INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Winter (November) 2011 Examinations

Thursday, the 24th November 2011

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 after finishing/ writing the exam.**

Marks

Q. 2 On September 01, 2011, Javed Ltd., Karachi, consigns 500 pieces of towels costing Rs.30,000 to Fancy Stores, Lahore. The consignee is entitled to 6% selling commission. Following expenses were incurred by the consignor:

	Rs.
Carriage	1,200
Insurance	600
Freight	900

- Javed Ltd., draws a bill of exchange for Rs.12,000 on Fancy Stores, which was duly accepted by them. It is discounted for Rs.11,700.
- On October 31, 2011, Fancy Stores send the account sales which shows that they have sold good for Rs.45,000 and paid expenses amounting to Rs.900. Stock in consignee's hands on October 31, 2011 is valued at Rs.9,000.
- Fancy Stores, enclose a sight draft with the account sales, for the net amount due to Javed Ltd.

Required:

Prepare the following ledger accounts in the books of consignor:

(i) Consignment to Lahore Account. **08**

(ii) Fancy Stores, Lahore Account. **06**

Q. 3 Salman is the proprietor of a shop selling paintings and ornaments. For the purposes of his financial statements he wishes the business to be divided into two departments:

Department-X	Paintings
Department-Y	Ornaments

The following balances have been extracted from his nominal ledger at September 30, 2011:

PTO

	Debit	Credit
	Rs.in '000'	
Inventory Department-X, October 01, 2010	2,500	
Inventory Department-Y, October 01, 2010	2,000	
Purchases Department-X	102,000	
Purchases Department-Y	76,040	
Wages of sales assistants Department-X	14,400	
Wages of sales assistants Department-Y	13,600	
Picture framing cost	600	
General office salaries	26,400	
Fire insurance – buildings	720	
Lighting and heating	1,240	
Repairs to premises	350	
Internal telephone	60	
Cleaning	360	
Accountancy charges	2,980	
General office expenses	1,020	
Sales Department-X		150,000
Sales Department-Y		100,000

Inventory at September 30, 2011 was valued at:

Department-X Rs.2,820,000

Department-Y Rs.1,824,000

The proportion of the total floor area occupied by each department was:

Department-X two-fifths

Department-Y three-fifths

The apportionment should be made by using the methods as shown below:

***Area* – Fire insurance, Lighting and heating, Repairs, Telephone, Cleaning;**

***Turnover* – General office salaries, Accountancy, General office expenses.**

Required:

Prepare Salman's departmental income statement for the year ending September 30, 2011, apportioning the costs, where necessary, to show the net profit or loss of each department. **16**

Q. 4 'A', 'B' and 'C' were in partnership sharing profits and losses in the ratio of 6 : 3 : 1. They decided to induct 'D' as partner with effect from April 01, 2010 on the following terms and conditions:

(i) 'D' is to bring in her proportionate share of goodwill in cash. Goodwill is not to be brought into the books but necessary adjustments are to be made in the old partners' capital accounts.

(ii) Goodwill to be valued at 60% of the average annual profits of the previous three or four years, whichever is the higher.

(iii) The average profits for the purpose of goodwill for the past years were:

	Rs. in '000'
Year ended 31 March 2010	14,400
Year ended 31 March 2009	9,090
Year ended 31 March 2008	9,360
Year ended 31 March 2007	12,660

Marks

(iv) The new profit sharing ratio among 'A', 'B', 'C' and 'D' will be 3 : 3 : 3 : 1.

(v) 'D' should bring in Rs.6,000,000 as capital.

(vi) The new partner is to receive an annual salary of Rs.3,600,000 in addition to her share of profit. 'C' personally guaranteed that the aggregate of salary and share of profit of the new partner shall not be less than Rs.7,500,000 per annum.

The draft accounts for the year ended March 31, 2011 showed a profit of Rs.39,840,000 before taking into account the salary of 'D'.

