The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination	9 September 2011
Autumn 2011	100 marks – 3 hours
Module B	Additional reading time – 15 minutes

(All questions are compulsory)

Q.1 (a) Briefly describe the different bases for measurement of assets/liabilities in financial statements? ***(08 marks)***

(b) What is the most commonly adopted basis of measurement? Give two examples where two different basis of measurement are used in combination, to measure an asset or liability. ***(03 marks)***

(c) A trial balance is merely a proof of arithmetical accuracy. Briefly explain the various types of errors which a trial balance fails to disclose. ***(05 marks)***

Q.2 The balance sheet of Amin Industries as at 31 August 2011 is as follows:

	2011	2010		2011	2010
	Rupees			Rupees	
Capital	33,433,000	27,942,000	**Fixed assets** – book value	15,172,000	12,346,000
Current liabilities			**Current assets**		
Short term finance	2,545,000	1,616,000	Investments	4,911,000	-
Creditors	3,457,000	2,850,000	Stock-in-trade	12,178,000	14,950,000
	6,002,000	4,466,000	Trade debts – net of provision for bad debts	6,732,000	4,887,000
			Bank	442,000	225,000
				24,263,000	20,062,000
	39,435,000	32,408,000		39,435,000	32,408,000

The following information is also available:

	Rupees
Profit during the year ended 31 August 2011	3,161,000
Mr. Amin's withdrawals during the year	3,120,000
Accumulated depreciation on fixed assets – 31 August 2010	5,605,000
Accumulated depreciation on fixed assets – 31 August 2011	7,470,000
Provision for bad debts – 31 August 2010	385,000
Provision for bad debts – 31 August 2011	484,000
During the year fixed assets costing Rs. 1,500,000 with a book value of Rs. 867,000 were sold for Rs. 1,284,000.	

Required:
Prepare a cash flow statement for the year ended 31 August 2011. ***Show necessary workings.***

(13 marks)

Q.3 The written down value of plant and machinery of Azfar and Company as at 30 June 2011 is Rs. 831,128.

Following additional information is also available:

(i) On 1 July 2007, second-hand machinery was purchased for Rs. 300,000. An amount of Rs. 200,000 was spent on its overhauling, before use.
(ii) On 1 January 2008 machinery costing Rs. 250,000 was purchased.
(iii) The machinery purchased on 1 July 2007 became obsolete and was sold for Rs. 100,000 on 1 January 2010. On the same date, new machinery was purchased at a cost of Rs. 600,000.
(iv) Machinery purchased on 1 January 2008 was sold on 30 June 2011 at its book value plus Rs. 50,000.

Azfar and Company provides depreciation on machinery @ 15% on written down value. Depreciation on addition / deletion is provided in proportion to the period of use.

Required:
(a) Machinery Account from 1 July 2009 to 30 June 2011
(b) Machinery Disposal Account for the years ended 30 June 2010 and 2011 ***(22 marks)***

Q.4 Alpha and Beta are partners in a firm sharing profits and losses in the ratio of 3:2. The Balance Sheet of the firm as on 31 March 2011 was as under:

Capital and liabilities		**Rupees**	**Assets**	**Rupees**
Partners' capital accounts			Furniture and fixture	600,000
▪ Alpha	840,000		Office equipments	300,000
▪ Beta	360,000	1,200,000	Motor car	375,000
General reserve		337,000	Stock	250,000
Sundry creditors		296,000	Sundry debtors	190,000
			Cash at bank	118,000
		1,833,000		1,833,000

Due to expansion in the business, Gamma was admitted as a partner with effect from 1 April 2011. Gamma brought furniture worth Rs. 120,000 and stock costing Rs. 80,000. He also contributed cash of Rs. 150,000 plus his proportionate share of goodwill valued at two years' purchase of the average profits of the last three years.

Following adjustments were considered necessary, at the time of admission:

(i) On 1 April 2009, new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue account. The firm charges depreciation on furniture @ 10% on straight line basis.
(ii) An invoice dated 1 October 2010 for purchase of goods amounting to Rs. 24,000 has not been recorded.
(iii) The firm values its stock on the basis of physical inventory. On account of an error on the stock sheets, the stock on 31 March 2009 was overvalued by Rs. 10,000.
(iv) Value of the sundry debtors on 31 March 2011 is to be reduced by 6%.

