

FINANCIAL ACCOUNTING – STAGE-3

Q. 2 (i)

Javed Limited
Consignment to Lahore Account
For the period ended on October 31, 2011

Marks

Dr.			Cr.			
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.	
2011			2011			
Sep	To goods sent on consignment	30,000	Oct 31	By Fancy Stores, Lahore	45,000	1.0 each
				By stock on consignment	9,000	2.0
	To cash (expenses) (1,200 + 600 + 900)	2,700				1.0
	To Fancy Stores, Lahore (expenses)	900				1.0
Oct 31	To Fancy Stores, Lahore (commission)	2,700				1.0
	To profit and loss account (transfer of profit)	17,700				1.0
		54,000			54,000	

Q. 2 (ii)

Fancy Stores, Lahore Account
For the period ended on October 31, 2011

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.	
2011			2011			
Oct 31	To consignment account	45,000	Sep	By bills receivable account	12,000	1.0 each
	(Sales proceeds)			By consignment account (expenses)	900	1.0
				By consignment account (commission)	2,700	2.0
				By bill receivable account	29,400	1.0
		45,000			45,000	

FINANCIAL ACCOUNTING – STAGE-3**Q. 3****Marks**

Salman
Departmental Income Statement
For the year ending September 30, 2011

	Rs. in '000'				
	X		Y		
Sales		150,000		100,000	0.5+0.5
Less: Cost of goods sold:					
Inventory 01.10.2010	2,500		2,000		0.5+0.5
Add: Purchases	102,000		76,040		0.5+0.5
	104,500		78,040		0.5+0.5
Less: Inventory 30.09.2011	2,820	101,680	1,824	(76,216)	0.5+0.5
Gross profits		48,320		23,784	
Less: Expenses:					
Wages	14,400		13,600		0.5+0.5
Picture framing costs	600		-		1.0
General office salaries	15,840		10,560		0.5+0.5
Fire insurance	288		432		0.5+0.5
Lighting and heating	496		744		0.5+0.5
Repairs to premises	140		210		0.5+0.5
Internal telephone	24		36		0.5+0.5
Cleaning	144		216		0.5+0.5
Accountancy charges	1,788		1,192		0.5+0.5
General office expenses	612	34,332	408	27,398	0.5+0.5
Net profits/ (losses)		13,988		(3,614)	0.5+0.5

FINANCIAL ACCOUNTING – STAGE-3

Q. 4 (i)

Marks

Journal Entries
For the period ended on March 31, 2011

	Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)	
1-	Cash account Dr.	682,650		1.0
	C's' capital account Dr.	1,365,300		1.0
	To 'A's' capital account		2,047,950	1.0
	(Amount paid in by 'D' and debited to 'C', for credit to 'A' in respect of adjustment for goodwill on admission of 'D' accomplished by change in the profit sharing ratio)			
2-	Cash account Dr.	6,000,000		1.0
	To 'D's' capital account		6,000,000	1.0
	(Amount paid in by 'D' as her capital on her joining the firm)			

Q. 4 (ii)

Marks

Profit and Loss Appropriation Account
For the period ended on March 31, 2011

	Particulars	Amount Rs.	Particulars	Amount Rs.	
1.0	To salary to 'D'	3,600,000	By net profit b/d	39,840,000	1.0
	To profit transferred to capital accounts:				
1.0	'A' (3/10)	10,872,000			
1.0	'B' (3/10)	10,872,000			
1.0	'C' (3/10) 10,872,000				
1.0+1.0	Less: Due to 'D' (7,500,000-7224,000) 276,000	10,596,000			
1.0	'D' (1/10) 3,624,000				
	Add: To make-up				
1.0+1.0	Minimum debited to C 276,000	3,900,000			
		39,840,000		39,840,000	

FINANCIAL ACCOUNTING – STAGE-3**Working Notes:**

(1)	Valuation of Goodwill:	Rs. in '000'		Marks
	Particulars	Profit for 4 Years	Profit for 3 Years	
	March 31, 2007	12,660.0	-	
	March 31, 2008	9,360.0	9,360.0	
	March 31, 2009	9,090.0	9,090.0	
	March 31, 2010	14,400.0	14,400.0	
	Total	45,510.0	32,850.0	
	Average	11,377.5	10,950.0	0.5+0.5
	60% of 113,77.5 (4 years' basis since this amount is higher)	6,826.5		1.0

(2) Adjustment for Goodwill:		Rs. in '000'		Marks
Partners	Raised (Rs.)	Written Off (Rs.)	Net (Rs.)	
A	4,095,900 (6/10)	2,047,950 (3/10)	2,047,950 (Cr.)	1.0
B	2,047,950 (3/10)	2,047,950 (3/10)	0	
C	682,650 (1/10)	2,047,950 (3/10)	1,365,300 (Dr.)	1.0
D	-	682,650 (1/10)	682,650 (Paid-in cash)	1.0
	<u>6,826,500</u>	<u>6,826,500</u>		

Alternatively, the amount of goodwill to be credited to A's capital account can be ascertained as follows:

Sacrifice by 'A' on admission of 'D':

Old Ratio - New Ratio

$$\text{or } \frac{6}{10} - \frac{3}{10} = \frac{3}{10}$$

Gain to 'C':

New Ratio - Old Ratio

$$\text{or } \frac{3}{10} - \frac{1}{10} = \frac{2}{10}$$

The total value of goodwill is Rs.6,826,500

'D' should pay Rs. 682,650 (i.e., $\frac{1}{10} \times 6,826,500$)

