FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL

Marks

Question No. 2

(a)

TechLine Limited
Statement of Financial Position
as on June 30, 2016

	Rs. '000'	Marks
Assets		
Non-current assets		
Property, plant and equipment	150,000	**0.25**
Freehold land	315,000	**0.25**
Motor vehicle – Under finance lease	37,500	**0.25**
	502,500	
Intangible non-current assets		
Software – ERP	35,000	**0.25**
	35,000	
Current assets		
Inventories	31,815	**0.25**
Trade receivables	32,000	**0.25**
	63,815	
Total assets	**601,315**	**0.25**
Equity and liabilities		
Share capital	350,000	**0.25**
Share premium	25,000	**0.25**
General reserve	10,000	**0.25**
Retained earnings (88,500 + 20,000 – 10,000 – 17,500)	81,000	**0.50**
Revaluation reserve (5,000 + 10,000)	15,000	**0.25**
	481,000	
Long-term liabilities		
Long-term loan	25,000	**0.50**
Liabilities under finance lease	50,000	**0.50**
	75,000	
Current liabilities		
Trade payables	17,500	**0.50**
Dividend payable	10,500	**0.50**
Provision for taxation	9,690	**0.50**
Interest payable (25,000 x 8.5%)	2,125	**0.50**
Bank overdraft	5,500	**0.50**
	45,315	
Total equity and liabilities	**601,315**	**0.25**

Marks

TechLine Limited
Statement of Profit or Loss
for the year ended June 30, 2016

	Rs. '000'	Marks
Revenue	280,000	0.50
Cost of goods sold [137,500 + 14,000]	(151,500)	0.50
Gross profit	128,500	
Operating expenses		
Marketing expenses [44,800 + 16,500]	61,300	0.50
Administrative expenses [14,000 + 14,500 + 6,500]	35,000	0.50
	(96,300)	
Operating profit	**32,200**	0.50
Financial charges [25,000 x 8.5%] + 385	(2,510)	0.50
Profit before tax	29,690	
Taxation	(9,690)	0.50
Profit after tax	**20,000**	01

Workings: Rs. '000'

Non-current assets	Costs	Rates	Depreciation	Accumulated Depreciation	Adjustment	Total	WDV	Marks
Property, plant and equipment	250,000	10%	25,000	75,000	–	100,000	150,000	0.50
Freehold land	305,000	–	–	–	10,000	–	315,000	0.50
Motor vehicle – Under finance lease	75,000	5%	15,000	22,500	–	37,500	37,500	0.50
Software – ERP	50,000	10%	5,000	10,000	–	15,000	35,000	0.50

Depreciation allocation	Cost of Sales	Marketing	Administrative	Marks
Property, plant and equipment	12,500	7,500	5,000	0.50
Motor vehicle – Under finance lease	1,500	9,000	4,500	0.50
Software – ERP	–	–	5,000	0.50
	14,000	**16,500**	**14,500**	

(b) (i) Sukuk (Islamic bonds), structured in such a way as to generate returns to investors without infringing Islamic law (that prohibits riba or interest).

Sukuk represents undivided shares in the ownership of tangible assets relating to particular projects or special investment activity. **02**

(ii) A debenture is a medium to long-term debt format that is used by large companies to borrow money. Debentures are the most common form of long-term loans that can be taken by a company. **02**

Marks

(c)

