**The Institute of Chartered Accountants of Pakistan**

**Certificate in Accounting and Finance Stage Examinations**

8 September 2014
3 hours – 100 marks
Additional reading time – 15 minutes

# Financial Accounting and Reporting-I

Q.1 Following is the summarised trial balance of ABC Limited as at 30 June 2014:

| | Rs. in million | |
|---|---|---|
| Sales | | 737 |
| Stock at 1 July 2013 | 75 | |
| Purchases | 301 | |
| Manufacturing expenses | 240 | |
| Selling and marketing expenses | 28 | |
| Administrative expenses | 51 | |
| Factory building – cost at 1 July 2013 | 200 | |
| Machines – cost at 1 July 2013 | 280 | |
| Factory building – accumulated depreciation at 1 July 2013 | | 50 |
| Machines – accumulated depreciation at 1 July 2013 | | 87 |
| Advance income tax | 4 | |
| Debtors | 117 | |
| Cash and bank | 51 | |
| Creditors | | 83 |
| Share capital | | 300 |
| Unappropriated profit at 1 July 2013 | | 90 |
| | 1,347 | 1,347 |

**Additional information:**

(i) Depreciation on factory building and machines are provided on reducing balance method @ 10% and 15% per annum respectively. 60% depreciation on factory building and 100% depreciation on machines are charged to cost of sales. The balance depreciation is charged to administrative expenses.

(ii) On 31 May 2014, a fully depreciated machine was sold for Rs. 3 million. The sale proceeds were received on 5 July 2014. No entries have been made in respect of these transactions.

(iii) Debtors include an amount of Rs. 28 million owed by a customer who experienced cash flow problems prior to the year-end. The company has agreed to accept Rs. 18 million in full and final settlement of the debt. Four other debtors aggregating Rs. 5 million are required to be written off.

(iv) Income tax liability for the year ended 30 June 2014 is estimated at Rs. 25 million.

(v) On 20 June 2014 an advance of Rs. 12 million was received under a contract for supply of goods in August 2014. The advance was credited to sales.

(vi) Closing stock at 30 June 2014 amounted to Rs. 114 million. It included stock costing Rs. 20 million whereas the related invoice was booked on 4 July 2014.

(vii) In June 2014, a competitor developed a new product which has affected ABC's ability to sell one of its products at its normal price of Rs. 160. It is estimated that to sell the product, the company needs to offer a discount of 25%. 150,000 units of that product were in hand as on 30 June 2014 at a cost of Rs. 120 per unit. Its selling costs are estimated at Rs. 20 per unit.

**Required:**
Prepare the statement of comprehensive income for the year ended 30 June 2014 and the statement of financial position as at that date in accordance with International Financial Reporting Standards. **(20)**

Q.2 Zeeshan Enterprise invoice goods to its Islamabad branch at cost plus 20 percent. The expenses of the branch are paid by the head office. The branch has supplied the following information for the year ended 30 June 2014:

| | Rupees |
|---|---|
| Opening stock - at invoice price | 240,000 |
| Closing stock - at invoice price | 180,000 |
| Cash sales | 175,000 |
| Credit sales | 410,000 |
| Collection from debtors | 378,000 |
| Debtors as on 30 June 2014 | 91,600 |
| Goods received from head office - at invoice price | 300,000 |
| Goods returned to head office | 30,000 |
| Goods in transit from head office as on 30 June 2014 - at invoice price | 36,000 |
| Branch expenses paid by the head office | 104,000 |

**Required:**
Show the Branch Account as it would appear in the books of head office for the year ended 30 June 2014 showing the profit made by the branch. **(10)**

Q.3 (a) List the conditions which are necessary to be fulfilled for recognizing revenue from sale of goods under IAS 18 'Revenue'. **(04)**

(b) Attire Limited (AL) is a manufacturer of kids' garments which are supplied to large departmental stores. Following are some of the transactions which were carried out in August 2014:

(i) AL delivered 2,000 garment pieces to Elegant Mart (EM). According to the terms of sale, at the expiry of three months from the date of delivery, EM would have the right to return the unsold garments to AL. All garments sold during this period or retained by EM would be invoiced after three months of delivery and would thereafter be paid within seven days.

EM has agreed to display AL's garments at a prominent place at all its stores and in return AL has agreed to allow a discount of 2%. **(03)**

(ii) AL sold 10,000 pieces of garments to Salam Garments on lay away basis. The payment is to be made in 12 monthly instalments of Rs. 1,000,000 each. **(03)**

**Required:**
Describe how the above transactions would be accounted for in AL's books of account.

Q.4 Shahzad Textile Mills Limited (STML) purchased a plant for Rs. 500 million on 1 July 2010. The plant has an estimated useful life of 10 years and no residual value.

