Marks

Q.2 (a) (i) Objective of General Purpose Financial Reporting:

The conceptual framework states that: 2

"The objective of general purpose financial reporting is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity."

(ii) Underlying Assumption in Preparing Financial Statements:

Going concern is the underlying assumption in preparing financial statements. 1

Going concern: The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations. 2

Q.2 (b) (i)

Hamza Limited
Statement of Cash Flows
For the year ending December 31, 2011

Cash flows from Operating Activities:	**(Rs.'000')**	**(Rs.'000')**	
Net Income	85,250		0.5
Add: Depreciation ***(WN-1)***	27,000		0.5
Add: Interest on Bonds payable ***(WN-4)***	20,000		0.5
Less:: Gain on sale of equipment ***(WN-5)***	(250)		0.5
Operating profit before working capital changes		132,000	
Changes in working capital			
Increase in debtors (66,000 – 82,000)	(16,000)		1.0
Decrease in inventory (189,000 – 180,000)	9,000		1.0
Decrease in Accounts Payable (30,000 – 40,000)	(10,000)		1.0
Decrease in Accrued Expense (4,000 – 7,000)	(3,000)		1.0
Cash generated from operations	(20,000)		
Interest paid (W-4)	(20,000)		0.5
		(40,000)	
Cash flows from operating activities		92,000	
Cash flows from Investing Activities:			
Sale proceeds of Land (110,000 – 71,000)	39,000		1.0
Purchase of Equipments (WN-3)	(70,000)		0.5
Sale proceeds of Equipment	4,000		0.5
Cash used in investing activities		(27,000)	
Cash flows from Financing Activities:			
Payment of Dividends	(20,000)		0.5
Net cash used in financing activities		(20,000)	
Net cash flow during the year		45,000	0.5
Opening balance of cash and cash equivalents		22,000	
Closing balance of cash and cash equivalents		**67,000**	

Marks

Working Notes	**(Rs.'000')**	
WN-1 - Depreciation for the year		
Ending Balance	67,750	0.5
Add: Depreciation. On assets disposed off (5,000 x .25)	1,250	0.5+0.5
Less: Opening Balance	(42,000)	0.5
Depreciation for the year	**27,000**	0.5

WN-3 - Property, Plant & Equipments		
Opening balance	200,000	0.5
Less: Ending balance	(265,000)	0.5
	(65,000)	
Less: Disposal of equipment	(5,000)	0.5
PPE acquired	**70,000**	0.5

WN-4 -		
Interest payable (opening)	20,000	0.5
Current year interest	20,000	0.5
	40,000	
Interest paid (bal fig)	(20,000)	0.5
Interest payable (closing)	**20,000**	0.5

WN-5 - Gain on sale of equipment		
Sale proceeds	4,000	0.5
Book value of equipments [(5000 - (5000%25)]	(3,750)	0.5+0.5
Gain on sale of equipment	**250**	0.5

WN-2 - Retained Earnings	
Opening balance	114,000
Add: Net profit	85,250
Less: Dividend declared and paid	(20,000)
Ending balance	**179,250**

(ii)

Hamza Limited
Free Cash Flow Analysis

Net Cash provided by operating activities	92,000	0.5
Capital Expenditures	(70,000)	0.5
Dividends paid	(20,000)	0.5
Free Cash Flow	**2,000**	0.5

Marks

Q.3 (a)

Sana Industries Limited
Income Statement
For the year ended December 31, 2010

	(Rs. '000')	(Rs. '000')	Marks
Sales		1,100,000	0.5
Less: Sales Return		(17,500)	0.5
Sales discount (see N-1)		(14,500)	0.5
		1,068,000	
Less: Cost of goods sold:			
Opening Inventory	89,000		0.5
Add: Purchases	610,000		0.5
Freight in	20,000		0.5
Less: Purchase discount	(10,000)		0.5
	709,000		
Less: Closing Inventory	(64,000)		0.5
		645,000	
Gross profit		423,000	
Add: Other income			
Rent revenue	18,000		0.5
Gain on sale of land	25,000	43,000	0.5
		466,000	
Operating Expenses:			
Selling expenses	232,000		0.5
Administrative expenses :			
Trial balance	99,000		0.5
Depreciation Building **- WN-1**	3,920		0.5
Depreciation equipment **- WN-1**	28,000		0.5
Supplies	14,000		0.5
	144,920	376,920	
Profit before tax and financial charges		89,080	
Less: Financial Charges			
(100000 x 0.12 x 0.5)		(6,000)	0.5+0.5
Profit before tax		83,080	0.5
Less: Income tax (35% of 83,080)		(29,078)	0.5+0.5
Profit after tax		54,002	0.5

Note-1: This amount may be taken in operating expenses.