Private Company	Public (Unlisted) Company
• A private company cannot invite subscription from the public.	• An unlisted public company can invite subscription from the public.
• Transfer of shares is restricted in a private company.	• An unlisted public company does not have restriction on transfer of shares.
• A private company should have at least two members.	• An unlisted public company should have at least three members.
• Maximum members cannot exceed 50 members. However, the employee members are not counted for the purpose of deciding upper limit and joint shareholders are counted as one.	• There is no restriction on upper limit of the members.
• A private company is not required to obtain certificate for commencement of business and it can commence business just after its incorporation.	• A public unlisted company has to seek certificate for commencement of business.
• There is no requirement to raise minimum subscription by a private company.	• An unlisted public company has to raise minimum subscription before obtaining certificate for commencement of business.
• Filing of accounts is not required by a private company except where private company is subsidiary of a public company.	• An unlisted public company is required to file its accounts with the registrar only.
• No qualification is prescribed for an auditor of a private company except when it has paid up capital exceeding Rs. 3 million.	• Auditor's qualification is prescribed as chartered accountant.
• No restriction is imposed for investment in association companies and undertakings.	• Investment in associate companies and undertakings is restricted.
• No restriction is imposed on the business of a chief executive.	• Chief executive of unlisted company cannot engage in a competitive business.
• No reporting of beneficial ownership is required.	• No such restriction on unlisted public company.
• A private company is not required to hold a statutory meeting.	• An unlisted public company is required to hold a statutory meeting once in its life.
• A private company is not required to file statutory meeting.	• A public company is required to file statutory report.
• A private company is not obliged to appoint a company secretary.	• Appointment of whole time qualified company secretary is not mandatory.
• Quorum for a general meeting of a private company is two members present in person having not less than 25% voting power of their own account or through proxies.	• Quorum for a general meeting of an unlisted public company is two members present in person having not less than 25% voting power of their own account or through proxies.

Any four (4) points @ 1 mark each = **04**

Marks

Question No. 3

				Marks
(i)	Return on capital employed	=	Profit before interest and tax ÷ (Total assets – Current liabilities)	**0.50**
		=	14,346 ÷ (50,852 – 11,168)	**0.50**
		=	36%	**01**
(ii)	Asset turnover	=	Sales ÷ Capital employed	**0.50**
		=	92,556 ÷ (50,582 – 11,168)	**0.50**
		=	2.35	**01**
(iii)	Gross profit percentage	=	Gross profit ÷ Sales	**0.50**
		=	37,485 ÷ 92,556	**0.50**
		=	40.50%	**01**
(iv)	Inventory turnover in days	=	Inventory ÷ Cost of sales x 365	**0.50**
		=	(4,530 ÷ 55,071) x 365	**0.50**
		=	30	**01**
(v)	Accounts receivable in days	=	Accounts receivable ÷ Sales x 365	**0.50**
		=	(6,560 ÷ 92,556) x 365	**0.50**
		=	26	**01**
(vi)	Current ratio	=	Current assets ÷ Current liabilities	**0.50**
		=	20,102 ÷ 11,168	**0.50**
		=	1.80	**01**
(vii)	Quick ratio	=	(Current assets – Inventory) ÷ Current liabilities	**0.50**
		=	(20,102 – 4,530) ÷ 11,168	**0.50**
		=	1.39	**01**

Supportive Calculations

Sales	92,556
Cost of sales	55,071
Gross profit	37,485
Operating expenses	23,139
Profit before interest and tax	14,346
Interest	1,282
Profit before tax	13,064
Taxation	4,271
Profit after tax	8,793
Current assets	20,102
Non-current assets	30,750
Total assets	50,852
Current assets	20,102
Current liabilities	11,168
Net current assets	8,934

Marks

Question No. 4

(a) (i)

Partners' current accounts **Rupees**

			Debit				**Credit**	
Date	**Particulars**	**Nadir**	**Riaz**	**Date**	**Particulars**	**Nadir**	**Riaz**	**Marks**
31-Dec-14	To drawings	375,000	225,000	31-Dec-14	By interest on capital	275,000	150,000	**01**
	To Nadir's capital (transfer)		225,000		By profit	300,000	300,000	**0.50**
	To balance c/d	200,000						
		575,000	**450,000**			**575,000**	**450,000**	
31-Dec-15	To Drawings	375,000	225,000	01-Jan-15	By balance b/d	200,000		**0.50**
	To Nadir's capital (transfer)		37,250	31-Dec	By interest on capital	297,500	150,000	**0.50**
	To balance c/d	234,750			By profit	112,250	112,250	**0.25**
		609,750	**262,250**			**609,750**	**262,250**	
31-Dec-16	To drawings	375,000	225,000	01-Jan-16	Balance b/d	234,750		**0.50**
	To Nadir's capital (transfer)		74,888	31-Dec	By interest on capital	301,225	150,000	**0.50**
	To balance c/d	310,863			By Profit	149,888	149,888	**0.25**
		685,863	**299,888**			**685,863**	**299,888**	

