

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****Question No. 2****(a)****Khan Limited****Statement of Profit or Loss
For the year ended June 30, 2017**

			Rupees	
Sales (59,917,000 - 500,000)			55,417,000	0.75
Less: Cost of goods sold	W-1		23,328,000	0.25
Gross Profit			32,089,000	0.25
Less : Administrative expenses	W-2	(12,217,000)		0.25
Less : Selling and distribution expenses	W-3	(2,250,000)	(14,467,000)	0.25
Profit from operations			17,622,000	0.25
Less Finance charges (6,750,000 x 16%)			(1,080,000)	0.75
Profit before taxation			16,542,000	0.25
Less Provision for taxation			(1,500,000)	0.5
Net profit for the period			15,042,000	0.25

Khan Limited**Statement of Financial Position
As on June 30, 2017**

			Rupees	
Equity and Liabilities				
Share capital and reserves				
Authorised Capital				
2,500,000 ordinary shares of Rs.10 each			25,000,000	0.25
Share capital (675,000 shares x Rs.10)		6,750,000		0.25
General reserves		10,000,000		0.25
Retained earnings		7,562,000	24,312,000	0.25
Liabilities				
Non- Current Liabilities				
Long term loan			6,750,000	0.25
Current Liabilities				
Trade creditors		675,000		0.25
Accrued expenses (6,255,000+745,000+270000)		7,270,000		0.5
Advance from customer		500,000		0.25
Provision for taxation		1,500,000	9,945,000	0.25
Total Equity And Liabilities			41,007,000	0.25
Assets				
Non-current assets				
	W-4		28,737,000	0.25
Current Assets				
Closing stocks		7,200,000		0.25
Debtors (3,942,000-342,000-180,000)		3,420,000		0.5
Bank balances		1,650,000	12,270,000	0.25
Total Assets			41,007,000	0.25

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks**

Khan Limited
Notes to the Accounts
For the year ended June 30, 2017

	Rupees				
Working-1 (Cost of Goods Sold)					
Opening stock	10,800,000	0.25			
Add: Purchases	18,900,000	0.25			
	29,700,000				
Less: Closing stocks	(7,200,000)	0.25			
	22,500,000				
Add Depreciation	828,000	0.25			
Cost of goods sold	23,328,000				
Working-2 (Administrative Expenses)					
Miscellaneous administrative expenses	6,000,000	0.25			
Audit fees	600,000	0.25			
Office staff salaries	2,100,000	0.25			
Utilities expenses	745,000	0.25			
Bad debts expenses	342,000	0.25			
Allowance for bad debts (3,942,000-342000) × 5/100	180,000	0.25			
Depreciation	2,250,000	0.25			
Total Administrative Expenses	12,217,000				
Working-3 (Selling and Distribution Expenses)					
Miscellaneous Selling and Distribution Expenses	2,025,000	0.25			
Depreciation	225,000	0.25			
Total Administrative Expenses	2,250,000				
Working-4 (Non-Current Assets)					
	Building	Plant & Equipment	Motor Vehicle	Total	
Opening Balance as on July 01, 2013	45,000,000	6,300,000	1,440,000	52,740,000	
Less Accumulated Depreciaton	18,000,000	2,160,000	540,000	20,700,000	
	27,000,000	4,140,000	900,000	32,040,000	1.5
Depreciation Rate	5%	20%	25%		
Depreciation for the Year	2,250,000	828,000	225,000	3,303,000	1.5
Accumulated Depreciation June 30, 2014	20,250,000	2,988,000	765,000	24,003,000	
Written Down Value as on June 30, 2014	24,750,000	3,312,000	675,000	28,737,000	0.75

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks**

Khan Limited
Statement of Changes in Equity
As on June 30, 2017

	Share Capital	Share Premium	General Reserve	Unappropriated Profit	Total	
Opening balance as on July 01, 2016	4,500,000	2,250,000	-	2,520,000	9,270,000	1
Add: Profit for the period	-	-	-	15,042,000	15,042,000	0.25
Add: Issue of bonus shares one share for every two shares held	2,250,000	(2,250,000)	-	-	-	1
Transferred to general reserves	-	-	10,000,000	(10,000,000)	-	1
Total	6,750,000	-	10,000,000	7,562,000	24,312,000	0.75

(b) (i) Ordinary Shares and Preference Shares**02**

In ordinary shares, holder receives the remainder of the total profits available for individual. There is no upper limit to the amounts of dividends they can receive.

