Global Chartered Accountants - GCA

Chartered Accountants Educational Consultants

FA – 1 MOCK EXAM WITH SOLUTION

FOR

FA 1 (MODULE B)

BY

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Question 1: CASH FLOW STATEMENT (16 MARKS)

The following information is available for the preparation of the cash flow of Mughal-e-Aazam for the year ended December 31, 2012:

a. Net loss for the year Rs 64,000
b. Inventories increased by Rs 13,000
c. Income tax expense for the year was Rs 40,000 of which 70% was paid.
d. During the year, Rs 657,000 was received from customer.
e. Depreciation for the year Rs 85,000
f. Other current assets (of which 40% are cash balances) increased by Rs 35,000
g. Salaries paid during the year Rs 189,000
h. Long term investments worth Rs 70,000 were purchased on which interest of Rs 8500 (all received) was earned.
i. Net Fixed assets increased during the year by Rs 67,000
j. Current liabilities increased by Rs 7,000
k. Fixed assets sold for Rs 41,000 at a gain of assets Rs 17,000
l. Additional investment was made equal to the net cash flow used in investing activities
m. Net Debtor decreased by Rs 57000. A provision of 5% is always maintained against the debtors.
n. The remaining cash balance was withdrawn by the owner for personal use.

Required:
Prepare the Cash Flow Statement for the year ended December 31, 2012.

Question 2: INCOMPLETE RECORDS (24 MARKS)

Mr. Tayyab is the sole dealer of Phillips Electronics in Karachi for the bulbs & Tube lights. He has not maintained proper accounting records; however, the following information has been extracted:

a. Some of his assets & liabilities as on January 1, 2009 were as follows:

Equipment (already 60% depreciated)	**Rs** 540,000
Stock (stock of tube lights was double of the bulbs)	780,000
Prepaid rent up to March 31 , 2009	45,000
Office stationary	32,000
Trade debtors (only for Tube lights)	410,000
Creditors	360,000
Bank	220,000

b. Mr. Tayyab has been earning a gross profit of 25 % on cost of Tube lights & 40% on sale value of Bulbs. From the starts of the financial year, prices of both products were increased by 20%. Also, Philips Co, increased the cost of bulbs by 50 % from the beginning of the financial year. Sale of tube lights are made on credit while bulbs are sold on cash basis,
c. Following is the summary of Bank transactions:

Receipts from customer (tube lights)	**Rs** 1570,000
Payments to Philips co (after availing cash discount Rs 30,000)	1310,000
Office stationary	42,000
Insurance (1 year starting 1 May 2009)	48,000
Rent	210,000
Equipment	120,000
drawings	358,000

d. Rent of the premises was increased by 30 % W.e.f. August 1 2009.

e. The following payments were made by cash:

Repairs & maintenance	86,000
Wages (8,000 of which was payable on December 31, 2008)	124,000
Mr. Tayyab has a policy of maintaining a cash balance of Rs 10,000	

f. Mr. Asif, the manager of the business was hired last year at a monthly remuneration of Rs 12,000 paid on 5th of each month. An increment of Rs 3,000 was made W.e.f. from July 1, 2009. His salary is paid by cash.

g. The value of closing stock was:

Bulbs	**Rs** 204,750
Tubelights	380,000
stationary	19000

h. Equipment is depreciated at 10% on cost.

i. Invoices of Philips to amounting to Rs 420,000 are unpaid as on December 31, 2009.

j. 70% of the purchases during the year represents tubelight

Required:

a. Trading and Profit & Loss A/c for the year ended December 31, 2009

b. Balance Sheet as at December 31, 2009

Question 3: INVENTORY VALUATION (14 MARKS)

Following information is available from the records of Chootu Enterprises (who produces a single product) for the month of January 2012.

