THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations   Spring 2008

March 7, 2008

INTRODUCTION TO FINANCIAL ACCOUNTING — (MARKS 100)
Module B — **(3 hours)**

Q.1 (a) (i) What are the components of financial statements?
(ii) Identify any four users of the financial statements and explain the nature of their interest in the financial statements of an entity. **(08)**

(b) Explain the following accounting concepts:
- Historical cost
- Net realizable value
- Substance over form **(06)**

(c) What elements of cost may be included in the measurement of property, plant and equipment at recognition? **(05)**

Q.2 Universal Stores has its head office at Clifton, Karachi. It has a branch office at Lahore. During the year ended December 31, 2007, Karachi Office invoiced to Lahore, goods amounting to Rs. 86,000 at selling price. The Lahore branch remitted an amount of Rs. 84,000 during the same year. The remittance comprised of Rs. 15,000 generated through cash sales, while the remaining amount was received from debtors. During the said year, credit sales at Lahore amounted to Rs. 73,500 whereas sales returns amounted to Rs. 800 out of which goods invoiced at Rs. 500 were returned to Karachi office. The discounts allowed to customers were Rs. 1,800. Trade debts of Rs. 190 were considered as bad and were written off.

The invoiced value of opening and closing stock at the branch was Rs. 9,000 and Rs. 6,800 respectively and their cost was Rs. 6,100 and Rs. 4,620 respectively. The trade debts of the branch on January 1, 2007 were Rs. 5,140.

The cost of opening and closing stock at the Head office was Rs. 22,000 and Rs. 21,500 respectively. Transactions for the year at the head office were as follows:

	Rupees
Purchases, net-of returns	219,000
Sales, net-of returns	199,750

Required:
Draw up the following accounts in the books of the head office:
(a) Branch stock account.
(b) Goods sent to branch account.
(c) Branch debtors account.
(d) Combined trading account of head office and branch. **(14)**

Q.3 The following is a list of balances on December 31, 2007 and have been extracted from the books of JK Enterprises:

	Rupees
Capital	58,200,000
Freehold land	10,000,000
Building on freehold land	25,000,000
Plant and equipment	15,200,000
Motor vehicles	10,000,000
Accumulated depreciation:	
Building on freehold land	7,000,000
Plant and equipment	4,800,000
Motor vehicles	3,500,000
Stocks:	
Raw material	3,200,000
Work in progress	1,750,000
Finished goods	7,200,000
Purchase of raw materials	51,370,000
Sales	107,300,000
Manufacturing wages	21,000,000
Factory lighting and power	4,250,000
Other administration expenses	4,470,000
Sales office expenses	10,300,000
Other factory overheads	8,100,000
Debtors	8,000,000
Provision for doubtful debts	160,000
Creditors	4,500,000
Cash at bank	5,620,000

The following information has to be taken into account:

(i) Value of stock on December 31, 2007 was as follows:

	Rupees
Raw materials	4,150,000
Work in progress	2,200,000
Finished goods	8,000,000

(ii) Depreciation has to be provided as follows:

Building on freehold land	5% on straight line basis
Plant and equipment	10% on straight line basis
Motor vehicles	20% on reducing balance method

(iii) 80% of the building is being used for manufacturing purposes.
(iv) The motor vehicles are used for delivery of goods to customers.
(v) Sales office expenses include advance rent of Rs. 200,000 paid in respect of the period July 1, 2007 to June 30, 2008.
(vi) Trade debts of Rs. 70,000 have to be written off. It is estimated that 5% of the remaining trade debts may not be recovered.

Required:
(a) Manufacturing account for the year ended December 31, 2007 clearly indicating prime cost, total factory overheads, manufacturing costs and cost of goods manufactured.
(b) The trading and profit and loss account for the year ended December 31, 2007.
(c) The Balance Sheet as at December 31, 2007. **(24)**

Q.4 Superior Enterprises is engaged in the business of supplying four different products to four different industries. The details relating to the movement of inventory and related expenditures are as follows:

Items	Opening balance		Qty. purchased	Invoice Value	Import Duties		Quantities sold	
	Qty.	Value			Refundable	Non-refundable	Qty.	Value
A	30	60,000	360	810,000	120,000	90,000	350	1,015,000
B	60	90,000	780	1,560,000	200,000	150,000	800	2,080,000
C	40	120,000	560	1,820,000	250,000	200,000	580	2,320,000
D	80	200,000	600	1,650,000	-	-	350	1,155,000

