Introduction to Financial Accounting

Mock Exam Autumn 2013 **August 23, 2013**
Module : B (Additional reading time - 15 minutes) **100 marks – 3 hours**

Q.1(a) Match the definition in column 2 with corresponding word in column 1: *(05 marks)*

	Column 1		Column 2
(i)	Wholesaler	**(i)**	Finances required generally for a longer period of time (more than one year).
(ii)	Retailer	**(ii)**	Finances injected in business which are payable within one year of balance sheet date.
(iii)	Long term finance	**(iii)**	Person or firm that buys large quantity of goods from various producers or vendors, warehouses them, and resells to retailers.
(iv)	Short term finance	**(iv)**	Application of accounting standards, policies and classification made in line with those as applied in previous years.
(v)	Consistency	**(v)**	A business or person that sells goods to the consumer
(vi)	Materiality		

(b) What is meant by the term Materiality? *(02 marks)*

(c) Explain the concept of Accrual basis of accounting in your own words. *(02 marks)*

(d) Enlist five qualitative characteristics of financial statements which make them useful for the users. *(03 marks)*

Q.2 Shamrez runs a guest house which is mostly occupied by senior officials of NGO's and some multi national companies. Following are the details of one of his non-current assets (Beds) as on 1st January 2011:

Sr.#	Room #	Number of beds	Type of bed	Net Book Value per bed (Rs.)
1	101	1	Double bed	60,000
2	102	1	Double bed	60,000
3	103	2	Single bed	35,000
4	104	2	Single bed	35,000
5	105	1	Double bed Classic	90,000
6	106	1	Double bed Classic	90,000

Business Details:

- Shamrez had started the business on 1st January 2009. All non-current assets were deployed by him on the same date. Since then no additions have been observed in "Bed" account of Shamrez guest house. The invoice shows that beds were purchased from Interwood Mobel (Pvt.) Limited
- Room # 105 and 106 are reserved for top officials which are rent out at higher rent per night.

Transactions during the year:

- No transactions have been made other than except mentioned under the heading " Disposals, replacements and transactions".

Disposals, replacements and transactions:

- Shamrez has an agreement with another low class guest house that any used furniture will be sold to that guest house as follows:

Sr.#	Type of bed	Amount agreed per bed (Rs.)
1	Double bed	20,000
2	Single bed	10,000
3	Double bed Classic	40,000

- During the year ended 31 December 2011, Shamrez re-decorated Rooms 102 and 104. All furniture including beds were disposed off and replaced with new ones. Shamrez had to take this step due to reckless use by the customers. The new single bed was purchased at a cost of Rs.80,000 while double bed at Rs. 120,000 each. All disposals were made as per the agreement. Both, disposals and replacements were made on 30 September 2011.

  New beds were purchased from same company but no payment was made till 31 December 2011.

- Shamrez paints all the furniture in each year's July. During the year all furniture was painted at a cost of Rs.65,000.

Depreciation method and Useful lives:

- Keeping in view rapidly changing fashions, Shamrez is not willing to keep any furniture beyond 4 years.
- The pattern of use suggests that Shamrez is able to obtain equal benefit each year till the end of life of a bed.
- He computes the depreciation from the date when an asset is purchased till the date of it's disposal.

Required:

(a) Prepare "Bed Account" of Shamrez for the year ended 31 December 2011. ***(04 marks)***

(b) Prepare "Accumulated Depreciation Account" (Beds) of Shamrez for the year ended 31 December 2011. ***(07 marks)***

(c) Prepare "Disposal Account of Beds" for the year ended 31 December 2011. ***(02 marks)***

Q.3 HMT traders is a business solely managed by Mr. Jamal. Following is the record obtained from his books of accounts for the year ended 30 June 2012:

Particulars	Amount (Rs.)
Trade Debtors	8,750,000
Provision for doubtful debts	(750,000)
Net Debtors	**8,000,000**

Following information is also pertinent:

(i) The above figure of debtors include amount of Rs. 500,000 receivable from Mr. A. Keeping in view the financial condition of A, Jamal had created a provision for 50 % of the balance receivable. 25% of the balance owed by him is expected to be received. All the remaining balance is to be written off since Jamal expects no further recovery.

(ii) Jamal computes the sale price by adding mark up of 50% on cost to Jamal. However during the year wrong sale price was computed by accountant by adding the margin instead of mark up and same was posted in general ledger. The cost of those goods were Rs.1,000,000. However invoice sent to customer contains the amount computed on mark up basis.

(iii) One of the debtors, Mr. B, has applied to the court to declare him insolvent. He owes Jamal an amount of Rs.100,000.

(iv) On 5 July 2012, Jamal read in newspaper death of one of his debtor, Mr. G. After pursuing, his daughter has confirmed that she is liable to all the dues of his father but her financial health does not allow her to pay more than 25 paisa per rupee owed by G. Jamal has also agreed to the said terms. The original debtor had passed away before the year end. G owed Rs. 225,000 before his death.

