FINANCIAL ACCOUNTING [G1] – GRADUATION LEVEL

Marks

Question No. 2

(a) (i) Journal Entries:

	Rupees Debit	Rupees Credit	Marks
Sales return account	4,490		0.5
Suspense account		4,490	0.5
Purchases return account	4,490		0.5
Suspense account		4,490	0.5
Plant account	4,800		0.5
Repair and maintenance account		4,800	0.5
Depreciation expense	480		0.5
Accumulated depreciation account		480	0.5
Discount allowed	418		0.5
Suspense account		418	0.5
Suspense account	459		0.5
Discount received		459	0.5
Insurance expense account	290		0.5
Suspense account		290	0.5
Sales account	2,400		0.5
Accumulated depreciation account	4,000		0.5
Non-current disposal account		6,000	0.5
Gain on sale of non-current asset		400	0.5

(ii) Revised Statement of Profit or Loss:

	Rupees	Marks
Profit as per draft income statement	51,510	
Sales return	(4,490)	0.5
Purchase return	(4,490)	0.5
Repair and maintenance expense	4,800	0.5
Depreciation expenses	(480)	0.5
Discount allowed	(418)	0.5
Discount received	459	0.5
Insurance expense	(290)	0.5
Gain on sales of asset	400	0.5
Sales account	(2,400)	0.5
Revised profit or loss account	44,601	0.5

Marks

(b) (i) Authorised Capital:

It means the face value of the shares which is company authorised to issue by its memorandum.

OR

Sometimes knows as 'registered capital' or 'nominal capital. This is the total of the shares capital which the company is allowed to issue to shareholders. 01

(ii) Issued Capital:

This is the total of the share capital actually issued to shareholders.

OR

It is the part of authorised capital which is issued to public for subscription and allotment. 01

(iii) Paid-up Capital/ Subscribed Capital:

This is the total of the amount of share capital which has been paid for by shareholders.

OR

It is the part of the called up capital which is actually received in cash by the company. 01

(c)

		Rupees	Marks
(i)	60,000 ordinary shares of Rs.10 each	600,000	01
	Retained earnings	100,000	01
	Shareholders' equity	700,000	0.5
(ii)	80,000 ordinary shares of Rs.10 each	800,000	01
	Share premium account	100,000	01
	Retained earnings	100,000	01
	Shareholders' equity	1,000,000	0.5

Question No. 3

	Rupees	Marks
Operating activities:		
Cash received from customers (W-1)	22,639,305	01
Cash payments to suppliers (W-2)	(17,313,465)	01
Cash paid to and on behalf of employees (W-3)	(3,598,350)	01
Net cash inflow from operating activities	1,727,490	01

Workings:

W-1: Receivable Ledger Control Account

			Rupees	Marks
Balance b/f	3,987,600	Cash receipts (Balance)	22,639,305	0.5 + 01
Sales revenue	23,841,705	Balance c/f	5,190,000	0.5 + 0.5
	27,829,305		27,829,305	0.5

Marks

W-2: Payables Ledger Control Account (excluding non-current asset purchases)

			Rupees	Marks
Cash paid (Balance)	17,313,465	Balance b/f	3,158,460	01 + 0.5
Balance c/f	3,873,600	Purchases		0.5
		– Cost of sales	16,587,450	0.5
		– Administration	1,441,155	0.5
	21,187,065		21,187,065	0.5

W-3: Wages Control

			Rupees	Marks
Net wages paid (Balance)	3,598,350	Balance b/f	129,600	01 + 0.5
Balance c/f	219,750	Cost of sales	2,188,500	0.5 + 0.5
		Administration	1,500,000	0.5
	3,818,100		3,818,100	0.5

Question No. 4

CM Club
Income and Expenditure Account
For the year ended December 31, 2016

	Rs. '000'	Marks
Income		
Subscriptions (W-1)	194,000	0.25
Entrance fees (63,000 + 3,000)	66,000	0.75
Donations (38,000 + 12,000)	50,000	0.75
Mark-up income (16,000 - 11,000)	5,000	0.75
Gain on trade-in of furniture (6,700 - 6,000)	700	0.75
Total income	**315,700**	0.5
Expenditures		
Salaries (63,500 + 4,000 - 17,500)	50,000	01
Rent (34,000 + 2,000 - 11,000)	25,000	01
Travelling and conveyance	1,500	0.25
Stationary and supplies	1,000	0.25
Sundry expenses	2,500	0.25
Books, papers and periodicals	500	0.25
Depreciation on furniture (W-2)	7,820	0.25
Depreciation on equipment (20,000 x 15%)	3,000	0.5
Loss on disposal of furniture (W-3)	2,380	0.25
	93,700	0.25
Excess of income over expenditure	222,000	0.5
Total expenditures	**315,700**	0.5

Workings:	Rs. '000'	Marks
W-1: Subscription Income		
Subscription received during the period	201,000	0.25
Subscription receivable as at December 31, 2016	8,000	0.25
	209,000	0.25
Subscription receivable as at December 31, 2015	(15,000)	0.25
Subscription Income	**194,000**	0.25
W-2: Depreciation on Furniture		
Furniture net	40,000	0.25
Purchase during the period	6,700	0.25
Disposed of during the period	(6,000)	0.25
Disposed of during the period	(3,200)	0.25
	37,500	0.25
Depreciation @ 20%	7,500	0.5
Depreciation @ 10% on Rs.3,200 on proportionate basis	320	0.5
Depreciation on furniture	**7,820**	0.25
W-3: Loss on Disposal of Furniture		
Furniture cost	4,000	0.25
Depreciation for the year 2015 @ 20%	800	0.5
Written down value as at January 01, 2016	3,200	0.5
Depreciation for the half year	320	0.25
Written down value as at June 30, 2016	2,880	0.25
Scrape value	(500)	0.25
Loss on disposal of furniture	**2,380**	0.25

