The Institute of Chartered Accountants of Pakistan

Modular Examinations **Spring 2001**

March 10, 2001

FINANCIAL ACCOUNTING-1 **(MARKS 100)**
SPECIAL MODULE (Paper – B4) **(3 hours)**

Q.1 You are requested to answer the following with reference to International Accounting Standards.

i. Explain the following:
   a. Going Concern
   b. Substance over form.
   c. Depreciable assets **(09)**

ii. Mention components of a complete set of financial statements. **(03)**

iii. Mention the conditions for offsetting the items of Income and Expenses. **(03)**

Q.2 Factoring is considered to be an important source of working capital financing.

(a) Explain the term Factoring. **(03)**
(b) List its important features. **(06)**

Q.3(a) The following transactions relate to Bills Receivable Account of Faiz Ltd. For the month of December 2000:

		Rupees
Dec.01	Opening Balance	85,500
Dec.14	Kay Ltd. accepted a bill for three months	36,000
Dec.20	A bill receivable from Hai Ltd. was honoured on presentation.	20,250
Dec.24	The Co.'s bank notified that a bill from Zee Ltd. for Rs.30,000 had been discounted with the bank @ 2.5% had been dishonoured	30,000
Dec.31	The bill from Kay Ltd was discounted with the bank. Dicounting charges	750

Required: Calculate the Balance of Bills Receivable as at Dec. 31, 2000. **(04)**

(b) A company purchased a machine for Rs.120,000 with an expected life of 5 years. Straight line method of depreciation is used by the Company. At the beginning of year 3, the Company incurred expenses on major technical improvements amounting to Rs.40,000. This enhanced the useful life of the machine by three years. The expected residual value of Rs.3,000 at the end of 8th year.

Required: What is the depreciable amount of the asset after technical improvements have been made? **(04)**

Q 4 On 31st December 2000, the Cash Book of XYZ Trading Company showed a debit balance of Rs. 850. On comparing the Cash Book with the Bank Statement, the following discrepancies were noted:

(a) Cheques issued for Rs. 600 were not presented at Bank by 31st December 2000.

(b) Cheques of Rs. 800 were deposited in Bank but were not cleared.

(c) Rs. 2,000 being the proceeds of a Bill Receivable collected appears in the Bank Statement but not in the Cash Book.

(d) A cheque for Rs. 100 received from X & Company and deposited in Bank was dishonoured. No advice of non-payment was received from Bank till the first of next January 2001.

(e) The Bank has paid a Bill Payable amounting to Rs. 450 but it has not been entered in the Cash Book.

(f) A Bill Receivable for Rs. 800, which was discounted with the Bank was due this month. It was dishonoured by the drawee on due date.

(g) A cheque for Rs. 510 was paid into Bank but the Bank credited the account with Rs. 501 by mistake.

(h) A cheque for Rs. 50 was deposited into Bank but the same was credited to a wrong account.

(i) Rs. 200 was deposited by a customer direct into the Bank.

(j) The Bank received interest on debentures on behalf of the Company the amount being Rs. 250.

(k) A cheque for Rs. 150 received from a customer deposited into Bank but the same was not entered into the Cash Book.

(l) The bank paid Rs. 125 by way of Insurance premium.

(m) The Bank charged Rs. 9 as their commission for collecting outstation cheques and allowed interest of Rs. 10 on the Company's balance.

(n) A cheque for Rs. 25 entered into the Cash Book was omitted to be banked.

Required:

Prepare a Bank Reconciliation Statement and show the balance as per Bank Statement. **(10)**

Q.5 The Trial Balance of Johnson & Company a manufacturing concern, as at 31st December 2000 was:

		Rs.	Rs.
Drawings		7,650	
Sales			140,500
Income from investment			2,380
Purchase of Raw materials		34,630	
Manufacturing wages		39,720	
Repairs and renewals		1,580	
Rent		2,600	
Heat and light		3,574	
Power		8,600	
Office expense		2,140	
Telephone		662	
Supervisory wages		8,656	
Office salaries		5,460	
Selling and distribution expenses		10,400	
Land, at cost		8,500	
Factory building at cost		25,000	
Depreciation on buildings			8,000
Plant and machinery at cost		54,000	
Depreciation on Plant and machinery			22,000
Investment at cost		8,000	
Opening stock 01 January			
Raw materials	7,800		
Finished goods	21,600	29,400	
Debtors		19,600	
Loans		5,000	
Creditors			27,970
Capital Account			68,400
Provision for doubtful debts			750
Insurance		1,460	
Bank overdraft			6,632
		---	---
		276,632	276,632
		=====	=====

Notes:

a. Closing Stock (at cost) were:

Raw materials	8,240
Finished goods	23,420

b. Rent for the ½ year to 31st March next year had been paid Rs. 2,040. The rented building is used 80 % for manufacturing and 20 % for administration.

c. The following accruals were estimated:

Heat and light	140
Power	430
Telephone	31

d. Insurance had been paid:

02 January. whole year	340
24 June, whole year	642

e. Office repairs Rs. 83.

f. The factory occupies four-fifth of the buildings and this fraction is applied to insurances, as well as to heat and light to apportion these costs.

g. Bad Debts provision is to be adjusted to 5 % of debtors.

h. Depreciation on cost at straight line method is:

Building	5 %
Plant and machinery	10 %

Required:

Prepare a manufacturing, trading and profit and loss account and Balance Sheet as at 31st December 2000. **(15)**

Q.6 The Income and Expenditure Account of the Citizen Club for the year 2000 is as follows:

Expenditure	Rs.	Income	Rs.
Salaries	120,000	Subscription	170,000
Printing and Stationery	6,000	Enterance fee	4,000
Postage	500	Contribution for Dinner	36,000
Telephone	1,500		
General Expenses	12,000		
Interest and Bank charges	5,500		
Audit Fees	2,500		
Annual Dinner expenses	25,000		
Depreciation	7,000		
Surplus	30,000		
	---		---
	210,000		210,000
	======		======

The account has been prepared after the following adjustments:

		Rs.
a.	Subscription outstanding as at 31st December 1999	16,000
b.	Subscription outstanding as at 31st December 2000	18,000
c.	Subscription received in advance on 31st December 1999	13,000
d.	Subscription received in advance on 31st December 2000	8,400
e.	Salaries outstanding as at 31st December 1999	6,000
f.	Salaries outstanding as at 31st December 2000	8,000
g.	Audit fees for 1999 paid during 2000	2,000
h.	Audit fees for 2000 not paid	2,500
i.	The club owned a building since 1999	190,000
j.	The club had sports equipment on 31st December 1999 valued at	52,000
	At the end of the year after depreciation of Rs. 7,000	
	Equipment amounted to	63,000
k.	In 1999, the Club had raised a bank loan which is still not paid	30,000
l.	Cash in hand on 31st December 2000	28,500

Required: Prepare the Receipt and Payment Account of the Club for the year 2000 and the Balance Sheet as at 31st December 2000. All workings should form part of your answer. **(15)**

Q.7 Tauheed, Kashif and Tanveer are in partnership sharing profits and losses in proportion of 2:2:1 respectively. It was agreed that in case of retirement or death of a partner, the value of the goodwill shall be determined at 1 ½ years purchase of the average profits of the last four years. Tanveer retired from the business with effect from 1st July 2000, and the following matters came up for consideration in connection therewith:

a. Capital expenditure of Rs. 3,000 incurred on 15th November 1996 wrongly debited to purchase account is to be written back and the depreciation at 10 % is to be charged annually on the closing balances on reducing balance method.

b. No adjustment was made for goods worth Rs. 1,000 taken over by Tauheed 28th March 2000.

c. The profits for four years ended 30th June

1996-97	Rs.	12,000
1997-98	Rs.	15,000
1998-99	Rs.	14,000
1999-00	Rs.	16,000

d. Tanveer's Capital a/c stood at Rs.55,000 as on 30th June 2000.

Required: Draw up capital account of Tanveer and find out the amount due to him.

(10)

Q.8 M/s. Mukhtar Brothers, with their Head Office at Karachi had a branch at Lahore. They supply goods to its branch at selling price less 20 %. The Company as well as the Branch sell goods to their customers at profit of 100 % on cost. Mukhtar Brothers also sell goods to their approved stockists at the same price at which they are selling to their Branch at Lahore.

Required: From the following particulars prepare trading account of the Head Office and of the Branch for the second year of their business and show the provision for unrealised profits on stock at the Branch supplied by the Head Office. **(15)**

Particulars	Head Office	Branch
	Rs.	Rs.
Stock in the beginning	3,000	160
Purchases during the year	25,600	
Goods sent to the Branch	4,000	
Goods received from the Head Office		4,000
Goods sold to approved stockist	6,000	
Goods sold to customers	12,000	3,600
Expenses	200	100

(THE END)

The Institute of Chartered Accountants of Pakistan

Modular Foundation Examinations **Autumn 2001**

September 6, 2001

FINANCIAL ACCOUNTING-1 **(MARKS 100)**
Paper B4 (B,SM'2', '4A', '6A' & '8') **(3 hours)**

Q.1

(a) Define a 'commercial bank'. List and briefly discuss any four major business activities undertaken by the commercial banks. **(05)**

(b) List the disadvantages in running a business in the form of a partnership firm as compared to a private limited company. **(03)**

(c) What are the conditions which should be satisfied by an enterprise for the recognition of sale of goods? **(04)**

(d) Name any five accounting policies, which usually appear in notes to the accounts of a listed public company. **(04)**

Q.2

(a) An organization's year end is December 31. On March 01, 2000 the organization obtained a loan of Rs.1,600,000 with annual interest of 12%. The interest is payable in equal installments on the first day of January, March, May, July, September and November in arrears.

Required:

Please ascertain the amount to be charged to the profit and loss account for the year ended December 31, 2000, and the accrual in the Balance Sheet as at that date. Please show calculations to support your answer. **(04)**

(b) On July 1, 1997, A Co. Ltd. purchased second hand machinery for Rs.60,000 and spent Rs.9,000 on reconditioning and installing it. On January 1, 1998 the firm purchased new machinery worth Rs.36,000. On June 30, 1999 the machinery purchased on January 1, 1998 was sold for Rs.24,000. On July 1, 1999 fresh plant was installed at a cost of Rs.45,000. The company provides depreciation at 10% of the original cost. The accounts are closed on 31 March.

Required:

You are required to prepare machinery account for three years ended March 31, 2000. **(06)**

Q.3 Following are the details in the books of A Ltd for the year 2000.

		Rupees
Debtors on January 1, 2000	Credit	174,250
"	Debit	3,200
Creditors on January 1, 2000	Debit	274,080
"	Credit	2,040
Purchases		252,000
Sales		282,090
Sales returns		2,080
Purchase returns		7,140
Cash paid to creditors		127,000
Bills received from debtors		93,000
Bills dishonoured		2,000

Bills accepted for creditors	74,000
Discount allowed to debtors	2,150
Discount allowed to debtors but later on disallowed	1,000
Cash received from debtors	87,000
Discount allowed by creditors	10,200
Cash paid to debtors	250
Transfer from debtor to creditor ledger	12,420
Cash purchases	43,200
Cash sales	74,000
Bad debts written off	2,150

Required:
Prepare adjustment accounts in 'Sales ledger' and the 'Purchases ledger'. **(11)**

Q.4 Messrs Modern Chemicals were unable to agree the trial balance on June 30, 2001 and have raised a 'Suspense Account' for the difference. Later the following errors were discovered and rectified and the 'Suspense Account' was balanced:

(a) The addition of the sundry purchases in the purchase journal was short by Rs.1500.
(b) A bill of exchange (received from Mr. Razzak) for Rs.20,000 had been returned by the bank as 'dishonoured' which had been credited to the bank ad debited to the bill receivable account.
(c) Goods valuing of Rs.1050 returned by Mr. Farooq, a customer, had been posted to the debit of 'Accounts Receivables' and also to sales returns.
(d) Sundry items of furniture sold for Rs.30,000 had been entered in the sales day book, the total of which had been posted to sales.
(e) An amount of Rs.6,000 due from Mr. Mahmood, a customer, had been omitted from the schedule of sundry debtors.
(f) Discount amounting to Rs.300 allowed to customer had been posted in his account, but not posted in the discount account.
(g) Insurance premium of Rs.4,500 paid on June 30, 2000 for the year ended June 30, 2001 had not been brought forward.

Required:
(i) Pass journal entries to rectify the above mistakes.
(ii) Draw up the 'Suspense Account'.
(iii) Show how the above mistakes affect the profit for the year ended June 30, 2001.

(15)

Q.5 Rashid commenced business as a cloth merchant on January 1, 2000 with a capital of Rs.50,000. On the same day he purchased furniture and fittings for cash Rs.15,000. Following are the particulars obtained from his books kept under single entry system:

	Rupees
Sales (inclusive of cash sales Rs.35,000)	85,000
Purchases (inclusive of cash purchases Rs.20,000)	75,000
Rashid's drawings	6,000
Salaries to staff	10,000
Bad debts written off	2,500
Business expenses	3,500

Rashid took cloth wroth Rs.2,500 from the shop for private use and paid Rs.1,000 to his son, but omitted to record these transactions in his books. On December 31, 2000 his debtors were Rs.26,000 and creditors Rs.18,000. Stock in hand on December 31, 2000 was Rs.39,000.
Depreciation is to be charged @ 10%.

Required: Trading and profit and loss for the year ended December 31, 2000 and the Balance Sheet as at December 31, 2000. **(11)**

Q.6 Raja Mills (Pvt) Ltd of Lahore sent 500 pieces of shirts to Fancy Stores – Gujranwala on consignment basis. The consignees are entitled to a commission of 5% plus expenses. The cost of each shirt to Raja Mills (Pvt) Ltd is Rs.40. Fancy Stores paid the following expenses:

	Rupees
Freight	1,000
Rent & Insurance	500

Raja Mills (Pvt) Ltd drew on consignees a draft for Rs. 10,000 which was duly accepted. Later on Fancy Stores reported that the entire consignment was sold for Rs.30,000.

Required: Show the relevant ledger accounts in the books of the consignor. **(08)**

Q.7 Mujahid & Co Ltd acquired on lease a property from Mr. Ghazanfar Ali at a Royalty of Rs.7.5 per ton with a minimum rent of Rs.10,000 per annum. Each year's excess of minimum rent over royalties is recoverable out of the royalties of next five years.
In the event of a strike and the minimum rental not being reached, the lease provided that short working would stand reduced proportionally to the actual time worked.
The results of the working are as follows:

Year ended December	Actual Royalties Rupees
1994	nil
1995	3,250
1996	9,250
1997	11,250
1998	17,500
1999	6,000
2000	15,000

Required:

(a) Prepare the following accounts in the books of lessee:
- (i) Minimum rent
- (ii) Royalties
- (iii) Shortworkings

(b) Show the amount charged to profit and loss account each year. **(15)**

Q.8 A business had a bank balance of Rs. 12.5 million at the start of the month. During the following month, it paid for materials invoiced at Rs. 18.0 million less trade discount of 25% and cash discount of 20%. It received a cheque from a debtor in respect of an invoice for Rs. 12.0 million, subject to cash discount of 10%.

Required :

What was the balance at the bank at the end of the month? Please show calculations to support your answer. **(06)**

Q.9 After calculating the company's profit for the year ended June 30, 2001, the Accounts Manager discovered that:

a) fixed assets costing Rs. 25 million have been included in the purchases account;
b) stationery costing Rs. 0.50 million has been included as closing stock of raw-materials, instead of stock of stationery.

Required :

What effects the aforementioned facts discovered by the Manager Accounts had on the company's gross and net profits? (Please ignore the impact of depreciation on fixed assets)

(08)

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Modular Foundation Examinations **Spring 2002**

March 7, 2002

FINANCIAL ACCOUNTING-1 **(MARKS 100)**
Paper B4 (Module B, SM-2, 4A, 6A & 8) **(3 hours)**

Q.1 You have joined a company as Financial Controller and your assistant has prepared the forecasted financial statements for the year ending June 30, 2002.
These forecasts reflect that the company is expected to make a loss during the year to June 30, 2002. This would be the first time that the company would make a loss since it was incorporated ten years ago.
The CEO of the company, with a marketing background, is concerned that the company's shareholders would be unhappy to hear that the company has made a loss. CEO suggests the following:

i. Do not make any further provision on account of doubtful debts and reverse the full amount of provisions made in previous years.
ii. Do not provide for depreciation charge for the year.
iii. Consider crediting the profit and loss account with the provision on account of obsolete stocks-in-trade made in previous years and make no further provision this year.

Required: Review the CEO's suggestions with reference to generally accepted accounting concepts. **18**

Q.2 After calculating net profit for the year ended June 30, 2001, Mr Ehsan has the following trial balance:

	Dr	Cr
	Rupees '000'	
Land and building cost	100,000	
Land and Buildingaccumulated depreciation at June 30, 2001		20,000
Plant – cost	120,000	-
Plant – accumulated depreciation at June 30, 2001		30,000
Stocksintrade	25,000	--
Debtors	15,000	--
Bank	82,500	--
Creditors	--	17,000
Prepaid Rent	4,000	--
Accrued Salaries		3,000
Mr Ehsan's Capital Account		194,000
Profit for the year ended June 30, 2001		97,500
	346,500	**361,500**

A suspense account was opened for the difference in the trial balance.
Following errors were discovered:

i. A creditors account has been debited with a Rs.3.0 million sales invoice (which had been correctly recorded in the sales account).
ii. The heat and light account had been credited with gas paid Rs.1.5 million;
Iii. Mr A Gondal had been credited with a cheque received from Mr I Gondal for Rs.8.0 million. Both are debtors.
iv. The insurance account contained a credit entry for insurance prepaid of Rs.5.0 million, but the balance had not been carried down and hence had been omitted from the above trial balance.
v. Purchase return had been over cast by Rs.7.0 million.

Required:

a. Prepare journal entries to correct each of the above errors. **05**
b. Open the Suspense Account at June 30, 2001 and enter the relevant corrections **05**
c. Name the type of error which has occurred in each of items (i), (ii) & (iii) **03**
d. Recalculate the net profit for the year to June 30, 2001 **03**
e. Prepare the Balance Sheet at June 30, 2001 **08**

Q.3 On December 13, 2001 the accounting records of Mr Ikram Rizwan were partly destroyed by fire. His accountant has provided the following list of assets, liabilities and capital at December 31, 2000:

	Rupees
Plant and Machinery	1,128,000
Office Equipment	450,000
Inventory	305,000
Debtors and prepayments	350,000
Creditors and accruals	176,000
Short Term running finance	88,500
Loan (interest @ 10% per annum)	950,000
Capital	1,170,500

A summary of his receipts & payments during the year 2001 can be extracted from the bank statements, as follows:

Receipts:	Rupees
Capital paid in	220,000
Receipt from Debtors	4,275,000
Payments:	
Cash withdrawn	224,500
Loan repayments	220,000
Paid to creditors	1,756,000
Rent paid	220,000
Wages	900,000
General expenses paid	125,000

The following additional information is obtained:

i At December 31, 2000, the debtors figure included Rs.25,000 for rent paid in advance and the creditors figure included Rs.43,000 for wages accrued for the last week of December 2000;

ii Of the cash withdrawn from the bank during the year 2001, was for:

	Rupees
Wages	67,500
Cash payment to suppliers	42,000
Printing of advertising leaflets (half of which are still to be distributed) remainder taken by Mr Ikram for personal use.	26,000

iii The plant and machinery had been purchased for Rs.2,000,000 in the year 1999 and was being depreciated at 20% per annum on the reducing balance basis.
The Office equipment was bought during 2000 and was being depreciated over 10 years on the straight line basis, with a full year's depreciation in the year of purchase.

iv During the year 2001, Mr Ikram transferred a private motor vehicle worth Rs.50,000 to his business. It is to be depreciated over 4 years on the straight line basis, with a full year's depreciation in the year of acquisition.

v The bank balance at December 31, 2001, according to the bank statement, after adjusting for unpresented cheques, was Rs.1,067,000.
Any difference is assumed to be cash sales banked, after deducting Rs.300 per week wages paid to Mr Ikram's son, who assists in the office.

vi The loan repayments from the bank account include interest of Rs.95,000.

vii Other balances at December 31, 2001 are:

	Rupees
Inventory	287,500
Rent paid in advance	27,000
Wages owing	52,500
Creditors for supplies	122,000
Debtors	223,000

viii It is subsequently discovered that debtor owing Rs.160,000 has gone into liquidation, and a recovering of only 20% is expected.

Required: a. Prepare the trading and profit and loss account for Mr Ikram Rizwan for the year ended December 31, 2001. **12**

b. Prepare a Balance Sheet at December 31, 2001. **08**

Q.4 Azhar, Asfar and Ashar entered into a joint venture for dealing in carrots. The transactions connected with this venture were:

2001	Rs.
Jan 8th Azhar rented land cost	256,000
Jan 10th Asfar supplied seeds cost	148,000
Jan 17th Azhar employed labour for planting	205,000
Jan 19th Asfar charged motor expense	117,000
Jan 30th Azhar employed labour for fertilizing	136,000

February 28th Azhar paid the following expenses

- Labour	118,000
- Fertilizer	129,000
- Miscellaneous expenses	110,000
March 17th Asher employed labour for lifting carrots	173,000
March 30th Sale expenses paid by Asher	139,000
March 31st Asher received cash from sale proceeds gross	2,087,000

Required:
Show the joint venture accounts in the books of Azhar, Asfar and Asher.
Also show in full the method of arriving at the profit on the venture which is to be apportioned;
Azhar 7/12th; Asfar 3/12th; Asher 2./12th.
Any outstanding balances between the parties are settled by cheque on April 30, 2001. **15**

Q.5 A new partner has joined the business during the year and has paid in Rs.0.5 million for 'goodwill'.
This Rs.0.5 million has been credited by the book keeper to the account of the new partner. The Senior Partner had objected to this, but the book keeper had replied:
"Why not credit the Rs.0.5 million to the account of the new partner? It is his money after all?

Required: Give your advice as to the proper treatment for this Rs.0.5 million. Explain your reasons. **10**

Q.6 Mr Jawad is the proprietor of a shop named Universal Books & Gift Shop selling books, periodicals, newspaper and children games. For the purposes of his accounts he wishes the business to be divided into two departments:

Department A – Books, periodicals and newspapers
Department B – Games, toys and fancy goods

The following balances have been extracted from his nominal ledger at June 30, 2001.

	Dr	Cr
	Rupees '000'	
Sales Department A		25,000
Sales Department B		20,450
Stocks Department A, July 01, 2000	2,500	
Stocks Department B, July 01, 2000	2,000	
Purchase Department A	18,755	
Purchase Department B	14,350	
Sales Assistant salaries Department A	2,425	
Sales Assistant salaries Department B	1,250	
Newspaper delivery wages	350	
General office salaries	1,150	

	Dr.	Cr
	(Rupees in '000)	
Rent & Taxes	170	
Fire insurance – building	275	
Lighting & air conditioning	450	
Repairs to premises	115	
Internal Telephone	40	
Cleaning	75	
Accountancy & Audit charges	200	
General office expenses	95	

Stocks as at the year end were:
Department A Rs. 3,200,000
Department B Rs. 1,600,000

The proportion of the total floor area occupied by each department was:
Department A - $1/5^{th}$
Department B - $4/5^{th}$

Required:
Prepare shop's Trading and Profit and Loss Account for the year ended June 30, 2001.
Following method can be applied for apportionment of overhead expenses between departments:

Area – Rent, Fire Insurance, lighting and air conditioning, repairs, telephone, cleaning;
Turnover – General office salaries, accountancy, general office expenses **13**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Modular Foundation Examinations **Autumn 2002**

September 05, 2002

INTRODUCTION TO FINANCIAL ACCOUNTING **(MARKS 100)**
Module B Paper B4 **(3 hours)**

Q.1 (a) Briefly describe the elements directly related to the measurement of financial position as per the framework for the preparation and presentation of Financial Statements. **(03)**

(b) Briefly explain how assets and liabilities are recorded in financial statements under each of the following basis of measurement:

(i) Historical cost;
(ii) Current cost;
(iii) Realizable (settlement) value;
(iv) Present value. **(06)**

(c) State which one of the above basis of measurement is most commonly adopted by the enterprises in preparing their financial statements. **(01)**

(d) What is the objective of general purpose financial statements? What minimum information should be disclosed in such financial statements to achieve such objective? **(03)**

Q.2 (a) Nippon Ltd. took delivery of a LAN server on the first day of July 2001. The list price of the equipment was Rs.150,000 but Nippon Ltd. was able to negotiate a price of Rs.100,000 with the supplier. However, the supplier charged an additional Rs.3,400 to install and test the equipment. The supplier offered a 5% discount if Nippon Ltd. paid for the equipment and additional installation cost within seven days. Nippon Ltd. was able to take advantage of this additional discount.

The installation of special electrical wiring for the server cost Rs.1,100. After initial testing certain modifications costing Rs.1,900 proved necessary.

MIS staff were sent on special training courses to operate the server which costed Rs.9,900 to Nippon Ltd. The equipment was insured against fire and theft at a premium of 4% per annum of cost.

A maintenance agreement was entered into with a company, which promised to provide 24 hours breakdown cover for one year at the cost of Rs.3,500.

Required: Calculate acquisition cost of server to Nippon Ltd. **(05)**

(b) The following transactions were also executed by Nippon Ltd. during the financial year ended June 30, 2002:

(i) Interest on loan to purchase LAN server.
(ii) Cost of software for use with the server.
(iii) Cost of customizing the software for use in Nippon Ltd's business.
(iv) Cost of paper used by the computer printer.

(v) Wages of server operators.
(vi) Cost of cartridge used by the computer printer.
(vii) Cost of adding extra RAM to the server.
(viii) Cost of CDs used during the year.
(ix) Cost of adding a manufacturer's upgrade to the LAN Server.
(x) Cost of adding air conditioning to the computer room.