Whereas in preference shares, holders get an agreed percentage rate of dividend before the ordinary shareholders receive anything.

(ii) Cash Dividend and Stock Dividend**02**

A cash dividend is payment made by a company out of its earnings to the investor in the form of cash (either through dividend warrants or electronically transfer).

Whereas stock dividends are similar to cash dividends, however, instead of cash, the company pays out stock. As a result, company shares outstanding increase and the company shares stock price will decrease.

Question No. 3**Vertical Analysis:**

Pacific International
Statement of Financial Position

	In Percentage		
	2016	2015	
Fixed assets	31.4	37	0.25
Other non-current assets	11.4	10	0.25
Current assets	57.3	53	0.25
Total Assets	100	100	
Shareholders' equity	65.5	60	0.25
Non-current liabilities	3.6	3.5	0.25
Current liabilities	30.9	36.5	0.25
Total Equity and Liabilities	100	100	

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****Pacific International
Statement of Profit or Loss**

	In Percentage		
	2016	2015	
Revenue	100	100	
Cost of sales	(84.2)	(90)	0.25
Gross profit / (loss)	15.8	10	0.25
Distribution and selling expenses	(0.3)	(0.2)	0.5
Administration expenses	(1.2)	(1)	0.5
Other expenses	(0.1)	(0.1)	0.5
Other income	0.5	0.2	0.5
Finance (costs) / income	(0.1)	(0.1)	0.5
Profit / (loss) before taxation	14.6	8.8	0.5
Taxation	(0.4)	(3)	0.25
Profit / (loss) after taxation	14.2	5.8	0.25

Horizontal Analysis:**Pacific International
Statement of Financial Position**

	In Percentage		
	2016 Over 2015	2015 Over 2014	
Fixed assets	(6.8)	5.7	0.5
Other non-current assets	25	25	0.5
Current assets	18.9	12.8	0.5
Total Assets	10	11.1	0.25
Shareholders' equity	20	(7.7)	0.5
Non-current liabilities	14.3	75	0.5
Current liabilities	(6.8)	58.7	0.5
Total Equity and Liabilities	10	11.1	0.25

**Pacific International
Statement of Profit or Loss**

	In Percentage		
	2016 Over 2015	2015 Over 2014	
Revenue	(5)	-	0.25
Cost of sales	(11.1)	(12.2)	0.5
Gross profit / (loss)	50	(500)	0.5
Distribution and selling expenses	25	33.3	0.5
Administration expenses	12.5	5.3	0.5
Other expenses	150	(33.3)	0.5
Other income	150	(57.9)	0.5
Finance costs	-	66.7	0.25
Profit / (loss) before taxation	57.2	(369.5)	0.5
Taxation	(87.5)	(513.8)	0.5

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****Profit / (loss) after taxation****131.8****(328.4)****0.5****Question No. 4**

(a) **In the books of the head office (honey palace - Karachi)**
Lahore branch stock account

Debit		Credit		
Particulars		Particulars		
Opening balance of stock jan-01-2016	60,000	Bank account - cash sales	200,000	0.5
Goods sent to branch	600,000	Bank account - credit sales	360,000	0.5
Branch debtors - sales return	8,000	Goods return from branch	12,000	0.5
Branch profit and loss surplus account	24,000	Closing balance of stock dec-31-2016	120,000	0.75
	692,000		692,000	0.25

