The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examinations

7 March 2015
3 hours – 100 marks
Additional reading time – 15 minutes

Introduction to Accounting

Q.1 Answer the following:

(a) Sami Enterprise imported a grinding machine for Rs. 3,870,000 from Germany and incurred transportation expenses of Rs. 100,000, installation cost of Rs. 175,000, insurance expenses of Rs. 50,000 and signed an annual maintenance agreement at a cost of Rs. 200,000. Identify the amount at which the grinding machine would be stated in the statement of financial position. **(02)**

(b) Rahat Associates makes provision for all known losses and values its inventories at the lower of cost and net realisable value. State the accounting concept the company is complying with. **(01)**

(c) Prime Enterprise depreciates its assets using the sum of-year digit method. What proportion of the cost of an asset, having a useful life span of 5 years with no residual value, will have been written-off at the end of year 3? **(02)**

(d) What is the name of the business asset which relates to reputation, customers loyalty and popularity earned over a period of time due to the expertise of the business owner or the quality of goods produced or services rendered? **(01)**

(e) The interest payable account in the books of Saeed Associates showed a balance of Rs. 80,000 on 1 January 2014. Interest paid during the year amounted to Rs. 75,000 and the amount of interest charged to profit and loss account during the year ended 31 December 2014 was Rs. 65,000. Prepare a T account for interest payable. **(02)**

Q.2 (a) Briefly describe the concept of 'Substance over form'. Give two examples. **(04)**

(b) Big Traders, who is a multi-million rupees trading house, purchased a calculator for Rs. 1,500. The calculator is to be used for 3 years. Keeping in view the relevant accounting concepts, describe the accounting treatment of the above transaction. **(03)**

Q.3 (a) Mr. Karobari is a sole proprietor and is engaged in the business of selling plastic bottles to hospitals and dispensaries. Following two transactions were recorded in the month of February 2015:

- Goods worth Rs. 57,000 were returned to a credit supplier.
- A cheque for Rs. 15,000 was drawn for cash.

Required:

(i) Identify the source document and the subsidiary book used for each of the above two transactions. **(02)**

(ii) Prepare journal entries to record the above two transactions. **(02)**

(iii) Assuming the goods returned to the supplier in transaction 1 above had been wrongly entered as Rs. 75,000 in the subsidiary book, identify the type of error and its possible effect(s) on the accounting records and financial statements of Mr. Karobari. **(06)**

(b) Explain the following accounting terms:

(i) Prepayment (ii) Accrued expense **(03)**

Q.4 (a) What are the **two** main purposes of a trial balance? **(02)**

(b) Briefly describe the primary reason for issuance of various documents used in a system designed to account for sales. **(06)**

Q.5 Following transactions were recorded in the books of Kamyab Traders (KT) in the month of February 2015:

(i) Stocks costing Rs. 80,000 were sold to customers at a margin of 20% on sales. 70% of the sales were made to customers on one month's credit and the balance on cash.
(ii) Stocks worth Rs. 60,000 were purchased on two months credit.
(iii) A bad debt of Rs. 10,000 was written off. No provision had been made prior to write off.
(iv) A new partner Mr. Sathi was admitted to KT's business. Mr. Sathi brought Rs. 150,000 as his capital and Rs. 65,000 as his share of goodwill.
(v) Stocks bought from a supplier amounting to Rs. 5,000 in January 2015 had been posted to the credit of his account as Rs. 50,000. The difference in trial balance was entered in a suspense account. The error has now been rectified.
(vi) Borrowed Rs. 200,000 from bank at 12% mark-up.

Required:
Show the effect of each of the above transactions in the form of an accounting equation. **(10)**

Q.6 (a) State any **Ten** causes of disagreement between the balance as per bank book and the bank statement. **(05)**

(b) On 31 December 2014 the bank book of Badami Enterprise (BE) reflected a favourable balance of Rs. 34,000 while the bank statement showed an overdraft of Rs. 1,712,000. On scrutinizing the two records, following discoveries were made:

(i) Cheques of Rs. 325,000 issued to suppliers were not yet presented to the bank.
(ii) Bank made payment of Rs. 35,000 in relation to e-payment charges on BE's account.
(iii) BE had instructed the bank to transfer interest of Rs. 45,000 earned on a deposit account to its current account. The bank did not transfer the amount till 15 January 2015 whereas the amount had already been recorded in the bank book.
(iv) Cheques of Rs. 630,000 received from customers and deposited to the bank had not been credited by the bank.
(v) The receipt side of the bank book was overcasted by Rs. 90,000.
(vi) The payment side of the bank book was undercasted by Rs. 42,000.
(vii) BE made e-payments of Rs. 720,000 to overseas suppliers. However, these payments were not posted to the bank book.
(viii) A cheque of Rs. 30,000 drawn in favour of a supplier was recorded in the bank statement as Rs. 300,000.
(ix) A cheque of Rs. 65,000 issued to one of the suppliers had been wrongly posted on the receipt side of the bank book.
(x) A cheque of Rs. 80,000 received from Mr. Barkat had been entered twice in the bank book.
(xi) Dividend of Rs. 54,000 collected by the bank was recorded at Rs. 63,000 in the bank book.
(xii) A standing order for payment of annual subscription fees of Rs. 20,000 for a magazine had not been recorded in the bank book.