Required: Classify each of the above as Capital or Revenue Expenditure. **(05)**

Q.3 (a) Explain briefly why a provision may be made for doubtful debts. **(02)**

(b) Explain the book keeping procedure to be followed when a customer whose debt has been written off as bad subsequently pays the amount originally owing. **(02)**

(c) Mr Inam Ellahi on January 01, 2001 had debtors of Rs.2,500,000 on which he had made provision for doubtful debts of 4%. During the year,

(i) Mr Mujahid who owed Mr Inam Ellahi Rs.120,000 was declared bankrupt and a settlement of Rs.250 in one thousand rupees was made, the balance being treated as a bad debt.

(ii) Other bad debts written off during the year was Rs.230,000.

(iii) On December 31, 2001 total debtors amounted to Rs.2.43 million but this requires adjustment as follows:

- Ms Samreen, a debtor owing Rs.60,000 was considered unrealizable. This amount is to be written off.
- A cheque amounting to Rs.20,000 received from Mr. Saleem deposited earlier but returned unpaid by the bank at the year end.

Mr Inam Ellahi maintained his provision for doubtful debts at 4% debtors.

Required: (a) For the year ended December 31, 2001, show the entries in the following accounts:

(i) Provision for doubtful debts; **(02)**

(ii) Bad debts expenses. **(03)**

(b) What is the effect on net profit of the change in the provision for doubtful debts? **(02)**

Q.4 On December 31, 2001 the bank column of Hameed & Co.'s cash book showed a debit balance of Rs.15,000.

The monthly bank statement written upto December 31, 2001 showed a credit balance of Rs.29,500.

On checking the cash book with the bank it was discovered that the following transactions had not been entered in the cash book:

(a) A standing order of Rs.2,000 for Hameed & Co's loan repayment had been paid by the bank;

(b) Hameed & Co's deposit account balance of Rs.14,000 was transferred into his bank's current account;

(c) Dividends of Rs.2,400 had been paid directly into bank;

(d) Bank charges of Rs.300;

(e) A credit transfer – Customs & Excise Refund of Rs.2,600 had been collected by the bank.

(f) A direct debit of Rs.700 for the club subscription had been paid by the bank.

(g) A further review revealed the following items:

(i) Some cheques issued in favour of different suppliers amounting to Rs.5,400 had been entered in the cash book, but had not been presented for payment.

(ii) Cheques received from debtors amounting to Rs.6,900 had been paid into the bank on December 31, 2001 but were not credited by the bank until January 2, 2002.

Required: Prepare a bank reconciliation statement as at December 31, 2001. **(07)**

Q.5 (a) State briefly why in certain accounting systems a purchase ledger control account is maintained as well as a purchase ledger subsidiary account? **(02)**

(b) State the numerical effect on the Purchase Ledger Control Account balance of correcting each of the following items (treating each item separately). **(03)**

(i) A credit note for Rs.60,000 had been entered as if it was an invoice;

(ii) An invoice for Rs.754,000 has been entered in the purchase day book as 574,000;

(iii) Purchases of Rs.255,000 had been entered on the wrong side of a supplier's account in the purchase ledger;

(iv) A prompt payment discount of Rs.10,000 from a creditor had been completely omitted from the accounting record;

(v) No entry had been made to record an agreement to contra an amount owed to Mr Irfan of Rs.60,000 against an amount owed by him of Rs.40,000.

(c) Information technology and computerized systems are rapidly increasing the importance of data recording. Do you consider that this trend will eventually remove the need for control accounts to be incorporated in the design of accounting systems? Explain your answer very briefly. **(02)**

Q.6 The Accountant of a company after preparing its draft final accounts for the ended June 30, 2002, was reviewing stocks valuation list and found that the list contained the following entry:

Item No.	-	YA 4113
Quantity	-	1,000
Cost per unit	-	Rs.139.05
Total cost	-	Rs.1,395,000

Required:

(a) What is wrong with the aforementioned entry?

(b) Identify the effect of the error on:

(i) the value of stock as at June 30, 2002;

(ii) the cost of goods sold for the year ended June 30, 2002;

(iii) the net profit for the year ended June 30, 2002;

(iv) the total for current assets as at June 30, 2002;

(v) the equity as at June 30, 2002. **(04)**

Q.7 Mr Saud Jawad has been running a small business for several years, but he never kept adequate accounting records. However, a need to obtain a bank loan for business expansion has necessitated the preparation of final accounts for the year ended June 30, 2002. As a result, the following information has been obtained after careful research:

(a) Mr Saud Jawad's business assets and liabilities are as follows:

	July 01, 2001	June 30, 2002
	Rupees	
Stocks	86,000	168,000
Trade debtors	39,000	43,000
Trade creditors	74,000	89,000
Prepaid rent	3,000	4,200
Accrued electricity charges	2,100	1,600
Bank	23,000	16,500
Cash in hand	3,600	3,300

(b) All takings have been banked after deducting the following payments.

	Rupees
Cash drawing – Mr Saud Jawad has not kept a record of cash drawings, but suggests these will be in the region of	80,000
Casual labour	12,000
Purchase of goods for resale	18,000

Note: Takings have been the source of all amounts banked.

(c) Bank payments during the year ended June 30, 2002 have been summarized as follows:

	Rupees
Purchases	1,015,000
Rent	50,400
Electricity	13,900
Delivery costs (to customers)	30,000
Casual labour	66,200

(d) It has been established that a gross profit of 33% on cost has been obtained on all goods sold.

(e) Mr Saud Jawad is able to confirm that he has taken out of the business goods for his own use costing Rs.6,000 during the year.

Required:

(a) Prepare a Trading and Profit and Loss Account for the year ended June 30, 2002; and

(b) Balance Sheet as at June 30, 2002 **(25)**

Q.8 A business purchased a machine costing Rs.1,120,000 on April 01, 2002. The machine can be used for a total of 20,000 hours over an estimated life of 48 months. At the end of that time the machine is expected to have a trade-in value of Rs.112,000.

The financial year of the business ends on December 31st each year. It is expected that the machine will be used for:

4,000 hours during the financial year ending December 31, 2002
5,000 hours during the financial year ending December 31, 2003
5,000 hours during the financial year ending December 31, 2004
5,000 hours during the financial year ending December 31, 2005
1,000 hours during the financial year ending December 31, 2006

Required:

(a) Calculate the annual depreciation charges on the machine on each of the following bases for each of the financial years ending on December 31, 2002, 2003, 2004, 2005 and 2006:

(i) the straight line method applied on monthly basis;

(ii) the diminishing balance written down value method at 40% per annum applied on a full year basis; and

(iii) the usage method. **(06)**

(b) Suppose that during the financial year ending December 31, 2003 the machine was used for only 1,500 hours before being sold for Rs.800,000 on June 30, 2003.

Assuming that the business has chosen to apply the straight line method on a month for month basis, show the following accounts for 2003 only:

(i) the machine account;

(ii) the provision for depreciation – machine account; and

(iii) the assets disposals account. **(05)**

Q.9 Shahnawaz consigned goods to Iftikhar on January 01, 2002, their value being Rs.120,000 and it was agreed that Iftikhar should receive a commission of 5% on gross sales. Expenses incurred by Shahnawaz for freight and insurance amounts to Rs.7,200.

Shahnawaz's financial year ended on March 31, 2002 and an 'Account Sales' made up to that date was received from Iftikhar. This showed that 70% of the goods had been sold for Rs.106,000 but that upto March 31, 2002, only Rs.86,000 had been received by Iftikhar in respect of these sales.

Expenses in connection with the goods consigned were shown as being Rs.3,500, and it was also shown that Rs.2,450 had been incurred in connection with the goods sold. With the 'Account Sales' Iftikhar sent a bank draft for the balance shown to be due, and Shahnawaz incurred bank charges of Rs.120 on April 10, 2002 for encashment of the same.

Shahnawaz received a further account sales from Iftikhar made upto June 30, 2002, and this showed that the remainder of the goods had been sold for Rs.48,000 and Rs.2,000 had been incurred by way of selling expenses.

Further it showed that all cash due had been received with the exception of a debt for Rs.1,200 which had proved to be bad. A bank draft for the balance due was sent with the 'Account Sales' and the bank charged Rs.90 on July 01, 2002 for encashment.

Required:

(a) Consignment to Iftikhar Account; and

(b) Iftikhar's Account. **(12)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Modular Foundation/Old Foundation Examinations **Spring 2003**

March 6, 2003

Introduction to Financial Accounting/Financial Accounting-1 **(MARKS 100)**
Module B Paper B4/FE-1 Paper 1 **(3 hours)**

Q.1 (a) What is meant by accounting policies and why it is necessary for a company to develop these policies? **(05)**

(b) Why going concern assumption is important whilst preparing the financial statement of a company? **(05)**

(c) What are the requirements of fair presentation in the financial statements of a company? **(05)**

Q.2 Mr Saad has found certain errors in the books of accounts of AL-Attas (Private) Ltd. for the year ended June 30, 2002. The details of these errors are set out below:

(a) Goods sold and recorded as sales for Rs. 40,000 were packed and the invoice for them sent to the customer. Stocktaking intervened, and the boxes of goods were not dispatched but was included in stock-in-hand.

(b) A purchase was made for a staff member of Rs 10,000 and the cost was included in purchases. A deduction of similar amount was made from his salary and the net payment to him posted to Salaries Account.

(c) Wages paid to the company's own workmen for making certain additions to machinery amounting to Rs. 7,500 were posted to Wages Account.

(d) A dishonoured bill receivable for Rs 5,000 returned by the bank with whom it had been discounted, had been credited to Bank Account and debited to Bills Receivable Account.

(e) A cheque amounting to Rs.2,700 received from a customer, Shahid, was dishonoured. The returned cheque was correctly entered in the cashbook but was posted to Allowances Account.

(f) A duplicate invoice for a purchase of machinery costing Rs.100,000 was erroneously passed again and entered into the books.

Required: Prepare adjustments necessary to rectify these errors. **(15)**

Q.3 As per the balance sheet of a sole proprietor, Akbar & Sons the profit for the year ended December 31, 2001 was Rs. 45,000, whereas the profit figure in the balance sheet as on December 31, 2002 is Rs. 85,000.

The following facts are ascertained relating to the year ended December 31, 2002:

(a) 10% depreciation on diminishing value method has been charged to plant and machinery. The net book value of plant and machinery as on December 31, 2002 was Rs. 100,000 whereas its cost was 150,000.

(b) Provision for doubtful debts is 2% of debtors as on December 31,2002. Gross debtors are Rs. 250,000 and a provision of Rs. 3,000 was already available from the last year.

(c) Rs. 5,000 loss on sale of fixed assets has been debited.

(d) Advertising of Rs. 8,000 has been made during the year

(e) Indirect manufacturing expenses has been incurred amounted to Rs 50,000.

(f) Insurance of Rs. 15,000 from July 2002 to June 2003 is paid.

(g) Drawings of Rs. 20,000 have been made by Mr. Saad.

(h) Gross profit percentage is 25 percent

Required:

Find out:

(i) gross profit;
(ii) sales;
(iii) cost of sales; and
(iv) direct manufacturing expenses for the year ended December 31, 2002 **(13)**

Q.4 (a) Ahmed has sold furniture to Bilal in exchange of leather bags the details of which are as follows:

		Rupees
-	Carrying value of furniture given up	500,000
-	Fair value of leather bags received	475,000
-	Cash received	75,000

Required:

At what amount the revenue from exchange of furniture be recorded in the books of Ahmed. Further, what would be the profit of Ahmed from this exchange? **(05)**

(b) Ali has agreed to ship fruits worth Rs. 5 million to a Gulf company. The purchase order contains a condition that payment would be made only after the fruits have been found satisfactory during inspection.

Required:

When the sales be recognized in the books of Ali in accordance with the provisions of IAS - 18 'Revenue'? **(03)**

(c) Amjad has sold 5,000 shares to Habib for Rs. 200,000 with an understanding that he will buy back those shares for Rs. 220,000 after six months.

Required:

Would revenue from this sale be recognized in the books of Amjad? **(04)**

Q.5 The following information available from the records of ABC Sports Association for the year ended June 30, 2002:

-	Subscription received	250,000
-	Upkeep of play ground	30,000
-	Entrance fees received	80,000
-	Rent paid	12,000
-	Salaries and wages	32,000
-	Travelling expenses	9,000
-	Stock of equipment on July 1, 2001	90,000
-	Tournament expenses	14,000
-	Printing and stationery	30,000
-	General expenses	60,000
-	Tournament fees received	25,000
-	Tournament prizes awarded	7,000
-	Donations received	110,000
-	Stock of refreshments on July 1, 2001	5,400
-	Purchases of canteen stores and refreshments	84,600
-	Cash and bank balances	470,000
-	Tournament fund	100,000
-	General fund	300,000
-	Subscription arrears	180,000
-	Creditors for expenses	33,000

(a) Subscription in arrears as on June 30, 2002 were as follows:

For 1999-2000	20,000
For 2000-2001	30,000
For 2001-2002	130,000

During the year, arrear subscription totaling Rs. 90,000 relating to earlier periods has been collected.

(b) Donations of Rs. 110,000 include Rs. 40,000 received on tournament account.

(c) 25 percent of the entrance fees has to be capitalized.

(d) Stock of refreshments as on June 30, 2002 was as under:

	Rupees
Value of provisions, stores, etc.	20,000
Value of eatables and perishables	5,000
Value of mineral water bottles, cigarettes etc.	3,000

(e) Separate funds and books of account are maintained for tournaments.

The Management Committee decided to value the items as follows:

(i) To value provisions and stores at cost.
(ii) The stock of perishables and eatables on the basis of realized sale proceeds on the subsequent day to the closing of accounts. Sales of eatables and perishables on July 1, 2002 amount to Rs.2750.
(iii) Mineral water bottles and cigarettes at 80 percent of their purchase price.

(iv) The association has printed its annual report for 2000-2001 and the bill due from the printers is for Rs. 5,000. Another bill for the brochure brought out for the tournament is also pending settlement and is for Rs. 12,000.

(v) Depreciation charge at the rate of 15% on net book value.

Required: Prepare income and expenditure account for ABC Sports Association only for the year ended June 30, 2002. **(18)**

Q.6 Dawood and Basit were sports cars dealer who agreed to purchase some sports cars on joint account, the arrangement being that the party effecting the sales was to be allowed a commission of 5 percent on the amount realized, the remaining profit being divided equally.

On January 2, 2002 Dawood bought three sports cars for Rs. 16 million and Basit purchased two other for Rs. 13.5 million. Expenses incurred were Rs 350,000 of which Dawood paid Rs. 250,000 and Basit Rs. 100,000.

On January 15, 2002 Dawood sold one of the sports cars for Rs. 6.3 million and on January 25, forwarded another car to Basit, the cost of carriage and insurance paid by Dawood being Rs 78,000. Basit sold this car on February 5 for Rs. 7.56 million, and on the same day sent Dawood a cheque for the amount realized, less 5 percent. The sports cars purchased by Basit were sold by him on February 10 and 15 for Rs. 8.925 million and Rs. 8.19 million respectively.

At February 28, 2002 the remaining sports car was still unsold, and it was arranged that Dawood should take this over for Rs. 4 million. On March 15 the amount due from one party to the other was settled by cheque.

Required:

(a) Write up joint account, as it would appear in the books of Dawood. **(07)**

(b) Prepare a memorandum joint venture account showing the results of the venture. **(08)**

Q.7 Mr. Ahmad Sarwar runs a jewellery shop in Saddar Karachi. On January 1, 2002, his trade inventory, at cost, amounted to Rs.470,000 and his trade payables were 395,000.

During the six months to June 30, 2002, sales were Rs.420,000. Ahmad makes a gross profit of 33.5% on sales value of everything he sells.

On June 30, there was a burglary at the shop, and all the inventory was stolen.

In trying to establish how much inventory had been taken, Ahmad was only able to say that:

(i) He knew from his bank statements that he had paid Rs. 284,000 to trade account payables in the 6-month period to June 30, 2002.

(ii) He currently had payables due Rs.555,000.

Required:

(a) Calculate the amount of inventory stolen. **(06)**

(b) Prepare a trading account for the six months to June 30, 2002. **(06)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2003

September 04, 2003

INTRODUCTION TO FINANCIAL ACCOUNTING **(MARKS 100)**
Module B **(3 hours)**

Q.1 (a) What is the difference between:

(i) Provision and Write Off. **(04)**
(ii) Accrued and unearned income **(04)**

(b) What do you understand by the term "Substance over form"? Accountants are required to exercise 'Prudence' while preparing the financial statements. Demonstrate your understanding of the term by citing an example of the concept of 'Prudence'. **(06)**

(c) Tufail Brothers Ltd, had imported chemicals worth Rs. 450 million from Singapore at landed cost of Rs. 1,000 per k.g on January 2002. In the first half of financial year selling price remained fixed at Rs. 2,000 per k.g and the sales staff were able to sell 200,000 k.g. With effect from July 07, 2002 sudden drop of prices in international markets and reduction in duty tariff by government forced Tufail Brothers to reduce the selling price at Rs. 1,600 per k.g.

On December 31, 2002, Stock worth Rs. 100 million valued at original landed cost was unsold. Management of Tufail Brothers Ltd decided to further drop selling price of chemicals at Rs. 800 per k.g in order to sustain the existing market share. Accountant had estimated that overhead charges for selling the chemicals were Rs. 50 per k.g (inclusive of transportation and labour charges etc.). Salaries and commission paid during the year amounted to Rs. 10 million.

Required:

Keeping in view the requirements of International Accounting Standard (IAS) 2 you are required to value the closing stock and calculate the amount of profit earned by Tufail Brothers Ltd during the year ended December 31, 2002. **(06)**

Q.2 On 1/1/2001 fire engulfed the premises of A & Co. and partial accounting records were destroyed. The Chief Accountant was able to gather following details from the working papers of previous years audit files.

Fixed Assets	Cost as on 1/1/2001 Rs
1. Plant & Machinery	150,000
2. Land & Building	200,000
3. Motor Vehicles	170,000
4. Furniture & Fixtures	30,000
5. Equipments	20,000

Details relating to Plant & Machinery are given below:

Fixed Assets	Cost as on 1/1/2001 **Rs**	Date of Purchase
Machine A	35,000	1/1/1995
Machine B	40,000	30/6/1998
Machine C	60,000	1/1/1997
Machine D	15,000	1/1/2000

(i) Machine A was disposed off for Rs. 20,000 on 31/1/2001. A & Co had depreciated the Plant & Machinery @10%. During the year Machine E was purchased at a cost of Rs. 60,000 to replace the existing Machine.

(ii) Machine C purchased in 1997 at a cost of Rs. 60,000 was traded with new machine costing Rs. 70,000. Net payment of Rs. 40,000 was made to supplier.

(iii) During the year fire resulted in loss of various items relating to furniture and fixtures. Insurance claim was prepared by the accountant for Rs. 4,000. These items were purchased in January 1999. A & Co had depreciated the assets @10% on straight line method.

(iv) Equipment having cost of Rs 5,000 and WDV of Rs. 3,500 (depreciated on Straight Line Method @10%) on 1/1/2001 was disposed of for Rs. 3,000. Additions to equipment during the year amounted to Rs. 16,000.

(v) Motor vehicle were purchased in 1999 and vehicle costing Rs. 70,000 purchased in 1999 was sold for Rs. 60,000. A & Co had provided 20% depreciation on Straight Line Method. The company purchased new vehicle costing Rs. 750,000 for plant manager.

Required:

(a) Prepare relevant ledger accounts in the books of A & Co to reflect above transactions. **(06)**

(b) Prepare Fixed Assets schedule as on December 31, 2001, showing Cost, Additions, Deletions. Accumulated Depreciation, Depreciation charge and WDV. **(06)**

Q.3 Mr. Moosani gives the following information concerning bank balances and transactions for the month of August 2003 :

(i) Balance as per bank statement as of 31 August 2003 was Rs. 20,893.

(ii) The following advices accompanied the bank statement:

a) A debit advice for Rs. 300 for issue of cheque book.
b) Another debit advice for Rs.756 attached with a cheque returned dishonoured from a customer Mr. Amin.
c) A credit advice for net Rs. 585 being profit for August on his term deposit certificate less 10% withholding tax.
d) A debit advice for Rs.150 being collection charges for an outstation cheque. This did not pertain to Moosani's account and was issued on account of an error by the bank.

(iii) The paid cheques returned with bank statement for the month of August showed an error in Moosani's own records, Cheque No. 851 of Rs. 1500 for rent expense was entered as Rs. 1,050.

(iv) Collections of 30th and 31st August amounting to Rs.1087 and Rs. 588 respectively, deposited on following days did not appear in bank statement.

(v) Cheques outstanding on 31st August were : No. 456 for Rs. 839 ; No. 860 for Rs. 1152 ; No. 867 for Rs.427 and No. 869 for Rs. 361. Cheque No. 456 issued for purchase of goods is now time-barred and must be reversed.

(vi) Mr. Moosani's own record showed the following position :

Cash at Bank

Aug 1	Balance	19,342	Aug 31	Month's payments	12,924
Aug 31	Month's receipts	14,442			

Required:

(a) Prepare necessary journal entries in general journal form. **(10)**
(b) Prepare a bank reconciliation at 31 August 2003. **(05)**

Q.4 A and B are partners in a business sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31 Dec. 2002 was as follows:

Plant and Machinery		150,000
Other assets excluding cash		593,000
Cash		32,000
Total assets		775,000
Creditors		230,000
Capitals Account		
A	300,000	
B	245,000	545,000
		775,000

They decided to admit C as a partner from 1 Jan 2003 on the following terms:

(i) A and B are to be credited with Rs. 99,600 for goodwill, subject to an adjustment of Rs.15,000 for repair expenditure of plant and machinery which was wrongly capitalized in the year 2001 and depreciated at 20% on diminishing value basis in 2001 and 2002.

(ii) The new partnership's total capital is to be Rs.750,000 to be contributed in the profit-sharing ratio. C is to have 1/5 share in all respects and bring cash for his share. A and B are to bring or withdraw cash to make their capitals in the profit-sharing ratio which is to remain the same as before.

Required:
Assuming all above adjustments are carried out on 1 Jan 2003, draw up the Balance Sheet of new partnership as on 1 Jan 2003 showing separate workings for adjusted goodwill and partners' accounts.

(14)

Q.5 Murtaza Traders supply goods to its branch at selling price which is cost plus 50%. Following is the relevant data (with all inventory / goods figures quoted at selling prices).

Opening inventory	3,600
Opening debtors	2,150
Goods sent to branch	9,900
Goods returned from branch	375
Credit sales	7,800
Credit sales returns	675
Cash sales banked	2,375
Goods lost	180
Cash lost from cash sales	70
Cash collected from debtors	7,100
Discount to customers	250
Bad debts written off	130

Required:

Prepare the following accounts :

i) Branch Stock Account
ii) Goods sent to branch
iii) Branch Mark-up account
iv) Branch Debtors Account
v) Branch profit and loss account

(17)

Q.6 An analysis of the records of Mr. Jameel disclosed changes in account balances for 2002 and supplementary data as listed below.

Cash at bank	Rs. 6,500	increase
Accounts Receivable	1,500	decrease
Stock	14,000	increase
Notes payable	5,000	increase
Accounts payable	2,500	increase

During the year, he had borrowed Rs. 12,000 from the bank and paid off notes of Rs. 15,000 and interest of Rs. 750. Interest of Rs. 250 is still outstanding as at 31 December 2002.

During the year Mr. Jameel transferred certain marketable securities that he owned, to the business and these were sold for Rs. 4,200 to finance purchase of stock. He made weekly drawings of Rs. 250 in 2002.

Required:

Calculate his net income or loss for 2002 from the above data. **(07)**

Q.7 Mr. Haroon is in business of selling ready made cloths. The trial balance extracted from his books of accounts as on June 30, 2002 is given below:

	Rs	**Rs**
Capital		180,000
Drawings during the year	20,000	
Purchases	118,000	
Rates and Taxes	1,900	
Salaries	8,000	
Electricity	6,000	
Insurance	6,000	
Sales		150,000
Bad Debts written off	1,800	
Discounts		1,000
General Expenses	1,200	
Telephone	7,500	
Postage	2,200	
Carriage	4,700	
Stock-in trade	45,000	
Wages	5,000	
Land & Buildings	35,000	
Plant & Machinery	20, 000	
Furniture and Fittings	10,000	
Trade Receivables	40,000	
Trade Creditors		20,000
Cash & Bank	18,700	
	351,000	351,000

Following adjusting events need to be incorporated in the books of accounts:

(a) Stock in Trade as on June 30, 2002 valued at Rs. 64,000. Included in the stock was an item costing Rs. 14,000 the net realizable value of which was estimated to be Rs. 12,500.

(b) Plant & machinery carried in books at Rs. 5,000 was sold for Rs. 1,900 in part exchange for a new machine costing Rs. 4,200. Net invoice was received from the supplier of machine. Depreciate the Plant & Machinery @10%, Furniture and Fixture @15%.

(c) As on June 30, 2002 Wages payable amounted to Rs. 2,500 and insurance premium was prepaid to the extent of Rs. 1,000. Salaries payable amounted to Rs. 3,000.

(d) Provision for doubtful debts was to be created upto 5% of Trade Receivables. Provide Provision for discount upto 2% on Trade Receivables.

Required:

Prepare Trading and Profit & Loss Account for the year ended June 30, 2002 and Balance Sheet as at that date. **(15)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2004

March 09, 2004

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)
Module B (3 hours)

Q.1 (a) What are the components of a financial statement? **(06)**

(b) Give brief description of any four categories of users of financial statements. **(04)**

(c) Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, what disclosures should be given by the enterprise, in addition to the period covered by the financial statements? **(03)**

(d) What are the circumstances which allows an enterprise to continue to classify its long term interest-bearing liabilities as non current, even when they are due to be settled within twelve months of the balance sheet date? **(05)**

Q.2 Explain the following fundamental accounting concepts and terminologies giving one practical example of each:

(a) Materiality
(b) Going Concern
(c) Offsetting **(06)**

Q.3 (a) What are depreciable assets? **(05)**

(b) What factors should be considered to estimate the useful life of a depreciable asset? **(03)**

(c) The following appeared in the balance sheet of a limited company:

Loose Tools –

	Rupees
Balance as per last balance sheet	60,000
Additions during the year	5,000
	65,000
Less: Depreciation	6,500
	58,500

These tools are used in the ordinary course of the company's business and depreciation at 10 percent is written off the final balance of the account each year.