Working Notes:
Depreciation - WN-1

Building:

		Marks
Book value	98,000	
Less: Accumulated Depreciation. - Building	(19,600)	
	78,400	
Depreciation at 5% - Reducing balance (78,400 x 0.05)	**3,920**	1.0

		Marks
Equipment:		
Current depreciation (140,000 ÷ 5)	(28,000)	0.5

Statement of retained earnings:

		Marks
Balance b/d	160,000	0.5
Add: Net profit for the year	54,002	0.5
Less: Dividend paid	(45,000)	0.5
Balance c/d	**169,002**	0.5

(b)

Sana Industries Limited
Statement of Financial Position
As at December 31, 2010

Non Current Assets	**(Rs. '000')**	**(Rs. '000')**	**(Rs. '000')**	
Land			70,000	0.5
Building		98,000		
Less: Accumulated Depreciation. – Building (19,600 + 3,920)		(23,520)	74,480	0.5+0.5
Equipment		140,000		
Less: Accumulated Depreciation. – Equipment (28,000 + 28,000)		(56,000)	84,000	0.5+0.5
			228,480	0.5
Current Assets				
Inventory		64,000		0.5
Notes Receivable		110,000		0.5
Accounts Receivable	106,000			
Less: Allowance for Doubtful Accounts	(6,000)	100,000		0.5+0.5
Cash		253,600		0.5
			527,600	0.5
Total Assets			**756,080**	
Equity and Liabilities				
Share capital and reserves				
Authorized Capital:				
100 million ordinary shares of Rs. 10 each			1,000,000	
Issued, subscribed and paid up share capital			300,000	0.5
Retained earnings			169,002	0.5
Long Term Liabilities				
Bonds Payable			100,000	0.5
Current Liabilities				
Dividend Payable		15,000		0.5
Tax Payable		29,078		0.5
Interest Payable		6,000		0.5
Salaries Payable		18,000		0.5
Notes Payables		70,000		0.5
Accounts Payable		49,000		0.5
			187,078	0.5
			756,080	

Marks

Q.4 (a)

Subhan Associates
General Journal

Date	Description	Ref	Debit	Credit	Marks
1-Jan-11	Accumulated Depreciation		800,000		0.5
	Asset Account		100,000		0.5
	Revaluation Surplus			900,000	0.5
	To record revaluation of asset				
31-Dec-11	Depreciation Expense		700,000		0.5
	Accumulated Depreciation			700,000	0.5
	To record depreciation after revaluation of asset				
31-Dec-11	Revaluation surplus		300,000		0.5
	Retained Earnings			300,000	0.5
	To record realization of revaluation surplus for the year ended Dec-31-2011				

Working Notes:

Re-valuation Surplus (WN-1)

Re-valued amount		2,100,000	0.5
Less: Net book value of asset as of January 1, 2011.			
Cost of asset	2,000,000		0.5
Less: Accumulated depreciation as of Dec-31-2010 (2,000,000/5*2)	(800,000)	**(1,200,000)**	0.5
Revaluation Surplus		**900,000**	0.5
Depreciation for the year ended Dec-31-2011 = (2,100,000/3)		**700,000**	0.5

Q.4 (b) (i) Treatment of impairment loss of assets:

- The assets carrying amount should be reduced to its recoverable amount in the Statement of Financial Position. 1.0
- The impairment loss should be recognized in the profit or loss account unless asset has been revalued where the loss is treated as a revaluation decrease to that extent. 1.0

(b) (ii) :

	Book Value	Impairment Loss	Book Value After Adjustment (Rupees in Million)	Marks
Machinery	50	**(3.788)**	46.212	1.0
Building	16	**(1.212)**	14.788	1.0
Goodwill	15	**(15)**	0	1.0
Current Assets	24	**0**	24.000	1.0
	105	**(20)**	**85.000**	

		Rs. million	Marks
Impairment (105 – 85)		**20.000**	1.0
Allocation :	goodwill	15.000	
	Machinery (50 ÷ 66) x 5	3.788	
	Building (16 ÷ 66) x 5	1.212	
		20.000	

Marks

- **Journal entry for impairment loss adjustment:**

Rs. million

Date	Description	Ref	Debit	Credit	
31-Dec-11	Profit or Loss Account		20.000		0.5
	Machinery			3.788	0.5
	Building			1.212	0.5
	Goodwill			15.000	0.5
	To record impairment loss of assets to profit and loss account.				

