Chartered Accountants
Professional Consultants
www.gcaofficial.org fb.com/gcaofficial

GCA
Consultants

Subject Name: FA- 02

Courtesy: Mr. Raja Mehrab Sajid

TOT-3 (Financial Accounting) Time Allowed: 03 hours 40

Note: Attempt all Questions Maximum Marks: 100

SKANS Additional Reading Time: 15 minutes

Q-1: The following trial balance relates to Kala, a publicly listed company, at 31 March 20X6:

	Rs.'000	Rs.'000
Land and buildings at cost (note (i))	270,000	
Plant – at cost (note (i))	156,000	
Investment properties – valuation at 1 April 20X5 (note (i))	90,000	
Purchases	78,200	
Operating expenses	15,500	
Loan interest paid	2,000	
Rental of leased plant (note (ii))	22,000	
Dividends paid	15,000	
Inventory at 1 April 20X5	37,800	
Trade receivables	53,200	
Revenue		278,400
Income from investment property		4,500
Equity shares of Rs.1 each fully paid		150,000
Retained earnings at 1 April 20X5		119,500
8% (actual and effective) loan note (note (iii))		50,000
Accumulated depreciation at 1 April 20X5 – buildings		60,000
– plant		26,000
Trade payables		33,400
Deferred tax		12,500
Bank		5,400
	739,700	739,700

The following notes are relevant:

(i) The land and buildings were purchased on 1 April 20W0. The cost of the land was Rs.70 million. No land and buildings have been purchased by Kala since that date. On 1 April 20X5 Kala had its land and buildings professionally valued at Rs.80 million and Rs.175 million respectively. The directors wish to incorporate these values into the financial statements. The estimated life of the buildings was originally 50 years and the remaining life has not changed as a result of the valuation.

Later, the valuers informed Kala that investment properties of the type Kala owned had increased in value by 7% in the year to 31 March 20X6.

Plant, other than leased plant (see below), is depreciated at 15% per annum using the reducing balance method. Depreciation of buildings and plant is charged to cost of sales.

(ii) On 1 April 20X5 Kala entered into a lease for an item of plant which had an estimated life of five years. The lease period is also five years with annual rentals of Rs.22 million payable in advance from 1 April 20X5. The plant is expected to have a nil residual value at the end of its life. If purchased this plant would have a cost of Rs.92 million and be depreciated on a straight-line basis. The lessor includes a finance cost of 10% per annumwhen calculating annual rentals. (Note: you are not required to calculate the present value of the minimum lease payments.)

(iii) The loan note was issued on 1 July 20X5 with interest payable six monthly in arrears.

(iv) The provision for income tax for the year to 31 March 20X6 has been estimated at Rs.28.3 million. The deferred tax provision at 31 March 20X6 is to be adjusted to a credit balance of Rs.14.1 million.

(v) The inventory at 31 March 20X6 was valued at Rs.43.2 million.

***Required*:**
Prepare for Kala:
(a) A statement of comprehensive income for the year ended 31 March 20X6. **(10 marks)**
(b) A statement of changes in equity for the year ended 31 March 20X6. **(05 marks)**
(c) A statement of financial position as at 31 March 20X6. **(10marks)**

Q-2: Minster is a publicly listed company. Details of its financial statements for the year ended 30 September 20X6, together with a comparative statement of financial position, are:

STATEMENT OF FINANCIAL POSITION AT

	30 September 20X6		30 September 20X5	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
***Non-current assets** (note (i))*				
Property, plant and equipment		1,280	940	
Software	135	nil		
Investments at fair value through profit and loss		150	125	
	1,565	1,065		
Current assets				
Inventories	480		510	
Trade receivables	270		380	
Amounts due from construction contracts	80		55	

Bank	nil		35	
		830		980
Total assets		2,395		2,045
Equity and liabilities				
Equity shares of 25 cents each		500		300
Reserves				
Share premium (note (ii))	150		85	
Revaluation reserve	60		25	
Retained earnings	950		965	
		1,160		1,075
		1,660		1,375
Non-current liabilities				
9% loan note	120		nil	
Environmental provision	162		nil	
Deferred tax	18		25	
		300		25
Current liabilities				
Trade payables	350		555	
Bank overdraft	25		40	
Current tax payable	60		50	
		435		645
Total equity and liabilities		2,395		2,045

INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 20X6

	Rs.'000
Revenue	1,397
Cost of sales	(1,110)
Gross profit	287
Operating expenses	(125)
	162
Finance costs (note (i))	(40)
Investment income and gain on investments	20
Profit before tax	142
Income tax expense	(57)
Profit for the year	85

The following supporting information is available:

(i) Included in property, plant and equipment is a coal mine and related plant that Minster purchased on 1 October 20X5. Legislation requires that in ten years' time (the estimated life of the mine) Minster will have to landscape the area affected by the mining. The future cost of this has been estimated and discounted at a rate of 8% to a present value of Rs.150,000. This cost has been included in the carrying amount of the mine and, together with the unwinding of the discount, has also been treated as a provision. The unwinding of the discount is included within finance costs in the income statement.

Other land was revalued (upward) by Rs.35,000 during the year.