Required:
Comment whether the provision made for depreciation appears to be adequate. **(05)**

Q.4 The Mayfair Sports and Social Club's assets and liabilities for the previous and current year were as follows:

	At December 31, 2002	At December 31, 2003
	Rupees	**Rupees**
Equipment	125,000	140,000
Subscriptions in arrears	10,000	9,000
Subscriptions in advance	6,500	5,500
Creditors for soft drinks stock	17,500	21,500
Soft Drinks stocks	40,000	30,000
Rent owing	7,500	5,000
Electricity owing	5,250	7,000
Bank balance	36,150	65,000

During the year the cash receipts were:

Subscriptions (including Rs. 3,000 of arrears from previous year and the balance to be written off)	105,000
Soft Drinks takings	205,000
Sale of tickets for annual dinner	120,000
Sale of raffle tickets	9,000

The following payments were made during the year:

Affiliation fees	5,000
Purchase of equipment	40,000
Soft Drinks stocks	102,500
Soft Drinks salesman's wages	37,500
Catering	72,000
Hire of band	15,000
Raffle prizes	3,000
Rent of hall	75,000
Printing and postage	10,000
Electricity	29,050
Hon. Secretary's expenses	6,100
Repairs to equipment	15,000

Required:

The Mayfair Sports and Social Club's

(i) Soft Drinks trading account for the year ended December 31, 2003 **(03)**

(ii) Income and expenditure account for the year ended Dec. 31, 2003 **(07)**

(iii) Balance sheet as at 31 December 2003. **(05)**

Q.5 The financial year of Ibrahim and Sons ended on December 31, 2003 but it was not possible to carry out stocktaking till January 8, 2004. On this date the value of actual stock on the premises was found to be Rs.229,400 at cost price. The following additional information is available:

(i) Sales made during this period totalled Rs.93,000.

(ii) Goods with an original cost of Rs.2,250 have been found to be damaged and now have a value Rs.1050.

(iii) Goods with a retail price of Rs.14,000 have been sent to a customer on a sale or return basis on December 24, 2003. Only goods with a retail price of Rs.8,500 were sold till December 31, 2003.

(iv) A purchase return credit note for Rs.3,400 was received on January 5, 2004 for goods returned on that date.

(v) It was discovered that goods included in the stock valuation at Rs.4,600 have been valued in error at their selling price.

(vi) Purchase invoices received during this period totaled Rs.55,500. Of these, Rs.6,500 of the goods were not received till January 8, 2004

(vii) The stock sheet used in the valuation had been overcast by Rs.4,450.

(viii) A sale return credit note of Rs.4,200 was issued on January 6, 2004 for goods returned on that date.

(ix) It was found that goods that had cost Rs.3,950 when purchased in early December had a market value of Rs.4,750.

(x) Fixed assets costing Rs.8,000 was mistakenly included in stock count at January 8, 2004.

(xi) A constant markup of 33.33% is maintained.

Required:

Prepare a statement to show the value of stock, at cost price, as at December 31, 2003. **(12)**

Q.6 The following errors and omissions were discovered in the books of Merchant Ltd., after the closure of books for December 31, 2003:

(i) Sales on approval amounting to Rs 22,500 has been included in the sales account; Rs. 16,000 of these goods were returned. No record of the return was made in the books, but the returned goods were included in stock at their cost price of Rs.12,800.

(ii) There were three compensating errors; Discount received were undercast by Rs.270, Sales ledger control account was over cast by Rs.540; and a payment of Rs.810 for legal expenses had not been posted from the Cash Book.

(iii) A credit customer settled his account of Rs.22,000 in cash. This went through the books as a cash sale on the day of receipt.

(iv) The stocktaking took place on January 3, 2004. However, during the period from January 1, 2004 to January 3, 2004, purchases of Rs.28,000 took place, sales of Rs.20,000 were made and sales of goods amounting to Rs.2,000 were returned. Adjustments have not been made for these transactions. The company earns a gross profit of 20% on sales.

(v) No provision has been made for the year on plant and machinery bought on January 1, 2001 for Rs. 250,000. Depreciation is provided on assets in use at the end of the year at a rate of 25% using the reducing balance method. The machine has a life of 5 years with a residual value of 10%.

Required:

Pass journal entries to correct the above errors. **(13)**

Q.7 Mr. Surti wrote a book "Advanced Accountancy" and got it published with Javed Printers on the terms that royalties will be paid at Rs.75 per copy sold, subject to a Minimum Rent of Rs. 225,000 per year, with a right to recoup the short workings over the first two years of the royalty agreement. The details are as under:

Year	Number of copies printed	Number of copies of closing stock
1999	2,000	100
2000	3,000	200
2001	4,000	400
2002	5,000	500

Required:
Prepare the following accounts in the books of Javed Printers:

i) Minimum Rent account
ii) Royalty Account
iii) Short working
iv) Surti's Account **(13)**

Q.8 Mansoor from Faisalabad consigned 100 machines costing Rs.750,000 to his agent Bilal in Lahore at 20% above cost to be sold on his behalf. Mansoor incurred Rs.750 on each machine as packing charges.
Bilal received consignment by paying Rs.7,500 as transportation and spent Rs.750 for carriage to godown. He rendered an account sales showing that:

20 Machines realized Rs.180,000 in cash;
50 Machines sold on credit at Rs.9,750 each;
10 Machines taken to his own stock at Rs.9,150 each.

Consignee remitted the balance after deducting his commission worked out at 5% on invoice price of goods sold and 15% on any excess price realized.

Required:
Prepare the consignment account in the books of Mansoor. **(10)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2004

September 09, 2004

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

MODULE B **(3 hours)**

Q.1 Distinguish between the 'accrual' and 'cash' basis of accounting. Identify the merits in each system. **(06)**

Q.2 (a) What are the circumstances, as per IAS – 1 "Presentation of financial statements" in which the presentation and classification of items in the financial statement may differ from one period to another and what are the disclosure requirements in such situations. **(06)**

(b) In the context of IAS - 18 'Revenue', what conditions should be met for recognition of revenue for sale of goods. **(07)**

Q.3 The Chief Accountant of Bali Foods noted during the account closing for the year ended June 30,2004 that balances as per sales ledger and receivable control accounts are not reconciled.

The following additional information is also available:

a) The total of personal accounts as per sales ledger amounted to Rs.51,208.
b) Balance of receivable control account was Rs.50,200 .
c) Sales of Rs.3,400 for the month of November 2003 had been omitted from the control account.
d) A customer's account balance of Rs.1,200 had not been included in the list of balances.
e) Cash received of Rs.3,000 entered in a personal account as 2,280.
f) Discount allowed not entered in the control account was Rs.400.
g) A personal account balance had been under cast by Rs.800.
h) A contra item of Rs.1,600 with the purchase ledger was not entered in the control account.
i) A bad debt of Rs.2,000 was not entered in the control account .
j) Rs.1,000 cash received debited to a personal account .
k) Rs.200 discount received was debited to an account in sales ledger.
l) Return inward value at Rs.800 not included in control account .
m) Cash received of Rs.320 had been credited to a personal account as Rs.32.
n) A cheque for Rs.1,200 received from a customer had been dishonored by the bank but no adjustment had been made in the control account.

Required:

(a) Work out a corrected receivables control account, bringing down the amended balance as at July 1,2004.

(b) Prepare a statement showing the adjustments that are necessary to the list of personal account balances so that it reconciles with the amended receivable control account balance. **(15)**

Q.4 Mr. Rehan was carrying on a business as a retailer. He sold his goods at a fixed margin of 20 % above cost. He had a manager to whom he paid Rs.30,000 p.m. On 1st January , 2004 his balance sheet was as follows:

Rs.in, 000

Creditors	3,000	Cash	100
Capital	12,000	Bank	2,300
		Debtors	600
		Stock	10,400
		Furniture	1,600
	15,000		15,000

Mr. Rehan used to make the following disbursements at the last day of each month:

- Salary of Manager Rs.30,000.
- Drawings for personal use Rs.50,000.
- Shop expenses (rent, etc) Rs.50,000.

On January 1,2004 Mr. Rehan went on a foreign trip and could come back only on March 1, 2004 when he found that the manager had decamped with all the available cash.

The following information is available:	(Rs.000)
Debtors on March 1,2004 (according to books).	1,100
Creditors on March 1,2004 (according to books).	2,800
Amount paid to creditors by cheque.	6,000
Cheques received from debtors.	1,600
Stock on March 1, 2004 (By actual count)	8,000
Cash deposited in bank as per deposit slip.	5,000

It was found that a bearer cheque for Rs.300,000 (which was not entered into books at all) received from a debtor was encashed by the manager. Uncrossed cheque for Rs.200,000 issued to creditor was also encashed by the Manager. This cheque had been entered in the books. Stock records show that goods of the cost of Rs.200,000 were missing. It was assumed that the goods were sold by the manager and sale proceeds misappropriated.

Required:

a) Ascertain the amount defalcated from the above information.
b) Draft a Balance Sheet of Mr Rehan as at March 1,2004 . **(20)**

Q.5 Stadium Parking was incorporated by Rizwan on July 1, 2004 to operate a parking lot near a new Sports complex. The following transactions occurred during July 2004 prior to the company beginning its regular business operations.

July	1	Rizwan opened a bank account in the name of the business with a deposit of Rs.450,000 cash.
July	2	Purchased land to be used as the parking lot for a total price of Rs.1,400,000. A cash down payment of Rs.280,000 was made and a note payable was issued for the balance of the purchase price.
July	5	Constructed a building for Rs.40,000 cash. The purchase price included installation of the building on the parking lot.
July	12	Purchased office equipment on credit from Suzuki & Co. for Rs.30,000.
July	28	Paid Rs.20,000 of the amount owed to Suzuki & Co.

The account titles and account numbers used by Stadium Parking to record these transactions are:

	Code		Code
Cash … ……..	1	Notes payable…… ……	30
Land ….	20	Accounts payable ……..	32
Building …...	22	Rizwan's capital …...… …...	50
Office equipment ……25			

Required:

(a) Prepare journal entries for the month of July, 2004.

(b) Post to ledger accounts in three column running balance form.

(c) Prepare a trial balance at July 31,2004. **(15)**

Q.6 The accounting records of Desktop Products showed a cash balance of Rs.29,959 which included a deposit in transit of Rs. 3,420.60. The bank statement for July showed a closing balance of Rs. 18,299.40. Included in the bank statement were the following debit and credit advices

Debit advices:	Rs.
Cheque from a customer, deposited by Desktop Products, but returned back as 'not sufficient funds' (NSF).	1,500
Bank charges for July	25
Credit advice:	
Proceeds from collection of a note receivable which Desktop Products had left with the bank's collection department.	3,000

Outstanding cheques as at July 31, were as follows:

Cheque No.	Amount (Rs.)
542	340.30
548	800.50
555	145.20
556	2100.00

The cashier of Desktop Products has been abstracting portions of the company's cash receipts for several months. Each month, he prepared the company's bank reconciliation in a manner that concealed his thefts. The bank reconciliation for July is as follows:

		Rs.	Rs.
Balance per bank statement, July 31			18,299.40
Add:	Deposits in transit	4,320.60	
	Collection of note receivable	3,000.00	7,320.60
			26,620.00
Less:	Outstanding cheques:		
	542	340.30	
	548	800.50	
	555	145.20	1,186.00
Adjusted cash balance as per bank statement			25,434.00

Balance as per accounting records, July 31		29,959.00
Add: Credit advice from bank		3,000.00
		26,959.00
Less: Debit advices from bank		
NSF cheque from a customer	1,500	
Bank charges	25	1,525.00
		25,434.00

Required:

(i) Determine the amount of the cash shortage which has been concealed by the cashier in his bank reconciliation. **(10)**

(ii) Carefully review the bank reconciliation and prepare a statement to show how the shortage was concealed. **(06)**

Q.7 Octopus Limited is in business and has two selling lines, manufactured in its own factory; its two sections A and B and the office are being on separate floors of the factory building. In addition a part of the factory building comprises the Boiler Room.

B as raw material requires one fifth of the goods manufactured by A. The transfer basis is cost.

Other information:

	A	B	Boiler Room	Cost Office	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Raw material used	956,450	534,125	0	0	1,490,575
Direct wages	526,550	451,075	0	0	977,625
Indirect wages	300,000	130,000	42,500	27,500	500,000
Depreciation –					
Machinery	45%	30%	20%	5%	50,000
Building					10,000
Rent and Rates Factory					25,000
Insurance –					
A, B and Boilers					7,125
Building					5,000
Office					130

Repairs –	
A, B and Boilers	71,250
Building	37,500
Office	2,250
Coal and water (all boiler room)	57,775
Printing and postage (all office)	5,025
Cleaning material –	
A, B and Boilers	4,750
Building	6,000

Allocate Repairs, Insurance, Cleaning Materials to departments A, B and boiler room on the same basis as depreciation.
The floor space is occupied as to A 50 percent; B 30 percent; Boiler Room 10 percent and Cost Office 10 percent.
The Boiler room provides Power, Heat and Light and is allocated to the three departments on a floor space basis.
The cost of services rendered by the Cost Office is to be charged equally to A and B.

The goods manufactured all go to the retail shop on the basis of Factory Cost plus 20 percent.

Required:

Prepare Departmental Statement showing Cost and Profit for the year ended June 30, 2004. **(15)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2005

March 10, 2005

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B (3 hours)

Q.1 (a) What is a trial balance? **(02)**

(b) Pass journal entries to rectify the following errors:

i) Goods sold to Abid for Rs. 9,000 were not entered either in the sales account or debtors account.
ii) Sales to A. Rehman for Rs. 10,500 was debited to A. Rahim's account
iii) Furniture and fixture purchased for office use for Rs. 50,000 was debited to purchases account.
iv) Sales and purchase accounts were both overstated by Rs. 270. **(04)**

Q.2 (a) On May 24, a real estate company signed a contract to represent the client in selling his personal residence. The contract entitles the real estate company to a commission equal to 5% of the selling price which is due 30 days after the date of sale. On June 10, the real estate company sold the house at a price of Rs. 4.8 million thereby earning Rs. 0.24 million to be received on July 10. When should the company record the commission revenue? **(02)**

(b) Under the terms of employment the wages earned by the employees of ABC Ltd., during the month of September will be paid on October 3. What is the rationale for recognizing these wages as expense in September? **(02)**

(c) The withdrawals by the owner reduce the assets and owner's equity of the business, but the same are not treated as expense. Why? **(02)**

(d) A company decides to change from the application of straight line method of depreciation to the reducing balance method. What accounting concept does this proposal contravene? **(02)**

(e) The cost of a stapler for Rs. 120 is charged off as an expense for the year though it would still be in use for more than one accounting period. Name the accounting concept which may justify this treatment. **(02)**

(f) Name the accounting concept most closely related to writing off debtors as bad debts. **(01)**

(g) Under which accounting concept depreciation is charged on fixed assets? **(02)**

Q.3 Following is the summary of assets and liabilities of Taha, a sole proprietor, as on December 31, 2004:

Liabilities		Amount Rs.	Assets	Amount Rs.
Capital as on January 1, 2004	195,360		Plant and machinery	149,040
Add: Profit for the year	83,280	278,640	Debtors	292,800
Loan		144,000	Stock	204,000
Creditors		247,200	Balance at bank	24,000
		669,840		669,840

Upon examination of the books it is ascertained that:

(1) The cost of plant and machinery is Rs. 264,000 and it has a net book value of Rs. 144,240.

(2) The amount of debtors has been arrived at after deducting provision for doubtful debt of Rs. 3,600. It was agreed that this debt was bad and should be written off. Provision should be made for debts amounting to Rs. 1,680, which were considered doubtful.
(3) 100 kg. of raw material has been valued for stock purposes at Rs. 72 per kg, but was damaged and unsuitable for production. It was considered to be worth Rs. 14.40 per kg.
(4) Sales included Rs. 14,400 (20% above cost). These goods awaited collection by the customer and had also been included in stock valuation.
(5) Interest on loan was outstanding for six months. Rate of interest is 16% per annum.
(6) Rent of Rs. 7,200 was payable as on December 31, 2004.
(7) The balance at bank as shown by the Cash Book is not in agreement with the bank statement. The difference is because of the following:

Bank Charges	Rs.	1,440
Drawings	Rs.	24,960

(8) Petrol expenses of Rs. 1,200 paid for the car of a friend for an official visit has been recorded as receivable from him.
(9) Insurance amounting to Rs. 2,500 is prepaid.
(10) A new air conditioner was installed during the year costing Rs. 22,400 but was not recorded in the books as no payment was made for it. The installation charges of Rs. 1,500 have been paid and debited to miscellaneous expenses. (Ignore depreciation)

Required:
(a) A statement showing the adjustments to the profit for the year; and
(b) A Balance Sheet as at December 31, 2004 **(18)**

Q.4 Ghalib and Bilal are partners in a firm sharing profits and losses in the ratio of 6:4. Their Balance Sheet as at December 31, 2004, is as follows:

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry Creditors		300,000	Cash in hand		270,000
Bank Overdraft		150,000	Sundry debtors	345,000	
Reserve		75,000	Less: Provision for doubtful debt	15,000	330,000
Capital Accounts:			Furniture & fixture		225,000
Ghalib	375,000		Stock in trade		375,000
Bilal	300,000	675,000			
		1,200,000			1,200,000

On January 1, 2005, Pervaiz was admitted as a partner for a 1/4th share of the future profits on the following terms and conditions:

(1) Goodwill is valued at Rs. 300,000 and Pervaiz is to bring the necessary amount in cash as premium for goodwill.
(2) 25% of the reserve is to be adjusted to increase the provision for bad and doubtful debts. Balance amount of reserve is to be credited to the old partners' capital accounts.
(3) Stock in trade is to be reduced by 40% and furniture is to be reduced to 40%.
(4) Ghalib is to pay off the bank overdraft.
(5) Pervaiz is to introduce Rs. 225,000 as his share of capital. Based on this, other partners' capital shall be adjusted by cash input/withdrawal.

Required:
(a) Partners' capital accounts with the necessary adjustments.
(b) Balance Sheet of the firm immediately after Pervaiz's admission. **(17)**

Q.5 The Old Citizen Association furnished the following information for the year ended December 31, 2004:

(1) They started the year with Rs. 37,600 in the bank and ended with an overdraft of Rs. 49,200, which was secured by the deposit of investments with the bank.
(2) They received subscriptions amounting to Rs. 66,800 out of which Rs.2,000 were arrears, Rs. 60,800 and Rs. 4,000 represented current subscriptions and advance respectively.
(3) They received Rs. 41,600 donations for the General Fund. Rs. 68,000 donations were received for Medical Aid Fund out of which Rs. 57,600 was paid.
(4) Government securities at January 1, amounted to Rs. 160,000. Half of these were sold for Rs. 100,000 and the balance was valued at Rs. 96,000 at December 31. These investments produced interest of Rs. 2,800 during the year.
(5) Office premises were purchased during the year for Rs. 240,000 and a mortgage was arranged through a bank for Rs.120,000. Legal expenses amounted to Rs. 8,400. One installment of Rs. 6,400 was paid to the bank of which Rs.3,600 was interest. Alterations and decorations of the premises amounted to Rs. 45,600 of which Rs. 12,000 was still owing.
(6) Office furniture was valued at Rs. 12,000 at January 1. Rs. 13,600 was paid for additions during the year and Rs.5,600 was still owing. Depreciation is estimated at 10 per cent per annum.
(7) The only other receipt was Rs. 6,000 for sale of literature. Rs. 4,800 worth of literature was given free of cost. The total cost of literature amounted to Rs. 9,600, and no stocks were left at the end of the year.
(8) Other payments were:

	Rupees
Office Salaries	28,000
Rent and rates	13,600 (Rs. 4,000 was payable on December 31, 2003)
Stationery and postage	12,000
Other expenses	69,200 (of which Rs. 6,400 related to next year)

Required:
(a) Receipt and Payment Account for the year ended December 31, 2004. **(09)**
(b) Income and Expenditure Account for the year ended December 31, 2004. **(10)**

Q.6 (a) Following is the extract from the Balance Sheet of Tayab Limited:

	Rupees	
	2004	2003
Fixed Assets (at cost)	684,500	518,000
Less: Accumulated depreciation	249,750	277,500
Net Book Value	434,750	240,500

During the year 2004:

(i) Expenditure on new fixed assets was	481,000
(ii) Loss on sale of old fixed assets was	92,500
(iii) Depreciation provided for the year was	138,750

Required:
Determine the amount of sale proceeds received on the disposal of fixed assets during the year 2004. **(06)**

(b) If a capital expenditure is erroneously treated as a revenue expenditure, will the net income of the current year be overstated or understated? Will this error affect the future years' income? Explain. **(03)**

Q.7 A company maintains its Provision for Bad Debts at 5% and a Provision for Discount on Debtors at 2%.

The following details are available:

	Rupees	
	2004	2003
Bad Debts	13,500	7,200
Discount allowed	4,500	10,800
Recovery of bad debts written off in earlier years	2,700	4,500

Sundry debtors (before writing off Bad Debts and discounts) amounted to Rs.378,000 on December 31, 2004 and Rs.540,000 on December 31, 2003.

On January 1, 2003, Provision for Bad Debts and Provision for Discount on Debtors had balances of Rs.40,950 and Rs.7,200 respectively.

Required:
Prepare the Provision for Bad Debts Account and Provision for Discount on Debtors Account for the years 2003 and 2004. **(08)**

Q.8 Umar and Ayaz doing business separately as building contractors, undertake jointly to construct a building for a company for a contract price of Rs.1,500,000 payable as: Rs.1 million in cash and Rs.500,000 in fully paid shares of the company. A bank account is opened in their joint names with Ayaz paying in Rs. 200,000 and Umar Rs. 450,000. They are to share profit or loss equally. The following transactions took place:

	Rupees
Wages paid	300,000
Purchases of materials	700,000
Other expenses	200,000
Materials supplied by Ayaz	40,000
Materials suppied by Umar	50,000
Architect's fee paid by Umar	40,000

The contract was completed and price was duly received. The joint venture was closed by Umar taking up all the shares of the company at an agreed valuation of Rs.600,000 and Ayaz taking up the stock of materials at an agreed valuation of Rs.20,000.

Required:
Prepare the following in the books of joint venture:

(i) Joint Venture Account **(06)**
(ii) Personal accounts of Umar and Ayaz **(04)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2005

September 08, 2005

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B **(3 hours)**

Q.1 (a) Explain the following 'Asset Valuation Methods':

(i) Historical cost **(03)**

(ii) Replacement cost **(03)**

(iii) Net realizable value **(03)**

(b) Explain the following accounting concepts:

(i) Going concern **(03)**

(ii) Prudence **(03)**

(iii) True and fair view **(03)**

Q.2 Differentiate between:

(i) Trade discounts and cash discounts **(03)**

(ii) Commission and discount **(03)**

Q.3 A sole trader provides depreciation on vehicles on the straight-line method at the rate of 10% per annum. A full year's depreciation is provided at the end of each year on all vehicles purchased during the year. No depreciation is provided in the year in which the vehicle is sold. The balance standing in the Vehicles account at December 31, 2002 after writing off depreciation for that year, was Rs.3,512,700 and subsidiary records showed that the cost of vehicles then on hand was made up as follows:

	Rupees
Vehicles bought in the year 1992 (or earlier)	1,044,000
Vehicles bought in the year 1993	558,000
Vehicles bought in the year 1994	306,000
Vehicles bought in the year 1995 (or later)	4,536,000
	6,444,000

During the year 2003, a new vehicle was bought at a cost of Rs.531,000, and a vehicle which had costed Rs.99,000 in the year 1991 was sold as scrap for Rs.6,300.

During the year 2004 there were additions costing Rs.324,000, and a vehicle which had costed Rs.126,000 in the year 2000 was sold for Rs.28,000.

Required:

Vehicles Account and Accumulated Depreciation account for the years 2003 and 2004. **(10)**

Q.4 The Cash Book and Bank Statement of Neha International appeared as follows:

Cash Book (Bank column only)

		Amount in Rupees		
Date	**Particulars**	**Dr.**	**Cr.**	**Balance**
01.06.05	Balance b/d	78,000		78,000
04.06.05	Sami Imports		12,000	66,000
05.06.05	Asim Packaging	15,000		81,000
08.06.05	Deen Exports	18,000		99,000
10.06.05	Roohi Exports		30,000	69,000
15.06.05	Samar International	19,500		88,500
16.06.05	Hina Imports		7,500	81,000
27.06.05	Channa Exports	16,500		97,500

Bank Statement - Details

		Amount in Rupees		
Date	**Particulars**	**Dr.**	**Cr.**	**Balance**
01.06.05	Balance b/d		82,500	82,500
02.06.05	Kamal		3,000	85,500
03.06.05	Suman		15,000	100,500
05.06.05	Asim Packaging		15,000	115,500
08.06.05	Sami Imports	12,000		103,500
08.06.05	Deen Exports		18,000	121,500
09.06.05	Beeta	9,000		112,500
17.06.05	Profit on COI		75,000	187,500
18.06.05	Samar International		19,500	207,000
27.06.05	Bank charges	3,000		204,000

The bank reconciliation for the month of May 2005 is as follows:

Bank Reconciliation Statement
As at May 31, 2005

			Rs.
Balance as per cash book			78,000
Add: Cheques issued but not presented			
J.B. & Co.	Rs.	7,500	
Flash & Co.		6,000	
Beeta		9,000	22,500
			100,500
Less: Cheques deposited but not cleared			
Suman		15,000	
Kamal		3,000	18,000
Favourable balance as per bank statement			82,500

Required:

Bank reconciliation statement as at June 30, 2005. **(10)**

Q.5 State with reasons in each of the following cases whether they are to be considered as Capital or Revenue expenditure:

(a) Wages paid for the installation of machine amounting to Rs.6,000 and cost of carriage for the same amounting to Rs.1,500.
(b) The cost of removal of fixed assets from old factory to the new one amounting to Rs.1,800.
(c) Purchase of new tyres for Rs. 5,500 for an old car.
(d) A sum of Rs.8,600 spent on a machine. Rs.1,600 for replacement of worn out parts and Rs.7,000 for addition of new devices which enable the output to be doubled.
(e) The expenses incurred for white washing the factory building amounting to Rs.40,000. **(10)**

Q.6 Asim sends goods on consignment to Sami at cost plus 25%. The terms are that Sami will receive 10% commission on the invoice price and 20% of any price realized above invoice price. Sami is to meet his expenses including bad debts himself. Goods are to be sent as 'freight paid' by Asim.

