Roll No.______________ Reg. No.____________ Date__________
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GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

MODEL PAPER

M. Com. Part I

Course Code: MC-506 Course Title: **Accounting For Decision Making**

Objective Part Time Allowed: **30** Minutes
Marks:**20**

Note: Question No. 1 is compulsory and its all parts carry equal marks. Please attempt the answers on the same paper and return it to the center superintendent within the time allowed.

Q. No. 1 Tick the correct choice
(20X1)

1- Generally accepted accounting principles
a. are fundamental truths or axioms that can be derived from laws of nature.
b. derive their authority from legal court proceedings.
c. derive their credibility and authority from general recognition and acceptance by the accounting profession.
d. have been specified in detail in the FASB conceptual framework.

2- After gross profit is calculated, operating expenses are deducted to determine
a. gross margin. b. net income.
c. gross profit on sales. d. net margin.

3- Accumulated Depreciation is
a. an expense account. b. an owner's equity account.
c. a liability account. d. a contra asset account

4- An adjusting entry
a. affects two balance sheet accounts.
b. affects two income statement accounts.
c. affects a balance sheet account and an income statement account.
d. is always a compound entry.

5- The elements of financial statements include investments by owners. These are increases in an entity's net assets resulting from owners'
a. transfers of assets to the entity.
b. rendering services to the entity.
c. satisfaction of liabilities of the entity.
d. all of these.

6- The major elements of the income statement are
a. revenue, cost of goods sold, selling expenses, and general expense.
b. operating section, nonoperating section, discontinued operations, extraordinary items, and cumulative effect.
c. revenues, expenses, gains, and losses.
d. all of these.

7- Which of the following is *not* a selling expense?
a. Advertising expense
b. Office salaries expense
c. Freight-out
d. Store supplies consumed

8- Which of these is generally an example of an extraordinary item?
a. Loss incurred because of a strike by employees.
b. Write-off of deferred marketing costs believed to have no future benefit.
c. Gain resulting from the devaluation of the U.S. dollar.
d. Gain resulting from the state exercising its right of eminent domain on a piece of land used as a parking lot.

9- Income taxes are allocated to

a. extraordinary items.
b. discontinued operations.
c. prior period adjustments.
d. all of these.

10- Earnings per share should always be shown separately for
a. net income and gross margin.
b. net income and pretax income.
c. income before extraordinary items.
d. extraordinary items and prior period adjustments.

11- Which of the following is considered cash?
a. Certificates of deposit (CDs)
b. Money market checking accounts
c. Money market savings certificates
d. Postdated checks

12- The accounts receivable turnover ratio measures the
a. number of times the average balance of accounts receivable is collected during the period.
b. percentage of accounts receivable turned over to a collection agency during the period.
c. percentage of accounts receivable arising during certain seasons.
d. number of times the average balance of inventory is sold during the period.

13- Trade discounts are
a. not recorded in the accounts; rather they are a means of computing a price.
b. used to avoid frequent changes in catalogues.
c. used to quote different prices for different quantities purchased.
d. all of the above.

14- Treasury shares are
a. shares held as an investment by the treasurer of the corporation.
b. shares held as an investment of the corporation.
c. issued and outstanding shares.
d. issued but not outstanding shares.

15- Cash dividends are paid on the basis of the number of shares
a. authorized.
b. issued.
c. outstanding.
d. outstanding less the number of treasury shares.

16- The residual interest in a corporation belongs to the
a. management.
b. creditors.
c. common stockholders.
d. preferred stockholders.

17- Of the following questions, which one would not be answered by the statement of cash flows?
a. Where did the cash come from during the period?
b. What was the cash used for during the period?
c. Were all the cash expenditures of benefit to the company during the period?
d. What was the change in the cash balance during the period?

18- A business that enjoys limited liability is a
a. proprietorship.
b. partnership.
c. corporation.
d. sole proprietorship

19- The partnership form of business organization
a. is a separate legal entity.
b. is a common form of organization for service-type businesses.

c. enjoys an unlimited life.
d. has limited liability.

20- Owner's equity is increased by

a. drawings.
b. revenues.
c. expenses.
d. liabilities.

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MODEL PAPER

M. Com. Part I

Course Code: MC-506 Course Title: ***Accounting For Decision Making***

Subjective Part	Time Allowed: 02:30 Hours	Marks:80

Note: Attempt any four questions and each question carries equal marks.

Q. No. 2 The trial balance of Goldsmith Company shown below pertains to December 31, 20X5, which is the end of its year-long accounting period. Data needed for the adjusting entries include the following:

a. Supplies on hand at year end Rs. 2000.
b. Depreciation on furniture and fixture Rs. 20000
c. Depreciation on building Rs. 10000.
d. Salaries owed but not yet paid Rs 5000.
e. Accrued service revenue Rs. 120000
f. Of the Rs. 45000 balance of unearned service revenue Rs 32000 was earned during the year.
g. Accrued income tax expense Rs 35000

Goldsmith Company
Trail Balance
December 31, 20X5

Cash	198000	
Account Receivable	370000	
Supplies	6000	
Furniture and fixture	100000	
Accumulated Depreciation- Furniture & fixture		40000
Building	250000	
Accumulated depreciation- building		130000
Accounts Payable		380000
Salary payable		
Unearned service revenue		45000
Common Stock		10000
Retained Earnings		193000
Dividend	65000	
Service revenue		286000
Salaries Expense	172000	
Misc. Expenses	13000	
Total	**RS 174000**	**Rs174000**

Requirement: Prepare work sheet.