(ii)

Partners' capital accounts **Rupees**

			Debit				**Credit**	
Date	**Particulars**	**Nadir**	**Riaz**	**Date**	**Particulars**	**Nadir**	**Riaz**	**Marks**
31-Dec-14	To balance c/d	2,975,000	1,500,000	01-Jan-13	By balance b/f	2,750,000	1,500,000	
				Dec 31	By Riaz's current a/c (transfer for goodwill)	225,000		**0.50**
		2,975,000	**1,500,000**			**2,975,000**	**1,500,000**	
31-Dec-15	To balance c/d	3,012,250	1,500,000	01-Jan-15	By balance b/d	2,975,000	1,500,000	**0.25**
				Dec 31	By Riaz's current a/c (transfer for goodwill)	37,250		**0.50**
		3,012,250	**1,500,000**			**3,012,250**	**1,500,000**	
31-Dec-16	To balance c/d	3,087,138	1,500,000	01-Jan-16	By balance b/d	3,012,250	1,500,000	**0.25**
				31-Dec-16	By Riaz's current a/c (transfer for goodwill)	74,888		**0.50**
		3,087,138	**1,500,000**			**3,087,138**	**1,500,000**	

Marks

(iii)

Profit or loss appropriation account

Date	Particulars		Rupees	Date	Particulars	Rupees	Marks
31-Dec-14	To interest on capitals:			31- Dec-14	By net profit	1,025,000	
	Nadir: 10% on Rs. 2,750,000	275,000					0.25
	Riaz:10% on Rs. 1,500,000	150,000	425,000				0.25
	To profit to						
	Nadir:	300,000					0.25
	Riaz:	300,000	600,000				0.25
			1,025,000			**1,025,000**	0.25
31- Dec-15	To interest on capitals:			31- Dec-15	By net profit	672,000	0.25
	Nadir: 10% on Rs. 2,975,000	297,500					0.25
	Riaz:10% on Rs. 1,500,000	150,000	447,500				0.25
	To profit to:						
	Nadir:	112,250					0.25
	Riaz:	112,250	224,500				0.25
			672,000			**672,000**	0.25
31- Dec-16	To interest on capitals:			31- Dec-16	By net profit	751,000	
	Nadir: 10% on Rs. 3,012,250	301,225					0.25
	Riaz: 10% on Rs. 1,500,000	150,000	451,225				0.25
	To profit to :						
	Nadir	149,888					0.25
	Riaz	149,888	299,775				0.25
			751,000			**751,000**	0.25

Profits before providing interest on capital:

Rupees

Year	Capital at the End	Drawings	Total	Capital in the Beginning	Profit (4-5)
1	2	3	4	5	6
2014	4,675,000	600000	5,275,000	4,250,000	1,025,000
2015	4,747,000	600,000	5,347,000	4,675,000	672,000
2016	4,898,000	600,000	5,498,000	4,747,000	751,000

Marks

(b) Double Entry versus Single Entry System:

The following are the points of distinction between double entry system and single entry system:

- Under double entry system, both debit and credit aspects of all the transactions are recorded. Under single entry system, some transactions are not recorded at all while some transactions are recorded in only one of their aspects – either debit aspect or credit aspect and there are some transactions which are recorded in the same manner as they are recorded under double entry system. **01**
- Under double entry system, various subsidiary books are maintained whereas under single entry system no subsidiary book except cash book is maintained. **01**
- Under double entry system, the ledger contains personal, real as well as nominal accounts but under single entry system the ledger contains some personal accounts only. **01**
- Under double entry system, arithmetic accuracy of records can be ascertained by preparing a trial balance. Under single entry system, it is not possible. **01**
- Under double entry system, income statement and balance sheet are prepared in a scientific manner but under single entry system, only a rough estimate can be made of profit earned or loss incurred and only a statement of affairs can be prepared which does not present a scientifically correct financial position. **01**

