Q1: PARTNERSHIP (16 marks)

Alpha and Beta are partners in a firm sharing profits and losses in the ratio of 5:3. 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	850,000
Alpha	920,000	Office equipment	240,000
Beta	560,000	Motor car	72,000
		Stock	250,000
General reserve	185,000	Sundry debtors	340,000
Sundry creditors	335,000	Cash at bank	248,000
	2,000,000		2,000,000

Due to expansion in the business, Gamma was admitted as a partner with effect from 1 April 2011. Gamma brought furniture worth Rs. 220,000 and stock costing Rs. 180,000. He also contributed cash of Rs. 90,000 plus his proportionate share of goodwill valued at two years' purchase of the average normal profits of the last three years.

Following adjustments were considered necessary at the time of admission:

a. On 1 October 2009, new furniture costing Rs. 95,000 was purchased but wrongly charged to repairs. The firm charges depreciation on furniture @ 10% on straight line basis.

b. An invoice dated 1 October 2010 for sale of goods amounting to Rs. 74,000 has not been recorded.

c. 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 2011 was overvalued by Rs. 44,000.

d. 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	Including gain on disposal of furniture Rs 28,000
2009 – 10	232,000	Including stock loss of Rs 90,000 due to fire
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 7:5:4 respectively.

Required:

Prepare the capital accounts of the partners and the balance sheet of the firm on Gamma's admission as a partner.

Question 2: CASH FLOW STATEMENT (14 marks)

The comparative balance sheets of Mr. Azmat show the following information:

	Amount in Rupees	
	December 31	
	2011	2010
Cash	15,000	24,100
Accounts receivable	81,700	91,500
Inventory	75,000	59,400
Investments	-	46,900
Furniture	94,000	55,000
Equipment	186,000	143,000
Total	451,700	419,900
Allowance for doubtful accounts	6,900	8,500
Accumulated depreciation on furniture	18,000	15,000
Accumulated depreciation on equipment	34,000	38,000
Trade creditors	109,800	86,500
Accrued expenses	24,300	10,800
Tax payable	16,500	10,600
Long-term loans	131,800	153,800
Capital	119,400	96,700
Total	451,700	419,900

Additional data related to 2011 is as follows:

a. Tax of Rs 41,000 was paid during the year
b. Furniture that had cost Rs. 25,000 and was 50% depreciated at the time of disposal was sold for Rs. 6,500.
c. Investments were sold at Rs. 17,500 above their cost.
d. Equipment that had cost Rs. 13,000 and was 40% depreciated at the time of disposal was sold for Rs. 9,500.
e. Fully depreciated equipment costing Rs 18,000 was written off.
f. Mr. Azmat withdraws Rs. 9,500 each month for his personal use.

Required:

Prepare a cash flow statement for the year ended December 31, 2011.

Q3: THEORETICAL AREAS (10 marks)

a. What are the different bases for the measurement of assets? (6 marks)
b. What are the components of a complete set of financial statements? (4 marks)

Q4: DEPRECIATION (18 marks)

The draft balance sheet of Time Life Enterprises (TLE) as on December 31, 2012, depicts the following:

	Rupees
Plant and Machinery – Cost	14,677,060
Less: Accumulated Depreciation	5,762,690

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

a. Installation of a machine was completed on February 21, 2012. The cost of machine of Rs. 2,400,000 was debited to plant and machinery account. The cost of installation amounting to Rs. 450,000 had been debited to Repairs Account.

b. On October 17, 2011 a contract was signed for the purchase of a machine from Makers Limited for Rs. 2,645,000 which was delivered on July 17, 2012. TLE paid an advance of Rs. 750,000 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 when paid.

c. On September 1, 2012 various items of plant and machinery having a book value of Rs. 410,000 were sold for Rs. 345,000. 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. 220,000	April 1, 2007
Remaining items having book value of Rs. 190,000	January 1, 2009

d. On November 23, 2012 a machine purchased in July 2008 at a cost of Rs. 515,000 was sold for cash at Rs. 242,000 which was credited to Plant and Machinery Account.

The depreciation is charged on straight line 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 2012 have been correctly calculated and recorded except for the impact of errors discussed above.