Required: Prepare work sheet?

Q. No. 3 On December 31, 20X6, Caribbean Cruise Lines (CCL) issues 9%, 10-year convertible bonds payable with a maturity value of $300,000. The semiannual interest dates are

June 30 and December 31. The market interest rate is 8%, and the issue price of the bonds is 106. CCL amortizes bonds by the effective-interest method.

Required

1. Journalize the following transactions.

a. Issuance of the bonds on December 31, 20X6. Credit Convertible Bonds Payable.

b. Payment of interest and amortization of the bonds on June 30, 20X7.

c. Payment of interest and amortization of the bonds on December 31, 20X7.

d. Conversion by the bondholders on July 1, 20X8, of bonds with face value of $150,000 into 10,000 shares of CCL's $1-par common stock.

2. Show how Caribbean Cruise Lines would report the remaining bonds payable on its balance sheet at December 31, 20X8.

Q. No. 4 On January 5, 2010, Phelps Corporation received a charter granting the right to issue 5,000 shares of $100 par value, 8% cumulative and nonparticipating preferred stock, and 50,000 shares of $10 par value common stock. It then completed these transactions.

Jan. 11	Issued 20000 shares of common stock at $16 per share.
Feb. 1	Issued to Sanchez Corp. 4000 shares of preferred stock for the following assets: Machinery with fair market value of $50000; a factory building with a fair market value of $160000; and land with an appraised value of $270000.
July 29	Purchased 1800 shares of common stock at $17 per shares (Use cost method)
Dec. 31	Declared a $ 0.25 per share cash dividend on the common stock and declared the preferred dividend.
Dec. 31	Closed the income summary account. There was a $175700 net income.

Required:

a. Record the journal entries for transaction listed above.
b. Prepared the stockholders' equity section of Phelps Corporation's balance sheet as of December 31, 2010.

Q. No. 5 On June 1, 2009, Bluhm Company and Amanar Company merged to form Davenport Inc. A total of 800,000 shares were issued to complete the merger. The new corporation reports on a calendar-year basis.

On April 1, 2011, the company issued an additional 600,000 shares of stock for cash. All 1,400,000 shares were outstanding on December 31, 2011.

Davenport Inc. also issued $600,000 of 20-year, 8% convertible bonds at par on July 1, 2011. Each $1,000 bond converts to 40 shares of common at any interest date. None of the bonds have been converted to date.

Davenport Inc. is preparing its annual report for the fiscal year ending December 31, 2011. The annual report will show earnings per share figures based upon a reported after-tax net income of $1,540,000.

Required:

The number of shares and Earning Per Share under

(1) Basic earnings per share.

(2) Diluted earnings per share.

Q. No. 6 (A) Describe the presentation of deferred income taxes in financial statements.

(B) Havaci Company reports pretax financial income of $80,000 for 2010. The following items cause taxable income to be different than pretax financial income.

1. Depreciation on the tax return is greater than depreciation on the income statement by $16000.
2. Rent Collected on the tax return is greater than rent earned on the income statement by $27000

3. Fine for pollution appear as an expense of $11000 on the income statement.

Havaci's tax rate is 30% for all years, and the company expects to report taxable income in all future years. There are no deferred taxes at the beginning of 2010.

Required:

(a) Compute taxable income and income taxes payable for 2010.

(b) Prepare the journal entry to record income tax expense, deferred income taxes, and income taxes payable for 2010.

(c) Prepare the income tax expense section of the income statement for 2010, beginning with the line "Income before income taxes."

(d) Compute the effective income tax rate for 2010.

Q. No. 7 **(A**) Explain the nature, economic substance, and advantages of lease transactions.

(B) Brecker Company leases an automobile with a fair value of $10,906 from Emporia Motors, Inc., on the following terms:

1. Non-cancelable term of 50 months.
2. Rental of $250/month (at the end of each month). (the present value at 1% per month is $9800.)
3. Estimate residual value after 50 months is $1180. (the present value at 1% per month is $ 715.)
4. Estimate economic life of the automobile is 60 months.
5. Brecker Company's incremental borrowing rate is 12% a year (15 a month). Emporia's implicit rate is unknown.

Required:

a) What is the nature of this lease to Brecker Company?
b) What is the present value of the minimum lease payments?
c) Record the lease on Brecker Company's books at the date of inspection
d) Record the first month's depreciation on Brecker Company's books (assume straight line)
e) Record the 1st month lease payment.