Asim sent goods whose cost was Rs.128,000 and spent Rs.12,000 on freight etc. Sami accepted a bill for Rs.128,000 immediately on receiving the consignment. His expenses were Rs.1,600 rent and Rs.800 insurance. Sami sold 75% of the goods for Rs.156,000. Part of the sales was on credit and one customer failed to pay Rs.3,200.

Required:
Consignment account and Sami's account in the books of Asim. **(12)**

Q.7 A and B were in partnership sharing profit and loss in the ratio 4:3. On July 1, 2005, they agreed to admit C as a partner. Goodwill for this purpose is agreed to be valued at 3 years purchase of the average profits of last 5 years.

		Rupees
Profits for these years were:	30.6.2001	141,400
	30.6.2002	173,600
	30.6.2003	140,000
	30.6.2004	210,000
	30.6.2005	252,000

On scrutiny of the accounts, the following matters were revealed:

(i) On January 1, 2003 a machine was purchased for Rs. 160,000. 70% of the amount was paid immediately and capitalized. The balance paid on July 1, 2003 was charged to the profit and loss account.
(ii) Depreciation is charged at 10% on reducing balance method. It is the policy to charge full year depreciation in the year of purchase.
(iii) The closing value of stock for the year ended June 30, 2002 was overvalued by Rs.16,800.
(iv) For the year ended June 30, 2004 postage and stationery amounting to Rs.1,580 was wrongly charged as advertisement expenses.

Required:
(a) Compute the value of goodwill of the firm.
(b) Entry to record goodwill - if goodwill is raised in the books.
- if goodwill is not raised in the books. **(12)**

Q.8 Hamid is the proprietor of a general store. He has not previously engaged an accountant.

From the examination of the records and from interviews with Mr. Hamid, you ascertain the following information for the year ended March 31, 2005:

1. The takings are kept in a drawer. At the end of each day the cash is counted and recorded on a slip of paper. Mrs. Hamid transcribes the figure into a notebook at irregular intervals. Few slips of paper were inadvertently destroyed before the figures had been written into the notebook. There is a single bank account in the joint names of Mr. and Mrs. Hamid which is used for business as well as personal transactions.

2. All payments to suppliers of goods are made by cheques. On totaling the cheque counterfoils, it was found that total payments to suppliers amounted to Rs.8,545,500.

3. The following balances can be accepted:

	March 31	
	2004	**2005**
	Rs.	**Rs.**
Cash and bank	180,900	275,400
Debtors	412,200	441,900
Creditors for purchases of stock	251,100	218,700
Stock in trade at cost	1,755,000	1,710,000

4. Debts totaling Rs.320,400 were abandoned during the year as bad; the takings include Rs.22,500 recovered in respect of an old debt abandoned in a previous year.

5. The shop is situated in the house where Hamid lives. The rent of the house is Rs.11,700 per month. The living accommodation may be regarded as one third of the whole.

6. The following expenses were incurred:
   (i) Rs.31,500 running expenses of Hamid's personal car.
   (ii) Rs.54,000 for repainting of the whole premises, the landlord having refused to have this done.
   (iii) Rs.144,000 for repairing the storage accommodation.
   (iv) Miscellaneous shop expenses amounting to Rs.77,200.

7. Hamid takes Rs.35,000 per month from the business and hands it over to his wife, who pays all the household expenses.

8. Hamid pays his own personal expenses with cash taken from the drawer. These are estimated at Rs.4,000 per month.

9. Hamid won a small prize bond for Rs.50,000 and bought a small gift for his wife for Rs. 8,000.

10. During the year Hamid bought a secondhand car (not used for business) from a friend; the price agreed was Rs.315,000, but as the friend owed Hamid Rs.60,300 for goods supplied from the business the matter was settled by a cheque for the difference.

11. An assurance policy on Hamid's life matured and realized Rs.576,900.

12. Hamid paid Rs.90,000 to a friend in an emergency and received a cheque thereagainst. The cheque was dishonoured and the friend is repaying by installments. He had paid Rs.36,000 by March 31, 2005.

13. Other private payments by cheque totalled Rs.86,400.

14. You are to provide Rs.30,000 for accountancy fees.

Required:

(a)	Cash and bank summary for the year ended March 31, 2005.	**(08)**
(b)	Capital Account showing drawings during the year ended March 31, 2005.	**(06)**
(c)	Profit and loss account for the year ended March 31, 2005.	**(04)**
(d)	Balance sheet of the business as at March 31, 2005.	**(04)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2006

March 09, 2006

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B **(3 hours)**

Q.1 (a) With reference to IAS 18 'Revenue', describe the conditions to be met for recognition of revenue from rendering services? **(06)**

(b) When should revenue be recognized for the following items?

i) Installation fees
ii) Service fees included in the price of the product
iii) Advertising commissions
iv) Placement fee for arranging a loan between a borrower and an investor **(08)**

Q.2 Which fundamental accounting concept best describes each situation below? **(05)**

(a) Allocates expenses to revenue in the proper period.
(b) Indicates that changes in value subsequent to purchase are not recorded in the accounts.
(c) Uniform accounting procedures are followed from year to year unless a change is essential.
(d) Rationale why assets are not reported at liquidation value.
(e) Anticipates all losses, but reports gains only when specific conditions are met

Q.3 Included in the Purchase Journal of a trader, who draws his accounts up to 31 December of each year, is an invoice of Rs. 56,000 issued on July 1, 2005. On examining the invoice, the following material facts were found:

	Rupees
Purchase of new Laptop	80,000
Less: Old computer	12,000
	68,000
Less trade discount	8,000
	60,000
Less cash discount	9,000
	51,000
Computer diskettes	5,000
	56,000

The old computer stood in the books at Rs.20,000 on January 1, 2005.

Required:

Assuming depreciation is charged at 20% p.a. on reducing balance method, pass the necessary adjustments. **(09)**

Q.4 Amin listed the balances contained in his sales ledger. These balances totalled Rs.1,081,240 but on the same date the balance of the sales ledger control account was Rs.1,096,780.

On investigation, the following errors were found:

(1) A debtor's balance of Rs.28,420 had been included in total credit sales but had not been posted to the customer's account.
(2) Discounts allowed amounting to Rs.3,480 were not entered in the customers' accounts.
(3) Return Inward Journal was overcast by Rs.6,960.
(4) Return of Rs.9,860 from a customer had not been recorded in the books.
(5) A purchase ledger balance of Rs.15,080 has been set off against sales ledger balance in the control account but nothing had been recorded in the customers account.
(6) Sales day book had been overcast by Rs.26,680.
(7) A debtors account was charged with interest of Rs.1,160 but it was not recorded in the control account.
(8) Goods returned worth Rs.16,240 were recorded as Rs. 12,640 in the customers account.
(9) A debt of Rs.6,380 had proved bad but no entry had been passed in the books.
(10) Discount allowed amounting to Rs.4,640 had been posted to the debit side of the customers account.

Required:

(a) Show the above adjustments in the sales ledger control account.
(b) Prepare a statement showing the reconciliation of the total of the list of sales ledger balances with the amended balance of sales ledger control account. **(13)**

Q.5 C accepts a bill of exchange for 3 months from B for Rs.108,000 on September 1, 2005 and got it discounted with his banker at 12 per cent p.a. On the due date the bill was dishonored and C paid Rs.180 as bank charges. In lieu of the discounted bill, C accepted Rs.39,150 in cash (inclusive of Rs.3,150 for bank charges and interest) and a new bill for Rs.72,000 for 2 months. On the due date B approached C and asked for renewal of the bill for a further period of 3 months. C agreed to the request and B paid Rs.3,320 as interest in cash. The bill was paid on maturity.

Required:

Journal entries in the books of C. **(12)**

Q.6 Basheer operates a retail store. He maintains incomplete accounting records. He had experienced a theft of stock on the part of his staff last year and has asked you to determine whether there is any indication of shortage in the current year also. In the course of your investigation, you obtain the following information:

(a) The physical inventory taken at December 31, 2005, under your observation amounted to Rs.83,420. The inventory at December 31, 2004, was Rs.120,260.
(b) Average gross profit in recent periods has been 35% of net sales. Basheer expects the same results for 2005.
(c) The December 31, 2004 balance sheet shows trade debtors of Rs.41,140 and trade creditors of Rs.112,440.

(d) During 2005 an amount of Rs.4,320 was written off and Rs.2,960 written off in 2004 were collected and recorded as a regular collection on account.
(e) A list of unpaid sales invoices shows that customers owed Rs.64,920 on December 31, 2005.
(f) Unpaid purchase invoices indicate that Basheer owed Rs,100,540 to the trade creditors at the end of 2005.
(g) An analysis of the receipts and payments shows the following:

Receipts	**Rupees**
From customers	997,020
Payments	
To trade creditors	779,400
To customers for returned goods	1,440

Required:

Compute the amount by which the physical inventory is short, if any. **(16)**

Q.7 A, B and C were partners sharing profits and losses in the ratio 2:2:1. The balance sheet of A, B and C is as follows:

A B C
Balance Sheet
as at December 31, 2005

Liabilities	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital				
A	840,000	Cash at Bank		509,500
B	805,000	Debtors	167,500	
C	420,000	Provision for bad debts	17,000	150,500
	2,065,000	Stocks		245,000
		Equipment		227,500
Creditors	205,000	Vehicles		332,500
		Premises		805,000
	2,270,000			2,270,000

On December 31, 2005, C retired on the following terms and conditions:

(i) Goodwill was valued at Rs. 210,000.
(ii) Assets were revalued as follows:

	Rupees
Premises	875,000
Vehicles	301,000
Equipment	182,000
Stock	220,500
Debtors	140,000

On January 1, 2006 the dues of C were paid through bank and the remaining partners decided to admit D as a partner. D is to bring in Rs.490,000 of which Rs.140,000 is to be considered as his share of goodwill. The new profit and loss sharing ratio of A, B and D will be 5:3:2.

No goodwill account is to be shown in the books.

Required:

(a) Revaluation account
(b) Partners capital account
(c) Balance Sheet of the new partnership as at January 1, 2006. **(14)**

Q.8 The head office of Schon Limited supplies goods to its branch at cost plus 25%. Accounts are kept at head office from where all expenses (except petty expenses) are paid. The branch is allowed to maintain petty cash balance of Rs. 30,000. With the permission of head office, the branch makes local purchases on cash as well as on credit, which are paid out of collections from sales.

The balances relating to the branch as on January 1, 2005 were as follows:

	Rupees
Petty cash in hand	30,000
Stock in hand	2,000,000
Sundry debtors	400,000
Sundry creditors	120,000
Furniture and fixtures	800,000
Prepaid rent upto March 31, 2005	30,000

Transactions for the year ended December 31, 2005 were as follows:

	Rupees
Goods sent to branch (less returns)	10,400,000
Cash sales at branch	8,000,000
Credit sales at branch	4,500,000
Allowance to debtors	50,000
Cash received from customers	4,000,000
Bad debts to be written off	20,000
Cash purchases by the branch	1,050,000
Cash paid by the branch to its creditors	800,000
Payments by head office:	
Rent for one year (April 2005 to March 2006)	180,000
Salaries	200,000
Insurance for the year ending March 31, 2006	36,000
Petty expenses reimbursed to the branch	18,000

All cash available at the branch at year end was remitted to head office.

Balances at December 31, 2005 are as follows:

	Rupees
Stock	3,750,000
Creditors	300,000
Petty cash on hand	30,000

Opening and closing balances of stock consist only of goods sent by head office. The company has the policy of writing off depreciation at 10%.

Required:

Prepare branch account showing profits earned by the branch during the year ended 31 December 2005. Show workings where necessary. **(17)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2006

September 07, 2006

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B **(3 hours)**

Q.1 Briefly describe the main functions of a Commercial Bank. **(08)**

Q.2 Give brief comments whether the revenue has been recognized correctly in the following cases:

(a) A company acquired goods on June 29, 2006. As it was almost certain that these goods would be sold for Rs.200,000, it included this amount in the sales revenue of June 2006. The goods were however sold in July for Rs.195,000.

(b) An advance was received from a customer on June 26, 2006 against which goods were delivered on June 29, 2006. The company has recorded revenue in its accounts for the period ended June 30, 2006, however, the goods were returned on July 5, 2006.

(c) An internet service provider (ISP) sold 100 internet hours at the rate of Rs.20 per hour, to a customer on June 30, 2006. The amount is non-refundable and the hours have to be utilized within a month. The ISP recorded the revenue in its accounts for the year ended June 2006. **(06)**

Q.3 ABC Limited imported technical equipment costing Rs. 3 millions on July 1, 2003. It further incurred the following expenses on the equipment:

- Import duty Rs. 1,000,000
- Income tax Rs. 276,000 adjustable against company's income tax liability
- Other non-refundable taxes Rs. 60,000
- Transportation cost Rs. 10,000 to bring the equipment to factory premises
- Insurance in transit Rs. 4,000
- Fire insurance Rs. 10,000

Initially the useful life was estimated to be 5 years and depreciation was provided on straight line basis. The estimated salvage value was Rs. 350,000.

During the year 2004-05 the company estimated the remaining life of the equipment to be five years instead of four years. The salvage value was re-estimated at Rs. 400,000.

The machine was sold on July 1, 2006 for Rs. 2,800,000.

Required:

(a) Calculate depreciation expense for the years ended June 30, 2004, 2005 and 2006.

(b) Pass journal entry to record the sale of machine. **(08)**

Q.4 Hamid, a toy manufacturer, has the following trial balance as at June 30, 2006:

	Rs.	Rs.
Land	1,000,000	
Buildings	683,600	
Plant and machinery	1,275,000	
Fixtures and fittings	300,000	
Provision for depreciation on:		
Buildings		130,800
Plant and machinery		375,000
Fixtures and fittings		60,000
Stocks at July 1, 2005		
Raw materials	92,400	
Work in process	104,850	
Finished Goods	130,200	
Debtors	353,400	
Provision for bad debts		27,750
Cash at bank	107,700	
Creditors		279,900
Bank loan		180,000
Capital		2,625,000
Drawings	565,200	
Sale of finished goods		3,870,950
Discounts received		4,000
Miscellaneous expenses - manufacturing	42,900	
Factory power	55,350	
Supervisor's salary	211,500	
Rent and rates	220,500	
Indirect material	31,800	
Discounts allowed	29,550	
Purchase of raw materials	1,236,900	
Return of raw materials		47,400
Selling expenses	136,950	
Advertising	109,050	
Heating and lighting	63,000	
Machine repairs	61,950	
Carriage on raw materials	36,000	
Wages and salaries	573,000	
General administrative expenses	99,000	
Insurance	81,000	
	7,600,800	7,600,800

The following additional information is also available:

1. Stocks as at June 30, 2006 – Raw materials 95,850
   – Work in Process 107,700
   – Finished Goods 138,600

2. Debts of Rs. 23,400 are to be written off as bad. Provision for bad debts is to be made at 10% of the outstanding debtors.

3. Rent and rates include rent of Rs. 27,000 paid for the months of July and August 2006. Rent and rates are to be split between factory and office in the ratio of 2:1.

4. Accrued wages amounted to Rs. 27,000. Wages and salaries are to be apportioned between direct wages, indirect wages and administrative expenses in the ratio of 6:2:2.

5. Insurance and heating & lighting are to be split between factory and office in the ratio of 3:2.

6. Depreciation policy is as follows:
   - 5% on Buildings on straight line method; 70% of the depreciation pertains to factory building.
   - 15% on plant and machinery on straight line method;
   - 20% on fixtures and fittings on reducing balance method; 30% of the depreciation is to be allocated to factory.

   No depreciation is provided on land.

7. Bank loan was taken on January 1, 2006 with annual interest of 12%.

Required:
(a) Prepare a Manufacturing account for the year ended June 30, 2006.
(b) Prepare a Trading and Profit and Loss account for the year ended June 30, 2006. **(22)**

Q.5 Mr. Tufail runs a retail store and makes up his annual accounts to 30 June each year. This year he was unable to take stock of physical inventory till 11 July, 2006 on which date the value of physical stock was calculated as Rs.177,300. However, while making the valuation he made an error as a sub-total of Rs. 21,500 on one of the stock sheet was carried to the summary of stock sheets as Rs. 12,500.

The following information relating to the period 1 July 2006 to 11 July 2006 is available:

(i) Sales invoices totalling Rs. 90,000 were issued. An invoice of Rs. 8,400 pertained to goods which had not been delivered at the time of stock verification. Another invoice of Rs.14,100 pertained to goods which had been delivered on 29 June 2006.
(ii) Credit advices for sales returns amounting to Rs. 4,200 had been issued. These included advices of Rs. 2,700 relating to goods returned prior to year end.
(iii) Purchase invoices of Rs. 60,100 were received. Of these, invoices totalling Rs. 11,100 were in respect of goods received on 28 June 2006 whereas an invoice of Rs. 13,800 pertained to goods received on 15 July, 2006.
(iv) No invoices had been received for goods costing Rs. 9,400 which had been delivered prior to 30 June 2006.

Required:
Determine the value of his physical stock at cost on 30 June 2006 if the gross profit is approximately 20% of cost price. **(10)**

Q.6 Pioneer Limited, a wholesaler, has two departments A & B. A memorandum stock account and memorandum mark-up account are maintained for each department. All goods supplied are debited to memorandum stock account of the department at cost plus a mark-up, which together represent normal selling price. The sales are credited to the memorandum stock account. The mark-up is credited to the departmental mark-up account. If the selling price of any item is reduced below the normal selling price, the reduction is entered in the stock account as well as in the mark-up account. The mark-up for department A is 33-1/3% of cost and for department B, 50% of cost.

The following information relating to the year ended 30 June 2006, have been extracted from the records:

	Department A Rupees	Department B Rupees
Balance in Memorandum Stock Accounts as on July 1, 2005	1,615,000	2,610,000
Purchases at cost	8,160,000	9,480,000
Sales	10,500,000	14,000,000

- The stock of department A on 1 July 2005 included goods which were recorded as usual but were subsequently marked down by Rs. 25,000. These goods were sold during 2005-06 at the reduced price.
- Goods purchased in 2005-06, at a cost of Rs. 144,000 for Department A, were later in the year transferred to Department B. No entries for the transfer have been made in the books.
- Some items of the goods purchased in 2005-06 were marked-down as follows:

Department A	Rs. 43,000
Department B	Rs. 200,000

At the end of the year, the stock of department B included goods which had been marked down by Rs. 100,000. There were no such goods in department A.

During the stock taking carried out on 30 June 2006, it was found that goods costing Rs. 12,000 were missing from Department A. It was decided to show it as a loss, separately in the profit and loss account. For the purpose of annual accounts, the closing stock of both the departments is to be valued at cost.

Prepare the following accounts in columnar form, for each department for the year 2005-06:

(a) Memorandum Stock Account.
(b) Memorandum Mark-up Account.
(c) Trading Account. **(18)**

Q.7 Waqar and Daud entered into a joint venture on July 1, 2005, sharing profit and losses in the ratio of 4:5. It was also agreed that any cash investment they make in the venture would be entitled to interest at 10% p.a.

During the six months ended December 31, 2005 they imported goods costing Rs. 6,000,000. 80% of the cost was financed through a bank loan carrying interest at the rate of 16% per annum. Some of the import expenses amounting to 8% of imported value and the balance of purchase consideration was paid by Waqar from his own resources on July 1, 2005.

Certain costs were met by Daud as enumerated below:

		Rs.
(a)	Freight and insurance paid on August 1, 2005	400,000
(b)	Advertisement expenses paid on September 1, 2005	250,000
(c)	Travelling expenses paid on October 31, 2005	150,000
(d)	Other expenses paid on December 31, 2005	100,000

Except for some damaged goods which were taken over by Waqar and Daud at Rs. 516,000 each, the remaining stock was sold for Rs. 11.5 million.

Daud received 8% of the sale proceeds as management fee for his efforts. All the transactions were completed by December 31, 2005.

Required:
Prepare the following accounts in the books of the joint venture: **(16)**

- Joint venture account
- Capital accounts of Waqar and Daud.

Q.8 The bank statement of AB Traders showed an overdraft of Rs. 272,000 as at June 30, 2006. The bank book showed an overdraft of Rs. 730,718. An examination of the bank book and bank statement disclosed the following:

(i) A cheque of Rs. 49,200 deposited on June 29, 2006 had been credited by the bank on July 1, 2006. Cash receipts of June 30, 2006 totaling Rs. 67,213 were deposited in bank on July 1, 2006.
(ii) Bank charges amounting to Rs.1,700 had not been entered in the bank book.
(iii) A debit of Rs. 4,200 appeared on the bank statement for an unpaid cheque, which had been returned in June 2006, marked "out of date". The cheque had been re-dated by the customer and deposited into the bank again on July 3, 2006.
(iv) A payment under a standing order, for annual subscription amounting to Rs.1,000 had not been entered in the bank book.
(v) On June 25, the Managing Director had given the cashier a personal cheque of Rs.10,000 for depositing into his personal account at the bank. The cashier had deposited it into the company's account by mistake. It was credited in the bank statement on June 27.
(vi) On June 27, two customers of AB Traders had paid direct in the company's bank account Rs. 49,900 and Rs. 15,700 respectively as payment against goods supplied. The advices were not received by the company until July 4 and were entered in the bank book on that date.
(vii) On March 30, 2006 the company had entered into a hire purchase agreement to pay by banker's order a sum of Rs.2,600 on the 10th day of each month commencing April, 2006. No entries had been made in the bank book.
(viii) Rs.36,400 deposited into the bank had been entered twice in the bank book.
(ix) Cheques issued amounting to Rs.467,200 had not been presented to the bank for payment until after June 30, 2006.
(x) A customer was given a cash discount of 2.50% on payment of Rs. 20,000 on June 10. The cashier entered the gross amount in the bank book.
(xi) On July 7, 2006, the bank sent a debit advice of Rs.16,718 being interest on overdraft for 6 months to June 30, 2006. It had been entered in the bank book on June 30, 2006.

Required:
Show necessary adjustments in the bank book and prepare a bank reconciliation statement as on June 30, 2006. **(12)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2007

March 5, 2007

INTRODUCTION TO FINANCIAL ACCOUNTING (Marks 100)

Module B (3 hours)

Q.1 Explain the meaning of the following accounting terms:

(a) Materiality
(b) Completeness
(c) True and fair view
(d) Fair value **(08)**

Q.2 With reference to IAS 2 'Inventories', answer the following questions:

(a) How should inventory be measured for incorporation in the financial statements? **(01)**

(b) What elements of cost are required to be included in:
(i) Cost of purchases
(ii) Cost of conversion **(04)**

(c) Briefly explain the methods of pricing (cost formulas) that may be used in valuing inventories? **(04)**

Q.3 The balance sheets of Fazal Din at December 31, 2005 and 2006 are as follows:

	2005	**2006**
	Rupees	**Rupees**
Cash in hand	200,000	300,000
Debtors - net	450,000	500,000
Stocks	400,000	650,000
Prepaid expenses	100,000	50,000
Fixed assets	1,150,000	1,650,000
Allowance for depreciation	(75,000)	(175,000)
	2,225,000	2,975,000
Creditors	400,000	515,000
Accrued expenses	125,000	100,000
Bank overdraft	300,000	785,000
Capital	1,400,000	1,575,000
	2,225,000	2,975,000

Other information:
(i) Value of land included in fixed assets in 2005 amounted to Rs. 450,000.
(ii) Another plot of land was acquired during the year from a relative, at a cost of Rs. 350,000.
(iii) Mr. Fazal Din withdrew Rs. 100,000 out of profits made during 2006.
(iv) An equipment costing Rs. 100,000 and having a book value of Rs. 40,000 was sold during the year for Rs. 60,000.

Required:
A statement of cash flow for the year ended December 31, 2006. **(10)**

Q.4 The accountant of Executive Club has resigned and Mr. Imdad has been assigned the task of preparing the accounts for the year ended December 31, 2006. On taking charge, Mr. Imdad found that the books had not been written since January. After searching the available records and discussing various issues with members of the management committee, he was able to gather the following information:

1. A member of management committee controls the receipts relating to snooker table charges, which totaled Rs. 3,225,000.
2. Members' subscriptions amounting to Rs. 3,650,000 were received during the year. Of these, Rs. 75,000 relate to the year 2007.
3. Rs. 3,000,000 had been donated for a new building and this sum is to be credited to Building Reserve account.
4. The club provides catering services on which a profit margin of 20% of sales is earned. Stocks and purchases relate to these services.
5. The carrying value of snooker tables as at January 1, 2006 was Rs. 4,900,000. The cost of the tables was Rs. 9,000,000. Tables acquired during the year were installed on December 31, 2006. 10 percent deposit on the newly acquired tables was paid on November 1, 2006. Balance is payable in January 2007. The expected life of each table is six years with nil scrap value.
6. A summary of the bank account for the year showed the following:

	Rupees		**Rupees**
Balance at Jan. 1, 2006	198,500	Insurance	90,000
Bank deposits *(comprising of receipts from snooker table charges, subscriptions, donation and catering services)*	26,160,500	Rent and rates	1,480,000
		Electricity	735,000
		Purchases	18,155,000
		Communications	92,500
		Withdrawals	4,232,500
		10% deposit on new snooker tables	130,000
		Balance at Dec. 31, 2006	1,444,000
	26,359,000		26,359,000

7. A summary of expenditure paid from petty cash is as follows:

	Rupees
Glasses and crockery	430,000
Wages	1,975,000
Sundry club expenses	290,000
Repairs to snooker equipment	510,000

8. Mr. Imdad was also able to ascertain the following balances as at December 31:

	2006 Rupees	**2005 Rupees**
Prepaid rent	150,000	125,000
Electricity bills payable	155,000	120,000
Suppliers balances	2,330,000	1,430,000
Stocks	2,995,000	1,940,000
Stocks of crockery	550,000	685,000

9. The club has a fidelity insurance policy and any cash deficiency upto a maximum of Rs. 1,000,000 is recoverable under the policy.

