The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination — 7 March 2014
Spring 2014 — 100 marks - 3 hours
Module B — Additional reading time - 15 minutes

Q.1 (a) What does a complete set of financial statements comprise of ? **(05)**

(b) Explain the following accounting terms:
(i) Net realisable value (ii) Fair value **(04)**

Q.2 The newly appointed accountant of Fine Works Limited has prepared the following bank reconciliation statement for the month of December 2013:

Description				Rupees
Balance as per bank statement as at 31 December 2013				1,721,490
Outstanding cheques:				
	Cheque No.	***Date***	***Rupees***	
	620	25-Jun-2013	35,000	
	765	15-Dec-2013	435,630	
	789	28-Dec-2013	635,700	
	795	20-Jan-2014	325,690	(1,432,020)
Cheques deposited still under clearance				535,635
Unidentified credit appearing in the bank statement				(190,000)
Balance as per bank book as at 31 December 2013				635,105

On reviewing the bank book and the bank statement, the following information has been obtained:

(i) The correct amount of outstanding cheque no. 765 is Rs. 453,630.
(ii) The unidentified credit is for cash deposited directly into the bank by a customer to avail agreed 5% discount on payment within one week.
(iii) A bank debit advice dated 31 December 2013 for bank charges amounting to Rs. 6,570 for the month of December 2013 was received on 3 January 2014 and recorded in the bank book in January 2014.
(iv) The debit side total of the bank book has been overcast by Rs. 11,430.
(v) Cheques outstanding for more than six months are not honoured by the bank.

Required:
(a) Prepare necessary accounting entries for the month of December 2013. **(06)**
(b) Prepare a revised bank reconciliation statement. **(04)**
(c) Explain what do you understand by imprest system of petty cash. **(02)**

Q.3 (a) In the month of December 2013 there was a fire in the premises of Zee Limited resulting in loss of inventory. Relevant information related to damaged inventory is as under:

	Alpha	Beta	Gamma
	--------Rs. in million--------		
Cost	12.00	6.00	8.00
Alpha to be sold as scrap	0.90		
Estimated selling price	-	4.00	9.00
Estimated costs to sell	-	0.10	0.05
Estimated additional costs for re-packing	-	0.50	0.70

Required:
Compute the amount of inventory as would appear in the trading and profit and loss account of Zee Limited for the year ended 31 December 2013. **(06)**

(b) Flying Courier used to maintain a provision for doubtful debts at 5% of the total debtors. Due to increase in bad debts, the management has decided to increase the provision to 8% from the current year.

The following summarized information pertains to the year ended 31 December 2013:

	Rs. in million
Debtors control account balance as at 1 January 2013	35
Transactions during the year ended 31 December 2013:	
▪ Cash sales	51
▪ Credit sales	740
▪ Payments by debtors (including recoveries of Rs. 3 million against balances previously written off)	680
▪ Old outstanding balances written off	5

Required:
Prepare a ledger account for provision for doubtful debts for the year ended 31 December 2013. **(04)**

Q.4 Trade Creditors Control Account of ABC Traders shows a credit balance of Rs. 789,632 as at 31 December 2013. The total of the subsidiary ledger balances is Rs. 809,542. In this respect, the following errors have been identified:

(i) An invoice of Rs. 100,000 was recorded as Rs. 90,000 in the purchase day book, i.e. after deduction of 10% advance paid earlier.
(ii) A purchase return of Rs. 57,650 was posted in general ledger as Rs. 67,560.
(iii) Goods costing Rs. 35,600 were purchased on 25 November 2013 and appropriately recorded in the books. On 1 December 2013 it was observed that the goods received were defective and returned to the supplier. Necessary entries were made for the return of goods. However, after negotiations, ABC Traders agreed to accept the goods and the supplier allowed a discount of 10% on invoice value to compensate for the defects.

The goods were received back by ABC Traders on 30 December 2013. The credit note was issued by the supplier on the same date. However, no accounting entries have been made in respect of the goods received back and the credit note.

(iv) Purchase of goods amounting to Rs. 63,250 from Saalim & Co. was recorded as purchases from Saleemi & Co. in the purchase day book.
(v) Discount received amounting to Rs. 5,450 has been entered to the credit side of the discount allowed account.
(vi) A balance of Rs. 87,650 due to a customer was set off against his receivable account but no accounting entry was made in this respect by 31 December 2013.

