

**CMA JANUARY 2022 EXAMINATION
FOUNDATION LEVEL
FUNDAMENTALS OF FINANCIAL ACCOUNTING**

Course Code : FR111	Total Marks : 100
Reading Time : 15 minutes	Writing Time : 180 minutes

Instructions to Candidates

- You **MUST NOT** write anything during the reading time.
- You should attempt ALL questions.
- Answers should be properly structured and relevant.
- Carefully read ALL the requirements and sub-questions before attempting a specific question.
- ALL answers must be written in the answer book.
- **AVOID WRITING/MARKING** on the question paper at any time which may cause disciplinary action.
- Start answering each question from a fresh sheet.
- Answers should be clearly numbered with the sub-question number.

Allowable Materials

- Writing Stationeries
- Non-programmable Calculator

Assessment Structure

		<i>Sub-question</i>	<i>Marks</i>	<i>Expected Time Required</i>	
Section A	Question 1	Multiple Choice Questions	15	15	25 minutes
	Question 2	Modified True/False	5	5	10 minutes
	Question 3	Matching	5	5	10 minutes
	Question 4	Short Answer Questions	3	15	20 minutes
Section B	Question 5	Essay/Computational/Case	-	20	35 minutes
	Question 6	Essay/Computational/Case	2	20	35 minutes
	Question 7	Essay/Computational/Case	2	20	35 minutes
		Revision			10 minutes
		Total		100	180 minutes

RESTRICTED USE

This paper MUST NOT BE REMOVED from the examination venue

Do not turn the page until instructed

SECTION A [40 MARKS]

THERE ARE 4 (FOUR) QUESTIONS IN THIS PART. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT FOLLOWING THE EXAMPLE PROVIDED FOR THE SPECIFIC QUESTION.

QUESTION 1

[15 × 1 = 15 MARKS]

There are fifteen (15) multiple-choice questions with five options. Pick the option that best explains the given question. Write your answer on the answer script [DO NOT PUT ANY MARK ON THE QUESTION PAPER]. Follow the example given below in providing your answer.

Example:

- (i) ICMAB stands for the –
- (a) Institute of Cost Management Accounting of Bangladesh
 - (b) Institute of Cost and Management Accountants of Bangladesh
 - (c) Institute for Cost Managers and Accounting of Bangladesh
 - (d) Institute of Cost Management Accountants of Bangladesh
 - (e) Industrial Cost Management Accountants of Bangladesh

Answer: (i) (b)

- (i) The periodic inventory systems contains all of the following accounts except:
- (a) Beginning inventory
 - (b) Purchase
 - (c) Cost of goods sold
 - (d) Ending inventory
 - (e) None of the above
- (ii) The term 2/10, n/30 is used in:
- (a) Cash transactions
 - (b) Cash discounts
 - (c) Credit management
 - (d) Trade discount
 - (e) Inventory management
- (iii) Acid test ratio equals:
- (a) Current assets divided by current liabilities
 - (b) Current assets less inventory divided by current liabilities
 - (c) Net income divided by average assets
 - (d) Net income divided by net sales
 - (e) Current assets divided by quick liabilities
- (iv) Which method of charging depreciation does not rely on time:
- (a) Straight-line method
 - (b) Declining balance method
 - (c) Sum-of-the-years'-digit method
 - (d) Unit of output/activity
 - (e) None of the above