Required:

(a) An income and expenditure account for the year ended December 31, 2006 showing separately, the results relating to catering services. **(19)**

(b) A balance sheet as at December 31, 2006. **(07)**

Q.5 Family Mart, having head office in Karachi, recently opened a branch in Hyderabad. Its financial year ends on December 31.

Following is the summarized trial balance of Family Mart as at December 31, 2006:

	Rupees (Dr.)	**Rupees (Cr.)**
Capital	-	1,000,000
Profit and loss account	-	514,900
Cash and bank	1,510,000	-
Cash received from branch	-	3,352,600
Cash paid to branch	10,000	-
Debtors – head office	770,000	
Creditors – head office		1,485,000
Purchases – head office	18,000,000	-
Salaries expenses – head office	2,260,000	-
Salaries expenses – branch	280,000	-
Sales (head office)	-	18,752,500
Fixed assets at cost – head office	610,000	-
Fixed assets at cost – branch	225,000	-
Accumulated Depreciation as at January 1, 2006	-	340,000
Stocks as at January 1, 2006 – head office	1,780,000	-
	25,445,000	25,445,000

Following further information is available:

(a) At year-end, branch debtors amounted to Rs. 12,400 while cash in hand was Rs. 14,500.

(b) Depreciation is to be charged on fixed assets at the rate of 10% on cost.

(c) The cost of closing stock at head office was Rs. 1,850,000.

(d) The selling price of stock at the branch was Rs. 305,000.

(e) The goods invoiced to branch amounted to Rs. 3,660,000. The branch had also purchased goods costing Rs. 120,000 locally which were paid out of branch takings.

(f) Goods were invoiced to the branch at selling prices i.e. cost plus 25%. The rate of gross profit was maintained on all sales.

(g) The manager of the branch is responsible to make good all stock shortages at selling price. He is entitled to a commission of 10 percent of the net profits of the branch, after charging such commission, management fee to head office amounting to Rs. 26,000 and all direct expenses related to the branch.

(h) Expenses amounting to Rs. 10,500 were paid by the branch out of its takings.

Required:
Prepare separate trading and profit and loss account of Family Mart for head office and the branch, for the year ended December 31, 2006. **(17)**

Q.6 Briefly describe similarities and differences between a computerized and a manual system of accounting. **(04)**

Q.7 On reviewing the books of Mansoori and Company at the end of first year of operations, you find that a number of errors were made in recording transactions relating to delivery equipments. The ledger account shows the following data:

Delivery Equipments

		Rs.			Rs.
2-Jan	Purchase of vans #1 & 2	1,001,000	16-Apr	Amount received from insurance co. for damage to van # 1	40,000
4-Jan	Purchase of van # 3	431,250	31-Dec	Depreciation for year 2006	414,500
12-Jan	Cost of repairs to van #1 as a result of an accident	43,900			
3-Nov	Payment on trade-in of van # 1 for van # 4	222,000	31-Dec	Balance c/d	1,243,650
		1,698,150			1,698,150

Details of cost of vans debited in the accounts are as follows:

	Van # 1	Van # 2	Van # 3	Van # 4
Purchase cost	350,000	500,000	365,000	400,000
Non-refundable taxes	52,500	75,000	54,750	60,000
License fee for 2006	11,000	12,500	11,500	12,000
	413,500	587,500	431,250	472,000
Trade-in allowance – van # 1				250,000
Amount paid (including license fee of Rs. 12,000)				222,000

Depreciation was provided @ 25% of the balance in the delivery equipment account. It has been determined that each van has a useful life of 4 years with a trade-in value of approximately 30% of total cost, at the end of its useful life. Depreciation should be charged on the basis of number of months each van remains in use.

Required:
Give the necessary journal entries along with appropriate calculations. **(12)**

Q.8 The following information has been taken from the books of Fashion Fabrics Limited for the financial year ended June 30, 2006:

	Rupees
Sales ledger control account balance at July 1, 2005	189,954
Payment received from debtors	2,895,036
Bad debts written off	55,860
Debtor's cheque dishonoured	4,344
Debit balance transferred to purchase ledger account	7,368
Credit sales for the year	3,416,178
Discount allowed on credit sales	149,448
Cash sales	247,812
Credit sales return	58,338

The total of Fashion Fabrics Limited sales ledger debtors balances amounts to Rs. 455,232 which does not agree with the closing balance in the sales ledger control account.

The following errors have been discovered:

1. A sales invoice for Rs. 7,482 has been completely omitted from the books.
2. An entry for Rs. 5,904 in the sales day book had not been posted to the debtors account.

3. A credit note for Rs. 2,580 sent to a debtor had been entered in the sales day book and posted as sales in both control and debtors account.
4. A debtor owing Rs.5,850 was declared bankrupt during June 2006. The debt has been written off in the control account, but no entry had been made in the debtors account.
5. A receipt for Rs. 4,620 was debited to the bank account but omitted from the debtors account.
6. A debit balance of Rs. 16,098 had been omitted from the list of debtors.
7. A sales ledger debtor account had been understated by Rs. 1,020.
8. A debit balance of Rs. 4,938 in the individual debtors account had been set off against a contra account in the purchase ledger, but no entry had been made in sales ledger control account.
9. Discount allowed had been overstated by Rs. 2,700.
10. A page of the sales day book with entries totaling Rs. 25,596 had been mislaid and not included in total sales, although the amounts have been posted to the individual debtors accounts.

Required:

(a) From the original list of balances, draw up the Sales Ledger Control account. **(04)**

(b) Draw up the amended Sales Ledger Control account. **(06)**

(c) Draw up a statement to reconcile the Sales Ledger balance with the amended Control account balance. **(04)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2007

September 07, 2007

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B **(3 hours)**

Q.1 Explain the meaning of the following accounting terms:

(a) Accrual basis
(b) Prudence
(c) Going concern
(d) Substance over form **(08)**

Q.2 (a) What particulars are required to be disclosed in the financial statements in respect of inventories according to IAS 2? **(06)**

(b) In the light of International Accounting Standard 16, explain when shall the cost of an item of property, plant and equipment be recognized as an asset. **(03)**

Q.3 During the course of audit of Desktop Products for the year ended June 30, 2007, the following information has been gathered:

(a) Equipment costing Rs. 200,000 with a carrying value of Rs. 60,000 was traded-in for a new equipment valuing Rs. 250,000 on July 02, 2006. A trade-in allowance of Rs. 45,000 was received on the equipment. However, while recording this transaction only the net payment to supplier was recorded as an addition to fixed assets. Depreciation was provided on the old as well as the new equipments at 10% on straight line basis.

(b) The following errors were observed in the valuation of year-end stocks and stores and spares:

- An amount of Rs. 152,700 was carried forward as Rs. 125,700 in the stock sheets.
- Stores and spares item code 35D was overvalued by Rs. 37,000.

(c) Stock costing Rs. 138,750 was received on June 30, 2007 and included in the physical inventory taken on that date. However, the purchase was recorded when the invoice was received on July 4, 2007.

(d) An old machine was sold to Mr. Shafique for Rs. 50,000. According to the agreement, the purchaser made a down payment of Rs. 35,000. The balance was received on December 30, 2006, but was credited to the sales account.

(e) A loan of Rs. 500,000 had been obtained on January 1, 2007. It carried interest @ 12% per annum compounded quarterly. Rs. 450,000 had been repaid on March 31, 2007 which included the amount of interest up to March 31. Interest for the quarter ended June 30, 2007 had not been accrued.

(f) While making adjustments for the year ended June 30, 2006 an adjusting entry to accrue sales commission amounting to Rs. 24,000 was recorded. During the current year, Rs. 17,000 were paid and debited to sales commission account. Rs. 7,000 are still outstanding.

(g) The following cheques were issued on June 30, 2007:

Description	Cheque No.	Amount (Rs.)
Advance to an employee	128364	12,000
For goods supplied in May	128365	17,000

- Cheque No. 128364 was handed over to the employee on June 30 and is appearing as a reconciling item in the bank reconciliation statement related to June 2007.
- Cheque No. 128365 was handed over to the supplier on July 1, 2007 and is not appearing on the bank reconciliation statement.

Required:
Pass necessary journal entries in respect of the above. **(17)**

Q.4 Yousuf, a sole trader started business on July 01, 2006 with Rs. 2.40 million cash and a shop that had cost Rs. 1.80 million. One-third of the cost of shop represented the value of land.

Yousuf keeps very little records. He pays for purchases of materials through cheques. However, for other items, payments are made out of cash receipts. Available cash is deposited in a bank account weekly. He does not keep any record of bank account or sales. Debtors are recorded only by keeping a copy of the sales invoice and the same is given to the customer on receipt of the outstanding amount.

An analysis of the bank statements has shown that total deposits amounted to Rs. 15,960,000 inclusive of the original cash investment and bank loan credit. The bank statement shows a balance of Rs. 896,000 as on June 30, 2007. Outstanding cheques which were presented for payment after the year end amounted to Rs. 258,000. Cash in hand on 30 June was Rs. 40,080.

Annual stock taking was carried out on June 30, 2007, which showed inventory in hand costing Rs. 2,005,200. Outstanding invoices to debtors totaled Rs. 152,400 but an amount of Rs. 14,760 appeared to be bad. Unpaid suppliers' invoices for materials amounted to Rs. 453,600.

During the year, Yousuf borrowed Rs. 1.20 million from his bank for business purposes. Loan repayments of Rs. 652,000 were made through cheques, which included interest for the year amounting to Rs. 52,000.

Yousuf had withdrawn Rs. 576,000 from the cash collections. Expenses paid in cash were as follows:

	Rupees
Utilities	66,480
Advertising	6,000
Salesman (part time)	70,800
Supplies, stationery, etc.	12,000
Insurance	28,080
Property tax	42,000

Store fixtures with a list price of Rs. 840,000 were purchased early in July 2006. According to the terms of payments, a down payment of Rs. 672,000 had been made through cheque. The remaining amount was paid in July 2007. Depreciation rate for all depreciable assets is 5%.

Required:
Prepare necessary Profit and Loss Acount of Mr. Yousuf for the year ended June 30, 2007, and Balance Sheet as at June 30, 2007 supported by all necessary computations. **(25)**

Q.5 Shahid owns and operates a small factory by the name of Shahid & Sons which produces three items i.e. A, B and C. The accounting and other relevant records show the following results for the year ended June 30, 2007:

Shahid & Sons
Profit and Loss Account

			Rupees				Rupees
Stock	- A	7,000 units	50,000	Sales	- A	21,000 units	252,000
	- B	9,000 units	63,000		- B	51,000 units	714,000
	- C	10,000 units	80,000		- C	62,000 units	1,240,000
				Stock	- A	4,000 units	39,200
Raw material consumption			1,000,000		- B	6,000 units	66,800
Wages			260,000		- C	8,000 units	109,257
Other manufacturing expenses			200,000				
Office expenses			65,000				
Profit for the year			703,257				
			2,421,257				2,421,257

The following information is also available:

- Stocks are valued on weighted average basis.
- 5,000 units of A and 12,000 units of B were transferred to a nearby construction site where a godown has been constructed. The godown was ready and is being used by Shahid & Sons since December 31, 2006. The transfers were credited to sale on the average price and debited to Sales Receivable Account.
- Salaries for June 2007 amounting to Rs. 40,000 have not been accrued.
- All production related expenses have been allocated to the products in the ratio 1:3:6.
- While computing cost per unit, the number of units transferred to the godown were erroneously omitted from the total production.

Required:
Assuming that the ratio in which the production costs have been allocated is correct, revise the profit and loss account based on correct workings. **(15)**

Q.6 A, B & C are partners in a firm ABC & Co., their capital on June 30, 2007 according to the balance sheet stood at Rs. 500,000, Rs. 450,000 and Rs. 350,000 respectively. They had been sharing profits and losses equally. On June 30, 2007, B decided to retire and for the purpose of computing B's share of assets, the partners agreed to make the following adjustments:

(a) With effect from July 1, 2005, the profit and loss sharing ratio be changed to 3:3:2 respectively.

(b) The merchandise inventories had been reported annually on a weighted average basis. It was decided to restate these on FIFO basis. Inventory values based on the two methods are as follows:

June 30, 2006		**June 30, 2007**	
Weighted Average	***FIFO***	***Weighted Average***	***FIFO***
- - - - - - - - - -**Rupees**- - - - - - - - - -			
600,000	880,000	500,000	720,000

(c) Certain renewals and replacements amounting to Rs. 40,000 were capitalized as plant and machinery in January 2006. These are to be charged off as expense. Depreciation was provided at 10% per annum on straight line basis. The calculation, however, was based on the number of months for which the asset was in use.

(d) Certain revenues and expenses had not been accrued in the past as shown below:

	June 2005	June 2006	June 2007
	- - - - - - - -Rupees- - - - - - - -		
Accrued revenue	65,000	50,000	75,000
Accrued expenses	26,000	18,000	23,000

(e) Goodwill of the firm is estimated at Rs. 210,000. It is to be recognized for determining the share of B but is not to be retained in the books. A and C are to become equal partners from July 1, 2007.

Required:
Calculate the partners' capital after making the above adjustments. **(17)**

Q.7 The following information has been gathered from the books of Rehan Brothers for the year ended June 30, 2007:

(i) A loss of Rs. 453,000 was sustained during the year.
(ii) Repairs to building amounting to Rs. 50,000 were erroneously debited to accumulated depreciation-building account.
(iii) Depreciation for the year amounted to Rs. 163,000.
(iv) Current assets (net of provisions) and current liabilities increased by Rs. 70,000 and Rs. 90,000 respectively.
(v) A plot of land for which Rs. 390,000 had been paid was sold for Rs. 600,000.
(vi) A lathe machine costing Rs. 200,000 was sold for Rs. 50,000. It was bought six years back. Depreciation had been provided at 10% on straight line basis assuming 20% scrap value.
(vii) A fully depreciated office equipment costing Rs. 5,600 was written off.
(viii) An old computer costing Rs. 30,000 and book value of Rs. 10,000 was traded-in for a new machine costing Rs. 65,000 on payment of Rs. 50,000.

Required:
Cash flow statement for the year ended June 30, 2007. **(09)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2008

March 7, 2008

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B (3 hours)

Q.1 (a) (i) What are the components of financial statements?

(ii) Identify any four users of the financial statements and explain the nature of their interest in the financial statements of an entity. **(08)**

(b) Explain the following accounting concepts:

- Historical cost
- Net realizable value
- Substance over form **(06)**

(c) What elements of cost may be included in the measurement of property, plant and equipment at recognition? **(05)**

Q.2 Universal Stores has its head office at Clifton, Karachi. It has a branch office at Lahore. During the year ended December 31, 2007, Karachi Office invoiced to Lahore, goods amounting to Rs. 86,000 at selling price. The Lahore branch remitted an amount of Rs. 84,000 during the same year. The remittance comprised of Rs. 15,000 generated through cash sales, while the remaining amount was received from debtors. During the said year, credit sales at Lahore amounted to Rs. 73,500 whereas sales returns amounted to Rs. 800 out of which goods invoiced at Rs. 500 were returned to Karachi office. The discounts allowed to customers were Rs. 1,800. Trade debts of Rs. 190 were considered as bad and were written off.

The invoiced value of opening and closing stock at the branch was Rs. 9,000 and Rs. 6,800 respectively and their cost was Rs. 6,100 and Rs. 4,620 respectively. The trade debts of the branch on January 1, 2007 were Rs. 5,140.

The cost of opening and closing stock at the Head office was Rs. 22,000 and Rs. 21,500 respectively. Transactions for the year at the head office were as follows:

	Rupees
Purchases, net-of returns	219,000
Sales, net-of returns	199,750

Required:

Draw up the following accounts in the books of the head office:

(a) Branch stock account.

(b) Goods sent to branch account.

(c) Branch debtors account.

(d) Combined trading account of head office and branch. **(14)**

Q.3 The following is a list of balances on December 31, 2007 and have been extracted from the books of JK Enterprises:

	Rupees
Capital	58,200,000
Freehold land	10,000,000
Building on freehold land	25,000,000
Plant and equipment	15,200,000
Motor vehicles	10,000,000
Accumulated depreciation:	
Building on freehold land	7,000,000
Plant and equipment	4,800,000
Motor vehicles	3,500,000
Stocks:	
Raw material	3,200,000
Work in progress	1,750,000
Finished goods	7,200,000
Purchase of raw materials	51,370,000
Sales	107,300,000
Manufacturing wages	21,000,000
Factory lighting and power	4,250,000
Other administration expenses	4,470,000
Sales office expenses	10,300,000
Other factory overheads	8,100,000
Debtors	8,000,000
Provision for doubtful debts	160,000
Creditors	4,500,000
Cash at bank	5,620,000

The following information has to be taken into account:

(i) Value of stock on December 31, 2007 was as follows:

	Rupees
Raw materials	4,150,000
Work in progress	2,200,000
Finished goods	8,000,000

(ii) Depreciation has to be provided as follows:

Building on freehold land	5% on straight line basis
Plant and equipment	10% on straight line basis
Motor vehicles	20% on reducing balance method

(iii) 80% of the building is being used for manufacturing purposes.
(iv) The motor vehicles are used for delivery of goods to customers.
(v) Sales office expenses include advance rent of Rs. 200,000 paid in respect of the period July 1, 2007 to June 30, 2008.
(vi) Trade debts of Rs. 70,000 have to be written off. It is estimated that 5% of the remaining trade debts may not be recovered.

Required:
(a) Manufacturing account for the year ended December 31, 2007 clearly indicating prime cost, total factory overheads, manufacturing costs and cost of goods manufactured.
(b) The trading and profit and loss account for the year ended December 31, 2007.
(c) The Balance Sheet as at December 31, 2007. **(24)**

Q.4 Superior Enterprises is engaged in the business of supplying four different products to four different industries. The details relating to the movement of inventory and related expenditures are as follows:

Items	Opening balance		Qty. purchased	Invoice Value	Import Duties		Quantities sold	
	Qty.	Value			Refundable	Non-refundable	Qty.	Value
A	30	60,000	360	810,000	120,000	90,000	350	1,015,000
B	60	90,000	780	1,560,000	200,000	150,000	800	2,080,000
C	40	120,000	560	1,820,000	250,000	200,000	580	2,320,000
D	80	200,000	600	1,650,000	-	-	350	1,155,000

The following information is available:

(i) The transportation charges upto the company's godown are Rs. 100 per unit.
(ii) The transportation charges from the company's godown to the customers' premises are approximately Rs. 150 per unit.
(iii) 25% of the closing stock of item A has been damaged due to mishandling and can only be sold at 60% of its selling price.
(iv) A new product has been introduced by a competitor. It is similar to product C and is being marketed at Rs. 3,200 per unit. The management of Superior Enterprises is of the opinion that in future, it will also have to reduce the price of C to Rs. 3,500 per unit.
(v) On October 1, 2007, 200 units of D had been pledged with a bank as security against a short term loan which is repayable on March 31, 2008.

Required:
(a) Compute the value of the stock as at December 31, 2007, using any of the methods allowed under IAS-2 "Inventories".
(b) List the information that will have to be disclosed in the financial statements, to comply with the requirements of IAS-2 "Inventories". **(12)**

Q.5 Faisal Enterprises uses a sales day book to record its sales. A sales ledger control account is maintained in the general ledger whereas a debtors subsidiary ledger is maintained separately. On December 31, 2007, the total of the list of debtors amounting to Rs. 301 thousand as per debtors subsidiary ledger did not agree with the balance in the Sales Ledger Control Account which showed a balance of Rs. 345,000. On checking, the following errors were discovered:

(i) The credit side of the subsidiary account of T has been under cast by Rs. 7,000.
(ii) Invoice number 23612 sent to Z amounting to Rs. 11,000 has been recorded twice in the sales day book but has not been recorded at all in the subsidiary ledger.
(iii) A debit balance of Rs. 9,300 and credit balances amounting to Rs. 4,600 had been omitted from the list of balances.
(iv) An account of Rs 1,800 owed by S had been written off as irrecoverable on March 31, 2007 and debited to bad debts, but no entry had been made in the Control Account.
(v) A debit balance of Rs. 2,000 in the Subsidiary Ledger had been listed as a credit balance.
(vi) No entry had been made in the control account in respect of a transfer of Rs. 4,100 standing to the credit of G's Account in the Purchases Ledger to his account in the Sales Ledger.
(vii) The total of Sales Returns Book had been under cast by Rs. 12,000.
(viii) The list of balances had been overcast by Rs. 1,000.
(ix) B's account had been credited with Rs. 3,400 for goods returned by him but no other entry had been made in the books.

Required:
Prepare a statement reconciling the balance as per the list with the sales ledger control account clearly identifying the amount which shall be reported in the balance sheet as 'Trade Debts'. **(12)**

Q.6 Munira is engaged in trading of garments. She has not maintained proper accounting records. She suspects that some of her employees are involved in some sort of misappropriation. The list of creditors, debtors and stocks prepared by her, show the following balances:

	Balances at December 31	
	2007 Rs. 000	**2006 Rs. 000**
Trade Creditors	9,500	8,000
Trade Debtors	3,600	2,000
Stocks at cost	8,500	12,500

The following transactions were recorded during the year ended December 31, 2007:

	(Rs. 000s)
Sales to staff on cash basis	315
Discounts allowed on early payments	360
Collections banked	18,000
Paid to suppliers in cash	12,700
Trade Discounts Received	400
Bad Debts written off	200

Other related information is as under:

(i) Normal sales are made at cost plus 20% but sales to staff are made at cost plus 5%.
(ii) About 4% of the purchases during the year were defective and had to be sold at 30% below normal selling price.
(iii) The list of closing stock at December 31, 2007 includes four items having a total cost of Rs. 470 thousand. There was a casting error on the invoice raised by the supplier and the total has been erroneously recorded as Rs 740 thousand. The invoice is still unpaid.
(iv) Collections made in the last week of December 2007 amounting to Rs. 860 thousand were deposited in bank on January 2, 2008. Likewise, collections made in the last week of December 2006 amounting to Rs. 500,000 were deposited in bank on January 2, 2007.

Required:
You are required to calculate the loss incurred by Munira during the year 2007 on account of misappropriations (if any). **(19)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2008

September 5, 2008

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B (3 hours)

Q.1 (a) Explain the meaning of following accounting concepts/terms with reference to financial statements:

(i) Consistency
(ii) True and fair view
(iii) Completeness
(iv) Materiality **(10)**

(b) Explain the following terms in accordance with the relevant International Accounting Standards (IASs):

(i) Inventories
(ii) Property, Plant and Equipment **(06)**

Q.2 NKL Enterprises produces a single product. On July 31, 2008, the finished goods stock consisted of 4,000 units valued at Rs. 220 per unit and the stock of raw materials was worth Rs. 540,000. For the month of August 2008, the books of account show the following :

	Rupees
Raw material purchases	845,000
Direct labour	735,000
Selling costs	248,000
Depreciation on plant and machinery	80,000
Distribution costs	89,560
Factory manager's salary	47,600
Indirect labour	148,000
Indirect material consumed	45,000
Other production overheads	84,000
Other accounting costs	60,540
Other administration overheads	188,600

Other information are as under:
(i) 8,000 units of finished goods were produced during August 2008.
(ii) The value of raw materials on August 31, 2008 amounted to Rs. 600,000.
(iii) There was no work-in-progress at the start of the month. However, on August 31, the value of work-in-progress is approximately Rs. 250,000.
(iv) 5,000 units of finished goods were available in stock as on August 31, 2008.

Required:
Compute the value of closing stock of finished goods as on August 31, 2008 based on weighted average cost method. **(12)**

Q.3 A and B are partners who share profits and losses in the ratio of 3:2. Their balance sheet as on June 30, 2008 is as follows:

	Rupees
Assets	
Fixed assets	2,625,000
Investments	437,500
Long term receivables	875,000
Current assets	1,750,000
	5,687,500
Capital and liabilities	
Capital account:	
A	1,050,000
B	700,000
Long term loans	1,750,000
Current liabilities	2,187,500
	5,687,500

They agree to admit C as a new partner with effect from July 1, 2008 on the following terms and conditions:

(i) The goodwill of the firm will be valued at 2 years' purchase of the average normal profits of the firm for the last three years. These profits are as follows:

	Rupees
Year ended June 30, 2006	175,000
Year ended June 30, 2007	(700,000)
Year ended June 30, 2008	1,000,000

Profit for the year ended June 30, 2008 is inclusive of an insurance claim of Rs. 300,000 received in respect of loss incurred in 2006. The loss for the year ended June 30, 2007 includes a penalty of Rs. 500,000 paid to the government.

(ii) Goodwill will not appear in the books of the firm.

(iii) C will bring in cash amounting to Rs. 1,460,000 which includes his share of goodwill in the firm.

(iv) Assets of the firm were agreed to be revalued as under:

	Rupees
Fixed assets (net of depreciation)	3,100,000
Long term receivables	875,000
Current assets	1,575,000

Investments will be taken over equally by A and B at their fair market value of Rs. 400,000.

(v) The new profit sharing ratio shall be 7 : 5 : 8.

Required:

(a) Prepare the following ledger accounts:
- Revaluation Account
- Partners' Capital Accounts

(b) Prepare balance sheet of the firm as on July 1, 2008, after the aforesaid reorganization. **(18)**

Q.4 The following balances have been obtained from the books of Gulshan Cricket Club:

	June 30, 2007	June 30, 2008
Building	6,024,000	6,438,150
Furniture	3,012,000	2,710,800
Books	1,129,500	1,246,950
Sports equipments	1,807,200	1,595,200
Investments	-	436,000
Advance subscription	86,000	92,000
Prepaid expenses	122,000	176,000
Expenses payable	186,900	207,600
Subscriptions receivable	326,000	357,000
Cash	1,204,800	1,586,500

The following information is also available in respect of the year ended June 30, 2008:

(i) Depreciation for the year has been credited directly to the asset accounts. The rates of depreciation are as follows:

Building	5%
Furniture and books	10%
Sports equipments	20%

(ii) The club had 600 members on June 30, 2008. No fresh members were admitted during the year but 10 members left the club on January 1, 2008. Subscription per member is Rs. 500 per month.

