INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (Summer) 2009 Examinations

Sunday, the 24th May 2009

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)** Amir and Babar entered into a joint venture to sell a consignment of timber sharing profit and loss equally. Amir provides timber from his stock at a mutually agreed value of Rs.50,000. He pays expenses amounting to Rs.2,500. Babar incurred further expenses on cartage, storage of Rs.6,500 and received cash for sales amounting to Rs.30,000. He also took over goods to the value of Rs.10,000 for his own business. At the close, Amir took over the remaining stock in hand, which was valued at Rs.11,000.

Required:

Prepare joint venture account and co-venture account in the books of Amir. 05

(b) From the following information of M/s. Saleem and Company, find out the value of credit sales: 05

	Rs.
Accounts receivable at 1-1-2008	25,000
Returns inwards	7,000
Cash received from customers	38,000
Discount allowed	3,500
Bills receivable from customers	20,000
Bad debts	2,500
Bills receivable dishonored	4,000
Accounts receivable at 31-12-2008	15,000

PTO

Marks

Q. 3 Delta Motors Limited took a license for the production of cars from the Fast Motors limited. Royalty is payable @ Rs.2,000 per car produced.

Delta Motors Limited issued a sub-license to Trustworthy Motors Limited on the basis of a royalty of Rs.2,500 per car sold. Minimum royalty payable by Trustworthy Motors limited was fixed at Rs.30,000,000 per annum with a right to recoup the shortworkings in the following year.

The details of units produced and sold are tabulated below:

Delta Motors Limited		
Year	**Sales**	**Closing Inventory**
2006	40,000	10,000
2007	50,000	20,000
2008	90,000	30,000

Trustworthy Motors Limited		
Year	**Production**	**Closing Inventory**
2006	4000	2000
2007	20,000	4000
2008	30,000	9000

Required:

Using the above data, prepare the following accounts in the books of Delta Motors Limited:

(a) Royalty payable account 06

(b) Royalty receivable account 06

(c) Royalties suspense account 03

Q. 4 A, B and C decide to dissolve their partnership on January 1, 2008. The statement of financial position of the partnership as at December 31, 2007 was as follows:

Statement of Financial Position at December 31, 2007

	Rs.	Rs.		Rs.	Rs.
Non-current assets:			**Capital Accounts**		
(at net book value)			A	21,000	
Furniture and fixtures	20,000		B	21,000	
Motor vehicles	16,000	36,000	C	10,000	52,000
Current assets			**Current Accounts**		
Investments	20,000				
Accounts receivable	37,000		A	6,250	
Balance at bank	4,000	61,000	B	3,450	
			C	1,000	10,700
			Loan		15,000
			Accounts payable		19,300
		97,000			**97,000**

- The loan was repaid, interest already having been paid up to December 31, 2007.
- The furniture and fixtures were sold for Rs.18,200 and the partner C took over a motor vehicle (which had a net book value of Rs.5,000) at an agreed valuation of Rs.6,000. The other vehicles were sold for Rs.13,450 after repair cost of Rs.450.
- Accounts receivable realized only Rs.34,800. Because of large discounts available, accounts payable were settled for Rs.17,600. The investments realized Rs.22,300.
- Dissolution expenses amounting to Rs.750, were paid. The partners A, B and C share profits and losses in the ratio 2:2:1.

Required:

Prepare the following accounts showing the final distribution among the partners:

(a) Partners' capital accounts 07

(b) Realization account 07

(c) Bank account 06

Marks

Q. 5 Fawad Industries Limited prepares its financial statements on December 31, each year. At December 31, 2006, the machinery was reported as follows:

	Machine A	Machine B	Total
Cost	450,000	300,000	750,000
Accumulated Depreciation	(180,000)	(45,000)	(225,000)
Net Book Value	270,000	255,000	525,000

Both machines are measured at cost and depreciation is charged at 10% on a straight-line basis. On June 30, 2007, the directors decided to change the basis of measuring machinery to the revaluation model. At that date, machine A was revalued at Rs.270,000 with an expected remaining useful life of six years, and machine B was revalued at Rs.232,500 with an expected useful life of five years.

On December 31, 2008, machine A was assessed to have a value of Rs.200,000 and machine B, a value of Rs.165,000.

Required:

Prepare journal entries to account for the machinery for the year ended December 31, 2007 and December 31, 2008 respectively. 20

Q. 6 The financial year of Alpha Limited ended on June 30, 2008. The following balances were extracted from the books of accounts:

ALPHA LIMITED
Trial Balance
For the year ended June 30, 2008

Particulars	(Rs.) Dr.	(Rs.) Cr.
Provision for staff gratuity (unfunded)		530,000
General expenses	805,000	
Ordinary share capital		7,000,000
Preference share capital		3,000,000
Share premium		1,000,000
Profit & loss account, July 1, 2007		3,880,000
10% Debentures 2001/2010		4,000,000
Land & building (at cost)	7,850,000	
Plant & machinery (at cost)	13,520,000	
Office equipment (at cost)	2,750,000	
Trade investment at cost (unlisted)	1,240,000	
Mark-up on investment		100,000
Inventory (July 1, 2007)	980,000	
Accounts receivable	3,630,000	
Bank & cash	135,000	
Accounts payable		2,250,000
Allowance for doubtful accounts		200,000
Sales		29,200,000
Purchases	19,740,000	
Purchases returns		510,000
Power, heat & light	2,320,000	
Stationery & telephone	195,000	
Rates	325,000	
Debenture mark-up (paid)	400,000	
Wages & salaries	3,890,000	
Accumulated depreciation:		
Land and building		320,000
Plant & machinery		5,100,000
Office equipment		900,000
Preference dividend (paid)	210,000	
	57,990,000	**57,990,000**

PTO

Marks

Additional information:

(i) Inventory at June 30, 2008 was Rs.1,730,000.

(ii) A debt of Rs.30,000 has been confirmed as bad debt and is to be written off.

(iii) The allowance for doubtful accounts is to be adjusted to 5% of the accounts receivable.

(iv) General expenses include:

		(Rs.)
• Auditor's fee and out of pocket expenses	:	140,000
• Directors' fees	:	60,000
• Managing director's remuneration	:	470,000

(v) Depreciation is to be provided as follows:

		(Rs.)
• Land and building	:	80,000
• Plant and machinery	:	1,310,000
• Office equipment	:	320,000

(vi) Provision for taxation on current year's profit is Rs.360,000.

(vii) Authorized share capital consists of:

		(Rs.)
• 500,000 7% preference shares of Rs.10 each	:	5,000,000
• 1,500,000 ordinary shares of Rs.10 each	:	15,000,000

(viii) Non-current assets movement for the year was:

				(Rs.)
Purchase	:	Plant and machinery	:	3,650,000
		Office equipment	:	290,000
Disposal	:	Plant and machinery	:	1,870,000
		Office equipment	:	20,000

Required:

(a) Profit and loss account including appropriations of the profit for the year ended June 30, 2008. 14

(b) Statement of financial position as at June 30, 2008. 11

THE END