Required:

Prepare the following:

(i) Journal entries (including cash entries) passed at the time of admission of the partner. **08**

(ii) Profit and loss appropriation account to show the distribution of the net profit for the year ended March 31, 2011 among the partners. **12**

Q. 5 (a) The following financial statements pertain to a privately owned department stores at the end of June 2011:

Summary of Financial Statements

	Rs. in 'millions'	
Balance Sheet:		
Non-current assets		
Building at cost	1,200	
Less: Depreciation to date	(1,020)	
Net book value of building		180
Furniture at cost	560	
Less: Depreciation to date	(476)	
Net book value of furniture		84
		264
Current assets		
Inventory (closing)	800	
Accounts receivable	820	
Bank	16	
		1,636
Total Assets		1,900
Current liabilities		
Accounts payable		(980)
Net assets		920
Financed by:		
Capital accounts		
Balance at start of year		960
Add: Net profit		240
		1,200
Less: Drawings		(280)
		920
Income Statement:		
Revenue		7,200
Less: Cost of goods sold		
Opening inventory	1,200	
Add: Purchases	5,200	
Inventory available for sale	6,400	
Less: Closing inventory	(800)	
		(5,600)
Gross profit		1,600
Less: Depreciation	88	
Other expenses	1,272	
		(1,360)
Net profit		240

PTO

Required: Calculate the following ratios ***{use three (03) decimal places}***: **Marks**

(i)	Gross profit as % of revenue.	**01**
(ii)	Expenses as % of revenue.	**01**
(iii)	Acid test ratio.	**01**
(iv)	Rate of return of net profit on capital employed (use the average of the capital account for this purpose).	**02**
(v)	Current ratio.	**02**
(vi)	Net profit as % of revenue.	**02**
(vii)	Inventory turnover in times.	**02**

(b) As per IAS 8, when an entity shall change an accounting policy? **04**

Q. 6 Following is the trial balance of Mehboob Ltd., for the period ended December 31, 2010:

Title of Account	**Debit Rs. '000'**	**Credit Rs. '000'**
450,000, ordinary shares of Rs.10 each		4,500
Bank	880	
Share premium		2,250
Inventory at January 1, 2010	10,800	
Accounts payable		675
Miscellaneous administrative expenses	6,000	
Utilities payable		6,255
Sales revenue		55,417
Building – cost	45,000	
Plant and equipment – cost	6,300	
Purchases	18,900	
Motor vehicle – cost	1,440	
Accounts receivable	3,942	
Long-term loan (1/1/2010)		6,750
Retained earnings		2,520
Accumulated depreciation: Building		18,000
Accumulated depreciation: Plant and equipment		2,160
Accumulated depreciation: Motor vehicle		540
Audit fee	600	
Office staff salaries	2,100	
Miscellaneous selling and distribution expenses	1,500	
Income tax (under-provision of the last year)	525	
Finance charges	1,080	
Total	**99,067**	**99,067**

Additional Information:

(i) The company has an authorized capital of 1,000,000, ordinary shares of Rs.10 each.
(ii) Accrued utilities expense was Rs.745,000.
(iii) Depreciation is to be provided as follows:
- Building at 5% straight-line, charged to administrative expenses.
- Plant and equipment at 20% on the reducing balance basis, charged to cost of sales.
- Motor vehicles at 25% on the reducing balance basis, charged to selling and distribution costs.

(iv) Income Tax to be provided at Rs.1,500,000.
(v) A customer has gone bankrupt owing Rs.342,000. This debt is not expected to be recovered and an adjustment should be made. An allowance for receivable of 5% of the ending balance of accounts receivable is to be set up.
(vi) Inventory as at December 31, 2010 was Rs.7,200,000.

Required:

Prepare the following financial statements in accordance with International Financial Reporting Standard / IAS-1 (revised):

(a) Income Statement (showing classification of expenses by functions) for the year ended December 31, 2010. **13**

(b) Statement of Changes in Equity for the year ended December 31, 2010. **02**

(c) Statement of Financial Position as at December 31, 2010. **10**

THE END