Required:
(a) Summary of receipts and payments made during the year ended June 30, 2008.
(b) Income and Expenditure Account for the year ended June 30, 2008. **(20)**

Q.5 A shopkeeper made a net profit of Rs. 256,800 for the year ended June 30, 2008 after charging depreciation of Rs. 17,500 and loss on disposal of furniture of Rs. 6,800. The sale proceeds of the furniture were Rs. 12,000.

During the year, the net book value of fixed assets decreased by Rs. 7,400; debtors increased by Rs. 11,700; stocks decreased by Rs. 21,600 and creditors increased by Rs. 8,900. A long-term loan of Rs. 75,000 was repaid during the year and the shopkeeper withdrew Rs. 120,000 for his own use.

Required:
Prepare the cash flow statement for the year ended June 30, 2008. **(07)**

Q.6 The trial balance of Eastern Products showed a short credit of Rs. 6,264 as at June 30, 2008. A suspense account was opened for the difference and the profit for the year was then calculated at Rs. 956,180.

The following errors and adjustments were discovered subsequently:

(i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.
(ii) Store equipment costing Rs. 8,100 and having a book value of Rs. 3,600 was sold for Rs. 2,500. Cash was debited and store equipment was credited. No other entries were made.
(iii) A cheque of Rs. 1,850 received from a customer was dishonoured on June 25, 2008 but no entry was made in the books. Cash thereagainst was received after year-end.

(iv) Purchase of office equipment costing Rs. 15,200 was entered in the purchases account. Depreciation on office equipment is provided at the rate of 10%.
(v) A purchase invoice of Rs. 197 was debited to the supplier account as Rs. 917.
(vi) Purchase returns book was under-casted by Rs. 650.
(vii) The opening balance of furniture account was brought forward as Rs. 18,300 instead of Rs.13,800. Depreciation on furniture is provided at the rate of 10%.
(viii) A balance of Rs.730 in the sales ledger is to be offset against a balance of Rs. 880 in the purchase ledger.

Required:
(a) Prepare journal entries to adjust the above items.
(b) Recalculate the net profit for the year. **(18)**

Q.7 Following information has been collected from the books of Al-Murtaza Company, as at August 31, 2008:

		Rupees
(a)	Balance as per bank book	272,178
(b)	Cash balance on bank statement	227,522

(c) Cheques outstanding on August 31 were as follows:

Cheque No.	**Rupees**
670	13,353
679	14,152
690	17,108
996	3,535
997	14,430
999	23,629

(d) On August 31, the cashier resigned. Before leaving, he prepared the following bank reconciliation:

	Rupees
Balance as per books	272,178
Less: Outstanding cheques (Nos. 996, 997 & 999)	39,594
	232,584
Less: undeposited receipts	83,250
	149,334
Add: bill collected by the bank not recorded in cash book	78,188
Balance as per bank statement	227,522

Subsequently, it was discovered that the cashier had misappropriated substantial amount of cash. The management has requested you for help in determining the amount that the former cashier has misappropriated and you have detected the following:

(i) Receipt of Rs. 15,000 was erroneously recorded on the credit side of the bank book.
(ii) A payment of Rs. 12,480 was erroneously recorded on the debit side of the bank book.
(iii) The credit side of the bank book has been over casted by Rs. 4,800.
(iv) The amount of bill collected by the bank as shown in the reconciliation prepared by the cashier as Rs. 78,188 was in fact Rs. 87,188.

Required:
Determine the amount the cashier misappropriated from the Company. **(09)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2009

March 6, 2009

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B (3 hours)

Q.1 (a) Explain the following and give one example in each case:
(i) Capital and revenue expenditure
(ii) Accrued and unearned revenue **(06)**

(b) Briefly describe any three "basis of measurement" which may be used to determine the value of an asset to be recognized in the financial statements. **(06)**

(c) Distinguish between short-term and long-term finances. Give two examples in each case. **(04)**

Q.2 Fashion Blue Enterprises carries out business of readymade garments through large shops in the major cities of Pakistan.

Its inventory ledger account balance at December 31, 2008 under the perpetual inventory system, was Rs. 73,410,000. The physical count revealed that the cost of inventory on hand was Rs. 71,400,000 only. Its owner Mr. Kaizer expected a small inventory shortfall due to damage and petty theft, but considered this shortfall to be excessive.

On January 5, 2009, Kaizer carried out an investigation and discovered the following:

(i) Goods costing Rs. 300,000 were invoiced to Ebrahim Limited for Rs. 425,000 on December 29, 2008 on FOB basis. The goods were actually despatched to the customer on January 2, 2009.
(ii) Included in the physical count were goods worth Rs. 200,000 which were held on behalf of a third party.
(iii) Goods costing Rs. 410,000 purchased on credit from Mustafa & Co. were received on December 28, 2008 and included in the physical count. However, the purchase had not been recorded.
(iv) On December 23, 2008 goods costing Rs. 400,000 were purchased on credit from Mubina Supplies, Faisalabad. The purchase was recorded on December 27, 2008 i.e. when the goods were lifted by the transport company appointed by Mr. Kaizar, from the warehouse of Mubina Supplies. The goods arrived on January 3, 2009.
(v) List of inventory at a shop situated in Sialkot had been under casted by Rs. 90,000.
(vi) On December 25, 2008 goods costing Rs. 310,000 were sold on credit to Skims Industries for Rs. 500,000. The goods were shipped on December 28, 2008 and were received by the customer on January 2, 2009.
(vii) Goods costing Rs. 2,500,000 had been returned to Ali Garments on December 30, 2008. A credit note was received from the supplier on January 5, 2009 and entered in the books in January 2009. No payment had been made for the goods prior to their return.
(viii) Goods sold to a customer Mr. Saleem were recorded in inventory ledger account at the sale price of Rs. 780,000. The goods were sold at cost plus 30%.

Required:
(a) Determine the value of inventory that should be recorded in the balance sheet.
(b) Reconcile the ledger balance with the physical record to determine the shortage *(if any)*.
(c) Prepare the adjusting entries that should be recorded in the books of Fashion Blue Enterprises, in December 2008. **(15)**

Q.3 The comparative balance sheets of Mr. Moosani show the following information:

	Amount in Rupees	
	December 31	
	2008	2007
Cash	5,200	41,400
Accounts receivable	31,700	21,500
Inventory	25,000	19,400
Investments	-	16,900
Furniture	80,000	64,000
Equipment	86,000	43,000
Total	227,900	206,200
Allowance for doubtful accounts	6,500	9,700
Accumulated depreciation on equipment	24,000	18,000
Accumulated depreciation on furniture	8,000	15,000
Trade creditors	10,800	6,500
Accrued expenses	4,300	10,800
Bills payable	6,500	8,600
Long-term loans	31,800	53,800
Capital	136,000	83,800
Total	227,900	206,200

Additional data related to 2008 is as follows:

(i) Equipment that had costed Rs. 23,000 and was 40% depreciated at the time of disposal was sold for Rs. 6,500.

(ii) Payments against long-term loans amounted to Rs. 22,000 of which Rs. 12,000 was paid by Mr. Moosani out of his personal account.

(iii) On January 1, 2008, the furniture was completely destroyed by a fire. Proceeds received from the insurance company amounted to Rs. 60,000.

(iv) Investments were sold at Rs. 7,500 above their cost.

(v) Mr. Moosani withdraws Rs. 15,000 each month for his personal use.

Required:

Prepare a cash flow statement for the year ended December 31, 2008. **(12)**

Q.4 The head office of ABC Enterprises is in Lahore. It has a branch in Faisalabad, where all sales are made on credit basis. All purchases are made by the head-office. Goods sent to Faisalabad are invoiced at the selling price which is 33⅓% above cost. The head office maintains the stock account at cost, with a memorandum column for selling prices. Following information is available in respect of the branch, for the year ended December 31, 2008:

	Rupees
Stock as at December 31, 2007 at selling price	280,800
Branch debtors as at December 31, 2007	93,600
Branch receivables written-off	15,600
Branch receivables realized and remitted to head office	1,185,600
Discount allowed to branch debtors	49,400
Stock returned to head office at invoice price	46,800
Credit notes issued to customers on account of sales returns	10,000
Branch sales	1,289,600
Stock sent to Faisalabad branch at selling price	1,404,000

Required:
Record the above transactions in the following accounts for the year ended December 31, 2008:
(a) Branch stock account.
(b) Goods sent to branch account.
(c) Branch debtors account. **(15)**

Q.5 Mr. Abbasi appointed you as his accountant. Soon thereafter he left for a foreign tour. Before leaving, he left a note describing his financial dealings during the year ended December 31, 2008. These are summarized as under:

(i) He commenced his business on January 1, 2008 with a capital of Rs. 600,000. He opened a business bank account with an initial deposit of Rs. 550,000.
(ii) Business premises were acquired on rent. He took possession of the premises on January 2, 2008 and paid advance rent of Rs. 150,000 covering the period upto March 31, 2009. The payment was made by cheque. The premises were furnished at a cost of Rs. 60,000 which was paid through bearer cheque.
(iii) Equipment was acquired on payment of advance of Rs. 40,000. After payment of 75% of the balance amount, Rs. 4,000 were still outstanding on December 31, 2008.
(iv) A second hand van was purchased on February 1, 2008 for Rs. 200,000. Rs. 52,000 were spent on its repair to bring it to working condition. The life of the van at the time of purchase, was estimated at 6 years.
(v) Depreciation on furniture and equipment should be charged at the rate of 20% on declining balance method whereas the van should be depreciated on straight line basis.
(vi) 8,000 pairs of jeans were bought for Rs. 1,200,000. Cheques totaling Rs. 800,000 have been paid to the supplier whereas the balance is payable on April 30, 2009. 7,000 pairs had been sold by December 31, 2008. Mr. Abbasi had received Rs. 1,400,000, before the end of the year whereas Rs. 50,000 are still receivable from the customers. The physical inventory taken at the end of the year showed a balance of 950 pairs of jeans.
(vii) 1,600 T-shirts were bought for Rs. 120,000 and paid through cheque. 1,400 T-shirts were sold in cash for Rs. 150,000. 20 T-shirts were gifted by Mr. Abbasi to his family members whereas 30 T-shirts were given away to the customers. The remaining T-shirts have been damaged and are expected to sell for Rs. 5,000.
(viii) 1,000 pocket calculators were bought on credit for Rs. 400,000. Later it was noticed that they were slightly defective. After intense negotiation the supplier agreed to give a 50% discount. It is expected that these calculators will be repaired for Rs. 100 each and would be sold for Rs. 250,000.
(ix) The cash received from the sale of T-shirts was partly used to pay the following business expenses:

Petrol	40,000
Utilities	19,000
Others	6,000

(x) Mr. Abbasi took a trip of upcountry with his family which costed him Rs. 80,000 which was all drawn from the bank. He also withdrew Rs. 12,000 per month for his personal use.

Required:
From the above information, prepare:
(a) a trading and profit and loss account for the year ended December 31, 2008; and
(b) a balance sheet as at December 31, 2008. **(22)**

Q.6 The draft balance sheet of Time Life Enterprises (TLE) as on December 31, 2008, depicts the following:

	Rupees
Plant and Machinery – Cost	12,387,060
Less: Accumulated Depreciation	4,792,540
	7,594,520

On reviewing the accounts of the business, its auditor found that the records have been correctly maintained except for the following events:

(i) On January 17, 2008 a contract was signed for the purchase of a machine from Makers Limited for Rs. 1,125,000 which is to be delivered on July 17, 2009. TLE paid an advance of Rs. 450,000 on the signing of the contract and the balance was to be paid on delivery of the machine. The advance was debited to plant and machinery account.

(ii) Installation of a machine was completed on January 21, 2008. The cost of machine of Rs. 2,700,000 was debited to plant and machinery account. The cost of installation amounting to Rs. 300,000 had been debited to Repairs Account.

(iii) On July 1, 2008 various items of plant and machinery having a book value of Rs. 200,000 were sold for Rs. 140,000. The sale proceeds were credited to Sales Account. The book value of the machine was debited to loss on sale of fixed asset account and credited to plant and machinery account. The auditor was able to ascertain the date of purchase of the items sold, as under:

Items having book value of Rs. 120,000	April 1, 2004
Remaining items having book value of Rs. 80,000	January 1, 2003

(iv) On July 23, 2008 a machine purchased in July 2005 at a cost of Rs. 464,000 was sold for cash at Rs. 263,320 which was credited to Plant and Machinery Account.

The depreciation is charged on declining balance method at 10 per cent per annum. Depreciation on additions is provided from the month in which the asset is acquired while no depreciation is charged in the month in which the asset is disposed off. Depreciation expenses for the year 2008 have been correctly calculated and recorded except for the impact of errors discussed above.

Required:
Determine the correct balances as at December 31, 2008 by recording appropriate adjustments in the following accounts:

(a) Plant and machinery
(b) Accumulated depreciation - plant and machinery
(c) Gain or loss on sale/disposal of plant and machinery. **(20)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2009

September 11, 2009

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B **(3 hours)**

Q.1 (a) Briefly explain the term 'substance over form' and give an appropriate example. **(03)**

(b) Identify whether the following statements are true or false and give brief reasons to support your conclusion:

(i) The concept of separate entity is not applicable to a partnership.
(ii) Revenue is not recognized in the period in which it is received.
(iii) In case of fixed assets, fair value is always greater than the historical cost.
(iv) According to IAS-2, inventories may be valued using LIFO, FIFO or weighted average method.
(v) According to IAS-2, inventory is valued on the basis of cost or current replacement cost, whichever is less.
(vi) Running finance is a short term liability although it may not be paid in full for many years.
(vii) Closing stock does not appear in the pre-closing trial balance but appears in the post-closing trial balance.
(viii) The concept of going concern supposes that the life of business entity will be more than 15 years.
(ix) When the provision for bad debts is based on age analysis, the opening balance of provision for doubtful debts is not taken into consideration.
(x) Net realizable value of inventories is equal to selling price.
(xi) In a partnership, profit is always shared in the ratio of capital introduced by each partner.
(xii) The 'prudence' concept allows a business to build substantially higher reserves/provisions than are actually required. **(12)**

Q.2 The trial balance prepared by A.A. Enterprise showed a difference of Rs. 47,090 which was put on the credit side of a suspense account. An investigation disclosed that:

(i) The total of purchase return day book amounting to Rs. 16,160 had not been posted to the ledger.
(ii) Discount received amounting to Rs. 11,320 had been debited to discount allowed account.
(iii) The sales account had been added short by Rs. 10,000.
(iv) An asset bought four years ago for Rs. 7,000 and depreciated to Rs. 1,200 had been sold for Rs. 1,500 at the beginning of the year. The receipt of cash has been posted in the bank book but corresponding entries have not been recorded.
(v) A credit sale of Rs. 1,470 had been credited to the customer's account as Rs. 1,740.
A bad debt of Rs. 1,560 has to be written off. Provision for doubtful debts is to be maintained at 10% of debtors. Debtors appearing in the trial balance are Rs. 23,390 and the provision for bad debts account shows a credit balance of Rs. 2,320.
(vi) A sub-total of Rs. 29,830 on the list of closing stock had been carried over as Rs. 29,380 and another sheet had been overcast by Rs. 1,000.

Required:
Pass rectification/adjustment entries to correct the above errors. ***(Narrations are not required)*** **(11)**

Q.3 Shafiq Ahmad is in the business of sun-flower oil. He expanded his business considerably during the year ended June 30, 2009 but did not maintain proper books of account. He has now extracted the following details from a register maintained at the business premises:

Summary of receipts and payments

	Rupees
Receipts:	
Additional capital injected	1,000,000
From debtors	4,713,750
From insurance company for damaged stock	30,000
Cost of transportation recovered from customers	200,000
Payments:	
Landlord	192,000
Salaries	248,000
Fuel and maintenance of delivery trucks	224,000
Miscellaneous office expenses	112,000
Personal income-tax	50,000
Transfer to 12% fixed deposit (on Feb. 1, 2009)	200,000
Suppliers	3,200,000
Cost of transportation paid to suppliers	250,000
Purchase of truck and initial repair thereof	360,000

From the income tax file for year ended June 30, 2008, he determined the following balances:

	Rupees
Capital	497,300
Creditors for oil purchases	1,200,000
Creditors for expenses: - Rent for June 2008	16,000
- Salaries	4,000
Cash and bank	75,000
Debtors	160,000
Provision for bad debts	48,000
Stock of oil (1,250 tins)	1,250,000
Furniture	30,000
Accumulated depreciation on furniture	5,700
Delivery trucks	400,000
Accumulated depreciation on trucks	144,000

On scrutiny of the other records, he was able to gather the following information:

(i) 2,800 tins of oil were sold during the year at Rs. 2,000 each.

(ii) 3,000 tins were purchased during the year at Rs. 1,200 each. 50 tins were damaged in transit against which insurance claim of Rs. 30,000 was received. The damaged tins were sold for Rs. 15,000 and the amount is included in receipt from debtors. Two tins were withdrawn for personal use and ten tins were gifted to a charity.

(iii) 50 tins were declared unfit for health, by the quality inspection department and could either be sold at Rs. 1,000 each or reprocessed by a third party, at a further cost of Rs. 900 each. A decision in this regard has not been made so far.

(iv) A second-hand delivery truck costing Rs. 300,000 was purchased on April 1, 2009 by paying cash. Rs. 60,000 were spent to bring it in proper operating condition.

(v) Rs. 10,000 were paid for registration of the truck and a fee of Rs. 18,000 was paid for obtaining fitness certificate which is valid for three years. These amounts are included in fuel and maintenance expenses shown above.

(vi) Debtors amounting to Rs. 60,000 were written off during the year. Bad debts are estimated at 2% of sales.

(vii) Depreciation is charged from the date of purchase. The rate of depreciation is 10% and 20% of WDV on furniture and delivery trucks respectively.

(viii) Stock is valued on weighted average basis.

Required:
(a) Trading & profit and loss account for the year ended June 30, 2009.
(b) Balance sheet as at June 30, 2009. **(25)**

Q.4 P, Q and R are partners sharing profit in the ratio of their capitals. Their balance sheet at June 30, 2009 was as follows:

Balance Sheet
At June 30, 2009

			Rupees			Rupees
Creditors and accrued expenses			485,000	Cash in hand		65,000
Loan from Q			625,000	Cash at bank		450,000
Capitals:	P	640,000		Investments (market value 435,000)		300,000
	Q	320,000		Debtors	400,000	
	R	480,000	1,440,000	Less: Provision	60,000	340,000
				Stocks		500,000
				Land and building		450,000
				Motor cars		350,000
				Equipments		95,000
			2,550,000			2,550,000

On July 1, 2009 R retired and his share was ascertained after taking into account the following:

(i) Provision against debtors and stocks was adjusted at 10% and 5% respectively.
(ii) The investments were revalued according to market. Of these, investments costing Rs. 180,000 were taken over by R at their market value of Rs. 160,000.
(iii) A motor car having a book value of Rs. 150,000 was taken over by R for Rs. 200,000.
(iv) R's share of goodwill was agreed at Rs. 216,000.

Thereafter, S was admitted as a partner on the basis of the adjusted balance sheet. He was given one-fourth share in the profits and he brought proportionate share of capital and goodwill. The basis of valuation of goodwill for the purpose of admission of S as a partner was the same as at the time of R's retirement.

Required:
Prepare capital accounts of the partners in columnar form and the balance sheet of the firm as at July 1, 2009 after the admission of S, assuming that goodwill is not retained in the books of account. **(18)**

Q.5 Khan Limited closes its accounts on June 30 each year. The company was unable to take stock of physical inventory until July 14, 2009 on which date the physical inventory was valued at Rs. 185,000. The following details are available in respect of the period July 1 to July 14, 2009:

(i) Payments against purchases amounted to Rs. 48,000 and included:
- Rs. 5,000 in respect of goods received on June 28, 2009;
- Rs. 6,000 in respect of goods received on July 18, 2009;
- Rs. 2,000 in respect of goods received and returned to supplier on the same date i.e. July 7, 2009.

(ii) Collection against sales amounted to Rs. 60,000 and included:
- Rs. 1,500 in respect of goods which left the warehouse on June 29, 2009;
- Rs. 2,800 in respect of goods which were not dispatched until July 15, 2009;
- Rs. 760 in respect of goods invoiced and dispatched on July 10, 2009 but returned by the customers on July 12. These were included in the stock taken on July 14, 2009.

(iii) The rate of gross profit is 25% of selling price with the exception of an isolated purchase on July 7, 2009 of 100 similar articles. Of these, 60 units were sold on July 10, 2009 for Rs. 7,500. Payment against purchase of these articles and the sale proceeds as referred above are included in purchases and sales referred to in para (i) and (ii) respectively.

(iv) Goods costing Rs. 6,000 were purchased on June 28 but remained unpaid till July 24, 2009.

(v) An invoice amounting to Rs. 10,000 was raised on July 9, 2009 but remained uncollected till July 14, 2009.

(vi) An item costing Rs. 9,000 which had been purchased on June 25, 2009 was damaged on July 4, 2009. It can be repaired at a cost of Rs. 1,000 and sold for Rs. 7,000 and has been taken in stock at its net realizable value.

(vii) Stock count sheets prepared on July 14, 2009 showed the following discrepancies:
- A page total of Rs. 5,000 had been carried to the summary as Rs. 6,000.
- The total of another page had been undercast by Rs. 200.

(viii) Included in the physical count were goods costing Rs. 2,200 which were held on behalf of a supplier.

Required:
Determine the amount of stock required to be disclosed in the financial statements as at June 30, 2009. **(15)**

Q.6 The accountant of Aslam, Bashir & Company, a partnership concern, has finalized the draft financial statements for the year ended June 30, 2009. Mr. Bashir is not satisfied with the fixed assets reported in the above financial statements and have asked you to review the same.

The details of fixed assets appearing in the financial statements are as follows:

	Useful life (Years)	---------- Rupees ----------			
		2009	2008	2009	2008
		Cost		Accumulated Depreciation	
Land		5,000,000	5,000,000	-	-
Building	20	7,250,000	7,000,000	4,562,500	4,200,000
Plant & Machinery	15	11,910,000	10,000,000	3,994,000	3,200,000
Furniture and Fixtures	10	3,075,000	3,000,000	2,257,500	1,950,000

Depreciation is provided on straight line basis from the date of purchase to the date of sale.

An analysis of the working papers has revealed that the details of additions/deletions to fixed assets are as follows:

(i) In January 2009, Rs. 200,000 were spent on the extension of the underground water tank and Rs. 50,000 were spent on fumigation of the entire building.
(ii) On March 31, 2009 a generator which had completed five years of its life was replaced by another generator. The cost of new generator was Rs. 2,000,000 whereas the supplier allowed 10% of the cost of the old generator as trade-in-allowance. As a result, the company made a payment of Rs. 1,910,000 only.
(iii) On July 1, 2008 fully depreciated furniture costing Rs. 400,000 was repaired at a cost of Rs. 75,000. It is expected that the repairs would allow the furniture to be used for the next five years.

Required:
Prepare necessary journal entries to record the required corrections. **(16)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Spring 2010

March 5, 2010

INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)

Module B (3 hours)

Q.1 (a) Fill in the blanks with appropriate word(s) to complete the following sentences. Do not write the whole sentence.

(i) A bank overdraft is indicated by a _____ balance in the bank statement.
(ii) Working capital is calculated by deducting _____ from current assets.
(iii) Cheques issued but not presented, cause the bank statement balance to be _____than the cash book balance.
(iv) The withdrawal of stock by the owner for his own use should appear in the trading account as a deduction from _____.
(v) The balance of purchase ledger control account represents _____.
(vi) If closing stock is undervalued, then net profit would be _____.
(vii) The allowance made for promoting sales is called_____ discount.
(viii) The basic accounting equation is given by the formula:
Equity + Long term liabilities = _____+ Current assets – Current liabilities.
(ix) Economic resources owned by a business are called its _____.
(x) According to the _____ concept, the business is regarded as separate from the personal affairs of its owners. **(05)**

(b) (i) Explain the following accounting terms:
- Prudence
- True and fair view

(ii) Identify the users of financial statements. **(09)**

Q.2 The following information is available in respect of fixed assets of MJ Enterprises (MJE):

(i) The opening balances of cost and accumulated depreciation of fixed assets as on January 1, 2009 were Rs. 100,000 and Rs. 33,000 respectively.
(ii) Assets costing Rs. 20,000 were acquired on July 1, 2008. The remaining fixed assets were acquired when MJE commenced business on January 1, 2005. There were no disposals of fixed assets upto January 1, 2009.
(iii) MJE provides for depreciation on the cost of assets at the rate of 10% per annum using the straight line basis. Depreciation is calculated on a monthly basis.
(iv) Assets acquired on January 1, 2005 whose net book value on June 30, 2009 was Rs. 2,750 were sold for Rs. 1,500.
(v) On July 1, 2009, an asset which was acquired at a cost of Rs. 2,000 when MJE commenced business, was exchanged for a new asset. The balance of the purchase price was settled with a cheque for Rs. 800. The list price of the new asset was Rs. 1,200.
(vi) On October 1, 2009 MJE transferred to its factory an asset which had been included in its trading stock and which bore a price label of Rs. 15,400 in the showroom. MJE makes a gross profit of 40% of cost, on sale of such assets.

Required:
Prepare the following ledger accounts for the year ended December 31, 2009:
(a) Fixed assets
(b) Accumulated depreciation
(c) Profit/loss on sale of fixed assets **(09)**

Q.3 A summarized balance sheet of XYZ and Company as on January 31, 2010 is given below:

Debit	Rupees	Credit	Rupees
Fixed assets	1,700,000	Current liabilities	1,900,000
Current assets	4,700,000	X, Capital	1,000,000
		Y, Capital	1,500,000
		Z, Capital	2,000,000
	6,400,000		6,400,000

X, Y and Z share profits in the ratio of their capital in the partnership.

On January 31, 2010 X retired from the partnership. For the purposes of his retirement, goodwill of the partnership was estimated at Rs. 1.89 million.