Lahore branch adjustment account

Debit		Credit		
Particulars		Particulars		
Goods return from branch (12,000 x 25/125)	2,400	Opening balance of stock (60,000 x 25/125)	12,000	0.1
Closing stock of branch (120,000 x 25/125)	24,000	Goods sent to branch (600,000 x 25/125)	120,000	0.1
Branch profit and loss surplus account	105,600			0.5
	132,000		132,000	0.25

Lahore branch goods debtors account

Debit		Credit		
Particulars		Particulars		
Opening Balance of Debtors	72,000	Bank - Collection from Debtors	320,000	0.5
Credit Sales - Lahore Branch	360,000	Discounts Allowed	6,000	0.5
		Bad Debts Expenses	4,000	0.25
		Sales Return Lahore Branch	8,000	0.25
		Closing Balance of Debtors Lahore Branch	94,000	0.5
	432,000		432,000	0.25

Lahore branch profit and loss account

Debit		Credit		
Particulars		Particulars		
Rent, Rates and Taxes	18,000	Branch Stock Adjustment Account	105,600	0.5
Salaries and Allowances	60,000	Branch Stock Account	24,000	0.5
Sundry Establishment Expenses	6,000			0.25
Sales Discount	6,000			0.25
Bad Debts	4,000			0.25
Branch Profit for the Year	35,600			0.5
	94,000		129,600	0.25

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****(b) Independent Branch:****05**

The Branch which establish its own double-entry bookkeeping system quite separate from head office, is known as Independent Branch

Features of Independent Branch Accounting System

- (1) The branch which maintains its entire books of accounts under double entry system.
- (2) The Branch in its books opens a Head Office Account to record all the transactions that take place between head office and the branch. This account is personal in nature. It is credited by the amount of goods received from head office and the allocated head office expenses charged to the branch and is debited with the amount of cash sent head office and goods returned.
- (3) The head office maintain a Branch Accounts to record the transaction. This is also known as reciprocal account of the Head Office Account maintained by the branch. The account is debited by the amount of goods sent to the branch and allocated head office expenses charged to the branch and is credited with the amount of cash received from branch and goods returned.
- (4) At the end of the accounting period, the branch prepares its Trial Balance and Trading and Profit and Loss Account, and sends copies of these statements to the head office for incorporation.
- (5) After receiving the final statements from the branch, the head office reconciles between the two balances - Branch Account as would appear in the books of head office with the Head Office Account as would appear in the books of the branch. The difference are investigated and required adjusting entries are passed in the head office books to reconcile these two balances.
- (6) Head office passes necessary Journal Entries to incorporate the branch trial balance in its books.

Question No. 5**(a)**

Rupees	
Capital account	
Jack	Misbah
250,000	250,000

01

Rupees			
Current account			
	Jack	Misbah	Total
Salary	240,000	300,000	540,000
Interest on capital	5000	5000	10,000
Share of profit	295,000	295,000	590,000
Total	540,000	600,000	1,140,000

03**(b)**

Year	Profit as Given	Fees Outstanding at the End of the Year	Fees Outstanding at the Beginning of the Year	Restated Profit	
2013-2014	-	9,600	-	9,600	0.25
2014-2015	75,000	12,800	9,600	78,200	0.5
2015-2016	82,100	15,500	12,800	84,800	0.5

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FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks**

2016-2017	93,500	9,200	15,500	87,200	0.5		
Year	Profit as Given	Profit to Aqib	Profit to Javed	Total Restated Profit	Restated Profit to Aqib	Restated Profit to Javed	
2013-2014	-	-	-	9,600	4,800	4,800	0.5
2014-2015	75,000	37,500	37,500	78,200	39,100	39,100	1.5
2015-2016	82,100	40,700	41,400	84,800	41,600	43,200	1.5
2016-2017	93,500	44,500	49,000	87,200	42,400	44,800	1.5
	250,600	122,700	127,900	259,800	127,900	131,900	
	Aqib	Javed					
Restated Profit	127,900	131,900					
Actual Profit	122,700	127,900					
Profit to be Credited	5,200	4,000	0.5				
Outstanding fees account	9,200			0.25			
Capital account Aqib	5,200			0.25			
Capital account Javed	4,000			0.25			

Question No. 6**(a) Wholly Owned Subsidiary:****01**

In a wholly owned subsidiary, there is no minority interest because all the shares with voting rights are held by the holding company.