	Rs.
Opening finished goods (5400 units)	224 per unit
Opening raw material	740,000
Raw material purchases	775,000
Direct labour	612,000
Selling commission	116,000
Depreciation on plant	70,000
Other depreciation	50,000
Distribution cost	41,000
Factory supervisor salary	37,600

Royalty on production	25,000
Royalty on sales	35,000
Indirect labour	14,000
Indirect material consumed	45,000
Other production overheads	84,000
Accounting costs	60,540
Other administration overheads	188,600

Other information are as under:

a. Depreciation to be allocated to manufacturing, administration and selling in ratio of 2:2:1
b. Raw material of Rs 95000 was damaged due to dampness and had to be scrapped
a. The value of raw materials on January 31, 2012 amounted to Rs. 600,000.
c. 7080 units of finished goods were produced during January 2012.
a. There was no work-in-progress at the start of the month. However, on January 31, the value of work-in-progress is approximately Rs. 42560.
b. 3,470 units of finished goods were available in stock as on January 31, 2012.

Required:

Compute the value of closing stock of finished goods as on January 31, 2012 based on

a. weighted average cost method
b. first in and first out method.

Question 4: THEORETICAL AREAS (10 MARKS)

What are the different bases for the measurement of assets and liabilities?

Question 5: BANK RECONCILIATION STATEMENT (14 MARKS)

Sikandar-e-Aazam is having two accounts (A and B) with UBL. The following information is available for the preparation of the bank reconciliation for December 2012.

a. Bank book balance Rs 132,000 overdraft and Rs 65000 in account A and B respectively.
b. Pass book balance Rs 120610 (dr) and Rs 46390 (cr) in account A and B respectively.
c. Two cheques of Rs. 4,500 and Rs. 7,850 deposited in 'A' and 'B' respectively but were recorded in the opposite accounts in bank book. In pass book both were recorded in account A.
d. Of the total cheques of Rs 65,000 and Rs 89,000 deposited in account A and B respectively, cheques of Rs 43,000 and Rs 62,000 were collected by bank till December 31, 2012. Also, a cheque of Rs 8,000 deposited in account A was dishonored.
e. Interest on bank accounts not recorded in Bank book Rs 4450 and 340 for account A and B.
f. All cheques issued during December 2012 were cashed by the respectively receivers, however cheques of Rs 18,000 and 26,000 from account A and B issued in November 2012 are still unpresented.

g. A payment of Rs 13,450 from B was mistakenly credited to account A as Rs 15340.

Required:

Draw the bank reconciliation statement for the above two accounts as on December 2012.

Question 6: DEPRECIATION (22 MARKS)

Lamboo Traders, a sole proprietorship, provides depreciation on plant and machinery at 25% per annum on diminishing balance method. On January 1, 2012 the balances in the plant and machinery and accumulated depreciation accounts were Rs. 780,000 and Rs. 484,000 respectively. It was discovered during 2012 that:

a. A machine which was purchased on October 1, 2008 for Rs. 210,000 was traded-in, on July 31, 2011 for a new and more sophisticated machine. The disposal was not recorded and the new machine was capitalized at Rs. 300,000 being the net amount paid to the supplier. The trade-in allowance amounted to Rs. 80,000.

b. A machine costing Rs 175,000 which was purchased on October 1, 2009 and installed on April 1, 2010 was depreciated in the books from the date of purchase.

It was decided to correct the above mistakes while finalizing the accounts for the year ended December 31, 2012.

During the year 2012, the following transactions took place:

a. A machine was purchased costing Rs. 240,000 on April 1, 2012.

b. A machine costing Rs 60000 which was purchased on June 1, 2010 was disposed for Rs 12000 on September 30, 2012

Required

Plant and machinery account and accumulated depreciation account for the year ended December 31, 2012. (Show all workings)

FA – 1 MOCK EXAM - SOLUTION

Question1: CASH FLOW

MUGHAL-E-AAZAM
CASH FLOW STATEMENT
FOR THE YEAR ENDED DEC 31, 2012

Cash Flow From Operating Activities:		
Net loss before Tax (64,000-40,000)		(24,000)
Adjustment:		
Depreciation		85,000
Decrease in provision for bad debts		(3,000)
Gain on disposal of fixed assets		(17,000)
Operating loss before working capital changes		41,000
Work Capital Changes:		
Increase in Inventories	(13,000)	
Decrease in debtors	60,000	
Increase in other current assets	(21,000)	
Decrease in current liabilities	(5,000)	21,000
		62,000
Tax Paid		(28,000)
Net cash flow from operating activities		34,000
Cash Flow From Investing Activities:		
Purchase of long term investment	(70,000)	
Purchase of fixed assets	(176,000)	
Sale proceeds from sale of fixed assets	41,000	
Interest income	8,500	
Cash flow from Investing activities		(196,500)
Cash Flow From Financing Activities:		
Additional Investment	196,500	
Drawings	(20,000)	
Cash flow from Financing activities		176,500
Increase in Cash during the year		14,000