Q.5 (a)

Year	Opening Balance Before Instalment (July 01)	Instalment (July 01)	Balance After Instalment (July 01)	Interest (June 30)	Closing Balance (June 30)	
July-11 – Jun-12	500,000	120,000	380,000	38,000	418,000	
July-12 – Jun-13	418,000	120,000	298,000	29,800	327,800	
July-13 – Jun-14	327,800	120,000	207,800	20,780	228,580	
July-14 – Jun-15	228,580	120,000	108,580	11,420	120,000	
July-15 – Jun-16	120,000	120,000	–	–	–	
Marks	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**5.0**

OR

Alternate Solution

01-07-11	Opening balance before instalment		500,000	
01-07-11	Instalment		(120,000)	
			380,000	
30-06-12	Interest	(380,000 x 0.10)	38,000	
30-06-12	Closing balance		418,000	1
01-07-12	Instalment		(120,000)	
01-07-12	Opening balance after instalment		298,000	
30-06-13	Interest	(298,000 x 0.10)	29,800	
30-06-13	Closing balance		327,800	1
01-07-13	Instalment		(120,000)	
01-07-13	Opening balance after instalment		207,800	
30-06-14	Interest	(207,800 x 0.10)	20,780	
30-06-14	Closing balance		228,580	1
01-07-14	Instalment		(120,000)	0.5
01-07-14	Opening balance after instalment		108,580	
30-06-15	Interest	(108,580 x 0.10)	11,420	1
30-06-15	Closing balance		120,000	
01-07-15	Instalment		(120,000)	0.5
			–	

Marks

Q.5 (b)

Brothers Limited
General Journal

Date	Description	Ref	Debit	Credit	
1-Jul-11	Machine Account		500,000		0.5
	Liability against leased assets			500,000	0.5
	Being acquisition of machine on finance lease				
1-Jul-11	Liability against leased assets		120,000		0.5
	Bank Account			120,000	0.5
	Being payment of 1st lease instalment				
30-Jun-12	Financial Charges		38,000		0.5
	Financial Charges Payable - leased assets			38,000	0.5
	To record accrual of financial charges on leased asset				
30-Jun-12	Depreciation		100,000		0.5
	Accumulated depreciation			100,000	0.5
	Being depreciation charge for the leased asset for the year ended June-30-12				

Workings:

Interest (380,000 x 10%)	38,000	0.5+0.5
Depreciation (500,000 / 5)	100,000	0.5+0.5

Q.5 (c)

Brothers Limited
Statement of Profit or Loss (Extract)
For the year ended June 30, 2012

Operating Expenses:	***(Rupees)***	
Financial charges on leased assets	38,000	0.5
Depreciation expense	100,000	0.5

Brothers Limited
Statement of Financial Position (Extract)
As of June 30, 2012

Non-current Assets	***(Rupees)***	
Property, plant and equipment (Rs.500,000 - Rs.100,000)	400,000	0.5+0.5
Non-current Liabilities		
Liability against leased assets	298,000	0.5
Current Liabilities		
Current portion of Liability against leased assets (Rs.120,000 - Rs.38,000)	82,000	0.5+0.5
Accrued interest	38,000	0.5

Marks

Q.6 (a) (i) Temporary Differences:

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. 01

(ii) Taxable Temporary Differences:

Taxable temporary differences are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. 02

(iii) Deductible Temporary Differences:

Deductible temporary differences are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. 02

Q.6 (b)

Item Detail	Units	Cost	NRV	Lower of Cost/NRV	Total	
Suit cases	450	**183** (165 + 18)	**170** (184 – 14)	**170**	**76,500**	0.5+0.5+0.5+0.5
Hand Bags	330	**70** (55 + 15)	**73** (85 - 12)	**70**	**23,100**	0.5+0.5+0.5+0.5
					99,600	**1.0**

THE END