Partly Owned Subsidiary:**01**

In a partly owned subsidiary, all the shares of subsidiary company are not acquired by the holding company. Majority of shares (more than 50%) are owned by the holding company while minority interest holds less than 50% of shares with voting rights.

(b) Upstream and Downstream Transactions**05****Upstream Transactions**

In the case of upstream transaction, goods are sold by the Subsidiary to holding company. Profit is made by the subsidiary company which is shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their shareholding besides deducting the same from unsold inventory.

Downstream Transactions

In downstream transaction holding company is the seller and subsidiary company is the buyer. In the case of downstream transaction the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory account and consolidated profit and loss account irrespective of the percentage of the shares held by the parent.

Unrealised losses resulting from intra-group transactions that are deducting in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****(c) Consolidated Statement of Financial Position at December 31, 2017**

	Rupees	
Assets		
Non-current assets		
Property, plant & equipment (Rs.450,000 + Rs.337,500 + Rs.45,000 FV adj)	832,500	1.5
Goodwill [W2]	345,000	0.25
Current assets		
Inventories (Rs.120,000 + Rs.112,500 - Rs.7,500 [W5])	225,000	1.5
Trade and other receivables (Rs.90,000 + Rs.210,000)	300,000	1
Cash and cash equivalents (Rs.15,000 + Rs.37,500)	52,500	1
Total assets	1,755,000	0.5
Equity and Liabilities		
Equity		
Share capital	120,000	1
Share premium	30,000	1
Retained earnings [W4]	555,000	0.25
Non-controlling interest [W3]	150,000	0.25
Total equity of the group	855,000	0.25
Non-current liabilities		
Loans (Rs.450,000 + Rs.127,500)	577,500	1
Current liabilities		
Trade and other payables (Rs.232,500 + Rs.90,000)	322,500	1
Total equity and liabilities	1,755,000	0.5

[W1] Net assets of H Limited:

	Rupees		
	Reporting date	Acquisition	Post- Acquisition
Share capital	90,000	90,000	0.25
Share premium	15,000	15,000	0.25
Retained earnings	375,000	225,000	0.5
FV uplift (Rs.270,000 - Rs.225,000)	45,000	45,000	0.5
	525,000	375,000	150,000

[W2] Goodwill:

	Rupees	
Consideration	600,000	0.5
Add: NCI at acquisition	120,000	0.5
Less: net assets at acquisition [W1]	(375,000)	0.5
	345,000	0.5

FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL**Marks****[W3] Non-controlling interest:**

	Rupees	
NCI at acquisition	120,000	0.5
H Limited post-acquisition retained earnings (20% x Rs.150,000 [W1])	30,000	0.5
	150,000	0.5

[W4] Retained earnings:

	Rupees	
100% of R Limited	442,500	0.5
Unrealized profit on unsold inventory [W5]	(7500)	0.5
Post-acquisition retained earnings of H Limited (80% x Rs.150,000 [W1])	120,000	0.5
	555,000	0.5

[W5] Unrealized profit on unsold inventory:

Profit = Rs.75,000 x 25% = Rs.18,750 0.5

Profit remaining in group inventory = Rs.18,750 x 2/5 = Rs.7500 0.5

The correcting entry is:

Dr Retained earnings Rs.7500

Cr Inventories (SOFP) Rs.7500

THE END