Required:
Determine the correct balance that should be reported in the bank book and prepare a bank reconciliation statement reconciling the amended balance with that shown in the bank statement. **(09)**

Q.7 Aik, Dou and Teen were in partnership, sharing profits and losses in the ratio of 6:5:4 respectively. The firm's statement of financial position as at 31 December 2014 was as follows:

Assets	**Rupees**
Non-current assets	
Land and building	1,200,000
Plant and machinery	950,000
Furniture, fixture and fittings	310,500
Current assets	
Stock	245,400
Trade debtors (Less: provision for bad debts: 500,000 – 15,000)	485,000
Bank	220,100
	3,411,000
Capital and liabilities	
Partner's capital accounts	
Aik	1,375,000
Dou	900,000
Teen	525,000
Profit and loss account	335,400
Current liabilities	
Trade creditors	275,600
	3,411,000

On the above date, Dou retired from partnership and the partners agreed that:

(i) Land and building be appreciated by 15% and plant and machinery be depreciated by 12%.
(ii) Provision for bad debts should be raised to 5% of trade debtors and a provision should be made for an outstanding repair bill of Rs. 17,000.
(iii) Goodwill of the firm be valued at Rs. 600,000 and Dou's capital account be credited with his share of goodwill without raising goodwill account.
(iv) Dou will immediately be paid half of his amount through cheque and will leave the rest of the amount as a loan to the entity bearing interest @ 10% per annum.

On 1 January 2015, Aik and Teen admitted Char into partnership and agreed to share profits and losses in the ratio of 3:2:1 respectively. Char introduced capital of Rs. 410,000 by means of a cheque including payment for his share of goodwill as valued by the old entity and brought software licences of the value of Rs. 135,000 to the new entity. The whole amount of Rs. 545,000 was credited to Char's capital account and his capital account was adjusted for the share of his goodwill.

Required:
Prepare the following:
(a) Revaluation account. **(05)**
(b) Capital accounts of all the partners. **(09)**
(c) The statement of financial position as at 1 January 2015 (after the admission of Char into partnership). **(06)**

Q.8 Following information has been extracted from the records of Falcon Traders (FT) for the year ended 31 December 2013:

Non-current assets	**Rupees**
Freehold land	100,000
Building	610,000
Plant and machinery	330,000
Office equipment	115,000
Current assets	
Stock	183,000
Debtors	177,000
Bank	45,000
Non-current liabilities	
10% long term loan from bank	190,000
Current liabilities	
Trade creditors	75,000
Creditors for office expenses	35,000

Following information is available for the year 2014:

(i) Cash sales made during the year amounted to Rs. 375,000. Credit sales were 75% of the total sales and the amount collected from debtors was Rs. 1,035,000. Provision for doubtful debts has to be made equal to 5% of the debtors' balance at the end of 2014. The provision for doubtful debts at the end of 2013 was nil.

(ii) Payments made to trade creditors amounted to Rs. 641,450. Credit purchases were Rs. 664,950 whereas cash purchases were 35% of the total purchases.

(iii) FT paid Rs. 38,000 against salaries, Rs. 30,000 against office expenses and Rs. 45,000 against selling expenses.

(iv) Cash discount allowed to customers during the year amounted to Rs. 21,000 whereas discount received from suppliers was Rs. 13,000.

(v) On 1 July 2014 FT sold one of the old machinery at a loss of Rs. 15,000. On 31 December 2013 this old machinery had a book value of Rs. 54,800. On 1 October 2014 a new machine Z was purchased in its place at a cost of Rs. 164,800.

(vi) On 1 January 2014, office equipment was sold at its book value for Rs. 20,000.

(vii) Depreciation is to be provided on building at 10%, plant and machinery at 15% and office equipment at 20% per annum on their book value.

(viii) Interest on long term loan at 10% per annum together with part payment of the principal sum of Rs. 25,000 was made on 31 December 2014.

(ix) On 31 December 2014 closing stock was Rs. 90,000 and creditors for office expenses were Rs. 28,000.

Required:

(a) Prepare a statement of comprehensive income for the year ended 31 December 2014. **(09)**

(b) Prepare a statement of financial position as at 31 December 2014. **(11)**

(THE END)