INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (Summer) 2010 Examinations

Saturday, the 22nd May 2010

FINANCIAL ACCOUNTING- (S-301)
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 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.

Marks

Q. 2 Zakir Fruit Merchant of Quetta consigned 10,000 kgs of fruit to Shakir of Karachi on 1st January 2009. The cost of the fruit was Rs.20 per kg. Zakir paid Rs. 20,000 for packing, freight and insurance. During transit, 250 kgs were accidentally destroyed for which the insurers paid directly to the consignor Rs.3,000 in full settlement of the claim.

Shakir took delivery of the consignment on 10th January 2009. On 31st March, 2009, Shakir reported that 7,500 kgs were sold at Rs. 30 per kg, the expenses being on godown rent Rs. 3,000, on advertisement Rs. 4,000 and on salesman salaries Rs. 6,000. Shakir is entitled to a commission of 5% plus 2.5% del credere. A party that had purchased 1,000 kgs of fruit was able to pay only 80% of the outstanding amount.

Shakir reported 100 kgs of fruit loss, which was treated as normal loss. Assume that Shakir paid the amount due by bank draft.

Required:

Draw up the following accounts in the books of Zakir:

(a) Consignment account 10
(b) Abnormal loss account 03
(c) Shakir account 02

Q. 3 Hyderabad Company with its Head Office at Hyderabad has a branch at Sukkur. Goods are invoiced to the branch at cost plus 20%. The following information is given in respect of the branch for the year ended 31st March, 2009:

	Rs.
Goods sent to branch (Invoice price)	350,000
Stock at branch on 1.4.2008 (Invoice price)	17,500
Cash sales	131,250
Credit sales	204,167
Return of goods by customers to the branch	4,375
Branch expenses (paid in cash)	39,010
Branch debtors balance on 1.4.2008	21,875
Discount allowed	729
Bad debts	1,094
Collection from debtors	196,875
Branch debtors' cheques dishonoured	3,646
Stock at branch on 31.3.2009 (Invoice price)	35,000
Branch debtors balance on 31.3.2009	26,615

PTO

Marks

Required:

Prepare, under the stock and debtors system, the following ledger accounts in the books of the Head Office:

(a)	Sukkur Branch Stock Account	04
(b)	Sukkur Branch Debtors Account	04
(c)	Sukkur Branch Adjustment Account	04
(d)	Sukkur Branch Profit and Loss Account	03

Q. 4 Following data pertains to the statement of financial position of a sports club as on January 1, 2009:

	Rupees in thousand
Ground rent payable	480
Cash at bank	1,800
Salaries payable	720
Investment in 10% Government Securities	2,400
4% long-term loan	12,000
Subscription receivable	600
Rent receivable	1,200
Office equipment:	1,200
Accumulated depreciation	250
Advance subscription	120
Sports equipment:	6,000
Accumulated depreciation	1,500
Accumulated fund	12,530
Building:	18,000
Accumulated depreciation	3,600

During the year cash receipts and payments, as shown by the bank statement, were as under:

Receipts	Rs. '000	**Payments**	Rs. '000
Subscriptions	22,800	Sports equipment	2,400
Entrance fees	1,800	Salaries expenses	19,200
Rent revenue	5,400	Ground rent	2,400
Donation	2,400	Office supplies	600
Interest on investment	120	Interest on long-term loan	240
		Insurance expense	600
		Miscellaneous expenses	600

Supplementary data as on December 31, 2009:

a) Accrue interest on investment and long-term loan.
b) Donation is a part of accumulated fund.
c) Ground rent payable Rs.600,000.
d) Subscription and rent receivable Rs.120,000 and Rs.600,000 respectively.
e) Provide depreciation on office equipments, sports equipments and building @ 10%, 20% and 2% per annum respectively.
f) Subscription and rent received in advance Rs.720,000 and Rs.360,000 respectively.
g) Office supplies in hand Rs.240,000.

