



Time Allowed: 02 Hours 30 Minutes

Maximum Marks: 80

Roll No:

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) Use of non-programmable scientific calculator of any model is allowed.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) 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.
- (vi) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information inside the answer script.
- (vii) Question No. 1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

- Q. 2** Margalla Dairy and Poultry Farms (Private) Limited is engaged in dairy and poultry business for last many years. Following trial balance of the company is available:

Margalla Dairy and Poultry Farms (Private) Limited
Trial Balance
As on June 30, 2014

	Debit	Rupees Credit
Sales revenue – Poultry business		1,884,200
Sales revenue – Dairy business		500,000
Cost of sales – Poultry business	1,211,100	
Cost of sales – Dairy business	900,000	
Administrative expenses – Poultry business	381,100	
Administrative expenses – Dairy business	80,000	
Loss on sale of dairy business asset	70,000	
Redundancy cost – Dairy business	80,000	
Reorganization costs – Poultry business	90,000	
Marketing expenses – Poultry business	131,600	
Marketing expenses – Dairy business	70,000	
Financial charges – Poultry business	2,400	
Share capital (300,000 shares of Rs. 10 each)		3,000,000
Retained earnings – July 1, 2013		42,100
Non-Current Assets at cost:		
Vehicle	500,000	
Plant and machinery	600,000	
Machine "X"	200,000	
Accumulated Depreciation as on July 1, 2013:		
Vehicle		200,000
Plant and machinery		240,000
Machine "X"		40,000
Inventory – Closing	345,000	
Trade receivable	800,000	
Bank – Current account	472,000	
Trade creditors		300,000
Accrued liabilities		200,000
Cash in hand	473,100	
	6,406,300	6,406,300

On December 31, 2013, the company sold its dairy business and all its assets incurring loss of Rs. 70,000 and redundancy cost of Rs. 80,000. The directors reorganized the continuing poultry business at a cost of Rs. 90,000. All these figures are reflected in the above trial balance. All assets and liabilities of dairy business were settled by the year end hence none of them are included in the trial balance.

Additional Information:

- (i) On July 1, 2011, the company purchased a new machine "X" for its poultry business at a cost of Rs.200,000 having useful life of 10 years and zero residual value. On March 31, 2014, the company decided to sell the machine and proceeded to find buyer for the machine. The machine is very rare in Pakistan therefore, the company is confident that the machine will be sold immediately. However, by the year end June 30, 2014 the machine could not be sold.
- (ii) The market value of machine "X" at March 31, 2014 was Rs. 115,000 and it will cost Rs. 5,000 to dismantle the machine and make it available to the buyer.
- (iii) Vehicle, plant and machinery have useful life of five years and depreciation is charged on straight line basis to cost of sales.

Required:

Prepare the following ignoring taxation and comparative figures:

- (a) Statement of profit or loss for the year ended June 30, 2014. **04**
- (b) Statement of changes in equity for the year ended June 30, 2014. **02**
- (c) Statement of financial position as at June 30, 2014. **04**
- (d) Notes showing necessary computations for discontinued operations of dairy business. **10**

- Q. 3** Mehran Textile Mills Limited is engaged in the business of textile for last many years. However, due to technological advancement some machinery of the company have become obsolete. The recoverable amount of these machines is estimated to Rs.2,000,000 below their carrying amount therefore, impairment loss of equivalent amount has been recorded in the books of accounts for the year ended June 30, 2014. To remain competitive in the market the management has also purchased new machinery at a cost of Rs. 20,000,000 during the year. The financial statements of the company is given below:

Mehran Textile Mills Limited		Rs. '000'	
Statement of Financial Position			
As on June 30, 2014			
Assets		2014	2013
Non-current assets			
Property, plant and equipment		83,250	72,000
Long term loans and advances		9,000	4,000
		92,250	76,000
Current assets			
Stock in trade		7,800	4,500
Trade debtors		5,650	4,200
Advances, deposits and prepayments		5,900	3,200
Bank balance - saving account		3,000	-
Cash and bank - current account		600	1,700
		22,950	13,600
Total assets		115,200	89,600
Equity and Liabilities			
Equity			
Ordinary shares @ Rs. 10 per share		70,000	50,000
Share premium		4,000	-
Revaluation reserve		2,000	-
Retained earnings		28,130	25,000
		104,130	75,000

	2014	2013
Non-current liabilities		
10% long-term loans	–	2,000
	–	2,000
Current liabilities		
11% short-term loans	–	1,000
Creditors	9,918	10,500
Accrued liabilities	323	500
Bank overdraft	–	100
Provision for legal claim	500	–
Provision for taxation	329	500
	11,070	12,600
Total equity and liabilities	115,200	89,600

Mehran Textile Mills Limited
Statement of Profit or Loss
For the year ended June 30, 2014