Required:

Determine the correct balances as at December 31, 2012 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.

Question 5: INCOMPLETE RECORDS: (20 marks)

Following information is obtained from the accounting records of Mr. Bholo's business in Karachi for the year ended July 31, 2010.

a. Summary of his bank transactions is as follows:

Receipts from customers	13, 00,000
Cash deposited in bank	2, 85,000
Payments to Creditors	16, 00,000
Rent (for one year up to December 31, 2010)	60,000
Electricity	32,000
Salaries	31,500
Furniture	90,000
Refund to customers for goods returned	15,000
Cash withdrawn	18,000

b. Mr. Bholo sells goods at a gross profit margin of 20% on cost. However, owing to adverse market conditions, the prices were decreased by 5% W.E.F 1 Feb. 2010. Sale quantities can be assumed to occur evenly throughout the year.

c. Rent relates to the house of Mr. Bholo. However, 40% of the premises are used as warehouse of the business.

d. Of the payments to creditors, an amount of Rs. 390000 was paid after availing discount of 2.5% on invoice value.

e. The following were paid through cash:

Wages for repairs	19000
Carriage out	12000
Drawings (also goods worth Rs. 30000 were withdrawn)	40000

f. Position of assets & liabilities were as follows:

	1 Aug. 2009	July 31, 2010
Bank balance	120000	?
Cash in Hand	18000	34000
Debtors	?	280000
Prepaid rent	7500	?
Prepaid Salaries	6000	-
Stocks	32000	24000
Furniture	190000	240000
Creditors	160000	50000
Accrued Salaries	-	11000
Accrued Electricity	2000	6000

Required:

a. Separate Trading & Profit or Loss account for the year ended July 31, 2010.

b. Balance Sheet as on July 31, 2010

Q6: CORRECTION OF ERRORS: (22 marks)

The following information is available for the year ended December 31, 2011

a. A car held as a fixed asset had been sold during the year for Rs. 24,800. The proceeds of sale were entered in the cash book but had been credited to sales account. The original cost of the car Rs. 112,000, and the accumulated depreciation to date Rs. 88,000, were included in the motor vehicle account and the accumulated depreciation account. The company depreciates motor vehicles at 25% per annum on the straight-line basis with proportionate depreciation in the year of purchase but none in the year of sale.

b. A credit sale of Rs. 18,000 to Mr. Rana was correctly recorded in the sales day book but was posted to the credit of Mr. Rana.

c. A cheque for Rs. 1,860 received from Taha and discount of Rs. 40 allowed to him were correctly recorded but, when the cheque was subsequently dishonored, no further entries were recorded.

d. Discount allowed of Rs. 292 had been posted to the credit of discount received account as Rs. 929.

e. A vehicle held as a non-current asset, which had originally cost Rs. 122,000, was sold for Rs. 36,000 on April 30, 2011. Depreciation of Rs. 107,600 had been provided on the vehicle. The proceeds had been credited to sales account, and no other entries had been made. Depreciation on vehicles had been calculated at 20% (straight line basis) on the balance on the vehicles cost account.

f. The stock taking took place on January 3, 2012. However, during the period from January 1, 2012, purchases of Rs. 48,000 took place, sales of Rs. 55,000 were made and sales of goods amounting to Rs. 4,400 were returned. Adjustments have not been made for these transactions. The company earns a gross profit of 20% on cost.

g. Stock costing Rs. 138,750 was received on December 30, 2011 and included in the physical inventory taken on that date. However, the purchase was recorded when the invoice was received on January 9, 2012.

h. A purchase was made for a staff member of Rs. 25,000 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.

i. Goods sold and recorded as sales for Rs. 35,000 (cost Rs 28,500) were packed and the invoice for them sent to the customer. Stocktaking intervened, and the boxes of goods were not dispatched but were included in stock-in-hand.

j. The Drawings total of Rs. 19,700 had been wrongly listed as Rs. 17,900.

k. The receipts side of the cash book had been undercast by Rs. 7,200.

Required:

a. Pass necessary journal entries

b. If the profit as per draft financial statements was Rs. 780,000, show the effect of the above corrections on the net profit