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- (v) Owner's equity increases when
- (a) Assets decrease
 - (b) Liabilities decrease
 - (c) Revenues decrease
 - (d) Expenses decrease
 - (e) Asset unchanged
- (vi) A balance sheet shows:
- (a) The financial position at a specific date
 - (b) The financial performance for the year
 - (c) The changes in financial position for the year
 - (d) The assets, liabilities and owner's equity for the year
 - (e) Changes in income and expenses
- (vii) Net loss occurs when:
- (a) Liabilities exceed assets
 - (b) Cost of goods sold exceeds net sales revenue
 - (c) Operating expenses exceed gross profit
 - (d) Current assets exceed non-current assets
 - (e) Non-current asset exceeds non-current liabilities
- (viii) The accounting process does not deal with which of the following?
- (a) Identification of transactions
 - (b) Verification of transactions
 - (c) Recording of transactions
 - (d) Communication of information to interested users
 - (e) Summarizing of transaction
- (ix) Which of the following is not an example of internal users of accounting information?
- (a) Owners of a company
 - (b) Managers
 - (c) Directors
 - (d) Employers
 - (e) None of the above
- (x) During 2021, Gibson Company's assets decreased Tk.50,000 and its liabilities decreased Tk.90,000. Its owner's equity therefore:
- (a) increased Tk.50,000.
 - (b) decreased Tk.140,000.
 - (c) decreased Tk.40,000.
 - (d) increased Tk.140,000.
 - (e) increased Tk.40,000.
- (xi) When Alexander Company purchased supplies worth Tk.500, it incorrectly recorded a credit to Supplies for Tk.5,000 and a debit to Cash for Tk.5,000. Before correcting this error:
- (a) Cash is overstated and Supplies is overstated.
 - (b) Cash is understated and Supplies is understated.
 - (c) Cash is understated and Supplies is overstated.
 - (d) Cash is overstated and Supplies is understated.
 - (e) Cash is overstated and Supplies is adjusted.

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- (xii) If beginning inventory is Tk.60,000, cost of goods purchased is Tk.380,000, and ending inventory is Tk.50,000, cost of goods sold is:
- (a) Tk.380,000.
 - (b) Tk.390,000.
 - (c) Tk.370,000.
 - (d) Tk.330,000.
 - (e) Tk.420,000.
- (xiii) In a bank reconciliation, deposits in transit are:
- (a) deducted from the book balance.
 - (b) added to the book balance.
 - (c) added to the bank balance.
 - (d) deducted from the bank balance.
 - (e) not included in the statement.
- (xiv) Net sales for the month are Tk.800,000, and bad debts are expected to be 1.5% of net sales. The company uses the percentage-of-sales basis. If the Allowance for Doubtful Accounts has a credit balance of Tk.15,000 before adjustment, what is the balance after adjustment?
- (a) Tk.15,000.
 - (b) Tk.27,500.
 - (c) Tk.23,000.
 - (d) Tk.31,000.
 - (e) Tk.27,000.
- (xv) Additions to plant assets are:
- (a) revenue expenditures.
 - (b) debited to a Repair Expense account.
 - (c) debited to a Purchases account.
 - (d) capital expenditures.
 - (e) accrued expenditures.

QUESTION 2

[5 × 1 = 5 MARKS]

There are five (5) statements given under the question. Identify the statements as True or False. If the statement is false, rewrite the statement on the answer script to make it 'True'. Reasoning is NOT required. Follow the example given below in providing your answer.

Example:

(a) ICMAB stands for the Industrial Cost Management and Accounting of Bangladesh.

Answer:

(a) False. ICMAB stands for the Institute of Cost and Management Accountants of Bangladesh.

Note:

- You will not get any mark if you simply rewrite as ICMAB *does not* stand for the Industrial Cost Management Accountants of Bangladesh.
- If the statement is true, you need NOT to rewrite the statement rather only mention that the statement is *True*.

- (a) Sales discount is a contra asset account.
- (b) A balance sheet reports the assets, liabilities, and owner's equity at a specific period of time.
- (c) The worksheet is essentially a mandatory tool of the accountant.
- (d) Whether a debit or a credit to an account increases the account's balance or decreases the account's balance depends on the type of account
- (e) Owner's Withdrawals are not used to figure the profit or loss for a business.

QUESTION 3**[5 × 1 = 5 MARKS]**

Match the items of column A with the most suitable items of column B. Match only one item of column A with one item of column B. Write your answer on the answer script. Follow the example given below in providing your answer.

