FINANCIAL ACCOUNTING – SEMESTER-3

Marks

Q. 2 (a)

SK Enterprises (Pvt) Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended June 30, 2013

	Rs. (000)	Marks
Revenue (229,000 + 8,800 N-1)	237,800	0.25+0.5
Cost of Sales [151,300 + (dep.) 9,495 N-3]	(160,795)	0.25+0.5
Gross Profit	77,005	
Administrative Expenses (adjusted for issue cost) (20,000 – 1,000)	(19,000)	0.25+0.5
Marketing Expenses	(16,000)	0.25
Other income	1,400	0.25
Financial Expenses	(2,200)	0.25
Profit before tax	**41,205**	0.5
Taxation - current (20,000 x 35%)	(7,000)	0.25+0.5
Taxation – deferred (10,000 x 35%)	(3,500)	0.25+0.5
Profit for the year	**30,705**	0.5
Other comprehensive income:		
Gain on revaluation of land (12,000 – 10,000)	2,000	0.25+0.5
Total comprehensive income for the year	**32,705**	0.25

(b)

SK Enterprises (Pvt) Limited
Statement of Changes in Equity
For the year ended June 30, 2013

	Share capital	Revaluation reserve	Retained Earnings	Rs. (000) Total equity	
Balance as on July 1, 2012	100,000	0	18,500	118,500	**0.25 each**
Total comprehensive income for the year	0	2,000	30,705	32,705	**0.25 each**
Balance as at June 30, 2013	**100,000**	**2,000**	**49,205**	**151,205**	**0.25 each**

(c)

SK Enterprises (Pvt) Limited
Statement of Financial Position
As at June 30, 2013

	Rs. (000)	
Non-Current Assets		
Property, Plant & Equipment (N-2)	94,005	0.25
Current Assets		
Inventory June 30, 2013	35,800	0.25
Trade Receivables	48,500	0.25
Bank - current account	36,500	0.25
	120,800	0.25
Total Assets	**214,805**	0.25

			Marks
Equity			
Share capital		100,000	0.25
Other components of equity		2,000	0.25
Retained Earnings [from sub-part(b)]		49,205	0.25
		151,205	0.25
Non-current Liabilities			
6% Loan Notes (25,000 – 1,000)		24,000	0.5+0.25
Deferred Revenue [(1,200 x 2) / 3]	N-1	800	0.5+0.25
Deferred tax (1,200 + 3,500)		4,700	0.5+0.25
		29,500	0.25
Current Liabilities			
Creditors		15,000	0.25
Accrued Liabilities		11,700	0.25
Deferred Revenue [(1,200 x 1) / 3]	N-1	400	0.5+0.25
Provision for taxation		7,000	0.25
		34,100	0.25
Total Equity & Liabilities		**214,805**	0.25

Workings:

N-1	**Revenue**		
	Sale of goods to customer	10,000	
	After sale service cost + margin to be recognized as deferred revenue		
	= 300,000 * 3 (remaining years) *100/75	(1,200)	.5+0.5
	Revenue to be recorded for current year	**8,800**	**0.5**
	Deferred Revenue to be recorded in current liability = 1200/3 * 1 year i.e. 2014	400	
	Deferred Revenue to be recorded in long-term liability = 1200/3 * 2 years i.e. 2015 & 2016	800	
N-2	**Property, plant & Equipment**		
	Land - cost	10,000	
	Revaluation gain (12,000 – 10,000) (bal/fig)	2,000	0.5
	Land-revaluation	**12,000**	0.5
	Building – cost	40,000	
	Accumulated Depreciation	(9,000)	0.5
		31,000	
	Current year deprecation @ 2% on WDV of 31,000	(620)	0.5
		30,380	0.5
	Plant & Machinery - cost	100,000	
	Accumulated Depreciation	(43,500)	0.5
		56,500	
	Current year deprecation @ 15% on WDV of Rs.56,500	(8,475)	0.5
		48,025	0.5

			Marks
	Furniture & fixture – cost	4,700	
	Accumulated Depreciation	(700)	0.5
		4,000	
	Current year deprecation @ 10% on WDV of Rs.4,000	(400)	0.5
		3,600	0.5
	Total WDV – PPE	**94,005**	0.5
N-3	**Depreciation - adjust in cost of sales**		
	Building – N2	620	
	Plant & Machinery – N2	8,475	
	Furniture & Fixture – N2	400	
		9,495	**1.0**