Marks

Question No. 5

Agha Jee
Statement of Financial Position
as at December 31, 2016

		Rs. '000'	Marks
Non-current assets			
Non-current assets	55,000		0.25
Accumulated depreciation	(9,000)	46,000	0.5
Current assets			
Inventory	27,100		0.25
Trade receivables (W-2)	11,400		0.25
Prepaid insurance	400		0.25
Cash	272		0.25
Bank	26,800	65,972	0.5
Total assets		**111,972**	0.5
Capital and Liabilities			
Capital			
Capital as at January 01, 2016 (W-1)	82,554		0.25
Profit during the period (W-5)	19,930		0.25
	102,484		
Drawings (W-4)	(23,972)	78,512	0.25
Non-current liabilities			
Long-term loan		25,000	0.25
Current liabilities			
Trade payables (W-3)	8,100		0.25
Accrued rent	360	8,460	0.25
Total capital and liabilities		**111,972**	0.5

Workings:

	Rs. '000'	Marks
W-1: Opening capital:		
Cash in hand	194	0.25
Cash at bank	920	0.25
Trade receivables	9,200	0.25
Prepaid insurance	340	0.25
Inventory	24,200	0.25
Non-current assets	55,000	0.25
Total	89,854	0.25
Trade payables	(7,300)	0.25
Agha Jee capital as at January 01, 2016	82,554	0.25

		Rs. '000'	Marks
W-2: Trade Receivables:			
Trade receivables as at January 01, 2016		9,200	0.25
Total sales during the period		97,940	0.25
		107,140	
Received during the period:			
Cash	1,540		0.25
Bank	94,200	95,740	0.25
Trade receivables as at December 31, 2016		**11,400**	0.25
W-3: Trade Payables:			
Trade payables as at January 01, 2016		7,300	0.25
Cost of goods sold		65,510	0.25
		72,810	
Paid in cash	1,310		0.25
Paid from bank	63,400		0.25
Purchase during the period		64,710	
Trade Payables as at December 31, 2016		**8,100**	0.25
W-4: Drawings:			
Opening cash balance		194	0.25
Total receipts		25,540	0.25
		25,734	
Total payments		(1,490)	0.25
		24,244	
Closing cash balance		272	0.25
Drawings During the period		**23,972**	0.25
W-5: Net Profit for the year			
Capital as at December 31, 2016		78,512	0.25
Drawings during the period		23,972	0.25
		102,484	
Capital as at January 01, 2016		(82,554)	0.25
Profit for the period		**19,930**	0.5

Marks

Question No. 6

(a)

Karachi Steel Company (KSC)
Consolidated Statement of Profit or Loss
for the year ended December 31, 2016

	Rs. '000'	Marks
Revenue [40,000 + 32,000 – 7,500]	64,500	1.75
Cost of sales [27,500 + 18,500 – 7,500 + 375 (PURP) + 125 (fv dep'n)]	(39,000)	2.75
Gross profit	25,500	0.5
Investment income (external only)	–	0.25
Operating expenses [7,000 + 2,500 + 500]	(10,000)	1.75
Profit before tax	15,500	0.5
Taxation [5,000 + 6,000]	(11,000)	1.25
Profit for the year	4,500	0.5
Attributable to:		
Equity holders of the parent	3,625	01
Non-controlling interests (W-1)	875	0.5
	4,500	0.25

Workings:

W-1: Non-controlling Interest (NCI)

	Rs. '000'	Marks
NCI share of profit after tax (20% x 5,000)	1,000	01
Less: NCI share of impairment (20% x 500)	(100)	01
NCI share of fair value depreciation (20% x 125)	(25)	01
	875	01

(b) Single Economic Entity Concept suggest that companies associated with each other through the virtue of common control operates as a single economic unit and therefore the consolidated financial statements of a group of companies should reflect the essence of such arrangements. 02

Explanation:

Consolidated financial statements of a group of companies must be prepared as if the entire group constitutes a single entity in order to avoid the misrepresentation of the scale of group's activities. 01

It is therefore necessary to eliminate the effects of any inter-company transactions and balances during the consolidation of group accounts such as the following:

- Inter-company sales and purchases. 0.5
- Inter-company payables and receivables. 0.5
- Inter-company payments such as dividends, royalties and head office charges. 0.5
- Elimination of unrealized profit or loss on the sale of assets member companies of group. 0.5

(c) Unrealized gains relating to intercompany transactions must be eliminated and the NCI's share of these gains must be allocated to it. So that the minority interest cannot be effected. 02

Marks

(d) The subsidiary's identifiable assets and liabilities are included in the consolidated accounts at their fair values for the following reasons.

Consolidated accounts are prepared from the perspective of the group, rather than from the perspectives of the individual companies. The book values of the subsidiary's assets and liabilities are largely irrelevant, because the consolidated accounts must reflect their cost to the group (i.e., to the parent), not their original cost to the subsidiary. The cost to the group is their fair value at the date of acquisition. 02

Purchased goodwill is the difference between the value of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities. If fair values are not used, the value of goodwill will be meaningless. 02

THE END