The profits of the last three years, before the above adjustments were:

	Rupees
2010 – 11	352,100
2009 – 10	232,000
2008 – 09	128,000

It was decided that the future profits of the firm would be shared among Alpha, Beta and Gamma in the ratio of 5:3:2 respectively.

Required:
Prepare the capital accounts of the partners and the balance sheet of the firm on Gamma's admission as a partner. ***(17 marks)***

Q.5 Following is the Receipts and Payments Account of Sehat Club for the year ended 30 June 2011:

Receipts and Payments Account
For the year ended 30 June 2011

Receipts	Rupees	Payments	Rupees
Opening balance	15,000	Salaries	63,500
Subscriptions	201,000	Rent	34,000
Entrance fees	63,000	Travelling expenses	1,500
Donations	38,000	Printing and stationery	1,000
Interest	16,000	General charges	2,500
Receipt on disposal of furniture	500	Periodicals	500
		Investments	200,000
		Closing balance	30,500
	333,500		333,500

The club's balance sheet as on 30 June 2010 was as follows:

Balance Sheet
As on 30 June 2010

Liabilities	Rupees	Assets	Rupees
General Fund	172,500	Furniture – net	40,000
Liabilities: Rent	11,000	Sports equipments – net	20,000
Salaries	17,500	Investments	100,000
		Subscription receivable	15,000
		Interest receivables	11,000
		Bank balance	15,000
	201,000		201,000

Other details for the year ended 30 June 2011 are as follows:

(i) Furniture purchased on 1 July 2009 costing Rs. 4,000 was disposed off on 1 January 2011 at a scrap value of Rs. 500.
(ii) On 1 July 2010, furniture having written down value of Rs. 6,000 was traded-in with new furniture having fair value of Rs. 6,700.
(iii) Depreciation is charged on diminishing balance basis at 20% on furniture and 15% on sports equipments.
(iv) Sports equipments worth Rs. 12,000 were received at year end as donation.
(v) Following amounts are receivable /outstanding as at 30 June 2011:

	Rs.
Subscription receivable	8,000
Entrance fee receivable	3,000
Salaries outstanding	4,000
Rent outstanding	2,000

Required:
Prepare an income and expenditure account of Sehat Club for the year ended 30 June 2011 and its balance sheet on that date. ***(18 marks)***

Q.6 Afridi does not keep perpetual records of stock. At the end of each quarter, the value of stock is determined through physical inventory. However, the record of inventory taken on 31 March 2011 was destroyed in an accident and Afridi has extracted the following information for the purpose of stock valuation:

(i) Invoices entered in the purchase day book, during the quarter, totalled Rs. 138,560 of which Rs. 28,000 related to the goods received on or before 31 December 2010. Invoices entered in April 2011 relating to goods received in March 2011 amount to Rs. 37,000.

(ii) Sales invoiced to customers amounted to Rs. 151,073 of which Rs. 38,240 related to goods dispatched on or before 31 December 2010. Goods dispatched to customers before 31 March 2011 but invoiced in April 2011 amounted to Rs. 25,421.

(iii) Credit notes of Rs. 12,800 had been issued to customers in respect of goods returned during the period.

(iv) Purchases included Rs. 2,200 spent on acquisition of a ceiling fan for the shop.

(v) A sale invoice of Rs. 5,760 had been recorded twice in the sales day book.

(vi) Goods having sale value of Rs. 2,100 were given by way of charity.

(vii) Afridi normally sells goods at a margin of 20% on cost. However, he had allowed a special discount of 10% on goods costing Rs. 6,000 which were sold on 15 February 2011.

(viii) On 31 December 2010, the stock was valued at Rs. 140,525. However, while reviewing these stock sheets on 31 March 2011 the following discrepancies were found:

  (a) A page total of Rs. 15,059 had been carried to the summary as Rs. 25,059.

  (b) 1,000 items costing Rs. 10 each had been valued at Rs. 0.50 each.

Required:
Calculate the amount of stock in hand as on 31 March 2011. ***(14 marks)***

(THE END)