Question No. 5

Lahore branch account

	Rupees		Rupees	Marks
Balance b/d				
Stock from head office	55,000			0.50
Stock purchased locally	13,750			0.50
Debtors	65,000	Goods return by branch	30,250	01
Goods sent to branch	511,500	Cash sales	45,000	01
Goods purchased by branch	250,000	Collection from debtors	745,000	01
Expenses:		**Balance c/d**		
Salaries	55,000	Stock from head office	66,000	01
Rent	25,000	Stock purchased locally	44,000	01
Other expenses	10,000	Debtors	180,000	01
Profit and loss account	**125,000**			01
	1,110,250		**1,110,250**	0.50

Debtors account

	Rupees		Rupees	Marks
Balance	65,000	Return	20,000	01
Sales	885,000	Discount	5,000	01
		Cash received	745,000	0.50
		Balance	180,000	0.50
	950,000		**950,000**	0.50

Marks

Question No. 6

(a)

Al-Atr Group
Consolidated Statement of Financial Position
as on June 30, 2016

	Rs. '000'	Marks
Non-current assets		
Property, plant and equipment [50,000 + 12,000 +1,000]	63,000	**0.75**
Goodwill arising on consolidation (W-1)	1,250	**0.50**
	64,250	**0.50**
Inventories	7,793	**0.25**
Accounts receivable	3,770	**0.25**
Cash and bank	2,500	**0.25**
Total	**78,313**	**0.50**
Equity		
Share capital	40,000	**0.25**
Retained earnings (W-2)	24,913	**0.50**
	64,913	**0.50**
Non-controlling interest (W-4)	4,250	**0.50**
Current liabilities (5,650 + 3,500)	9,150	**0.25**
Total	**78,313**	**0.50**

Workings:

W-1:

Goodwill:		
Consideration transferred	11,250	**0.50**
Non-controlling interest [1,000 x 25% x 16]	4,000	**01**
	15,250	
Equity acquired		
Share capital	10,000	**0.50**
Retained earnings	3,000	**0.50**
Fair value rise – land	1,000	**0.50**
	14,000	**0.25**
Goodwill arising on consolidation	**1,250**	**0.50**

W-2:

Consolidated retained earnings	**Al-Atr Co.**	**Al-Ftr Co.**	
As per question	24,350	4,000	**0.50**
Pre-acquisition retained earnings		(3,000)	**0.50**
	24,350	1,000	**0.50**
Unrealized profit (W-3)	(187.50)		**0.50**
Share from subsidiary [1,000 x 75%]	750		**0.50**
	24,913	–	**0.50**

Marks

W-3:

Unrealized profit	**Rs. '000'**	
Cost of goods	2,500	**0.25**
Mark-up [2,500 x 0.25]	625	**0.50**
Sales price	3,125	**0.50**
Inventory at end (3,125 x 30%)	937.50	**01**
Unrealized profit (937.5 x 0.25/1.25)	**187.50**	**0.50**

W-4:

Non-controlling interest		
Fair value of NCI (250 x 16)	4,000	**0.25**
Share of profit	250	**0.25**
Non-controlling interest	**4,250**	**0.50**

(b) (i) Inter-company transaction or intra-group trading usually gives rise to unrealised profit which is eliminated on consolidation. The objective of consolidated accounts is to present the financial position of several connected companies as that of a single entity, the group. This means that in a consolidated statement of financial position the only profits recognised should be those earned by the group in providing goods or services to outsiders, and similarly, inventory in the consolidated statement of financial position should be valued at cost to the group. **06**

(ii) The earned profits of a company for the period before acquisition are referred to as pre-acquisition profits. **02**

The post-acquisition retained earnings are simply retained earnings now less retained earnings at acquisition. **02**

THE END