The following information is available:

(i) The transportation charges upto the company's godown are Rs. 100 per unit.
(ii) The transportation charges from the company's godown to the customers' premises are approximately Rs. 150 per unit.
(iii) 25% of the closing stock of item A has been damaged due to mishandling and can only be sold at 60% of its selling price.
(iv) A new product has been introduced by a competitor. It is similar to product C and is being marketed at Rs. 3,200 per unit. The management of Superior Enterprises is of the opinion that in future, it will also have to reduce the price of C to Rs. 3,500 per unit.
(v) On October 1, 2007, 200 units of D had been pledged with a bank as security against a short term loan which is repayable on March 31, 2008.

Required:
(a) Compute the value of the stock as at December 31, 2007, using any of the methods allowed under IAS-2 "Inventories".
(b) List the information that will have to be disclosed in the financial statements, to comply with the requirements of IAS-2 "Inventories". **(12)**

Q.5 Faisal Enterprises uses a sales day book to record its sales. A sales ledger control account is maintained in the general ledger whereas a debtors subsidiary ledger is maintained separately. On December 31, 2007, the total of the list of debtors amounting to Rs. 301 thousand as per debtors subsidiary ledger did not agree with the balance in the Sales Ledger Control Account which showed a balance of Rs. 345,000. On checking, the following errors were discovered:

(i) The credit side of the subsidiary account of T has been under cast by Rs. 7,000.
(ii) Invoice number 23612 sent to Z amounting to Rs. 11,000 has been recorded twice in the sales day book but has not been recorded at all in the subsidiary ledger.
(iii) A debit balance of Rs. 9,300 and credit balances amounting to Rs. 4,600 had been omitted from the list of balances.
(iv) An account of Rs 1,800 owed by S had been written off as irrecoverable on March 31, 2007 and debited to bad debts, but no entry had been made in the Control Account.
(v) A debit balance of Rs. 2,000 in the Subsidiary Ledger had been listed as a credit balance.
(vi) No entry had been made in the control account in respect of a transfer of Rs. 4,100 standing to the credit of G's Account in the Purchases Ledger to his account in the Sales Ledger.
(vii) The total of Sales Returns Book had been under cast by Rs. 12,000.
(viii) The list of balances had been overcast by Rs. 1,000.
(ix) B's account had been credited with Rs. 3,400 for goods returned by him but no other entry had been made in the books.

Required:
Prepare a statement reconciling the balance as per the list with the sales ledger control account clearly identifying the amount which shall be reported in the balance sheet as 'Trade Debts'. **(12)**

Q.6 Munira is engaged in trading of garments. She has not maintained proper accounting records. She suspects that some of her employees are involved in some sort of misappropriation. The list of creditors, debtors and stocks prepared by her, show the following balances:

	Balances at December 31	
	2007 **Rs. 000**	**2006** **Rs. 000**
Trade Creditors	9,500	8,000
Trade Debtors	3,600	2,000
Stocks at cost	8,500	12,500

The following transactions were recorded during the year ended December 31, 2007:

	(Rs. 000s)
Sales to staff on cash basis	315
Discounts allowed on early payments	360
Collections banked	18,000
Paid to suppliers in cash	12,700
Trade Discounts Received	400
Bad Debts written off	200

Other related information is as under:

(i) Normal sales are made at cost plus 20% but sales to staff are made at cost plus 5%.
(ii) About 4% of the purchases during the year were defective and had to be sold at 30% below normal selling price.
(iii) The list of closing stock at December 31, 2007 includes four items having a total cost of Rs. 470 thousand. There was a casting error on the invoice raised by the supplier and the total has been erroneously recorded as Rs 740 thousand. The invoice is still unpaid.
(iv) Collections made in the last week of December 2007 amounting to Rs. 860 thousand were deposited in bank on January 2, 2008. Likewise, collections made in the last week of December 2006 amounting to Rs. 500,000 were deposited in bank on January 2, 2007.

Required:
You are required to calculate the loss incurred by Munira during the year 2007 on account of misappropriations (if any). **(19)**

(THE END)