(v) On 29 June 2012, goods costing 400,000 were invoiced to Mrs. D for Rs. 600,000. However she returned those on 30 June 2012 but finance department had not received the debit note due to which adjustment could not be made. The physical stock count also shows that those goods were in godown of Jamal on 30 June 2012.

(vi) Jamal has decided to keep a general provision @ 3% which will be computed after deducting the balance of those on which specific provision has already been created. No such provision was created in earlier years.

Required:

Calculate and show the net impact on Profit and Loss account for the year ended 30 June 2012 in respect of above adjustments. ***(09 marks)***

Q.4 The following information relates to Pakistan traders:

Balance Sheet as at 31 December 2011

	31-12-2011	31-12-2010
ASSETS:	……………………Rs.	……………………
Property, Plant and Equipment (NBV)		
Buildings	624,500	543,100
Others	102,300	93,450
Investments	142,000	56,000
	868,800	**692,550**
Current Assets:		
Inventory	83,400	82,400
Trade receivables	48,750	54,300
Bank	-	1,100
	132,150	**137,800**
TOTAL ASSETS	**1,000,950**	**830,350**
CAPITAL & LIABILITIES:		
Capital:		
Owner's Capital	730,000	650,000
Accumulated profits	62,470	61,380
	792,470	711,380
Non current liabilities:		
5% Loan	150,000	45,000

Current liabilities:

Trade payables	35,480	63,470
Tax payable	12,500	10,500
Bank	10,500	-
	58,480	73,970
TOTAL CAPITAL & LIABILITIES	**1,000,950**	**830,350**

Extracts of Profit and Loss Account for the period ended 31 December 2011

	2011	**2010**
	……….Rs………	
Profit before tax	48,590	65,600
Taxation	(12,500)	(10,500)
Profit after tax	36,090	55,100

The following additional information is available:

(i) The owner injected new capital on 1 January 2011.

(ii) During 2011, equipment already purchased for Rs. 65,200 was sold for Rs.17,900, accumulated depreciation being Rs. 37,700. The cost and accumulated depreciation were taken to a separate account to compute the gain/(loss) known as disposal account.

(iii) The profit before depreciation but after all expenses was Rs.112,190. Detailed scrutiny revealed that charge on Buildings is Rs.38,600 while charge on Other Assets is Rs.25,000.

(iv) Total payments made to acquire Non-current assets (Other than investments) amounts to Rs. 161,350. Payment of one of these assets costing Rs. 15,000 was made on 30 December 2011. The bank had not debited the business account till the end of 31 December 2011. However subsequently it was debited in bank statement on 2 January 2012.

(v) During 2011, dividends received amounted to Rs.7,500 and interest received Rs.15,000, both of which are included in Profit before tax. The amount of interest was credited by bank after 31st December. However all dividend was received before the end of year.

(vi) The owner of Pakistan Traders had a shop inherited by his father at the time of his demise in 1999. During the year he informed the accountant that he has decided to use that shop for business and instructed him to account for in the books of accounts. The accountant had complied with the instructions and correct recordings were made. The shop is now included in buildings.

(vii) Additional 5 % loan was obtained on 1 January 2011. All interest accrued was paid during the year. However the bank had demanded an amount of Rs.1,500 as penalty due to late payment of interest which Pakistan's trader's accountant refused to pay.

(viii) The owner with draws Rs.7,000 at the end of each calendar quarter. However this year he took 1.5 times of the regular amount at the end of 2nd quarter and 4th quarter.

Required:

(a) Prepare the statement of cash flows for the year ended 31 December 2011. ***(10 marks)***

(b) An analysis of cash inflows and outflows can also be made from cash book/ bank book of an entity. In your words explain what makes a cash flow statement different from such analysis. ***(02 marks)***

Q.5 The Chief Accountant of Buksh Clothing, a fashionable garments trader, expired due to an accident on his way to home. Following information was available from the available record:

(a) The books of accounts were maintained improperly and the last Balance Sheet as at 31 December 2011, showed the following:

ASSETS:	**Rs.**
Furniture and Fixtures	76,570
Depreciation to date	(36,570)
	40,000
Stock in trade	26,560
Rent recievable	360
Bank balance	96,820
Cash in hand	1,900
	165,640
LIABILITIES:	
Owner's Capital	152,540
Creditors	13,100
	165,640

(b) Buksh clothing owns a property which is given on rent at Rs. 2,750 per month. During the year Buksh clothing received a total of Rs. 33,300. This included Rs. 240 pertaining to rent of last years, Rs.33,000 being rent of current year and Rs. 60 rent of next year. Rs.120 pertaining to previous years is to be written off since it is expected that Buksh Clothing will not be able to recover it.

(c) The Cash book was not written up to date and the records showed that the following bills were paid: Purchases --Rs. 33,280 ; Sundry expenses--Rs. 5,440; Repair and maintenance--Rs.2,400 ; Salaries--Rs. 36,690 and Stationery-- Rs.2,290.

