The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination	7 September 2012
Autumn 2012	100 marks – 3 hours
Module B	Additional reading time – 15 minutes

Q.1 Mansoor deals in small electrical equipments and appliances. His Balance Sheet for the year ended 30 June 2011 was as follows.

Capital and Liabilities		**Rupees**	**Assets**	**Rupees**
Capital		1,185,000	Fixtures	235,000
Creditors:			Stocks	552,000
Goods	220,000		Debtors	281,000
Electricity charges	5,500		Property tax paid in advance	11,500
Accounting charges	11,500	237,000	Cash in hand	35,000
			Cash at bank	307,500
		1,422,000		1,422,000

On 30 June 2012, there was a fire in his shop which destroyed all his fixtures and stocks. The following information has been gathered from the records available with him.

(a) The Insurance company agreed to pay Rs. 225,000 for fixtures and Rs. 630,000 for stock without production of accounts; the stock on hand was however Rs. 670,000.

(b) The payments made during the year were as follows :

	Rupees		**Rupees**
Personal expenses	188,000	Property tax	32,000
Sundry expenses	15,000	Rent	240,500
Accounting charges	20,500	Purchase of goods	5,061,000
Electricity	50,500	Fixtures	45,000

(c) The following payments were made during the year, out of cash receipts:
  (i) Assistant's salary Rs. 132,000.
  (ii) Cash purchases averaging Rs. 24,000 per month.
  (iii) Drawings which varied between Rs. 10,000 and Rs. 15,000 per month.

All other receipts were deposited into the bank. Total deposits amounted to Rs. 5,780,800 and included scrap sale of Rs. 35,000.

(d) The following balances as on 30 June 2012 were determined from the available records:

Assets and Liabilities	**Rupees**
Debtors	494,000
Creditors for goods	212,000
Creditors for electricity charges	1,900
Accounting charges payable	1,800
Rent outstanding	15,000
Property tax paid in advance	15,000
Cash in hand	40,500

(e) Included in the debtors is an amount of Rs. 14,000 which is considered uncollectible.

(f) The rate of gross profit as a percentage of sale was 20%.

Required:
Prepare Trading and Profit and Loss Account for the year ended 30 June 2012 and a Balance Sheet as on that date. ***(24 marks)***

Q.2 Sun Soya Oil & Company is a wholesaler of cooking oil. Due to an emergency, its annual stock taking was delayed till 3 July 2012, on which date the physical stock was valued at Rs. 24 million.

An examination of the related records disclosed that the following events took place on **1st and 2nd July, 2012:**

(a) Sales invoices amounting to Rs. 4 million were issued. These included invoices amounting to:
- Rs. 200,000 in respect of oil which was dispatched on 29 June 2012 but had not been invoiced.
- Rs. 400,000 in respect of oil not dispatched until 5 July 2012 and;
- Rs. 200,000 in respect of oil on sale or return basis.
- The average rate of gross profit is $33\frac{1}{3}\%$ of cost.

(b) Returns from customers totalled Rs. 600,000.
(c) Purchase invoices amounting to Rs. 1.8 million were received. These included invoices worth:
- Rs. 600,000 for oil received in June 2012, and;
- Rs. 300,000 for oil received on 7 July 2012.

(d) Purchase returns totalled Rs. 400,000.

A review of the records also disclosed the following errors:
- Stocks lying in Abbotabad were not included in the physical count. The cost of such stock on 30 June 2011 and 3 July 2012 was Rs. 0.5 million and Rs. 3 million respectively.
- An arithmetical error in the stock sheets on 3 July 2012 resulted in an overvaluation of Rs. 450,000.

Required:
Prepare a statement showing the correct amount of the stock as on 30 June 2012. ***(10 marks)***

Q.3 While closing his books on 30 June 2012, Mr. Rehan identified a difference in the trial balance which he kept in a Suspense Account. He prepared his P & L account on the basis of this trial balance and arrived at a profit of Rs. 679,000. While trying to reconcile the trial balance he detected the following errors:

(i) A cheque of Rs. 25,000 received from the insurance company in respect of loss of stock has been paid into the proprietor's personal bank account and has not been recorded in the books. No entry has been passed in respect of the loss.

(ii) Bill received from ABC Furnishings on 1 July 2011 for repairs to furniture Rs. 3,000 and for new furniture supplied Rs. 10,000 was entered in the purchase day book as Rs. 11,000. Depreciation on furniture is provided @ 10 % per annum.

(iii) Furniture which stood in the books at Rs. 5,000 was sold on 1 July 2011 for Rs. 2,750 in part exchange of new furniture costing Rs. 8,750 and the net invoice of Rs. 6,000 was passed through the purchase day book.

