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The Institute of Chartered Accountants of Pakistan

Introduction to Financial Accounting

Foundation Examination — 6 September 2013
Autumn 2013 — 100 marks - 3 hours
Module B — Additional reading time - 15 minutes

Q.1 (a) Briefly describe any **four** measurement bases that may be used to measure the value of assets in the financial statements. **(06)**

(b) For measuring the value of a motor vehicle in the financial statements, a company is considering the following alternatives:

(i) Value the motor vehicle at Rs. 864,000 based on the sale price of a similar motor vehicle if sold today;
(ii) Value the motor vehicle at Rs. 1,235,000 based on the cost of the motor vehicle when purchased two years ago;
(iii) Value the motor vehicle at Rs. 1,481,000 based on the cost of a similar motor vehicle if purchased today;
(iv) Value the motor vehicle at Rs. 800,000 at which price a motor vehicle dealer is willing to purchase.

Required:
Identify the basis of measurement of the motor vehicle in each of the above cases. **(04)**

Q.2 Aay and Bee carried on the business of Aay Bee & Company as equal partners. It was agreed that Aay would retire on 30 June 2013 and that his son Zee would join Bee in partnership on 1 July 2013. Bee and Zee would share the profits in the ratio of 2:1. The balance sheet of the firm on 30 June 2013 was as follows:

Liabilities & Capital	Rs. in 000	Assets	Rs. in 000
Sundry creditors	980	Goodwill	1,000
Capitals:		Freehold premises	2,070
Aay	3,400	Furniture	1,420
Bee	2,820	Sundry debtors	1,610
		Balance at bank	1,100
	7,200		7,200

It was agreed that the change in partnership would involve the following:

(i) For the purpose of Aay's retirement and Zee's admission, goodwill would be recorded at Rs. 2.2 million, freehold premises at Rs. 2.4 million and furniture and fixture at Rs. 1 million. These adjustments would not be retained in the books.
(ii) Enough money would be introduced to enable Aay to be paid out and leave Rs. 1 million cash in the new partnership and that Bee and Zee should respectively provide such sums as would make their capitals proportionate to their shares of profit.
(iii) The amount which Zee would be required to provide in respect of his share of capital would be gifted by Aay by way of transfer from his capital account.

Bee paid cash due from him on 1 July 2013 and the amount due to Aay was paid out on the same day.

Required:
Prepare Journal entries to record the above transactions in the firm's books. **(12)**

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Q.3 Saqib is the sole proprietor of Saqib & Company. He keeps no running records of his stock but a physical count of stock is made at the end of each quarter. The record of stock taken on 30 June 2013 was accidentally destroyed before the items could be valued and therefore he needs to rely on the following information for valuation of stock:

(i) The cost of the stock on 31 March 2013 based on physical count was Rs. 800,525 but the following discrepancies have been detected in the stock sheets:
- A page total of Rs. 6,059 has been carried to the summary as Rs. 6,509. 50% of the items appearing on this page were sold before 30 June 2013.
- The total of a page has been undercast by Rs. 980.
- 100 units of a stock item which costed Rs. 50 each had been taken at 50 paisa each. 70 units of this item were available in the inventory as on 30 June 2013.

(ii) Invoices entered in the Purchase Book during the month of April, May and June 2013 totalled Rs. 138,560. Of this total, Rs. 12,300 related to goods received on or prior to 31 March 2013. Invoices amounting to Rs. 23,300 relating to goods received in June 2013 were entered in July 2013.

(iii) Invoices issued to customers in April, May and June 2013 amounted to Rs. 251,070. Of this total, Rs. 13,825 related to goods despatched on or before 31 March 2013. Goods despatched to customers before 30 June 2013 but invoiced in July 2013 totalled Rs. 25,245.

(iv) Credit notes issued in respect of goods returned during the quarter amounted to Rs. 11,290.

The gross margin earned by Saqib is 25% of cost.

Required:
Statement showing the computation of cost of stock at 30 June 2013. **(11)**

Q.4 The trial balance of A.A. Enterprise for the year ended 30 June 2013 shows a difference of Rs. 12,950 which has been placed to the debit of a suspense account. A careful analysis of the accounting records has revealed the following:

(i) Wages included Rs. 60,000 towards installation of a new plant in August 2012. The company charges depreciation on plant and machinery @ 15%.

(ii) A cheque of Rs. 13,500 was paid to a creditor who allowed 10% cash discount, but the payment was posted to purchase account as Rs. 1,350 only.

(iii) Goods invoiced at Rs. 5,700 returned by a debtor were entered in the purchase day book whereas the amount recorded in the debtors account was Rs. 7,500.

(iv) The sub-total of a stock sheet had been carried forward as Rs. 21,380 instead of Rs. 21,830 and another sheet had been over-casted by Rs. 1,000.