Example:

Column A	Column B
1. ICMAB	(a) Professional accountancy body (b) University

Answer: 1 (a)

Column A	Column B
(1) Cost audit is	(a) Bangladesh Bank
(2) GAAP includes	(b) Amortization
(3) Post-closing trial balance	(c) Bangladesh Securities and Exchange Commission
(4) NSF checks	(d) International Financial Reporting Standards
(5) Intangible assets	(e) Voluntary
	(f) Compulsory
	(g) External users of accounting information
	(h) IAS, IFRS, BSEC rules and others
	(i) Internal users of business information
	(j) Accounting practices
	(k) Bank reconciliation
	(l) Permanent (real) accounts

QUESTION 4**[5 × 3 = 15 MARKS]**

- (a) Suppose a company has three items of inventories on hand at the year-end. Their costs and NRVs are as follows:

Item	Cost (Tk.)	NRV (Tk.)
1	36	40
2	28	24
3	46	48
Total	110	112

Required: Calculate the closing value of inventory at the year-end?

- (b) Which of the following errors would cause a trial balance to have unequal totals? Explain your answers.
- A payment to a creditor was recorded as a debit to Accounts Payable for Tk. 129 and as a credit to Cash for Tk. 102.
 - A payment of Tk. 150 to a creditor for an account payable was debited to Accounts Receivable and credited to Cash.
 - A purchase of office supplies of Tk. 420 was recorded as a debit to Office Supplies for Tk. 42 and as a credit to Cash for Tk. 42.
 - A purchase of equipment for Tk. 450 was recorded as a debit to Supplies for Tk. 450 and as a credit to Cash for Tk. 450.
- (c) On December 31, the adjusted trial balance of Oslo Employment Agency shows the following selected data.

Accounts Receivable	Tk. 24,000	Commission Revenue	Tk. 92,000
Interest Expense	Tk. 7,800	Interest Payable	Tk. 1,500

Analysis shows that adjusting entries were made to (1) accrue Tk. 4,500 of commission revenue and (2) accrue Tk. 1,500 interest expense.

Required:

- Prepare the closing entries for the temporary accounts shown above at December 31.
- Prepare the reversing entries on January 1.
- Prepare the entries to record (1) the collection of the accrued commissions on January 10 and (2) the payment of all interest due (Tk. 2,500) on January 15.

END OF SECTION A

SECTION B [60 MARKS]

THERE ARE 3 (THREE) QUESTIONS IN THIS PART. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT. SHOW ALL RELEVANT COMPUTATION.

QUESTION 5**[Marks: (7+6+7) = 20]**

Mr. Jacktion started his own consulting firm, Jacktion Company, on June 1, 2020. The trial balance at June 30 is shown below:

Jacktion Company
Trial Balance June 30, 2020

Accounts	Debit (Tk.)	Credit (Tk.)
Cash.....	8000	
Accounts Receivable.....	6000	
Supplies.....	2000	
Prepaid Insurance.....	3000	
Equipment.....	15000	
Accounts Payable.....		4500
Unearned Service Revenue.....		4000
Owner's Capital.....		22600
Service Revenue.....		7900
Salaries and Wages Expense....	4000	
Rent Expense.....	<u>1000</u>	
Total	<u>39000</u>	<u>39000</u>

In addition to those accounts listed on the trial balance, the chart of accounts for Jacktion Company also contains the following accounts and account: Accumulated Depreciation—Equipment, Salaries and Wages Payable, Supplies Expense, Depreciation Expense, Insurance Expense, and Utilities Expense

Other data:

- (i) Supplies on hand at June 30 are Tk.750.
- (ii) A utility bill for Tk. 150 has not been recorded and will not be paid until next month.
- (iii) The insurance policy is for a year.
- (iv) Tk. 2,800 of unearned service revenue has been earned at the end of the month.
- (v) Salaries of Tk. 1,900 are accrued at June30.
- (vi) The equipment has a 5-year life with no salvage value. It is being depreciated at Tk. 250 per month for 60months.
- (vii) Invoices representing Tk. 1,200 of services performed during the month have not been recorded as of June30.

