iv.** Compute the Cost of Goods Sold assuming use of periodic inventory system. As the amount of ending inventory, use your answer in part *ii*.
- v.** Determine the gross profit on the January 3 sales transaction.