On February 1, 2010 A was admitted to the partnership. The new profit sharing ratio was agreed at 3:4:2 for Y, Z and A respectively. A agreed to bring in cash equivalent to his share of assets (excluding goodwill) in the new partnership plus an additional amount of Rs. 0.5 million for goodwill.

Required:
Prepare journal entries to record the above transactions under each of the following assumptions:

(a) Goodwill is recorded in the books of account.
(b) Goodwill is not recorded in the books of account. **(09)**

Q.4 While reconciling the bank statement with the cash/bank book of ABC Textiles for the year ended December 31, 2009, you noted the following:

		Rupees
(i)	Balance as per bank statement at December 31, 2009, overdrawn	806,436
(ii)	Cheques drawn but not presented till December 31, 2009	377,784
(iii)	Mark-up on overdraft charged by the bank on January 2, 2010 was recorded in the cash/bank book on December 31, 2009	118,686
(iv)	Collections made on December 30 and 31, 2009 were not lodged with the bank till January 3, 2010	250,600
(v)	A bill which was due on December 29, 2009 was sent to the bank for collection on December 28, 2009, and entered in the cash/bank book. However, the proceeds were credited by the bank on January 1, 2010	196,500
(vi)	Subscription for a magazine was paid by the bank, as per the auto-debit instructions, on December 1, 2009. This transaction has not been recorded in the cash/bank book so far	3,144
(vii)	A time-barred cheque was replaced with a new cheque on December 30, 2009 and entered in the cash/bank book without the previous cheque being cancelled / reversed. Both the cheques are included in (ii) above	5,000
(viii)	Discount allowed on prompt payment to customers has been included in the cash/bank book	10,500
(ix)	A cheque received on December 21 was erroneously recorded on the credit side of the cash/bank book	7,500
(x)	A cheque issued to a supplier was time-barred as of January 2, 2010	25,000
(xi)	A cheque for Rs. 125,000 drawn by the company to pay for a new item of plant had been mistakenly entered in the cash/bank book as	12,500
(xii)	A cheque issued by the company has been entered in the credit column of the bank statement	13,200

Required:
Prepare a bank reconciliation statement as at December 31, 2009 and identify the amount to be carried to the balance sheet as “Cash at Bank”. **(09)**

Q.5 Abid who was appointed at ABC & Company on January 1, 2009 had changed the method of recording debtors and creditors, to save time. Under the new method, he made all entries related to debtors and creditors in the subsidiary ledgers but did not maintain the related control accounts. Although the company's trial balance does agree but the management is not satisfied with the method adopted by Abid and wants you to draw the related control accounts.

On reviewing various records, you have extracted the following information:

	Rupees
Debtors as on December 31, 2008	2,600,000
Creditors as on December 31, 2008	4,100,000
Cheques issued to suppliers in settlement of Rs. 23,600,000	23,350,000
Cash sales memos issued	14,360,000
Goods returned to suppliers	550,000
Cheques received from debtors in settlement of Rs. 32,000,000	31,650,000
Cheque received from suppliers against return of goods	180,000
Credit sales invoices issued	35,900,000
Returns by customers: from cash sales	320,000
from credit sales	980,000
Goods purchased on credit	27,700,000
Cash refund to a debtor who had paid the amount due twice	120,000
Cheque issued by a debtor on Dec. 28, 2008 was dishonoured on May 13, 2009	200,000
Increase in provision for doubtful debts (from Rs. 1,750,000 to Rs. 2,250,000)	500,000
Bad debts written off	430,000
Contra settlement between creditors and debtors accounts	1,660,000
Credit balances included in debtors' accounts as on December 31, 2009	75,000
A supplier's invoice received on December 30, 2009 relating to goods supplied on December 28, 2009 has not been entered in the books	350,000

Required:
Prepare the debtors and creditors control accounts from the above information for the year ended December 31, 2009. **(11)**

Q.6 Ali & Co., invoices goods to its Sukkur Branch at list price which is cost +25%. The branch makes cash sales at list price and credit sales at list price +2.4%. The following information is available in respect of the year ended December 31, 2009:

	Rupees
Opening balances:	
Branch stock at invoice price	18,000
Branch debtors	7,000
Transactions during the year:	
Goods sent to branch at invoice price	240,000
Goods returned by branch to head office	8,000
Credit sales by the branch	200,000
Cash sales by the branch	27,000
Goods returned to branch by credit customers	1,050
Goods returned by credit customers of the branch direct to head office	3,000
Goods returned by cash customers of the branch direct to head office	7,200
Closing balances:	
Branch physical stock at invoice price	10,450
Branch debtors	2,950

At the year-end, goods invoiced for Rs. 10,000 were in transit and reached the branch on January 3, 2010. Certain goods were lost in fire at the branch.

Required:
Prepare the following accounts for the year ended December 31, 2009 in the books of the head office:
(a) Branch Stock Account
(b) Branch Debtors Account
(c) Goods sent to Branch Account
(d) Branch Adjustment (Profit loading) Account **(19)**

Q.7 The balance sheets of Sakhawat Hussain as at December 31, 2009 and 2008 are as follows:

	2009	2008
	Rupees	
Current assets	4,750,000	2,850,000
Investments	2,600,000	2,500,000
Fixed assets	9,750,000	9,600,000
Accumulated depreciation	(2,950,000)	(2,450,000)
	14,150,000	12,500,000
Current liabilities	1,850,000	1,450,000
Income tax liability	200,000	150,000
Capital	11,000,000	10,000,000
Profit and loss account	1,100,000	900,000
	14,150,000	12,500,000

Other information for the year 2009 is as follows:
(i) Investments costing Rs. 250,000 were sold for Rs. 320,000.
(ii) Fully depreciated furniture costing Rs. 200,000 was written-off.
(iii) Fixed assets costing Rs. 960,000 with a net book value of Rs. 160,000 were sold for Rs. 250,000.
(iv) Income tax amounting to Rs. 180,000 was paid in September 2009.
(v) Sakhawat Hussain withdrew Rs. 1,200,000 from the profits of 2008 and 2009.
(vi) 20% of the opening and closing balances of current assets are represented by cash.

Required:
Prepare a statement of cash flow for the year ended December 31, 2009. **(11)**

Q.8 Adnan runs a wholesale business. On December 31, 2009 he realised that his cash and bank balances have reduced considerably. He has requested you to investigate the situation and has provided you the following information:

(i)

Balances	2009	2008
	Rupees	
Cash in hand	700	14,300
Cash at bank	103,400	349,100
Sundry debtors	80,900	48,700
Stock	27,500	15,700
Sundry creditors	130,800	116,100
Rent payable (one month)	4,500	3,500
Electricity and telephone bills payable	8,800	-

(ii) 20% of the goods were sold on cash basis at a markup of 22% on cost. Credit sales were made at a profit of 20% on sales. All collections from debtors were made in cash.
(iii) Adnan paid wages, rent, electricity and telephone charges in cash out of sale proceeds. The remaining amount of sale proceeds was deposited into bank.

(iv) The bank pass book reveals the following withdrawals:

	Rupees
Creditors	1,423,800
Fixed assets (acquired on July 1, 2009)	75,000
Drawings	122,600

(v) All purchases were made on credit.
(vi) Wages amounted to Rs. 8,900 per month.
(vii) Payment on account of electricity and telephone charges amounted to Rs. 33,000.
(viii) Rent has been increased from October 2009.
(ix) The opening balance in the fixed assets account net of depreciation was Rs. 285,000. Depreciation is recorded @ 10% p.a. on declining balance method and is based on number of months for which the assets have been in use.

Required:
(a) Prepare Adnan's profit and loss account for the year ended December 31, 2009 and his balance sheet as on that date.
(b) Compute the amount of cash shortage, if any. **(18)**

(THE END)

The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examinations – Autumn 2010 | September 3, 2010
Module B | 100 marks - 3 hours

Q.1 Name the accounting concepts on which the following rules are based.

(i) Stocks are valued on the same basis in each accounting period.
(ii) Assets are valued assuming there will be no sudden stoppage in business.
(iii) Assets and liabilities are valued with due caution in times of uncertainty.
(iv) Personal transactions should be distinguished from business transactions.
(v) Cost of small calculators may be charged to expenses instead of being capitalized.
(vi) The financial statements must disclose all the relevant information.
(vii) Transactions are recorded in various periods assuming money has a constant value.
(viii) Income is not recognized when a fee is received but when a service is rendered.
(ix) Leased vehicles are recorded as assets although these are not owned by the organisation.
(x) Income and all costs relating to earning such income are accounted for in the same accounting period. ***(10 marks)***

Q.2 Aqueel and Barkat were in partnership and shared profits and losses in the ratio of 3:2 respectively. The balances on the partners' capital accounts at July 1, 2009 were: Aqueel Rs. 250,000, Barkat Rs. 400,000.

Due to expansion of business, Shahid was admitted as a partner on October 1, 2009 under the following arrangements:

(i) Assets were revalued upwards by Rs. 200,000 but the revaluation was not recorded in the books.
(ii) Goodwill of the firm was assessed at Rs. 300,000 and was retained in the books.
(iii) Shahid invested Rs. 500,000 as capital.
(iv) Shahid was allowed a monthly salary of Rs. 20,000 whereas Aqueel and Barkat continued to receive salaries of Rs. 28,000 and Rs. 25,000 per month respectively, as in the past.
(v) The balance profit was to be shared: Aqueel 35%; Barkat 35% and Shahid 30%.
(vi) Mr. Saleem was hired as manager from October 1, 2009 at a salary equal to 5% of the profit remaining after deducting such salary but before charging partners' salaries.

The profit for the year ended June 30, 2010 amounted to Rs. 486,000 after:

(i) Making provision for a debt of Rs. 48,000 incurred prior to July 2009; and
(ii) providing for the partners' salaries.

In addition to salaries, the partners withdrew the following amounts:
Aqueel Rs. 150,000; Barkat Rs. 120,000; and Shahid Rs. 90,000

Required:
Partners' capital accounts for the year ended June 30, 2010. ***(20 marks)***

Q.3 Due to the death of his book-keeper, Asif failed to keep proper records for the year ended June 30, 2010. He has forwarded to you the following statements:

BALANCE SHEET
as on June 30, 2009

	Rs.		Rs.	
Asif-capital account	613,300	Land and building at cost		130,000
6% Loan	500,000	Furniture: Cost	825,000	
Trade creditors	500,100	Depreciation	485,000	340,000
Accrued expenses	21,700	Stock		482,500
Bank overdraft	24,200	Trade debtors:	670,000	
		Less: Provision	27,000	643,000
		Prepayments		53,800
		Cash in hand		10,000
	1,659,300			**1,659,300**

Summary of the transactions in the bank book
for the year ended June 30, 2010

Receipts	Rs.	Payments	Rs.
Deposits against cash sales	624,750	Creditors	2,509,600
Receipts from debtors	3,071,000	Sundry expenses	212,500
Furniture sold on 1-Jul-09		Salaries	440,400
(purchased for Rs. 280,000 on 1-Jul-06)	122,400	Furniture purchased on 01-Jan-10	64,000
		Interest on loan upto 31-Mar-10	22,500
Total	**3,818,150**	**Total**	**3,249,000**

You have carried out the necessary scrutiny and ascertained the following:

(i) Asif sells the goods at a profit margin of one-third of their selling price i.e. at a profit margin of 50% of cost of sales.
(ii) On June 30, 2010 trade debtors aggregated Rs. 600,500. These included Rs. 18,000 pertaining to goods which were sent on sale or return basis and were unsold on June 30.
(iii) Closing stock was valued at Rs. 580,000.
(iv) Receipts from debtors include an advance of Rs. 2,500 for goods delivered in July 2010.
(v) Rs. 3,700 were recovered from a debtor which had been fully provided for on June 30, 2009. A new customer who was introduced in 2010 and owed Rs. 4,200 was declared as bankrupt.
(vi) Sundry expenses payable on June 30, 2010 amounted to Rs. 19,000 (excluding interest on loan) whereas prepayments amounted to Rs. 9,700.
(vii) Asif estimates that he withdrew Rs. 60,000 for his personal use and paid sundry expenses aggregating Rs. 25,000 before depositing the proceeds from cash sales.
(viii) Depreciation on furniture is provided at the rate of 10% per annum on cost.
(ix) Bonus is payable to the manager at 5% of the net profit after charging such bonus.
(x) The following account balances were obtained from the memorandum records:

▪ Purchases	Rs. 2,570,000
▪ Discounts received	Rs. 30,300
▪ Sales returns	Rs. 15,000

Required:
(a) A Trading and Profit & Loss account of Mr. Asif for the year ended June 30, 2010; and
(b) a balance sheet as on June 30, 2010 ***(25 marks)***

Q.4 Ziakot Steel Works, a sole proprietorship, provides depreciation on plant and machinery at 20% per annum on diminishing balance method. On July 1, 2009 the balances in the plant and machinery and accumulated depreciation accounts were Rs. 712,000 and Rs. 240,000 respectively. Depreciation is provided from the month of purchase till the month of disposal. It was discovered during 2009-2010 that:

(a) Rs. 25,000 being ordinary repairs to machinery, incurred on October 1, 2007 had been capitalised incorrectly.
(b) A machine which was purchased on January 1, 2007 for Rs. 100,000 was traded-in, on March 31, 2009 for a new and more sophisticated machine. The disposal was not recorded and the new machine was capitalised at Rs. 120,000 being the net amount paid to the supplier. The trade-in allowance amounted to Rs. 50,000.

It was decided to correct the above mistakes while finalising the accounts for the year ended June 30, 2010.

Only one machine was purchased during the year ended June 30, 2010 costing Rs. 60,000. The machine was received in the factory on October 1, 2009 and was installed on January 1, 2010.

Required
Plant and machinery account and accumulated depreciation account for the year ended June 30, 2010. *(Show all workings)* ***(15 marks)***

Q.5 Mr. Fawwad owns a factory and closes his books on June 30. The trial balance prepared by him, contained a difference which he kept in a suspense account. On scrutinising the records, the following errors were detected:

(i) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount. The payment was correctly entered in the bank book but was posted to purchase account as Rs. 1,080 only. No other entry was made.
(ii) Sundry debtors include an amount of Rs. 15,000 which had proved irrecoverable but was not written off. According to a consistent policy, a reserve for bad debt was created @ 5% on closing debtors;
(iii) Commission of Rs. 3,500 was paid but was debited twice, once in the party's account and again in the commission account;
(iv) Purchases of Rs. 4,500 were entered as sales in the Sales Day Book.
(v) In the salaries account, a sub-total of Rs. 12,600 was carried over to the next page as Rs. 1,260 on the wrong side.
(vi) Rs. 600 collected from a party in respect of dues which had been written off as bad two years ago, was credited to the sales ledger control account.
(vii) Goods invoiced at Rs. 4,600 were returned by a debtor. These were entered in the purchase book and posted from there to debtor's account as Rs. 6,400.
(viii) The discount column in the sales day book was short casted by Rs. 1,500.
(ix) A cash sale of Rs. 7,300 to Mr. Anwar was correctly entered in the cash book but was posted to the credit of Mr. Anwar's account
(x) An amount of Rs. 17,400 was received in full and final settlement from a customer after he was allowed a discount of Rs. 2,600. However, while writing the books, the amount received was entered in the discount allowed column of the bank book and the discount allowed was entered in the bank column.

Required:
Pass rectification entries (without narration) to correct the above errors. ***(15 marks)***

Q.6 The cashier of Mr. Asad had not reported for duty for a number of days and Mr. Asad suspects that a fraud has been committed. The amounts appearing in his cash book and bank statement for the months of June and July 2010 respectively are as follows:

Cash Book for June 2010

Date	Particulars	Rs.	Date	Particulars	Rs.
01	Balance b/d	7,000	3	Drawings	2,000
17	Zahid	1,200	4	Cash	4,000
20	Hasnain	10,000	6	Abdul Qadir	11,900
25	Farooq Nagar & Co.	4,200	10	Zulfiqar	5,300
27	Haji Bilal	13,000	18	Khizar	1,200
29	Ali	3,000	19	Ejaz	2,500
30	Mrs. Habiba	1,800	21	Fuzail	3,800
			30	Ubaid Raza	1,100
			30	Bank Charges	690
			30	Balance c/d	7,710
		40,200			**40,200**

Bank Statement for July 2010

Date	Particulars	Rs.	Date	Particulars	Rs.
01	Balance b/d	4,500	02	Raza	3,000
02	Ejaz	5,200		Reversal of bank charges	690
03	Super Mart	3,500	03	Mrs. Habiba	1,800
05	Ubaid Raza	1,100	07	Adeel	180
08	Sardarabad Traders	6,700	09	Haji Bilal	13,000
15	AK Enterprise	7,300	18	AK Enterprise	13,300
23	Sardarabad Traders	10,800	26	Kapasi Traders	5,800
	Balance c/d	2,870	27	Farooq Nagar & Co.	4,200
		41,970			**41,970**

Mr. Asad has extracted the following information from the records:

(i) Cheque received from Mr. Ali and deposited in the bank on June 29 was dishonoured. The cheque was returned by the bank in the month of July.
(ii) Bank charges of Rs. 690 which were erroneously charged by the bank in June were reversed in July 2010.
(iii) A cheque of Rs. 5,300 received on June 10 from Mr. Zulfiqar was recorded on the credit side of the cash book.
(iv) A cheque issued in favour of Mr. Ejaz, amounting to Rs. 5,200, had been entered in the cash book as Rs. 2,500.
(v) Mark-up on overdraft charged by the bank on June 30, 2010 amounted to Rs. 2,500.
(vi) Petty cash payment to Mr. Khizar was recorded in the cash book.

Required:
(a) Adjusted balance as per cash book on June 30, 2010.
(b) A bank reconciliation statement as at June 30, 2010 after passing the adjustments referred to in (a) above.
(c) Amount defalcated by the cashier, if any. ***(15 marks)***

(THE END)

The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination – Spring 2011 | March 11, 2011
Module B | 100 marks - 3 hours

Q.1 (a) Briefly describe the merits and demerits of company form of organisation. ***(06 marks)***

(b) Briefly explain the following:

(i) Going concern
(ii) True and fair view
(iii) Substance over form ***(06 marks)***

(c) What are the disclosure requirements in the financial statements in respect of inventories, according to IAS 2 "Inventories"? ***(08 marks)***

Q.2 Diamond Ltd. invoices goods to its branch at cost plus 20%. The branch makes cash sales at invoice price and credit sales at 10% above the cash price. The collections from cash sales as well as debtors are remitted to head office after paying branch's expenses. On January 1, 2010 the assets at the branch were as follows:

	Rs. in '000
Cash in hand	10
Trade debtors	395
Stock (at invoice price)	1,200
Furniture and fittings	500

During the accounting year ended December 31, 2010 the invoice price of goods dispatched by the head office to branch amounted to Rs. 14,200 thousand. Out of these, goods invoiced at Rs. 100 thousand were returned by the branch. Other transactions at the branch were as follows:

	Rs. in '000
Cash sales	10,680
Credit sales	3,498
Cash collected by branch from credit customers	2,842
Cash discount allowed to debtors	70
Returns by customers	132
Bad debts written off	45
Expenses paid by branch	850

Furniture is subject to depreciation @ 16% per annum on diminishing balance method. On October 1, 2010 the branch purchased new furniture for Rs. 100 thousand for which payment was made by head office through a cheque.

On December 31, 2010, branch expenses amounting to Rs. 10 thousand were outstanding.

Required:
Prepare Branch Account in the books of head office for the year ended December 31, 2010.
(23 marks)

Q.3 Mr. Tahir took a store on rent from January 1, 2010 and started a grocery business. Analysis of his bank account for the year ended December 31, 2010 is given below:

	Rs. in '000	
Balance on January 1, 2010	3,960	
Receipts deposited in bank	41,850	45,810
Payments on January 1, 2010		
Fixture and fittings	600	
Motor van	240	
Payments on July 1, 2010		
Truck	1,200	
Deep freezers	800	
Payments during the year		
Purchases	37,496	
Drawings	1,960	
Rent, rates and taxes	1,750	
Lighting and heating	100	
Repairs	460	
Sundry business expenses	272	(44,878)
Balance on December 31, 2010		932

Following further information is available.

(i) The total receipts included:

	Rs. in '000
Encashment of personal savings certificates	960
Proceeds from sale of motor van on May 1, 2010	200
Rent of Mr. Tahir's bungalow	480

(ii) All cash received against sale of goods has been banked with the exception of:

	Rs. in '000
Staff salaries for the year	2,600
Personal expenses of Mr. Tahir (per month)	100
Cash retained for sundry business expenses (per month)	20

Of the cash taken for sundry business expenses, Rs. 10 thousand was in hand on December 31, 2010.

(iii) Repairs include Rs. 36 thousand paid in respect of Mr. Tahir's bungalow.

(iv) On December 31, 2010 advance rent of the store amounted to Rs. 400 thousand; creditors for purchases totalled Rs. 1,900 thousand whereas debtors amounted to Rs. 150 thousand.

(v) Depreciation is provided at 25% on motor vehicles and at 15% on fixture and fittings and deep freezers.

(vi) Sales are made at 20% above cost.

Required:

(a) The trading and profit and loss account of Mr. Tahir for the year ended December 31, 2010.

(b) Balance sheet as on December 31, 2010. ***(19 marks)***

Q.4 Mr. Junaid Janjua has provided you the following balance sheet and income statement.

Balance Sheet as on December 31, 2010

	2010	2009
	Rupees	
Cash	145,000	32,000
Accounts receivable	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepaid insurance	24,000	36,000
Office supplies	14,000	7,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	**5,647,000**	**5,429,000**
Accounts payable	158,000	263,000
Wages payable	40,000	24,000
Short-term loans	580,000	580,000
Long-term loans	985,000	1,160,000
Capital	3,884,000	3,402,000
Total liabilities and equity	**5,647,000**	**5,429,000**

Income Statement for the year ended December 31, 2010

	2010 Rupees
Sales revenue	9,280,000
Cost of goods sold	(6,199,000)
Gross margin	**3,081,000**
Operating expenses	
Selling expenses	634,000
Administrative expenses	1,348,000
Depreciation expenses	230,000
	2,212,000
Income from operations	**869,000**
Other revenues/expenses	
Gain on sale of land	64,000
Gain on sale of long term investment	32,000
Loss on sale of equipment	(15,000)
	81,000
Net income	**950,000**
Drawings	568,000
Profit and loss account	**382,000**

Notes :

(a) Part of the long term loan amounting to Rs. 100,000 was paid by Mr. Junaid from his personal account.

(b) Long term investments costing Rs. 100,000 were sold during the year.

(c) Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.

Required:

Prepare a cash flow statement for the year ended December 31, 2010. ***(14 marks)***

Q.5 The net sales ledger balances of Kamran Associates aggregated Rs. 319,000 as on December 31, 2010. However, the sales ledger control account showed balance of Rs. 350,410. On checking the following errors were identified.

(i) A credit balance amounting to Rs. 1,200 had been omitted from the list of balances.
(ii) The Sales Return Book had been undercast by Rs. 12,000.
(iii) A balance owed by Shahid amounting to Rs. 2,100 had been written off by debiting bad debts and crediting provision for bad debts accounts.
(iv) A debit balance of Rs. 2,600 in the sales ledger had been listed as a credit balance.
(v) No entry had been made in the control account to record transfer of Rs. 3,600 standing to the credit of Ghani's account in the purchases ledger to his account in the sales ledger.
(vi) Goods returned by Baber amounting to Rs. 1,700 were credited to his account in the sales ledger but debited to purchase account in the general ledger.
(vii) A discount of Rs. 800 allowed to Waheed had been correctly recorded and posted in the books. This was subsequently disallowed. A corresponding amount was entered in Discounts Received column in the cash book and posted to Waheed's account in the purchases ledger.
(viii) A dishonoured bill of exchange from AB & Company for Rs. 1,800 was properly entered in sales ledger but was debited to miscellaneous expense account in general ledger.
(ix) Rs. 450 received from Shah & Co., a customer, were correctly posted in the control account but was debited in the customers ledger as Rs. 540.
(x) The trial balance included a credit balance of Rs. 18,000 in the suspense account. It was revealed that 60% of the amount represents posting errors in the sales ledger control account.

Required:
(a) The Sales Ledger Control Account showing the necessary adjustments.
(b) A statement reconciling the subsidiary ledger balance with the corrected balance of the sales ledger control account. ***(11 marks)***

Q.6 The accountant of BA Enterprises prepared an income statement for the year ended December 31, 2010 which showed gross profit of Rs. 1,050,000 and net profit of Rs. 650,000. The company sells goods at cost plus mark-up of 20%.

The following errors/omissions were found on a detailed review of the financial statements.

(a) Items not included in the income statement:
  (i) Free samples costing Rs. 25,000 were sent to potential and regular customers.
  (ii) Goods costing Rs. 10,000 were taken by the owner for personal use and goods having sales value of Rs. 2,500 were used for office repairs.
  (iii) Unpaid salaries and transportation (inward) expenses payable, amounting to Rs. 20,000 and Rs. 10,000 respectively.
(b) Old furniture items were sold for Rs. 3,000 and entered in the sales day book. The book value of these items was Rs. 2,000.
(c) Goods sent on sale or return basis and having a sales value of Rs. 18,000 were still held in stock by the consignee. At the time of dispatch, these were recorded as sales.
(d) Rs. 24,500 were paid to a creditor as full and final settlement of an amount of Rs. 25,000 and debited to purchases.
(e) The sales day book was overcast by Rs. 30,000.
(f) An amount of Rs. 67,000 was carried forward in the purchase day book as Rs. 6,700.
(g) Goods sold on approval basis and having a sales value of Rs. 60,000 were destroyed by fire. The insurance claim was settled at 80% of the invoice value. The amount received from the insurance company was credited to purchases. The transfer of goods was recorded in a memorandum record and at year end the goods were included in closing stock under the head goods with third parties.