FIXED ASSET- BOOKVALUE

Opening balance	-	Disposal	24,000
Addition (balancing)	176,000	Depreciation	85,000
		Closing	67,000

Question 2: INCOMPLETE RECORDS

DEBTORS - TUBELIGHTS

Opening balance	410,000	Receipts	150,000
Sales	1,680,000	Closing (balancing)	520,000

CREDITORS

Payments	1310,000	Opening	360,000
Discounts	30,000	Purchases	1400,000
Closing	420,000		

BANK

Opening	220,000	Payments	1310,000
Receipts	1570,000	Office stationary	42,000
Amount balanced	438,000	Insurance	48,000
		Rent	210,000
		Equipment	120,000
		Drawings	358,000
		Closing balance	140,000

CASH

Opening	10,000	Repair	86,000
Sales- Bulbs	807,000	Wages	124,000
		Cash deposited (balancing)	438,000
		Salary (12x7+15x5)	159,000
		Closing	10,000

	TUBELIGHTS		BULBS		
			for opening stock		purchased
S	125 ——> 150		100 —>(+20) 120		120
C	100	100	60	60 ——> (+50%)	90
P	25	25	40	40	30

Sales Tube lights:

1120,000 x 150/100 = 1,680,000

Sales Bulbs:

Opening: 260,000 x 120/ 60 = 520,000

Remaining: 215,250 x 120 /90 = 287,000

807,000

MR. TAYYAB
TRADING AND PROFIT AND LOSS A/C
FOR THE YEAR ENDED DEC 31,2009

	TUBE-LIGHT	BULBS
Sales	1,680,000	807,000
COST OF GOODS SOLD:		
Opening stock	520,000	260,000
Purchases	980,000	420,000
Closing stock	(380,000)	(204,750)
	1120,000	475,250
GROSS PROFIT	560,000	331,750
Total Gross Profit		891,750
Other Income:		
Discount received		30,000
Expenses:		
Office stationary (42+32-19)	55,000	
Insurance (48-16)	32,000	
Rent (15x7+19.5x5)	202,500	
Repair	86,000	
Wages (124 - 8)	116,000	
Salary (159-12+15)	162,000	
Depreciation equipment (540/0.4 + 120) x 10%	147,000	
		800,500
Net Profit		121,250

COMPUTATION OF OPENING CAPITAL

ASSETS:		
Equipment	540,000	
Stock	780,000	
Prepaid rent	45,000	
Office stationary	32,000	
Trade debtors	410,000	
Bank	220,000	
Cash	10,000	
		2037,000

LIABILITIES:		
Creditors	360,000	
Wages payable	8,000	
Salary payable	12,000	
		380,000
		165,7000

MR. TAYYAB
BALANCE SHEET
AS ON DECEMBER 31, 2009

ASSETS		
NON CURRENT ASSETS:		
Equipment (540 +120 - 147)		Rs 513,000
CURRENT ASSETS:		
Stock	Rs 584,750	
Debtors	520,000	
Prepare rent (45+210-202.5)	52,500	
Prepaid insurance	16,000	
Stationary	19,000	
Bank	140,000	
Cash	10,000	
		1342,250
		1,855,250
EQUITIES		
LIABILITIES:		
Creditors	420,000	
Salary payable	15,000	435,000
CAPITAL:		
Opening	1,657,000	
Net profit	121250	
Drawings	(358,000)	1420,250
		1855,250

Question 3: INVENTORY VALUATION
CALCULATION OF CLOSING STOCK
1- WEIGHTED AVERAGE:

