

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

SPRING (SUMMER) 2008 EXAMINATIONS

Sunday, the 25th May, 2008

FINANCIAL ACCOUNTING

Stage- 3

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 90

- (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 on 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.

Marks

- Q. 2** (a) Malico has the following balance sheet on March 31, 2008. They agreed to transfer their assets and liabilities to Mufti Industries Limited at agreed value:

ASSETS			EQUITIES		
<i>Current Assets</i>	<u>Rs.</u>	<u>Rs.</u>	<i>Current Liabilities</i>	<u>Rs.</u>	<u>Rs.</u>
Accounts receivable	17,500		Accounts payable		40,000
Less: Allow. For Bad Debts	<u>500</u>	17,000	Bank loan		50,000
Prepaid insurance		12,000	Taxes payable		24,000
Prepaid rent		4,000	<i>Owner's equity:</i>		
Merchandise inventory		25,000	Ahmed Ali – Capital	125,000	
<i>Non-current Assets:</i>			Akbar Ali – Capital	<u>125,000</u>	250,000
Office equipment	220,000				
Less: Acc. depreciation	<u>14,000</u>	<u>206,000</u>			
Office furniture	115,000				
Less: Acc. depreciation	<u>15,000</u>	<u>100,000</u>			
Total		<u><u>364,000</u></u>	Total		<u><u>364,000</u></u>

Mufti Industries Limited takes over the following assets and liabilities of Malico, at an agreed price which is given against each:

	<u>Rs.</u>		<u>Rs.</u>
Accounts receivable	16,800	Accounts payable	40,000
Merchandise inventory	36,000	Bank loan	54,000
Office equipment	220,000	Goodwill	100,000
Office furniture	87,000		

PTO

Mufti Industries Limited issued 27,500 ordinary shares of Rs.10 each fully paid and also paid Rs.125,800 in cash to M/s. Ahmed Ali and Akbar Ali the partners of Malico as purchase consideration of running business.

Required: Pass journal entries in the books of Mufti Industries Limited to record: 12

- (i) transfer of the assets and liabilities at agreed price
- (ii) issuance of the ordinary shares to the vendors.

(b) There are certain concerns, that provide services without the objectives of making profit. Accordingly, instead of making profit & loss account, they prepare receipts and payments accounts/summary only.

What are the main features of the receipt and payment account? Discuss. 08

Q. 3 (a) On February 01, 2008, Salamat and Karamat decided to form a partnership business. Salamat agreed to invest assets at valuation agreed upon, liabilities at book value, and to bring cash to make his capital to Rs.90,000. Some details regarding the book value, market value and agreed value are as under:

	Book Value (Rupees)	Market Value (Rupees)	Agreed Value (Rupees)
Accounts receivable	18,000	—	18,000
Allowance for bad debts	1,000	—	600
Merchandise inventory	35,000	32,000	30,000
Store equipment	10,000		
Acc. Dep. – store equipment	3,000	8,000	9,000
Office furniture	9,500		
Acc. Dep. – office furniture	2,500	7,800	8,000
Accounts payable	12,500	—	12,500

Required:

For the new partnership firm, you are required to prepare the following:

- (i) Journal entries for the above investment. 08
 - (ii) Balance sheet after investment. 06
- (b) Explain the procedure of accounting in the event of death of a partner. 06

Q. 4 (a) The following information have been taken from the record of M/s. Adnan Traders as at December 31, 2007:

Current ratio	2.5
Liquidity ratio	1.5
Net working capital	Rs.300,000
Stock turnover ratio	6
Ratio of gross profit to sales	20%
Ratio of turnover to fixed assets (net)	2
Average debt collection period	2 months
Fixed assets to net worth	0.80
Reserves and surplus to capital	.5

Required:

Using the above data, you are required to draw up the Balance Sheet of the concern. (Also show your working notes / computations). 15

(b) Discuss the disclosure requirements of International Accounting Standard, IAS – 16 (revised 2003). 12

Q. 5 Explain the following terms:

- (a) Extra Ordinary Items 02
- (b) Prior Year Adjustment 02
- (c) Stock Dividend 02
- (d) Stock Split 02

Q. 6 M/s. K. K Limited maintains its office at Liberty Plaza. On 1st July 2007, it was destroyed by fire and all records were burnt. Employees got benefit of destruction of record and stolen the stocks of the company. The company is in the struggle of maintaining fresh record and found the data from the following sources:

- (a) The company had its marketing office at another plaza from where following sales data received:
 - Sales (January to June 2007) Rs.1,050,000
- (b) The company's directors had balance sheet for the year 2006 and were able to pick the following data:
 - Closing stock 31-12-2006 Rs.117,500
 - Trade creditors 31-12-2006 Rs. 98,750
- (c) The company had policy of making gross profit of 25% on the sales value.
- (d) The creditors have demanded for the payment worth Rs.138,750.
- (e) From the bank, it has come to know that company had issued cheques for Rs.710,000 during January to June 2007.

Required:

- (a) Prepare profit & loss account from 01-01-2007 to 30-06-2007. 10
- (b) Find out the amount of stolen stock. 05