INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall 2012 (February 2013) Examinations

Monday, the 18th February 2013

FINANCIAL ACCOUNTING - (AF-301)
SEMESTER – 3

Time Allowed – 2 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 **(a)** **(i)** In accordance with the conceptual framework, what is the objective of general purpose financial reporting? **02**

(ii) What is the underlying assumption in preparing financial statements? Explain it. **03**

(b) Following are the comparative statements of financial position of Hamza Ltd., as of December 31:

	2011	**2010**
Share Capital and Reserves		
Authorized capital:	***(Rs. '000')***	***(Rs. '000')***
100,000,000 ordinary shares of Rs. 10 each	1,000,000	1,000,000
Issued, subscribed and paid up capital	214,000	164,000
Retained earnings	179,250	114,000
	393,250	278,000
Non-Current Liabilities		
10% Bonds payable	150,000	200,000
Current Liabilities		
Accounts payable	30,000	40,000
Interest payable	20,000	20,000
Accrued expenses	4,000	7,000
	54,000	67,000
Total Equity and Liabilities	**597,250**	**545,000**
Non-Current Assets		
Land	71,000	110,000
Plant and equipments (PE)	265,000	200,000
Accumulated depreciation (PE)	(67,750)	(42,000)
	268,250	268,000
Current Assets		
Inventories	180,000	189,000
Accounts receivable	84,000	70,000
Allowance for doubtful debts	(2,000)	(4,000)
Cash and bank balances	67,000	22,000
	329,000	277,000
Total Assets	**597,250**	**545,000**

Marks

The statement of comprehensive income for the year ended December 31, 2011 is as follows:

	(Rs. '000')
Sales	640,000
Cost of sales	(380,000)
Gross profit	260,000
Operating expenses	(155,000)
Operating income	105,000
Financial charges	(20,000)
Gain on sale of equipment	250
Net income	**85,250**

Additional Information:

(i) Hamza Ltd., had declared and paid cash dividend of Rs.20 million during the year.

(ii) On December 31, 2011, the company had issued ordinary shares against retirement of bonds payable amounting to Rs.50 million.

(iii) 10% bonds payable were issued on January 1, 2010; accrued interest is payable on January 1, each year.

(iv) A machine costing Rs.5 million (which was 25% depreciated) was sold for Rs.4 million.

(v) Ignore taxation.

Required:

(i) Prepare Statement of Cash Flows using 'indirect method' as required by IAS-7. **18**

(ii) Determine Free Cash Flow of Hamza Ltd., as of December 31, 2011. **02**

Q. 3

Sana Industries Ltd.
Trial Balance
As at December 31, 2010

	Debit (Rs. '000')	**Credit (Rs. '000')**
Cash	253,600	
Accounts receivable	106,000	
Rent revenue		18,000
Retained earnings		160,000
Salaries payable		18,000
Sales		1,100,000
Notes receivable	110,000	
Accounts payable		49,000
Accumulated depreciation – equipment		28,000
Sales discounts	14,500	
Sales returns	17,500	
Notes payable		70,000
Selling expenses	232,000	
Administrative expenses	99,000	
Share capital – ordinary shares of Rs.10 each		300,000
Interim cash dividends	30,000	

Marks

Allowance for doubtful debts		6,000
Supplies expenses	14,000	
Freight-in	20,000	
Land	70,000	
Equipment - cost	140,000	
Bonds payable		100,000
Gain on sale of land		25,000
Accumulated depreciation – building		19,600
Inventory	89,000	
Building - cost	98,000	
Purchase discounts		10,000
Purchases	610,000	
Total	**1,903,600**	**1,903,600**

Additional Information:

(i) The company has an authorized capital of 100 million ordinary shares of Rs.10 each.

(ii) Inventory as at December 31, 2010 was Rs.64 million.

(iii) Depreciation is to be provided as follows (to be charged to administrative expenses):

- Building at 5% using the reducing balance method.
- Equipment at 20% using straight-line method.

(iv) The company had issued bonds on July 1, 2010 and the rate of interest is 12% per annum payable bi-annually on July 1, and January 1.

(v) Final dividend of Rs.15 million was declared on December 31, 2010.

(vi) Income tax rate is 35%.

Required:

Prepare following financial statements as required by the relevant IFRS / IAS:

(a) Income Statement and the Statement of Retained Earnings for the year ended December 31, 2010. **14**

(b) Statement of Financial Position as at December 31, 2010. **11**

Q. 4 **(a)** Subhan Associates purchased an asset for Rs.2 million on January 1, 2009. The asset had a useful life of 5 years and being depreciated using straight-line method.

On January 1, 2011, the asset was revalued to Rs.2.1 million. The remaining useful life is the same i.e., three years.

Required:

Prepare Journal entries for the revaluation of asset and depreciation for the year ended December 31, 2011. **06**

(b) **(i)** Briefly state the accounting treatment of impairment loss of assets under IAS-36. **02**

(ii) Following information relates to a cash generating unit as of December 31, 2011:

	(Rs. in million)
Machinery	50
Building	16
Goodwill	15
Current assets	24
	105

Marks

The company's policy is to carry out an impairment review annually which has estimated the recoverable amounts to be Rs.85 million.

Required:

- Advise, how the impairment loss will be allocated under IAS-36 - Impairment of Assets. **05**
- Give necessary journal entry for the impairment loss adjustment. **02**

Q. 5 Brothers Ltd., has leased (a non-cancellable lease) a knitting machine under the following terms:

- The lease is to commence on July 1, 2011.
- Lease term is 5 years.
- Lease instalments are to be payable each year in advance, Rs.120,000.
- Cash price and fair value of the machine is Rs.500,000 as at July 1, 2011.
- The present value of minimum lease payments is also the same i.e., Rs.500,000.
- Implicit rate of interest is 10%.
- Estimated life of the machine is 5 years.
- The company depreciates the knitting machine at 20% using straight-line method.

Required:

(a) Prepare lease amortization schedule for the knitting machine. **05**

(b) Prepare necessary journal entries for the period ended June 30, 2012. **06**

(c) Prepare extracts of the statement of profit or loss and statement of financial position of Brothers Ltd., for the year to June 30, 2012. **04**

Q. 6 **(a)** As per IAS-12, what do the following mean?

(i) Temporary differences **01**

(ii) Taxable temporary differences **02**

(iii) Deductible temporary differences **02**

(b) AFP & Co., has inventory on hand at the end of the year on December 31, 2011 as follows:

Item	Units	Material Cost/ Unit (Rs.)	Production Cost/ Unit (Rs.)	Selling Cost/ Unit (Rs.)	Selling Price/ Unit (Rs.)
Suit Cases	450	165	18	14	184
Hand Bags	330	55	15	12	85

Required:

State at what amount, the inventories will be shown in the financial statements as per the requirements of IAS-2. **05**

THE END