	Rs. '000'
	2014
Sales	56,200
Less: Cost of sales	(35,300)
Gross profit	20,900
Less: Administrative expenses	(15,000)
Selling expenses	(2,500)
	(17,500)
Operating profit	3,400
Interest income	240
Financial charges	(181)
Profit before tax	3,459
Income tax	(329)
Profit after tax	3,130
Retained earnings brought forward	25,000
Retained earnings carried forward	28,130

Additional Information:

(a) The carrying values of property, plant and equipment are as follows:

	Rs. '000'	
	2014	2013
Land	12,000	10,000
Building	38,000	40,000
Machinery – New	16,000	–
Machinery – Old	8,000	10,000
Office equipment	4,250	5,000
Furniture and fixture	3,200	4,000
Vehicles for Executive Management	1,800	2,000
Staff bus	–	1,000
Total carrying value	83,250	72,000

(b) Land has been revalued during the year while staff bus was sold for Rs. 1,200,000. Depreciation and impairment on building and machines are charged to cost of sales while depreciation on other assets is charged to administrative expenses.

- (c) Impairment tests revealed that no impairment was required for building, office equipment, furniture and fixture and vehicles for executive management.
- (d) The yield on saving accounts is 8% per annum and the accounts were opened in a bank on July 1, 2013.
- (e) On July 1, 2013 the company issued two (02) right shares for every five (05) shares held by its existing shareholders at a premium of 20% of the par value.
- (f) The company paid all long term and short term loans on January 31, 2014. Interest on loans is included in financial charges. However, no interest is outstanding on June 2014.
- (g) The provision in respect of a legal case represents a payment expected to be made, however, company's lawyer is not confident of winning the case.

Required:

Prepare a cash flow statement using indirect method for the year ended June 30, 2014 including reconciliation of cash and cash equivalents in accordance with IAS 7.

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Q. 4 (a) The harmonization of accounting standards is strongly advocated these days. Enumerate the disadvantages of harmonization of accounting standards.

05

(b) Arham (Private) Limited started business on July 1, 2014. They are engaged in sales of engineering components, which are imported in the country.

Assume following rates were applicable on invoice value at the time of import as per the Federal budget:

Custom duty	20%
Income tax	6%
Sales tax	18%
Normal sales tax	15%

Additional sales tax @ 3% is also charged on imports, which is neither refundable nor adjustable while sales tax and income tax are refundable/ adjustable.

After negotiations with a number of suppliers the company was finally able to strike a deal with a foreign company and received first lot on January 1, 2015. By January 31, 2015, 12,500 units were still in stock as a result of following imports:

January 1, 2015:

The company imported 10,000 units at an invoice price of Rs. 100 per unit and in addition to payment of customs duty, income tax and sales tax, following costs were also incurred at the time of imports:

	Rs./ Unit
Carriage	2.00
Clearing charges to agent	1.00
Other related inventory costs allowed under IAS 2 for inclusion	9.00

January 15, 2015:

The company received another lot of 5,000 units of raw material. The supplier allowed volume rebate and reduced invoice value by Rs. 10 per unit. The rates of Government levies are same but a recent hike in prices has resulted the increase in clearing charges to Rs. 2 per unit and other costs to Rs. 10.

January 20, 2015:

The company received another lot of 5,000 units of raw material. The supplier allowed further volume rebate and reduced invoice value to Rs. 80 per unit while no more changes in other expenses.

The Store In-charge is keeping accurate quantitative records of the inventory however, due to limited accounting knowledge he is unaware as to inventory valuation and believes that fair market value should be assigned to the inventory for valuation.

Required:

Assume you have been appointed as a Management Accountant in Arham (Private) Limited and the management ask you to calculate the value of inventory as at January 31, 2015 using first in first out (FIFO) method so that the company's staff can follow same principles for subsequent periods.

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Q. 5 (a) Accounting profit and taxable profit figures are different. These differences are of two types i.e., permanent and temporary differences. Discuss these differences giving one example of each difference.

05

(b) Falcon Trading Co., is a public limited company listed on all stock exchanges in Pakistan. Due to obsolescence of company's plant and machinery there is a dire need of replacement and installation to maintain the high quality standards of its products. The directors of the company have discussed all options for raising finance through debt or equity and have finally decided to use following financing options:

- Issue 8% 100,000 non-convertible bonds on January 1, 2013 at nominal value of Rs.100 per bond, repayable at par after 4 years. Interest is payable on December 31, every year.
- Issue another 100,000 similar bonds but with a conversion option of 15 shares for each bond of Rs.100. However, a lower coupon rate of 6% is offered on these bonds.

Required:

(i) What amount will be recorded as financial liability and equity when the bonds are issued on January 1, 2013?

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(ii) What amount will be recorded in the statement of profit or loss and statement of financial position for the year ended December 31, 2013, 2014, 2015 and 2016.

08

THE END

PRESENT VALUE FACTORS										
Year	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386