Required:
Ascertain the correct amount of gross and net profit for the year. ***(13 marks)***

(THE END)

The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination
Autumn 2011
Module B

9 September 2011
100 marks – 3 hours
Additional reading time – 15 minutes

(All questions are compulsory)

Q.1 (a) Briefly describe the different bases for measurement of assets/liabilities in financial statements? ***(08 marks)***

(b) What is the most commonly adopted basis of measurement? Give two examples where two different basis of measurement are used in combination, to measure an asset or liability. ***(03 marks)***

(c) A trial balance is merely a proof of arithmetical accuracy. Briefly explain the various types of errors which a trial balance fails to disclose. ***(05 marks)***

Q.2 The balance sheet of Amin Industries as at 31 August 2011 is as follows:

	2011	2010		2011	2010
	Rupees			Rupees	
Capital	33,433,000	27,942,000	**Fixed assets** – book value	15,172,000	12,346,000
Current liabilities			**Current assets**		
Short term finance	2,545,000	1,616,000	Investments	4,911,000	-
Creditors	3,457,000	2,850,000	Stock-in-trade	12,178,000	14,950,000
	6,002,000	4,466,000	Trade debts – net of provision for bad debts	6,732,000	4,887,000
			Bank	442,000	225,000
				24,263,000	20,062,000
	39,435,000	32,408,000		39,435,000	32,408,000

The following information is also available:

	Rupees
Profit during the year ended 31 August 2011	3,161,000
Mr. Amin's withdrawals during the year	3,120,000
Accumulated depreciation on fixed assets – 31 August 2010	5,605,000
Accumulated depreciation on fixed assets – 31 August 2011	7,470,000
Provision for bad debts – 31 August 2010	385,000
Provision for bad debts – 31 August 2011	484,000
During the year fixed assets costing Rs. 1,500,000 with a book value of Rs. 867,000 were sold for Rs. 1,284,000.	

Required:
Prepare a cash flow statement for the year ended 31 August 2011. ***Show necessary workings.***
(13 marks)

Q.3 The written down value of plant and machinery of Azfar and Company as at 30 June 2011 is Rs. 831,128.

Following additional information is also available:

(i) On 1 July 2007, second-hand machinery was purchased for Rs. 300,000. An amount of Rs. 200,000 was spent on its overhauling, before use.
(ii) On 1 January 2008 machinery costing Rs. 250,000 was purchased.
(iii) The machinery purchased on 1 July 2007 became obsolete and was sold for Rs. 100,000 on 1 January 2010. On the same date, new machinery was purchased at a cost of Rs. 600,000.
(iv) Machinery purchased on 1 January 2008 was sold on 30 June 2011 at its book value plus Rs. 50,000.

Azfar and Company provides depreciation on machinery @ 15% on written down value. Depreciation on addition / deletion is provided in proportion to the period of use.

Required:
(a) Machinery Account from 1 July 2009 to 30 June 2011
(b) Machinery Disposal Account for the years ended 30 June 2010 and 2011 ***(22 marks)***

Q.4 Alpha and Beta are partners in a firm sharing profits and losses in the ratio of 3:2. The Balance Sheet of the firm as on 31 March 2011 was as under:

Capital and liabilities		Rupees	Assets	Rupees
Partners' capital accounts			Furniture and fixture	600,000
▪ Alpha	840,000		Office equipments	300,000
▪ Beta	360,000	1,200,000	Motor car	375,000
General reserve		337,000	Stock	250,000
Sundry creditors		296,000	Sundry debtors	190,000
			Cash at bank	118,000
		1,833,000		1,833,000

Due to expansion in the business, Gamma was admitted as a partner with effect from 1 April 2011. Gamma brought furniture worth Rs. 120,000 and stock costing Rs. 80,000. He also contributed cash of Rs. 150,000 plus his proportionate share of goodwill valued at two years' purchase of the average profits of the last three years.

Following adjustments were considered necessary, at the time of admission:

(i) On 1 April 2009, new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue account. The firm charges depreciation on furniture @ 10% on straight line basis.
(ii) An invoice dated 1 October 2010 for purchase of goods amounting to Rs. 24,000 has not been recorded.
(iii) The firm values its stock on the basis of physical inventory. On account of an error on the stock sheets, the stock on 31 March 2009 was overvalued by Rs. 10,000.
(iv) Value of the sundry debtors on 31 March 2011 is to be reduced by 6%.

The profits of the last three years, before the above adjustments were:

	Rupees
2010 – 11	352,100
2009 – 10	232,000
2008 – 09	128,000

It was decided that the future profits of the firm would be shared among Alpha, Beta and Gamma in the ratio of 5:3:2 respectively.

Required:
Prepare the capital accounts of the partners and the balance sheet of the firm on Gamma's admission as a partner. ***(17 marks)***

Q.5 Following is the Receipts and Payments Account of Sehat Club for the year ended 30 June 2011:

Receipts and Payments Account
For the year ended 30 June 2011

Receipts	Rupees	Payments	Rupees
Opening balance	15,000	Salaries	63,500
Subscriptions	201,000	Rent	34,000
Entrance fees	63,000	Travelling expenses	1,500
Donations	38,000	Printing and stationery	1,000
Interest	16,000	General charges	2,500
Receipt on disposal of furniture	500	Periodicals	500
		Investments	200,000
		Closing balance	30,500
	333,500		333,500

The club's balance sheet as on 30 June 2010 was as follows:

Balance Sheet
As on 30 June 2010

Liabilities	Rupees	Assets	Rupees
General Fund	172,500	Furniture – net	40,000
Liabilities: Rent	11,000	Sports equipments – net	20,000
Salaries	17,500	Investments	100,000
		Subscription receivable	15,000
		Interest receivables	11,000
		Bank balance	15,000
	201,000		201,000

Other details for the year ended 30 June 2011 are as follows:

(i) Furniture purchased on 1 July 2009 costing Rs. 4,000 was disposed off on 1 January 2011 at a scrap value of Rs. 500.
(ii) On 1 July 2010, furniture having written down value of Rs. 6,000 was traded-in with new furniture having fair value of Rs. 6,700.
(iii) Depreciation is charged on diminishing balance basis at 20% on furniture and 15% on sports equipments.
(iv) Sports equipments worth Rs. 12,000 were received at year end as donation.
(v) Following amounts are receivable /outstanding as at 30 June 2011:

	Rs.
Subscription receivable	8,000
Entrance fee receivable	3,000
Salaries outstanding	4,000
Rent outstanding	2,000

Required:
Prepare an income and expenditure account of Sehat Club for the year ended 30 June 2011 and its balance sheet on that date. ***(18 marks)***

Q.6 Afridi does not keep perpetual records of stock. At the end of each quarter, the value of stock is determined through physical inventory. However, the record of inventory taken on 31 March 2011 was destroyed in an accident and Afridi has extracted the following information for the purpose of stock valuation:

(i) Invoices entered in the purchase day book, during the quarter, totalled Rs. 138,560 of which Rs. 28,000 related to the goods received on or before 31 December 2010. Invoices entered in April 2011 relating to goods received in March 2011 amount to Rs. 37,000.
(ii) Sales invoiced to customers amounted to Rs. 151,073 of which Rs. 38,240 related to goods dispatched on or before 31 December 2010. Goods dispatched to customers before 31 March 2011 but invoiced in April 2011 amounted to Rs. 25,421.
(iii) Credit notes of Rs. 12,800 had been issued to customers in respect of goods returned during the period.
(iv) Purchases included Rs. 2,200 spent on acquisition of a ceiling fan for the shop.
(v) A sale invoice of Rs. 5,760 had been recorded twice in the sales day book.
(vi) Goods having sale value of Rs. 2,100 were given by way of charity.
(vii) Afridi normally sells goods at a margin of 20% on cost. However, he had allowed a special discount of 10% on goods costing Rs. 6,000 which were sold on 15 February 2011.
(viii) On 31 December 2010, the stock was valued at Rs. 140,525. However, while reviewing these stock sheets on 31 March 2011 the following discrepancies were found:
    (a) A page total of Rs. 15,059 had been carried to the summary as Rs. 25,059.
    (b) 1,000 items costing Rs. 10 each had been valued at Rs. 0.50 each.

Required:
Calculate the amount of stock in hand as on 31 March 2011. ***(14 marks)***

(THE END)

The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination | 9 March 2012
Spring 2012 | 100 marks - 3 hours
Module B | Additional reading time - 15 minutes

Q.1 (a) Explain the term 'prudence'. ***(03 marks)***

(b) Differentiate between cash and accrual basis of accounting. Which method would you prefer and why? ***(05 marks)***

(c) List the components of a complete set of financial statements. ***(03 marks)***

Q.2 Mr. Mubarak is a sole trader and carries on business under the name "Mubarak & Company". The balance on his cash book at 31 December 2011 did not agree with the balance as per the bank statement which shows a credit balance of Rs. 367,500.

An examination of the cash book and bank statement disclosed the following:

(i) A deposit of Rs. 49,200 made on 29 December 2011 had been credited by the bank on 1 January 2012.

(ii) Bank charges of Rs. 1,700 have not been entered in the cash book.

(iii) A debit of Rs. 4,200 appeared on the bank statement for an unpaid cheque which has been returned marked "out of date". The cheque was re-dated by his customer and paid into the bank again on 3 January 2012.

(iv) A standing order for payment of an annual subscription amounting to Rs. 1,000 has not been entered in the cash book.

(v) On 26 December 2011, Mr. Mubarak had given the cashier a cheque for Rs. 10,000 to pay into his personal account at the bank. The cashier deposited it into the business account by mistake.

(vi) On 27 December 2011, a customer had made an online transfer of Rs. 49,900 in payment against goods supplied. The advice was received and recorded in the cash book on 2 January 2012.

(vii) On 30 September 2011, Mr. Mubarak entered into a hire purchase agreement and issued a standing order to the bank to pay a sum of Rs. 2,600 on the 10th day of each month, commencing from October 2011. No entries have been made in the cash book for these payments.

(viii) A cheque for Rs. 36,400 received from Mr. Bashir had been entered twice in the cash book.

(ix) Cheques issued amounting to Rs. 467,200 had not been presented to the bank for payment until after 31 December 2011.

(x) A customer who owed Rs. 20,000 and was entitled to a cash discount of 2½% paid a cheque for the net amount on 10 December 2011. The cashier erroneously recorded the gross amount in the bank column of the cash book.

(xi) Dividend collected by the bank amounting to Rs. 12,000 has not been recorded in the cash book.

(xii) A cheque of Rs. 243,000 received from Mr. Bilal was deposited in the bank but entered in the cash book as Rs. 234,000.

Required:

(a) Prepare a bank reconciliation statement as on 31 December 2011.

(b) Prepare necessary journal entries in the books of Mubarak & Company and determine the correct cash balance that should be reported in the balance sheet. Also specify the situations in which no adjustment/entry is required. ***(13 marks)***

Q.3 The head office (HO) of a company invoices goods to its Branch at cost plus 20%. The Branch also purchases goods from local parties for which payments are made by the HO. All cash collected by the branch is banked on the same day to the credit of the HO. All expenses are paid by the HO except payments through petty cash account in which periodical transfers are made from the HO.

Following information is available in respect of the branch, for the year ended 31 December 2011:

	Rs. in '000
Cash sales	45,000
Credit sales	130,000
Direct purchase	45,000
Returns from customers	3,000
Goods sent to Branch from HO at invoice price	60,000
Amount transferred from HO for petty cash expenses	250
Bad debts	1,000
Discount to customers	2,000
Cash received from customers	125,000
Branch expenses	30,000
Petty expenses incurred by the branch	265
Balances on 1 January 2011:	
Imprest Cash	200
Sundry Debtors	25,000
Stock: Transferred from HO at invoice price	24,000
Directly purchased by branch	16,000
Stock on 31 December 2011:	
Transferred from HO at invoice price	18,000
Directly purchased by branch	12,000

Required:
Prepare Branch Account in the books of the HO for the year ended 31 December 2011 showing the profit made by the branch. ***(14 marks)***

Q.4 The trial balance of Ayub Brothers did not agree as at 31 December 2011 and the difference was carried to a suspense account. On scrutinising the books of account, the following types of errors were detected:

(i) Debtors include Rs. 15,000 which are irrecoverable and need to be written off.
(ii) Goods invoiced at Rs. 4,600 were returned by a customer. It was entered in the purchase book and posted from there to a creditor's account as Rs. 6,400.
(iii) A cheque of Rs. 8,000 received from a customer was not posted to his ledger account. Moreover, the corresponding sales invoice for Rs. 12,000 was incorrectly passed through the sales day book as Rs. 2,000.
(iv) Sales include goods sold for cash amounting to Rs. 25,000 on behalf of Mr Yasir. Ayub Brothers were entitled to a commission of 10% on the sales plus selling expenses, for which no adjustment was made. The related selling expenses amounted to Rs. 1,500.
(v) An amount of Rs. 3,800 owed by Zahid & Company for goods supplied was to be adjusted against an amount of Rs. 8,500 owed to Zahid & Company. No entry has been made in this regard.
(vi) A purchase of Rs. 15,100 was entered in the purchase day book as Rs. 1,500 and posted to the supplier's account as Rs. 5,100.

(vii) Goods invoiced at Rs. 23,000 and returned by Hamid Khan, a debtor, were entered in the purchase day book and posted therefrom to Hammad Khan, a creditor, as Rs. 32,000.
(viii) A supplier's invoice for Rs. 12,300 had been entered in the purchase day book on 28 December 2011. However, the goods were received on 2 January 2012.
(ix) Some items of furniture which stood in the books at Rs. 24,000 on 1 January 2011 were disposed of on 30 June 2011 in exchange for new furniture costing Rs. 20,800. A net invoice of Rs. 9,200 was passed through the purchase day book. Depreciation on furniture is charged at 10% on written down value.
(x) Ayub Brothers maintains a provision of 5% of the gross amount of debtors.

Required:
Prepare journal entries to rectify the errors identified above.
(Narrations are not required.) ***(21 marks)***

Q.5 Danish does not keep proper books of account due to his lack of knowledge of double entry system of accounting. He has supplied you the following information with respect to the year ended 31 December 2011 from the records kept in his diary:

(i) Receipts and payments made during the year:

	Rupees
Cash received from debtors	80,000
Discount allowed to debtors	1,400
Bad debts written off	1,800
Cash paid to creditors	63,000
Discount allowed by creditors	1,000
Sales returns	3,000
Purchases returns	2,000
Expenses paid	6,000
Drawings	5,000
Rent paid	2,500

(ii) Opening balances as on 1 January 2011:

Assets and liabilities	**Rupees**
Debtors	45,000
Creditors	24,000
Cash	4,500
Furniture and fixtures	15,000
Stock	25,000
Motor van	16,000

(iii) Debtors and creditors as on 31 December 2011 amounted to Rs. 48,600 and Rs. 27,000 respectively.
(iv) Outstanding expenses as on 31 December 2011 amounted to Rs. 1,200.
(v) Depreciation is charged on furniture and fixtures at the rate of 10% and on motor van at 20%.
(vi) Danish sells goods at cost plus 40% and follows a policy of maintaining a provision of 5% of the outstanding debtors.

Required:
(a) Trading and profit and loss account for the year ended 31 December 2011.
(b) Balance sheet as at 31 December 2011. ***(21 marks)***

Q.6 (a) On 1 January 2012, a company held 300 units of an item of finished goods inventory. These were valued at Rs. 22 each. During January 2012 three batches of finished goods were received into store from the production department, as follows:

Date	Units received	Production cost per unit Rupees
10-Jan	400	Rs. 23
20-Jan	400	Rs. 25
25-Jan	400	Rs. 26

Goods sold out of the inventory during January 2012 were as follows:

Date	Units sold	Sale price per unit Rupees
14-Jan	500	Rs. 31
21-Jan	500	Rs. 33
28-Jan	100	Rs. 32

Required:
Compute the cost of sales and inventory at 31 January 2012, applying the following basis of inventory valuation:
(i) FIFO (ii) Weighted Average Cost (Average is updated after every transaction).
(09 marks)

(b) The cost of inventory of Mughal Trading Corporation (MTC) based on inventory count carried out on 17 January 2012 was Rs. 675,000. These included goods costing Rs. 15,000 which were purchased in December 2011 and have a net realisable value of Rs. 12,000. During the period between 31 December 2011 and 17 January 2012, following transactions took place:

(i) Value of goods purchased amounted to Rs. 155,710.
(ii) Sale of goods amounted to Rs. 250,000. MTC normally sells goods at a mark-up of 25% of cost. However, 20% of the sales were made at a discount of 8% of the normal selling price.
(iii) Goods costing to Rs. 1990 were returned to a supplier
(iv) Goods sold to a customer on 4 January 2012 were returned on 15 January 2012.

Compute the value of inventories that should be reported in the financial statements of MTC as at 31 December 2011. ***(06 marks)***

(c) Which of the following items may be included in computing the value of inventory of finished goods manufactured by a business:

(i) raw materials
(ii) foremen's salaries
(iii) carriage inwards
(iv) carriage outwards
(v) plant depreciation
(vi) cost of storage of finished goods
(vii) abnormal waste of materials
(viii) salesmen's commission ***(02 marks)***

(d) What will be the effect of the following on cost of sales, profit and inventory:

(i) if in times of rising prices , the valuation of inventory is done on the basis of FIFO as opposed to weighted average cost method?
(ii) if an item of inventory having cost of Rs. 69,300 and net realisable value of Rs. 65,000 is omitted from original inventory count? ***(03 marks)***

(THE END)

The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination
Autumn 2012
Module B

7 September 2012
100 marks – 3 hours
Additional reading time – 15 minutes

Q.1 Mansoor deals in small electrical equipments and appliances. His Balance Sheet for the year ended 30 June 2011 was as follows.

Capital and Liabilities		Rupees	Assets	Rupees
Capital		1,185,000	Fixtures	235,000
Creditors:			Stocks	552,000
Goods	220,000		Debtors	281,000
Electricity charges	5,500		Property tax paid in advance	11,500
Accounting charges	11,500	237,000	Cash in hand	35,000
			Cash at bank	307,500
		1,422,000		1,422,000

On 30 June 2012, there was a fire in his shop which destroyed all his fixtures and stocks. The following information has been gathered from the records available with him.

(a) The Insurance company agreed to pay Rs. 225,000 for fixtures and Rs. 630,000 for stock without production of accounts; the stock on hand was however Rs. 670,000.

(b) The payments made during the year were as follows :

	Rupees		Rupees
Personal expenses	188,000	Property tax	32,000
Sundry expenses	15,000	Rent	240,500
Accounting charges	20,500	Purchase of goods	5,061,000
Electricity	50,500	Fixtures	45,000

(c) The following payments were made during the year, out of cash receipts:
- (i) Assistant's salary Rs. 132,000.
- (ii) Cash purchases averaging Rs. 24,000 per month.
- (iii) Drawings which varied between Rs. 10,000 and Rs. 15,000 per month.

All other receipts were deposited into the bank. Total deposits amounted to Rs. 5,780,800 and included scrap sale of Rs. 35,000.

(d) The following balances as on 30 June 2012 were determined from the available records:

Assets and Liabilities	Rupees
Debtors	494,000
Creditors for goods	212,000
Creditors for electricity charges	1,900
Accounting charges payable	1,800
Rent outstanding	15,000
Property tax paid in advance	15,000
Cash in hand	40,500

(e) Included in the debtors is an amount of Rs. 14,000 which is considered uncollectible.

(f) The rate of gross profit as a percentage of sale was 20%.

Required:

Prepare Trading and Profit and Loss Account for the year ended 30 June 2012 and a Balance Sheet as on that date. ***(24 marks)***

Q.2 Sun Soya Oil & Company is a wholesaler of cooking oil. Due to an emergency, its annual stock taking was delayed till 3 July 2012, on which date the physical stock was valued at Rs. 24 million.

An examination of the related records disclosed that the following events took place on **1st** and **2nd July, 2012:**

(a) Sales invoices amounting to Rs. 4 million were issued. These included invoices amounting to:
- Rs. 200,000 in respect of oil which was dispatched on 29 June 2012 but had not been invoiced.
- Rs. 400,000 in respect of oil not dispatched until 5 July 2012 and;
- Rs. 200,000 in respect of oil on sale or return basis.
- The average rate of gross profit is $33\frac{1}{3}\%$ of cost.

(b) Returns from customers totalled Rs. 600,000.

(c) Purchase invoices amounting to Rs. 1.8 million were received. These included invoices worth:
- Rs. 600,000 for oil received in June 2012, and;
- Rs. 300,000 for oil received on 7 July 2012.

(d) Purchase returns totalled Rs. 400,000.

A review of the records also disclosed the following errors:
- Stocks lying in Abbotabad were not included in the physical count. The cost of such stock on 30 June 2011 and 3 July 2012 was Rs. 0.5 million and Rs. 3 million respectively.
- An arithmetical error in the stock sheets on 3 July 2012 resulted in an overvaluation of Rs. 450,000.

Required:
Prepare a statement showing the correct amount of the stock as on 30 June 2012. ***(10 marks)***

Q.3 While closing his books on 30 June 2012, Mr. Rehan identified a difference in the trial balance which he kept in a Suspense Account. He prepared his P & L account on the basis of this trial balance and arrived at a profit of Rs. 679,000. While trying to reconcile the trial balance he detected the following errors:

(i) A cheque of Rs. 25,000 received from the insurance company in respect of loss of stock has been paid into the proprietor's personal bank account and has not been recorded in the books. No entry has been passed in respect of the loss.

(ii) Bill received from ABC Furnishings on 1 July 2011 for repairs to furniture Rs. 3,000 and for new furniture supplied Rs. 10,000 was entered in the purchase day book as Rs. 11,000. Depreciation on furniture is provided @ 10 % per annum.

(iii) Furniture which stood in the books at Rs. 5,000 was sold on 1 July 2011 for Rs. 2,750 in part exchange of new furniture costing Rs. 8,750 and the net invoice of Rs. 6,000 was passed through the purchase day book.

(iv) Sale of goods on approval amounting to Rs. 5,000 was included in sales account, cost of these goods being Rs. 4,200. Out of these, goods having invoice value of Rs. 3,000 were returned and taken into stock at cost but no entry was made in the books.

(v) Goods worth Rs. 10,200 purchased from a creditor on 28 June 2012 had been entered in the Purchase Day Book and credited to him but were not delivered till 5 July 2012. However, the title of the goods had passed on 28 June 2012.

(vi) A computer bought originally for Rs. 70,000 four years ago and depreciated to Rs. 12,000 had been sold for Rs. 15,000 on the first day of the year. The amount deposited was entered in the bank book but no other entry was passed.

(vii) Goods valuing Rs. 13,000 were returned by Zahid. These were entered in the Purchase Day Book and posted to a supplier's account as Rs. 31,000.

(viii) Discount of Rs. 3,700 was allowed but posted to the credit of discount received a/c as Rs. 7,300.

(ix) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount, but the payment was wrongly posted to purchase account as Rs. 1,080 only without any other entry.

Required:

(a) Pass rectification entries (without narration) to correct the above errors. ***(20 marks)***

(b) Recalculate the profits after taking into account the above corrections. ***(04 marks)***

Q.4 Naveed Enterprises commenced business on 01 July 2009. Certain information about their vehicles, for the years ended **30 June 2011 and 2012** can be ascertained from the following ledger accounts:

Accumulated depreciation on vehicles ***All amount in Rupees***

28-02-11	Vehicle disposal account	435,467	01-07-10	Balance b/d	1,360,000
30-06-11	Balance c/d	2,160,800	30-06-11	Dep. for the year	1,236,267
		2,596,267			2,596,267
30-04-12	Vehicle disposal account	560,000	01-07-11	Balance b/d	2,160,800
30-06-12	Balance c/d	3,025,040	30-06-12	Dep. for the year	1,424,240
		3,585,040			3,585,040

Vehicle disposal account ***All amount in Rupees***

28-02-11	Cost at 01-07-2009	1,420,000	28-02-11	Accumulated Dep.	435,467
28-02-11	Profit on disposal	165,467	28-02-11	Cash received	1,150,000
		1,585,467			1,585,467
30-04-12	Cost at 01-07-2009	1,200,000	30-04-12	Accumulated Dep.	560,000
			30-04-12	Cash received	500,000
			30-04-12	Loss on disposal	140,000
		1,200,000			1,200,000

Following further information is available in respect of the vehicles for the last three years **(01-07-2009 to 30-06-2012):**

(i) Depreciation is being provided at the rate of 20% per annum on diminishing balance method.

(ii) Accumulated depreciation brought down on 1 July 2010 represents depreciation for the whole year on vehicles bought on 1 July 2009.

(iii) Two vehicles were purchased on 1 November 2010 and 1 September 2011.

Required:

Prepare Vehicles (Asset) Account for the years ended 30 June 2011 and 2012. ***(13 marks)***

Q.5 (a) Different user groups are interested in an entity's financial statements for different reasons. Identify any four potential user groups and briefly describe the information which they may be interested in. ***(08 marks)***

(b) Differentiate between accrued and unearned income. ***(02 marks)***

Q.6 Kamran Enterprise (KE) purchases shoes from a number of manufacturers and sells these through three shops. All bookkeeping records are kept at head office. Stock is transferred from head office to the shops at selling price. KE earns a margin of 12.5% on selling price.

The following figures relate to the year ended 30 June 2012:

	Shop 1	**Shop 2**	**Shop 3**
	Rs.	**Rs.**	**Rs.**
Opening stock (selling price)	2,716,000	3,123,000	2,444,000
Goods sent to branch (selling price)	32,591,000	37,479,000	29,332,000
Sales	33,332,000	37,529,000	28,937,000
Closing stock (selling price)	2,500,000	1,990,000	3,091,000

The opening and closing stock figures were arrived at by means of a physical stock count.

A portion of the stock at Shop 2 was damaged due to floods during May-June 2012. This included badly damaged stock which was disposed of at Nil value before 30 June 2012. Part of the undamaged stock in the shop was transferred to Shop 1 and 3, where it was treated as normal trading stock. None of the shop managers kept proper records of the quantities transferred. Similarly, no record is available in respect of quantities of badly damaged stock which was disposed of at no value.

On the basis of physical stock count, it has been found that closing stock of Shop 2 includes damaged stock of Rs. 685,000 which can be sold at a discount of 40%.

Required:

(a) Estimate the cost of stock transferred from Shop 2 to Shops 1 and 3 after the flood and the cost of stock which was disposed of at Nil value by Shop 2. ***(09 marks)***

(b) Prepare Trading Account to show the gross profit of each shop for the year ended 30 June 2012. ***(10 marks)***

(THE END)