Required:
(a) Prepare a reconciliation between Trade Creditors Control Account and the subsidiary ledger, as at 31 December 2013 indicating the correct balance that should appear in the Control Account.
(b) Pass journal entries wherever necessary. **(11)**

Q.5 Following is the Balance Sheet of Arshad, a wholesaler-cum-retailer, as at 31 December 2012:

Capital / Liabilities		Assets	
	Rs.		Rs.
Capital	480,000	Building	300,000
Loan	152,500	Furniture	60,000
Creditors	310,000	Car	90,000
		Stock	200,000
		Debtors	170,000
		Cash in hand	37,500
		Cash at bank	85,000
	942,500		942,500

Arshad needs to submit his income statement and balance sheet to his bank in order to secure a running finance facility. He has not maintained proper books of account but has provided you the following information:

(i) Arshad sells goods at a gross profit of 25% on cost. Last year, he had earned a gross profit of Rs. 300,000.
(ii) The sales for the current year were 20% higher than last year. 30% of the total sales were made for cash.
(iii) On 1 January 2013, he increased his stock level by 25% and maintained that level throughout the year.
(iv) Collections from debtors amounted to Rs. 1,300,000 out of which Rs. 300,000 were received in cash. Creditors were paid by cheques only.
(v) Business expenses amounted to Rs. 210,000 out of which Rs. 50,000 were outstanding at 31 December 2013 and Rs. 100,000 were paid by cash.
(vi) Following details have been collected from counterfoils of his cheque book :

	Rupees
Payment to Creditors	1,375,000
Personal Drawings	75,000
Cash deposited with Bank	668,500
Cash withdrawn from bank for office use	120,000

(vii) Depreciation is charged at 5% on building and furniture and 20% on motor car.

Required:
Prepare Trading and Profit and Loss Account and Balance Sheet as at 31 December 2013. **(19)**

Q.6 ABC & Company has offices in Karachi, Lahore and Peshawar which are managed by the partners A, B and C respectively. The profits are distributed as follows:

(i) B and C are entitled to a salary of Rs. 3 million per annum each.
(ii) B and C are also entitled to 25% of the net profit of their offices after charging salary as above and interest @ 10% per annum on average net assets of that office, excluding cash.
(iii) Interest on capital is allowed @ 5% per annum; however, no interest is charged on drawings.
(iv) The remaining profit is divided among A, B and C in the ratio of 5:3:2 respectively.

The following information pertains to the year ended 31 December 2013:

Capital:	**Rs. in '000**
A	20,000
B	18,000
C	14,000
Drawings made during the year:	
A	5,000
B	4,000
C	4,200
Net assets (other than cash)	
Karachi	90,000
Lahore	69,000
Peshawar	52,800
Cash (opening and closing balance)	10,420

The net assets (except cash) at Karachi, Lahore and Peshawar have increased by 20%, 15% and 10% respectively, during the year ended 31 December 2013.

Required:
Prepare statement to show the division of profits among the three partners. **(11)**

Q.7 Galaxy Brothers commenced their business on 1 January 2013 with cash of Rs. 50 million, a building valued at Rs. 25 million and a motor vehicle costing Rs. 1.4 million. Following is the summarised Trial Balance as of 31 December 2013:

Particulars	**Debit**	**Credit**
	Rs. in million	
Sales		136.00
Cost of sales (including depreciation expense of Rs. 9 million)	83.50	
Operating and selling expenses (including depreciation expense of Rs. 6.25 million)	37.30	
Miscellaneous income (net of loss of Rs. 0.35 on settlement of total loss claim)		0.50
Finance charges	2.50	
Taxation expense	6.00	
Cash and bank balances	5.00	
Bank overdraft		23.00
Accounts receivable	18.00	
Provision for doubtful debts		0.90
Closing inventory	10.00	
Accounts payable		14.00
Interest payable		1.20
Provision for taxation (net of payments)		1.00
Partners' capital (net of cash withdrawals)		73.95
12% Long term loan payable		25.00
Property, plant and equipment	128.25	
Accumulated depreciation		15.00
	290.55	290.55

Settlement of the insurance claim pertained to an accident of a new car costing Rs. 1.8 million and having a depreciation charge of Rs. 0.25 million for the period in use.

Required:
Prepare a statement of cash flow for the year ended 31 December 2013. **(13)**

Q.8 Abbas Stores of Lahore operates a branch at Sialkot. The head office makes all the purchases and the branch is invoiced at cost plus 50% for all supplies. All cash received by the Sialkot branch is remitted to Lahore. Branch expenses are paid by the branch from an imprest account which is reimbursed by head office on a monthly basis.

The branch keeps a sales ledger and certain essential subsidiary books; all other branch transactions are recorded at head office. On 1 January 2013, stock-in-trade at the branch (at selling price) and debtors amounted to Rs. 9,000 and Rs. 4,000 respectively.

During the year ended 31 December 2013, the following branch transactions were made:

	Rupees
Goods invoiced from head office at selling price	19,800
Cash sales (net of discount of Rs. 450)	6,900
Goods returned to head office at selling price	1,500
Credit sales (less returns)	6,300
Cash received from debtors	4,800
Debtors written off as irrecoverable	500
Cash discounts allowed to debtors	250
Expenses incurred	1,800

Branch stock on 31 December 2013 at selling price was Rs. 10,800. A consignment of goods despatched to the branch on 28 December 2013 having a selling price of Rs. 1,800 was not received until 5 January 2014 and has not been included in stock. Any unaccounted stock is to be regarded as normal wastage and pilferage.

Required:
Branch stock and debtors accounts, branch adjustment account and branch profit and loss account maintained at the Head Office for the year ended 31 December 2013. **(15)**

(THE END)