INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

New Fall (E) 2011, April 2012 Examinations

Tuesday, the 24th April 2012

FINANCIAL ACCOUNTING (S-301)
STAGE – 3

Time Allowed: 02 Hours 45 Minutes **Maximum Marks: 90** **Roll No.:**

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) Use of non-programmable scientific calculators of any model is allowed.
(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
(vii) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 Baseer and Nazir entered into a joint venture agreement to share the profits and losses in the ratio of 3:2 respectively. Baseer supplied goods worth Rs.105,000 to Nazir incurring expenses amounting to Rs.3,500 for freight and insurance. During transit goods costing Rs.8,750 were damaged having no salvage value and a sum of Rs.5,250 was recovered from the insurance company. Nazir reported that 90% of the remaining goods were sold at a profit of 25% of their original cost (except expenses incurred). Towards the end of the venture, a fire occurred and as a result the balance stock lying unsold with Nazir was damaged. The goods were not insured and Nazir agreed to compensate Baseer by paying in cash 80% of the aggregate of the original cost (except expenses incurred) of such goods plus proportionate expenses incurred by Baseer. Apart from the joint venture share of profit, Nazir was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by Nazir totalled Rs.1,750. Nazir had earlier remitted an advance of Rs.17,500. Nazir duly paid the balance due to Baseer by bank draft.

Required:

You are required to prepare the following accounts showing all necessary workings in Baseer's books:

(a) Joint venture account. **10**
(b) Nazir's account. **05**

Q. 3 On January 01, 2008, Ashar acquired certain gas fields on lease from Mr. Abdul Haleem at a minimum rent of Rs.1,920,000 per annum merging into a royalty of Rs.10 per cubic meter of gas output. The shortworkings were recovered in the next two years of such shortworkings only, but on condition that if full shortworkings could not be recovered in the next year, Ashar would loose his right to recover 50% of the unrecovered balance of shortworkings.

The output of the first four years were:

Year	Output (cubic meters)
2008	48,000
2009	120,000
2010	240,000
2011	224,000

Required:

Prepare the following ledger accounts and analysis in the books of Ashar:

(a) Royalties account. **02**
(b) Shortworkings account. **07**
(c) Abdul Haleem account. **03**
(d) Analysis of royalties payable. **03**

PTO

Marks

Q. 4 Books of the Majid showed the following balances:

	01.01.2011	31.12.2011
	Rupees	
Cash in hand	180,000	382,500
Cash at bank	1,350,000	8,595,000
Accounts receivable	?	15,750,000
Inventory	9,900,000	11,250,000
Office equipment	900,000	?
Delivery van	450,000	?
Accounts payable	10,530,000	8,325,000

Following cash transactions have been extracted from cash book of Majid:

Particulars	Rs.	Particulars	Rs.
Receipts from customers	60,750,000	Van expenses (petrol)	607,500
Additional capital introduced (01.07.2011)	900,000	Drawings	2,700,000
Rent expense (30.11.2011)	990,000	Stationery expenses	360,000
Salaries (30.11.2011)	4,950,000	Payments to supplier	50,400,000
Selling and distribution expenses	405,000	Administrative expenses	720,000

During the year discount allowed by Majid is Rs.630,000 whereas discount received by Majid is Rs.540,000. Salaries and rent are evenly distributed during the year.
Majid maintains a steady gross profit rate of 1/3 of cost of goods sold. There were bills outstanding for petrol Rs.11,250, selling and distribution expenses Rs.33,750, and stationery Rs.20,250. Provide 5% on accounts receivable for doubtful debts and 2½% on accounts payable for discounts. The delivery van and office equipment is to be depreciated by 20% and 5% respectively. Rate of interest allowed on capital is 5%.

Required:

Prepare:

(a) Majid's Trading and Profit and Loss Account for the year ended on December 31, 2011. **13**

(b) Majid's Balance Sheet as on December 31, 2011. **10**

Q. 5 **(a)** During the year ended on December 31, 2011, Shah Jee Limited reported the following transactions:

(i) 10% right shares were issued at a discount of Rs.5 each. Ordinary share capital of the company was 10,000,000 shares @ Rs.10 each.

(ii) Purchased a building for Rs.15,000,000 against the issuance of 1,100,000 shares of Rs.10 each.

(iii) Issued a suitable number of shares of Rs.10 each against the purchase of a delivery van at Rs.1,000,000. The market value of share is Rs.50 each.

(iv) Issued 1,100, 10% bond payable at Rs.110 each (par value Rs.100 each) redeemable after 5 years at Rs.115.

Required:

Pass general entries of the above transactions. **08**

(b) Define the following terms as per International Accounting Standard 16:

(i) Entity-specific value **02**

(ii) Impairment loss **01**

(iii) Recoverable amount **01**

Marks

Q. 6 Following balances have been extracted from the books of Khushhal Khan Limited:

Title of Account	**Debit Rs. '000'**	**Credit Rs. '000'**
Inventory at January 01, 2011	64,800	
Plant and equipment – cost	37,800	
Dividend payable		2,000
Cash and bank	8,430	
Utilities payable		4,050
2,700,000, ordinary shares of Rs.10 each		27,000
Accounts payable		35,530
Finance charges	6,480	
Miscellaneous administrative expenses	28,000	
Building – cost	286,000	
Office staff salaries	8,600	
Purchases	113,400	
Motor vehicle – cost	8,640	
Audit fee	3,600	
Long-term loan (1/1/2011)		40,500
Retained earnings		15,120
Accumulated depreciation: Building		108,000
Accumulated depreciation: Plant and equipment		12,960
Accumulated depreciation: Motor vehicle		3,240
Miscellaneous selling and distribution expenses	5,000	
Share premium		13,500
Accounts receivable	23,652	
Sales		332,502
Total	**594,402**	**594,402**

Additional Information:

(i) The company has an authorized capital of 6,000,000, ordinary shares of Rs.10 each.

(ii) Interim dividend declared in the third quarter of the financial year was fully paid through bank.

(iii) Rate of interest on long-term loan is 18% per annum. Financial charges given in the trial balance pertain to this loan only.

(iv) Depreciation is to be provided as follows:
- Building at 5% on the reducing balance method, charged to administrative expenses.
- Plant and equipment at 20% on the reducing balance method, charged to cost of sales.
- Motor vehicles at 25% on straight-line method, charged to selling and distribution costs.

(v) Allocated Rs.5,000,000 to general reserves.

(vi) Inventory at December 31, 2011 was Rs.43,200,000.

(vii) Accrued office salary is Rs.400,000.

(viii) Income tax rate is 35%.

Required:

Prepare the following financial statements in accordance with relevant International Financial Reporting Standards / International Accounting Standards:

(a) Income Statement (showing classification of expenses by functions) for the year ended December 31, 2011. **10**

(b) Statement of Changes in Equity for the year ended December 31, 2011. **04**

(c) Statement of Financial Position as at December 31, 2011. **11**

THE END