Required:

- (i) Prepare the adjusting entries for the month of June.
- (ii) Prepare an adjusted trial balance at June30, 2020
- (iii) Prepare a classified balance sheet as at June 30, 2020.

QUESTION 6**[5 + (12+3) = 20 MARKS]**

- (a) Rizwan Omar is puzzled. His company had a profit margin of 10% in 2020. He feels that this is an indication that the company is doing well. Bahar Lotus, his accountant, says that more information is needed to determine the firm's financial well-being. Who is correct? Why?

- (b) Muldur Corporation's comparative balance sheets are presented below.

MULDUR CORPORATION
Comparative Balance Sheets
December 31

	2020	2019
Cash	Tk. 15,200	Tk. 17,700
Accounts receivable	25,200	22,300
Investments	20,000	16,000
Equipment	60,000	70,000
Accumulated depreciation	<u>(14,000)</u>	<u>(10,000)</u>
Total	Tk.106,400	Tk.116,000
Accounts payable	Tk. 14,600	Tk. 11,100
Bonds payable	10,000	30,000
Common stock	50,000	45,000
Retained earnings	<u>31,800</u>	<u>29,900</u>
Total	Tk.106,400	Tk.116,000

Additional information:

- (1) Net income was Tk.18,300. Dividends declared and paid were Tk.16,400.
- (2) Equipment which cost Tk.10,000 and had accumulated depreciation of Tk.1,200 was sold for Tk.3,300.
- (3) All other changes in noncurrent account balances had a direct effect on cash flows, except the change in accumulated depreciation.

Required:

- (i) Prepare a statement of cash flows for 2020 using the indirect method.
- (ii) Compute free cash flow.

QUESTION 7

[(6+2) + 12 = 20 MARKS]

- (a) The following information pertains to Family Video Company.
- (1) Cash balance per bank, July 31, Tk. 7,263.
 - (2) July bank service charge not recorded by the depositor Tk. 28.
 - (3) Cash balance per books, July 31, Tk. 7,284.
 - (4) Deposits in transit, July 31, Tk. 1,500.
 - (5) Bank collected Tk. 900 note for Family in July, plus interest Tk. 36, less fee Tk. 20. The collection has not been recorded by Family, and no interest has been accrued.
 - (6) Outstanding checks, July 31, Tk. 591.

Required:

- (i) Prepare a bank reconciliation at July 31.
 - (ii) Journalize the adjusting entries at July 31 on the books of Family Video Company.
- (b) Prepare journal entries under perpetual inventory method to record the following merchandising transactions for both the seller and buyer.
- May 4 BMX sold Tk. 1,500 of merchandise on account to SNK, terms FOB shipping point, n/45, invoice dated May 4. The cost of the merchandise was Tk. 900.
- May 6 SNK paid transportation charges of Tk. 30 on the May 4 purchase from BMX.
- May 8 BMX sold Tk. 1,000 of merchandise on account to SNK, terms FOB destination, n/30, invoice dated May 8. The cost of the merchandise was Tk. 700.
- May 10 BMX paid transportation costs of Tk. 50 for delivery of merchandise sold to SNK on May 8.
- May 16 BMX issued SNK a Tk. 200 credit memorandum for merchandise returned. The merchandise was purchased by SNK on account on May 8. The cost of the merchandise returned was Tk. 140.
- May 18 BMX received payment from SNK for purchase of May 8.
- May 21 BMX sold Tk. 2,400 of merchandise on account to SNK, terms FOB shipping point, 2/10, n/EOM. BMX prepaid transportation costs of Tk. 100, which were added to the invoice. The cost of the merchandise was Tk. 1,440.
- May 31 BMX received payment from SNK for purchase of May 21, less discount 2%.

END OF SECTION B