(d) All sales are made at various outlets. At close of business the manager of each outlet hand over cash to the accountant at head office along with cash collection list. On enquiry it was revealed that certain cash collection lists were misplaced. Enquiry reveals that average gross profit on purchases were fifty percent on cost. Stock in trade as on 31 December 2012 was Rs. 30,260 and cash in hand Rs. 125.

(e) Summary of bank statements drawn up after hard efforts is as follows:

	Rs.		**Rs.**
Balance as on 1.1.2012	96,820	Purchases	239,040
Cash deposited	392,310	Salaries	119,450
		Rent	62,420
		Power	12,570
		Telephone	910
		Repair and maintenance	18,510
		Washing machine for washing stained stock items	5,940
		Balance as on 31.12.2012	30,290
	489,130		**489,130**

(f) The accountant's records were searched and the following unpaid bills were located:
Creditors for purchases--Rs. 62,540; Power--Rs.1,830; Stationery--Rs. 2,170 and Telephone--Rs. 460.

Required:
Prepare a Balance sheet as on 31 December 2012 and a Profit and Loss Account account for the year then ended. Please provide depreciation @ 20% on WDV of assets having benefit for more than one year.
(22 marks)

Q.6 Chill Industries manufactures refrigerators and deep freezers for general customers and on special order for different food companies. Following detail has been extracted from the accounting record for the year ended 30 June 2012:

- 6,000 units of refrigerators were sold during the year, the sale price being Rs.24,000 per unit.
- The opening work in process amounts to Rs.6,700,000.
- The finished goods inventory was 800 units at the beginning of the year. The total production cost of these units was Rs.17,000 per unit.
- During the year following transactions were made:

- **Purchases:**

	Rs.
Material - Direct	55,650,000
- Indirect	27,830,000

The supplier for direct material allows a cash discount of 3% for payments made within 30 days while the supplier of indirect material allows a cash discount of 2.5 % if payment is made within 20 days. Chill industries were able to avail discounts from both suppliers on all purchases due to timely payments.

- **Labour:**

	Rs.
Direct Labour	9,504,000
Indirect labour	4,752,000
Sales staff	3,750,000

- **Overheads:**

Variable factory overheads	10,890,000
Fixed factory overheads	17,490,000
Variable selling overheads	9,600,000
Fixed selling overheads	12,000,000

Included in fixed overheads is the depreciation of plant and machinery amounting to Rs. 4,000,000.

- The closing work in process is valued at Rs. 18,396,000
- During the current year, 5601 units of refrigerators were manufactured

Required:

(a) Prepare a Manufacturing & Trading Account of Chill Industries showing the total cost of goods manufactured assuming weighted average method is used for valuation of inventory. Also compute the cost per unit of each refrigerator manufactured during the year. ***(08 marks)***

(b) As at year end following market data is available:

	Rs. (Per unit)
Selling Price	22,000
Estimated selling costs	4,000

Compute the amount of Finished goods inventory to be shown in Balance sheet of Chill Industries as on 31 December 2012. ***(04 marks)***

(c) Briefly explain the two methods that are used to account for inventories in the books of accounts.

(04 marks)

Q.7 Garma and Sarda are partners sharing profits and losses in the ratio of 60:40. The firm's balance sheet as on 31.03.2013 was as follows:

	Rs.		**Rs.**
Capital Accounts:		Fixed Assets	300,000
Garma	120,000	Investments	50,000
Sarda	80,000	Loans and Advances	100,000
Long term loan	200,000	Current Assets	200,000
Current Liabilities	250,000		
	650,000		**650,000**

Due to financial crisis they have decided to admit Papeeta as partner w.e.f 1.4.2013.

Papeeta will be paid 40% of the profits. Papeeta will bring in cash Rs.100,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Papeeta will bring in cash his share of goodwill. It was also decided that partners will not with draw their share of goodwill nor will the goodwill appear in the books of account.

The profits/ (losses) of previous 3 years were as follows:

Year Ended	**Rs.**	**Particulars**
31.03.2011	20,000	Includes Insurance claim received of Rs. 40,000
31.03.2012	(80,000)	Includes voluntary retirement cost of Rs. 110,000 **
31.03.2013	105,000	Includes unusual gain of Rs. 25,000

It was decided to revalue the assets as on 31.03.2013 as : Fixed Assets(Net) - Rs.400,000 ; Investments - Nil ; Current Assets - Rs.180,000 ;

Loans and Advances - Rs.100,000.

The new profit sharing ratio after the admission of Papeeta was 35 : 25 : 40.

Required:

Prepare Revaluation Account, Partner's Capital Accounts (three columnar) and Balance Sheet as on 1.4.2013 after the admission of Papeeta.

(16 marks)

** Voluntary retirement cost is an unusual charge debited to Profit & Loss a/c.

(THE END)