Per Unit = $\frac{\text{Opening F.G + COGM}}{\text{Total units}}$

$= \frac{5,400 \times 224 + 7,080 \times 238}{5,400 + 7,080}$

$= \frac{2,894,640}{12,480}$

$= 231.94$

Closing stock = 3,470 x 231.94 = 804,832

2- FIFO:

Closing stock = 3,470 x 238 = 825,860

COST OF GOODS MANUFACTURED

RAW MATERIAL:		
Opening material	740,000	
Purchases	775,000	
Available for use	1,515,000	

Closing stock	(600,000)	
Stock lost	(95,000)	
Raw material used		820,000
Direct labor		612,000
Royalties on production		25,000
Prime cost		1457,000
Manufacturing Overhead:		
Depreciation on plant	70,000	
Other depreciation (50,000x2/5)	20,000	
Factory supervisor salary	37,600	
Indirect labor	14,000	
Indirect material	45,000	
Other production labor	84,000	
		270,600
		1727,600
Closing work in process		(42,560)
		1,685,040
Per unit 1,685,040 / 7,080 = Rs 238 / unit		

Question 5: BANK RECONCILIATION

BANK BOOK –A

g)	Payment wrongly recorded	15,340	c)	Unadjusted balance	132,000
			c)	Deposit wrongly recorded	3,350
			d)	Dishonored cheque	8,000
			e)	Interest	4,450
	Closing	132,460			

BANK RECONCILIATION STATEMENT - (ACCOUNT A)

b)	Balance as per Pass book	(120,610)
c)	Deposit wrongly recorded	(7,850)
d)	Deposit in trasit	14,000
e)	Un presented cheque	(18,000)
	Adjusted Balance	(132,460)

BANK BOOK –B

a)	Unadjusted balance	65,000	g)	Payment	13,450
c)	Deposit wrongly recorded	3,350			
e)	Interest	340			
				Closing balance	55,240

BANK RECONCILIATION STATEMENT - (ACCOUNT B)

b)	Balance as per Pass book	46,390
c)	Unrecorded Deposit	7,850
d)	Deposit in transit	27,000
e)	Un presented cheque	(26,000)
	Adjusted Balance	55,240

Question 6: DEPRECIATION

PLANT & MACHINERY

	Unadjusted balance	780,000	a)	Unrecorded disposal	210,000
a)	Cost not debited	80,000			
a)	Addition	240,000	b)	Disp	60,000
				Closing balance	830,000

ACCUMULATED DEPRECIATION

				Unadjusted balance	484,000
a)	Disposal	115,408	a)	Additional depreciation(80,000x25%x5/12)	8,333
	Excess depreciation	11,536			
b)	Excess depreciation	14,356			
b)	Disposal	28,770		Depreciation for the year	117,340
	Closing balance	439,603			

W1: Accumulated depreciation on disposal:

	2008	210,000 x 25% x 3/12	13,125
	2009	196,875 x 25 %	49,219
	2010	147,656 x 25%	36,914
Correct	2011	110,742 x 25% x 7/12	16,150
incorrect	2011	110,742 x 25%	27,686
		Excess depreciation	11,536

W2: Excess depreciation due to wrong date:

Wrong depreciation:

2009	175,000 x 25% x 3/12	10,938
2010	164,062 x 25%	41,016
2011	123,046 x 25%	<u>30,762</u>
		<u>82,716</u>

Correct depreciation:

2010	175,000 X 25 % X 9/12	32,813
2011	142,187 X 25 %	<u>35,547</u>
		<u>68,360</u>

W3: Accumulated dep on disp:

2010	60,000 x 25 % x 7/12	8,750
2011	51,250 x 25 %	12,813
2012	38,437 x 25% x 9/12	<u>7,207</u>
		<u>28,770</u>

W4: Depreciation for the year:

On Disp

(60,000 – 21,563) x 25% x 9/12 = 7,207

On remaining opening balance

(650,000-60,000) – (351,033 – 21,563) x 25% = 65,133

590,000 - 329,470 x 25% =

On addition

240,000 x 25 % x 9 /12 = <u>45,000</u>

<u>117,340</u>