Q.3

Premier Exports Limited
Statement of Cash Flows
For the year ended June 30, 2013

	Rs. "000"	
Cash flow from operating activities		
Profit before tax	1,486	0.25
Adjustments for non-cash items:		
Gain on sale of plant (157 – 143)	(14)	0.25+0.5
Depreciation for the year (N-1)	1,772	0.25
Amortization of intangible assets(1304 – 1240)	64	0.25+0.5
Interest income	(343)	0.25
Interest on long-term loans (Adj "h")	452	0.25
Cash flow from operations before working capital changes	**3,417**	
Increase in inventory (589 – 917)	(328)	0.5
Increase in accounts receivable (385 – 594)	(209)	0.5
Increase in advance, deposits and prepayments (201 – 228)	(27)	0.5
Increase in payables, accrued and other liabilities (816 – 517)	299	0.5
Cash flow from operations	**3,152**	
Interest paid (N-5)	(457)	0.25
Tax paid (N-3)	(339)	0.25
Net cash flow from operating activities - A	**2,356**	0.50
Cash flow from investing activities		
Sale of plant & machinery	157	0.25
Purchase of plant & machinery (N-4)	(2,513)	0.25
Interest received (N-2)	318	0.25
Decrease in long-term loans and advances (682 – 979)	297	0.25+0.5
Net cash flow from investing activities - B	**(1,741)**	0.50

		Marks
Cash flow from financing activities		
Issue of shares (1140+228) (N-9 & N-10)	1,368	0.25+0.5
Dividend paid	(543)	0.25
Decrease in long-term borrowings (3,284 – 3,891)	(607)	0.25+0.5
Repayment of short term borrowings (101 – 82)	(19)	0.25+0.5
Net cash flow from financing activities - C	**199**	0.50
Net increase/ (decrease) in cash & cash equivalents (A+B+C)	**814**	
Cash & cash equivalents - opening	**2,445**	
Cash & cash equivalents - closing	**3,259**	

Cash & Cash equivalents comprise of the following:	**2013**	**2012**	
Cash & bank balances	382	288	
Highly liquid short term investments	2,900	2,200	
Bank overdraft	(23)	(43)	
Cash & cash equivalents	**3,259**	**2,445**	1.0 + 1.0

Working Notes:

N-1 **Depreciation**

Disposal (235 -143)	92,000	b/f	5,215,000	0.5 + 0.0
c/f	6,895,000	Current dep.	1,772,000	0.0 + 0.5
	6,987,000		**6,987,000**	

N-2 **Interest Income**

b/f	125,000	Cash	318,000	0.0 + 0.5
Profit & loss	343,000	c/f	150,000	0.5 + 0.0
	468,000		**468,000**	

N-3 **Tax Paid**

Cash	339,000	b/f	382,000	0.5 + 0.0
c/f	383,000	Profit & loss	340,000	0.0 + 0.5
	722,000		**722,000**	

N-4 **Property, Plant & Equipments**

b/f	11,436,000	Sold	143,000	0.0 + 0.5
Additions	2,513,000	Dep.	1,772,000	0.5 + 0.5
		c/f	12,034,000	
	13,949,000		**13,949,000**	

Marks

N-5 **Interest Payable**

				Marks
Paid	457,000	b/f	80,000	0.5 + 0.0
c/f	75,000	Profit & loss	452,000	0.0 + 0.5
	532,000		**532,000**	

N-6 **Retained Earnings**

				Marks
Dividend	543,000	b/f	943,000	0.5 + 0.0
c/f	1,546,000	Profit & loss	1,146,000	0.0 + 0.5
	2,089,000		**2,089,000**	

N-7 **Payables, Accrued and Other Liabilities**

	2013		2012	Marks
c/f	891,000	b/f	597,000	
Less: Interest payable	(75,000)		(80,000)	0.5 + 0.5
	816,000		**517,000**	0.5 + 0.5

N-8 **Advances, deposits and prepayments**

	2013		2012	Marks
b/f	378,000	c/f	326,000	
Less: Interest income	(150,000)		(125,000)	0.5 + 0.5
	228,000		**201,000**	0.5 + 0.5

N-9 **Share Capital**

				Marks
		b/f	11,400,000	
c/f	12,540,000	Rights	1,140,000	0.0 + 0.5
		(11,400,000 x 10%)		0.0 + 0.5
	12,540,000		**12,540,000**	

N-10 **Share Premium**

				Marks
		b/f	150,000	
c/f	378,000	Rights	228,000	0.0 + 0.5
		(1,140,000 x 20%)		0.0 + 0.5
	378,000		**378,000**	

Marks

Q.4 (a) (i) Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. 01

- The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. 01
- The elements directly related to the measurement of performance in the income statement are income and expenses. 01

(ii) An item that meets the definition of an element should be recognized if:

- it is probable that any future economic benefit associated with the item will flow to or from the entity; and 01
- the item has a cost or value that can be measured with reliability. 01

(b) (i)

		Rupees (000)			
	2010-11	**2011-12**	**2012-13**		
Initial revenue agreed	2,000,000	2,000,000	2,000,000	
Variation		200,000	200,000	
Total contract Revenue	2,000,000	2,200,000	2,200,000	
Marking Plan	0	1.0	0.5	**1.5**
Contract costs incurred to date:				
For current year	750,000	1,515,000	1,950,000	
For next year	–	10,000	–	
Contract costs to complete	1,050,000	425,000	–	
Total estimated cost	**1,800,000**	**1,950,000**	**1,950,000**	.5+.5+ 0
Estimated profit	200,000	250,000	250,000	
Stage of completion = incurred/ estimated cost	**41.67%**	**77.69%**	**100%**	.5+.5+ .5
Alternate Marking Plan	1.0 +	2.0 +	1.0 =	**4.0**

* For 2012, material in store is reduced from incurred cost.
(1,525,000 – 10,000)

(ii)

Recognition in income statement:	**2010-11**	**2011-12**	**2012-13**	
Revenue	833,333	875,897	490,769	1.0+1.0+1.0
Cost	750,000	765,000	435,000	0.5+1.0+1.0
Profit	**83,333**	**110,897**	**55,769**	0.5+0.5+0.5
Alternate Marking Plan	2.0 +	2.5 +	2.5 =	**7.0**

Calculation:

Revenue recognized = (Estimated revenue * % of completion)-recognized in previous years

Cost recognized = (Estimated cost * % of completion)-recognized in previous years

Marks

Q. 5 (a) A complete set of financial statements comprises:

- a statement of financial position as at the end of the period; 0.5
- a statement of comprehensive income for the period; 0.5
- a statement of changes in equity for the period; 0.5
- a statement of cash flows for the period; 0.5
- notes, comprising a summary of significant accounting policies and other explanatory information; and 0.5
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement, or when it reclassifies items in its financial statements. 0.5

(b) (i) & (ii) Deferred Taxation

The following information is made available to us for the purpose of opinion

Description of assets	Cost	Accounting Depreciation Rate	Tax Depreciation Rate
Furniture & Fixture	500,000	20%	15%
Computer Equipment	1,000,000	20%	30%

The following difference of carrying value of asset arises due to difference in depreciation rates

	Cost	Carrying Value		Difference		Marks
		Accounting	Tax			
Furniture & Fixture	500,000	400,000	425,000	(25,000)	**Deductible**	2.5
Computer Equipment	1,000,000	800,000	700,000	100,000	**Taxable**	2.5
Net difference in carrying value of assets				**75,000**		

(iii) Above working shows net taxable temporary difference therefore the company should recognize deferred tax expense and liability of Rs.26,250 assuming tax rate of 35%. 1.0

(c) (i)

Total expenditure incurred	Rs.2,000,000
Expenditure incurred before meeting recognition criteria	Rs.1,500,000
Expenditure incurred after meeting recognition criteria	Rs. 500,000

The expenditure before meeting recognition criteria is charged to profit or loss (Rs.1,500,000) **1.5**

while expenditure incurred after meeting recognition criteria is treated as intangible asset Accordingly the value of intangible asset is recognized at Rs.500,000. **1.5**

(ii) Since the recoverable amount of asset is more than the carrying value of the asset therefore the asset will be recognized at actual cost. Had recoverable amount be less than carrying value then impairment provision is to be required. **02**

Marks

Q. 6 (a) Disclosures – IAS 8 – Prior Period Errors:

Following disclosures are required under IAS 8 for material prior period errors:

- the nature of prior period error 1.0
- for each prior period presented to, the extent practicable, the amount of the correction: 1.0
  - (i) for each financial statement line item affected; and 1.0
  - (ii) if IAS 33 applied to the entity, for basic and diluted earnings per share; 1.0
- the amount of correction at the beginning of the earliest prior period presented; and 1.0
- if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. 1.0

(b) Borrowing Cost:

	Rs. (000)	
10 % bank loan amount	60,000	
9.5% bank loan amount	40,000	
Capitalization rate = (10% * 60/ (60+40) + (9.5% * 40/ (60 + 40)	9.80%	0.5+1.0
Borrowing cost = (15 * 9.8%) + (10 * 9.8% * 3/12)	1,715	0.5+1.0

- capitalization rate is to be calculated at weighted average of loans utilized for qualifying asset
- Full year interest calculated at Rs.15 million being drawn out at the start of the financial year.
- Three months' interest calculated at Rs.10 million being drawn out at the start of the April 2013.

1.0

THE END