Depreciation of property, plant and equipment for the year was Rs.255,000.

There were no disposals of property, plant and equipment during the year.

The software was purchased on 1 April 20X6 for Rs.180,000.

The market value of the investments had increased during the year by Rs.15,000. There have been no sales of these investments during the year.

(ii) On 1 April 20X6 there was a bonus (scrip) issue of equity shares of one for every four held utilizing the share premium reserve. A further cash share issue was made on 1 June 20X6. No shares were redeemed during the year.

(iii) A dividend of 5 cents per share was paid on 1 July 20X6.

Required

(a) Prepare a statement of cash flows for Minster for the year to 30 September 20X6 in accordance with IAS 7 *Statement of cash flows*. (16 marks)

(b) Comment on the financial performance and position of Minster as revealed by the above financial statements and your statement of cash flows. (07 marks)

Q-3: Awesome Industries Limited (AIL) manufactures components for textile machinery. It purchased a plant on 1 July 2008 at a cost of Rs. 200 million. It has an estimated useful life of five years and no residual value. The tax authorities allow wear and tear at 20% per annum on straight line method. The normal tax rate is 30%.

AIL revalues its plant on an annual basis. The details of revaluations performed by Supreme
Valuation Service, an independent firm of valuers, are as follows:

Fair value - 1 July 2009	Rs. 180 million
Fair value - 1 July 2010	Rs. 108 million
Fair value - 1 July 2011	Rs. 88 million

Required:

Prepare relevant extracts from the following notes to the financial statements of AIL at 30 June 2012:

(a) Property, plant and equipment

(b) Deferred taxation

Show comparative figures **(14 marks)**

Q.4: On 1 July 2010, Miracle Textile Limited (MTL) acquired a machine on lease, from a bank. Details of the lease are as follows:

(i) Cost of machine is Rs. 20 million.
(ii) The lease term and useful life is 4 years and 10 years respectively.
(iii) Installment of Rs. 5.80 million is to be paid annually in advance on 1 July.
(iv) The interest rate implicit in the lease is 15.725879%.
(v) At the end of lease term, MTL has an option to purchase the machine on payment of Rs. 2 million. The fair value of the machine at the end of lease term is expected to be Rs. 3 million.

MTL depreciates the machine on the straight line method to a nil residual value.

Required:

Prepare relevant extracts of the statement of financial position and related notes to the financial statements for the year ended 30 June 2012 along with comparative figures. Ignore taxation

(14 marks)

Q.5: Pistachio, Cashew and Almond are partners sharing profits and losses in the ratio of 5:3:2 respectively. Following is the summarized trial balance of the partnership firm for the year ended 31 December 2011:

All amounts in million rupees

	Debit Balances		Credit Balances
Land	50.0	Accumulated Depreciation:	
Building	14.0	Building	5.5
Vehicles	22.3	Vehicles	11.5
Equipment	14.0	Equipment	5.0
Trade debts	38.0	Trade creditors	53.0
Cash at bank	44.0	Partners' capital account – opening:	
Purchases	325.0	Pistachio	36.0
Stock-in-trade - opening	42.7	Cashew	24.0
Administrative expenses	120.0	Almond	20.0
		Sales	515.0
	670.0		670.0

On 31 December 2011, the partners decided to convert the firm into a limited company under the name of DF Company Limited (DFC). The Scheme of Conversion was executed as under:

(i) Three vehicles were sold to the partners at the following prices:

	Cost	Accumulated depreciation	Selling price
	-------------Rs. in million-------------		
Pistachio	1.8	0.6	1.4
Cashew	1.6	0.5	1.2
Almond	1.6	0.8	0.9

(ii) Land was revalued at Rs. 70 million.
(iii) Stock-in-trade as on 31 December 2011 was valued at Rs. 48 million.
(iv) 90% of trade debts are considered recoverable.
(v) Trade creditors taken over by DFC amounted to Rs. 30 million. The balance amount was paid by the partners in their existing capital ratio.
(vi) Cash balance of Rs. 12 million was transferred to DFC whereas the remaining cash available with the firm was used to settle the partners' balances in the partnership account.
(vii) All other assets and liabilities were taken over by the company at book values.
(viii) The purchase consideration was discharged by DFC in the following manner:
Debentures which carry mark-up at the rate of 20% were issued to the partners in such a way as to enable them to receive the same amount of interest which they received on their capital in 2011. The interest on capital in the partnership was 10%. The balance amount was settled through issuance of ordinary shares at Rs. 12 per share (at a premium of Rs. 2 per share) in proportion to the partners' profit sharing ratio.

Required:
(a) Realization account
(b) Partners capital accounts
(c) Opening statement of financial position of DFC(18 marks)

Q.6: The following information pertains to Shale Distributors Limited (SDL):

	Rs. in million
Sales	300
Purchases	140
Cost of goods sold	150
Trade receivables	50
Trade payables	21
Inventories	30

All the purchases and sales are on credit.

Required: (a) Calculate the cash operating cycle of SDL and explain briefly its significance. **(04 marks)**
(Assume a 360-day year)
(b) Describe any two limitations of accounting ratios. **(02 marks)**