'C' should pay Rs. 1,365,300 (i.e., $\frac{2}{10} \times 6,826,500$)

FINANCIAL ACCOUNTING – STAGE-3

Q. 5 (a)	Amounts in 'millions'	Marks
(i) Gross Profit as % of Revenue:		
$\frac{1,600}{7,200} \times 100 = 22.222 \%$		1.0
(ii) Expenses as % of Revenue:		
$\frac{1,360}{7,200} \times 100 = 18.889 \%$		1.0
(iii) Acid Test Ratio:		
$\frac{836}{980} = 0.853 : 1$		1.0
(iv) Rate of Return on Capital Employed (ROCE):		
$\frac{240}{(960 + 920) \div 2} \times 100 = 25.532 \%$		2.0
(v) Current Ratio:		
$\frac{1,636}{980} = 1.669 : 1$		2.0
(vi) Net Profit as % of Revenue:		
$\frac{240}{7,200} \times 100 = 3.333 \%$		2.0
(vii) Inventory Turnover in Times:		
$\frac{5,600}{(1,200 + 800) \div 2} = 5.600 \text{ Times}$		2.0

Q. 5 (b)**Changes in Accounting Policies:**

An entity shall change an accounting policy only if the change:

- | | |
|--|-----|
| (i) is required by an IFRS; or | 2.0 |
| (ii) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. | 2.0 |

FINANCIAL ACCOUNTING – STAGE-3**Q. 6 (a)****Marks****Mehboob Limited****Income Statement (Classification of expenses by functions)****For the year ended December 31, 2010**

		<u>Amount in Rs. '000'</u>	
Sales revenue		55,417	0.5
Cost of sales	(W-2)	(23,328)	0.5
Gross profit		32,089	0.5
Selling and distribution costs	(W-3)	1,725	0.5
Administrative expense	(W-4)	12,217	0.5
		(13,942)	
Profit from operation		18,147	
Finance charges		(1,080)	0.5
Profit before income tax		17,067	
Income tax expense:			
Current		1,500	0.5
Prior		525	0.5
		(2,025)	
Net profit for the year		15,042	0.5

Q. 6 (b)**Statement of Changes in Equity****For the period ended on December 31, 2010**

		<u>Amount in Rs. '000'</u>				
		Share Capital	Share Premium	Retained Earnings	Total	
Opening	01-01-10	4,500	2,250	2,520	9,270	
Profit for the year		-	-	15,042	15,042	0.5
		<u>4,500</u>	<u>2,250</u>	<u>17,562</u>	<u>24,312</u>	0.5 each

FINANCIAL ACCOUNTING – STAGE-3**Q. 6 (c)****Marks**

Statement of Financial Position		Amount in Rs. '000'	
As at December 31, 2010			
NON-CURRENT ASSETS:			
Property, plant and equipment - Net	(W-5)	28,737	1.0
Current Assets:			
Inventory		7,200	0.5
Account receivable (net)	(W-1)	3,420	0.5
Cash at bank		880	0.5
		11,500	0.5
		40,237	
EQUITY AND LIABILITIES:			
Share-Capital and Reserve:			
<i>Authorized Share Capital:</i>			
1,000,000 ordinary shares @ 10 each		10,000	0.5
Share capital		4,500	0.5
Share premium		2,250	0.5
Retained earnings		17,562	0.5
		24,312	0.5
LIABILITIES:			
Non-Current Liabilities:			
Long-term loan		6,750	0.5
Current Liabilities:			
Utilities payable (6,255 + 745)		7,000	0.5
Account payable		675	0.5
Income tax		1,500	0.5
		9,175	
<i>Total equity and liabilities</i>		40,237	
Working Notes:			
		Amount in Rs. '000'	
1- Account receivable:			
		Rs. in '000'	
(3,942 - 342 - 180)		3,420	0.5 each
2- Cost of Sales:			
		Rs. in '000'	
Opening inventory		10,800	0.5
Purchases		18,900	0.5
Depreciation (plant) (6,300 - 2,160) x 0.20		828	0.5
Closing inventory		(7,200)	0.5
		23,328	

FINANCIAL ACCOUNTING – STAGE-3**3- Selling and Distribution Costs:**

	<u>Rs. in '000'</u>	<u>Marks</u>
Miscellaneous selling and distribution expenses	1,500	0.5
Depreciation (motor vehicle) $(1,440 - 540) \times 0.25$	225	0.5
	<u>1,725</u>	

4- Administrative Expenses:

	<u>Rs. in '000'</u>	
Miscellaneous administrative expenses	6,000	0.5
Audit fee	600	0.5
Depreciation (building) $(45,000 \times 0.05)$	2,250	0.5
Office staff salaries	2,100	0.5
Actual bad debts (written off)	342	0.5
Bad debt estimated (provision)	180	0.5
Utilities expense	745	0.5
	<u>12,217</u>	

5- Property, Plant and Equipment:

				<u>Rs. in '000'</u>	
<u>Particulars</u>	<u>Cost</u>	<u>Depreciation Charge</u>	<u>Accumulated Depreciation</u>	<u>Written Down Value</u>	
Buildings	45,000	2,250	18,000	24,750	0.5 each
Plant	6,300	828	2,160	3,312	0.5 each
Motor vehicle	1,440	225	540	675	0.5 each
	<u>52,740</u>	<u>3,303</u>	<u>20,700</u>	<u>28,737</u>	