(iv) Sale of goods on approval amounting to Rs. 5,000 was included in sales account, cost of these goods being Rs. 4,200. Out of these, goods having invoice value of Rs. 3,000 were returned and taken into stock at cost but no entry was made in the books.

(v) Goods worth Rs. 10,200 purchased from a creditor on 28 June 2012 had been entered in the Purchase Day Book and credited to him but were not delivered till 5 July 2012. However, the title of the goods had passed on 28 June 2012.

(vi) A computer bought originally for Rs. 70,000 four years ago and depreciated to Rs. 12,000 had been sold for Rs. 15,000 on the first day of the year. The amount deposited was entered in the bank book but no other entry was passed.

(vii) Goods valuing Rs. 13,000 were returned by Zahid. These were entered in the Purchase Day Book and posted to a supplier's account as Rs. 31,000.

(viii) Discount of Rs. 3,700 was allowed but posted to the credit of discount received a/c as Rs. 7,300.

(ix) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount, but the payment was wrongly posted to purchase account as Rs. 1,080 only without any other entry.

Required:
(a) Pass rectification entries (without narration) to correct the above errors. ***(20 marks)***
(b) Recalculate the profits after taking into account the above corrections. ***(04 marks)***

Q.4 Naveed Enterprises commenced business on 01 July 2009. Certain information about their vehicles, for the years ended **30 June 2011 and 2012** can be ascertained from the following ledger accounts:

Accumulated depreciation on vehicles *All amount in Rupees*

28-02-11	Vehicle disposal account	435,467	01-07-10	Balance b/d	1,360,000
30-06-11	Balance c/d	2,160,800	30-06-11	Dep. for the year	1,236,267
		2,596,267			2,596,267
30-04-12	Vehicle disposal account	560,000	01-07-11	Balance b/d	2,160,800
30-06-12	Balance c/d	3,025,040	30-06-12	Dep. for the year	1,424,240
		3,585,040			3,585,040

Vehicle disposal account *All amount in Rupees*

28-02-11	Cost at 01-07-2009	1,420,000	28-02-11	Accumulated Dep.	435,467
28-02-11	Profit on disposal	165,467	28-02-11	Cash received	1,150,000
		1,585,467			1,585,467
30-04-12	Cost at 01-07-2009	1,200,000	30-04-12	Accumulated Dep.	560,000
			30-04-12	Cash received	500,000
			30-04-12	Loss on disposal	140,000
		1,200,000			1,200,000

Following further information is available in respect of the vehicles for the last three years **(01-07-2009 to 30-06-2012):**

(i) Depreciation is being provided at the rate of 20% per annum on diminishing balance method.
(ii) Accumulated depreciation brought down on 1 July 2010 represents depreciation for the whole year on vehicles bought on 1 July 2009.
(iii) Two vehicles were purchased on 1 November 2010 and 1 September 2011.

Required:
Prepare Vehicles (Asset) Account for the years ended 30 June 2011 and 2012. ***(13 marks)***

Q.5 (a) Different user groups are interested in an entity's financial statements for different reasons. Identify any four potential user groups and briefly describe the information which they may be interested in. ***(08 marks)***

(b) Differentiate between accrued and unearned income. ***(02 marks)***

Q.6 Kamran Enterprise (KE) purchases shoes from a number of manufacturers and sells these through three shops. All bookkeeping records are kept at head office. Stock is transferred from head office to the shops at selling price. KE earns a margin of 12.5% on selling price.

The following figures relate to the year ended 30 June 2012:

	Shop 1	Shop 2	Shop 3
	Rs.	Rs.	Rs.
Opening stock (selling price)	2,716,000	3,123,000	2,444,000
Goods sent to branch (selling price)	32,591,000	37,479,000	29,332,000
Sales	33,332,000	37,529,000	28,937,000
Closing stock (selling price)	2,500,000	1,990,000	3,091,000

The opening and closing stock figures were arrived at by means of a physical stock count.

A portion of the stock at Shop 2 was damaged due to floods during May-June 2012. This included badly damaged stock which was disposed of at Nil value before 30 June 2012. Part of the undamaged stock in the shop was transferred to Shop 1 and 3, where it was treated as normal trading stock. None of the shop managers kept proper records of the quantities transferred. Similarly, no record is available in respect of quantities of badly damaged stock which was disposed of at no value.

On the basis of physical stock count, it has been found that closing stock of Shop 2 includes damaged stock of Rs. 685,000 which can be sold at a discount of 40%.

Required:

(a) Estimate the cost of stock transferred from Shop 2 to Shops 1 and 3 after the flood and the cost of stock which was disposed of at Nil value by Shop 2. ***(09 marks)***

(b) Prepare Trading Account to show the gross profit of each shop for the year ended 30 June 2012. ***(10 marks)***

(THE END)