STML uses revaluation model for subsequent measurement of its property, plant and equipment and accounts for revaluations on net replacement value method. The details of revaluations performed by an independent firm of valuers are as follows:

| Revaluation date | Fair value |
|---|---|
| 1 July 2011 | Rs. 575 million |
| 1 July 2012 | Rs. 390 million |
| 1 July 2013 | Rs. 380 million |

**Required:**
Prepare journal entries to record the above transactions from the date of acquisition of the plant to the year ended 30 June 2014. ***(Ignore tax implications)*** **(15)**

Q.5 Hammad Limited (HL) imports and supplies three products, Alpha, Gamma and Beta. The opening balances and transactions for the month of June 2014 are as follows:

| **Items** | **Opening balance** | | **Units purchased during the month** | | **Units Sold during the month** | |
|---|---|---|---|---|---|---|
| | **Qty.** | **Value (Rs.)** | **Qty.** | **Invoice value (Rs.)** | **Qty.** | **Value (Rs.)** |
| Alpha | 20 | 60,000 | 360 | 920,000 | 350 | 1,820,000 |
| Gamma | 100 | 4,800,000 | 50 | 2,375,000 | 70 | 4,060,000 |
| Beta | 30 | 120,000 | 490 | 1,820,000 | 400 | 1,640,000 |

The following information is also available:

(i) HL's bank charges a commission of 0.5% of invoice value for opening the letter of credit.
(ii) Import taxes and duties were 23% of the invoice value out of which 40% are refundable/adjustable.
(iii) The transportation charges are Rs. 1,500 per trip. 20 units of Alpha, 2 units of Gamma or 15 units of Beta can be transported in each trip.
(iv) All goods are repacked after import. The cost of packing per unit was Rs. 300, Rs. 1,500 and 700 respectively.
(v) HL values its stock on first-in, first-out basis.
(vi) Average selling costs per unit are Rs. 700, Rs. 1,500 and Rs. 400 respectively.

**Required:**
Compute the value of stock of each product as at 30 June 2014 in accordance with IAS-2 'Inventories'. **(15)**

Q.6 Following information has been extracted from the financial statements of Full Speed Enterprises (FSE) for the year ended 30 June 2013:

| | **Rupees** |
|---|---|
| Vehicles – cost | 65,201,300 |
| Less: Accumulated depreciation | (24,450,500) |
| WDV of vehicles | 40,750,800 |

FSE provides depreciation on vehicles @ 15% per annum on written down values. Depreciation on addition/deletion is provided in proportion to the period of use.

Other related information is as follows:

(i) On 1 August 2013, a vehicle which was acquired at a cost of Rs. 850,000 on 1 July 2011 was exchanged for a new vehicle. The balance was settled with a cheque for Rs. 350,000. The list price of the new vehicle was Rs. 900,000.
(ii) Three new vehicles were purchased on 1 December 2013 for Rs. 1,250,000 each.
(iii) On 1 February 2014, a vehicle having written down value of Rs. 550,000 was repaired at a cost of Rs. 250,000. It is expected that the repairs would improve the efficiency of the vehicle significantly.
(iv) On 30 June 2014, a vehicle purchased on 1 January 2012 at a cost of Rs. 1,500,000 was sold for Rs. 1,350,000.

**Required:**
Prepare the following ledger accounts for the year ended 30 June 2014:
(a) Vehicles account
(b) Accumulated depreciation on vehicles
(c) Loss/gain on sale of vehicles **(10)**

Q.7 Following is the balance sheet of Ashfaq as at 30 June 2013:

| Owner's equity / Liabilities | Rupees | Assets | Rupees |
|---|---|---|---|
| Ashfaq's capital | 4,396,600 | Motor car | 2,000,000 |
| Creditors | 1,102,000 | Furniture | 1,000,000 |
| Accrued rent | 20,000 | Stock-in-trade | 1,805,000 |
| Loan taken from a friend | 27,900 | Debtors | 350,000 |
| | | Prepaid insurance | 15,000 |
| | | Balance at bank | 360,600 |
| | | Cash in hand | 15,900 |
| | 5,546,500 | | 5,546,500 |

Ashfaq needs to submit his Trading and Profit and Loss Account for the year ended 30 June 2014 and Balance Sheet as of that date to his bankers in order to obtain an overdraft facility. He has not maintained proper books of account of the business but has provided you the following information:

(i) He purchased goods from a single supplier who allows a discount of 3% on goods purchased in excess of Rs. 3,000,000 in a year. The discount for the year ended 30 June 2014 amounts to Rs. 265,800 and would be received in August 2014.

(ii) All goods are sold at cost plus 60%.

(iii) All cash received against sale of goods has been banked with the exception of the following weekly average cash expenses/drawings:

| | Rupees |
|---|---|
| Drawings | 30,000 |
| Carriage outward | 5,000 |
| Petrol | 3,000 |
| Misc. expenses | 2,500 |

(iv) Cash in hand on 30 June 2014 amounted to Rs. 26,700.

(v) An analysis of Ashfaq's bank statement revealed the following information:

| Receipts | Rupees | Payments | Rupees |
|---|---|---|---|
| Collection from debtors | 464,400 | Purchase of goods | 9,850,700 |
| Cash deposited into bank | 13,717,800 | Car expenses (for business) | 73,000 |
| | | Rent | 42,000 |
| | | Repayment of loan to friend | 27,900 |
| | | Salaries | 1,600,000 |
| | | Purchase of freehold land | 2,500,000 |
| | | Travelling expenses | 40,000 |
| | | Printing & stationery | 46,000 |
| | | Advertisement | 125,000 |
| | | Insurance | 50,000 |
| | | Truck hire charges | 657,000 |
| | | Misc. expenses | 362,300 |
| | 14,182,200 | | 15,373,900 |

(vi) Depreciation on motor car and furniture is to be provided @ 30% and 15% respectively under the reducing balance method.

(vii) Stock-in-trade on 30 June 2014 amounted to Rs. 702,000.

**Required:**
Prepare Trading and Profit and Loss Account for the year ended 30 June 2014 and Balance Sheet as on 30 June 2014. **(20)**

**(THE END)**