(v) Mr. Arslan, the owner, had withdrawn goods worth Rs. 4,680 for personal use. No entry has been made in the books.

(vi) A cheque of Rs. 10,000 received from a customer has not been posted to his ledger.

(vii) A sales invoice for Rs. 14,000 had been wrongly passed through the sales day book as Rs. 1,400.

(viii) Goods invoiced at Rs. 12,000 returned by Salman Khan were entered in the purchase day book and posted therefrom to Saleem Khan's account, who is a creditor, as Rs. 21,000.

(ix) Goods worth Rs. 14,700 purchased on 27 June 2013, had been entered in the purchase day book and credited to the supplier's account but the goods were not delivered till 3 July 2013. The title of the goods had however passed on 27 June 2013.

(x) The trial balance shows a debtor control account balance of Rs. 82,500 and a credit of Rs. 16,320 in provision for bad debts account. Rs. 11,560 is no more receivable and needs to be written off. A provision for doubtful debts is required to be maintained at 10% of debtors.

Required:
Pass rectification entries to correct the above errors. ***(Narrations are not required)*** **(20)**

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Q.5 Zafar is a wholesaler and usually sells goods on credit. However, he also makes some cash sales. Zafar does not keep proper books of accounts and has provided you the following information related to the year ended 30 June 2013:

(i) Assets and liabilities at 1 July 2012 were as follows:

	Rupees
Fixed assets at book value	3,560,000
Inventory	774,000
Cash	59,000
Bank	553,000
Trade receivables	237,000
Prepayment (insurance)	39,000
Trade payables	553,000
Bank loan (repayable over 5 years)	592,000
Rent payable	59,000

(ii) Balances on 30 June 2013 were as follows:

Cash on hand	75,000
Trade receivables	200,000

(iii) Purchases for the year amounted to Rs. 1,270,000.
(iv) Cheques deposited into bank, during the year, amounted to Rs. 1,559,000.
(v) Zafar withdrew Rs. 118,000 out of cash sales for personal use.
(vi) On the night of 30 November 2012, there was a burglary at the shop and some inventory was stolen. In order to establish how much inventory was stolen, Zafar informed you that:
- He had paid Rs. 510,200 against trade payables in the five month period to 30 November 2012.
- Trade payables due on 30 November 2012 amounted to Rs. 466,600.
- An inventory count was carried out on the following day after the burglary and the cost of inventory was determined as Rs. 476,600.
- Due to a defect in the insurance policy, no insurance claim was received.

(vii) On 30 April 2013, inventory costing Rs. 60,000 was damaged and scrapped. The insurance company agreed to pay Rs. 42,000 only.
(viii) Zafar makes a gross profit of 25% of the sales value and his sales occur evenly throughout the year.

Required:
Calculate the amount of inventory stolen, the cost of the closing inventory and the gross profit for the year ended 30 June 2013. **(21)**

Q.6 A trading organisation charges depreciation on its plant and machinery on a reducing balance method @ 15% per annum. On 1 July 2011, the net book value in the ledger stood at Rs. 5,660,000. Movements in the plant and machinery account during the two years ended 30 June 2013 were as follows:

Date	Particulars
1 October 2011	A new machine costing Rs. 80,000 was purchased. A sum of Rs. 30,000 was paid on the same date and the balance was paid on 31 March 2012.
1 December 2011	A machine that was purchased for Rs. 200,000 and installed at a cost of Rs. 10,000 on 1 August 2009 was fully destroyed in an accident.
1 February 2012	Some old machinery (book value on 1 July 2011 Rs. 20,000) was sold for Rs. 8,000.
30 November 2012	A machine imported on 1 July 2010 was disposed of for Rs. 63,000. The value of machine was Rs. 70,000 whereas import levies amounted to Rs. 5,000.

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Required:
Prepare the plant and machinery account for the years ended 30 June 2012 and 2013. **(19)**

Q.7 A summary of revenues and expenses of AB Enterprise for the year ended 30 June 2013 is given below:

	Rupees
Sales	2,345,000
Cost of goods manufactured and sold	(1,624,000)
Gross profit	721,000
Selling, general and administrative expenses	(509,000)
Net income before income tax	212,000
Income tax	(90,000)
Net income	122,000

Net changes in working capital items for the year ended 30 June 2013 were as follows:

	Net changes	
	Dr.	**Cr.**
Cash	32,000	
Trade receivables (net)		74,000
Inventories	105,000	
Prepaid expenses (selling and general)		6,000
Accrued expenses	15,000	
Income tax payable	28,000	
Trade payables	90,000	

Depreciation for the year amounted to Rs. 68,000.

Required:
Prepare a cash flow statement for the year ended 30 June 2013. **(07)**

(THE END)

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