Required:

Prepare Income and Expenditure Account for the year ended December 31, 2009. 15

Marks

Q. 5 (a) Define the following terms as per IAS-16:

(i) Depreciation	01
(ii) Fair value	01
(iii) Recoverable amount	01
(iv) Impairment loss	01

(b) Muhammad Ali owns a retail shop. On 31st December 2009, his books and vouchers were totally destroyed by fire with the exception of his cheque book stubs, which were at home. Following are relevant figures from the statement of financial position as at 31st December 2008:

	Rs.		Rs.
Cash in hand	14,000	Accounts payable	94,000
Cash at bank	275,200		
Accounts receivable	19,000		
Inventory	115,000		

On 31st December 2009, the following analysis of payments was prepared on the basis of bank statement obtained:

	Rs.
Goods for resale	2,158,000
Rent	75,000
Rates	14,400
Electricity	9,200
Repairs	8,400
Insurance	4,000
Miscellaneous expenses	5,200
Drawings	90,000

Total banking for the year amounted to Rs.2,450,200.

Additional information from Muhammad Ali is as follows:

a) All cash receipts were banked, except:
   - i) Salary of Rs.13,000 per month to an employee.
   - ii) Rs.5,200 paid to casual labor during the year.
   - iii) A total of Rs.7,800 paid for miscellaneous expenses.
   - iv) Cash purchases were Rs.2,000 per week.
   - v) He was not certain about his drawings but they ranged between Rs.3,000 and Rs.4,000 per week.

b) Rs.30,000 received in cash, in respect of investment sold, was not banked.

c) Rs.5,200 received, as profit on investments, were not banked.

d) On December 31, 2009:
   - i) Accounts receivable were Rs.22,000.
   - ii) Accounts payable were Rs.102,000.
   - iii) Cash in hand was Rs.17,000.

e) Bad debts during the year were Rs.5,000.

f) Gross profit margin was 20%.

Required:

Work out the following:

(i) Sales for the year ended December 31, 2009	03
(ii) Purchases for the year ended December 31, 2009	03
(iii) Ending Inventory	02
(iv) Cash account	05
(v) Bank account	03

PTO

Marks

Q. 6 Following is the trial balance of Usman Ltd., for the period ended December 31, 2009:

Title of Account	**Debit** (Rs.' 000)	**Credit** (Rs.' 000)
Rs.10 ordinary shares		1,500
Bank	150	
Share premium		750
Inventory at January1, 2009	3,600	
Accounts payable		1,575
Miscellaneous administrative expenses	2,000	
Sales tax payable		2,085
Miscellaneous selling expenses	250	
Sales revenue		17,628
Building-cost	15,000	
Dividend paid	300	
Plant and equipment-cost	2,100	
Purchases	6,300	
Motor vehicle-cost	480	
Accounts receivable	1,314	
Suspense account		2,250
Retained earnings		840
Accumulated depreciation: Building		6,000
Accumulated depreciation: Plant and equipment		720
Accumulated depreciation: Motor vehicle		180
Audit fee	200	
Office staff salaries	500	
Distribution expenses	250	
Sales staff salaries	200	
Income tax (under-provision of the last year)	175	
Advertising expense	100	
Finance charges	609	
Total	**33,528**	**33,528**

Additional Information:

i) 150,000 new ordinary shares were issued at Rs.15 in December 2009. The proceeds have been credited in suspense account.

ii) Inventory at December 31, 2009 was valued at Rs.2,400,000. While doing the inventory count, errors in the previous year's inventory count were discovered. The inventory brought forward at the beginning of the year should have been Rs.3.3 million, not 3.6 million as mentioned above.

iii) A customer has gone bankrupt owing Rs.114,000. 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.

iv) Income Tax to be provided Rs.500,000.

v) No final dividend is being proposed.

vi) 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 distribution costs.

Required:

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

(a) Income Statement (showing classification of expenses by functions) for the year ended December 31, 2009. 13

(b) Statement of Changes in Equity for the year ended December 31, 2009. 02

(c) Statement of Financial Position as at December 31, 2009. 10

THE END