The Institute of Chartered Accountants of Pakistan

Introduction to Accounting

Certificate in Accounting and Finance
Model Paper

100 marks – 3 hours

Q.1 (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)**

(b) Briefly describe the different bases for measurement of assets/liabilities in financial statements? **(08)**

(c) Explain the meaning of following accounting concepts/terms with reference to financial statements:

(i) Consistency **(04)**
(ii) True and fair view **(02)**
(iii) Materiality **(02)**

Q.2 Stadium Parking was incorporated by Ahmed on 1 July 2013 to operate a parking lot near a new Sports complex. The following transactions occurred during July 2013 prior to the company beginning its regular business operations.

01 July Rizwan opened a bank account in the name of the business with a deposit of Rs. 450,000 cash.
02 July Purchased land to be used as the parking lot for a total price of Rs. 1,400,000. A cash down payment of Rs. 280,000 was made and a note payable was issued for the balance of the purchase price.
05 July Constructed a building for Rs. 40,000 cash. The purchase price included installation of the building on the parking lot.
12 July Purchased office equipment on credit from Suzuki & Co. for Rs. 30,000.
28 July Paid Rs.20,000 of the amount owed to Suzuki & Co.

The account titles and account numbers used by Stadium Parking to record these transactions are:

	Code		Code
Cash -------------------------	1	Notes payable -------------	30
Land -------------------------	20	Accounts payable --------	32
Building --------------------	22	Ahmed's capital ---------	50
Office equipment --------	25		

Required:
(a) Prepare journal entries for the month of July 2013. **(05)**
(b) Post to ledger accounts in three column running balance form. **(06)**
(c) Prepare a trial balance at 31 July 2013. **(04)**

Q.3 Following is the trial balance of Mr. Sarfaraz as at 30 June 2013.

	Debit	Credit
	Rupees in thousands	
Freehold land	17,000	
Building	60,000	
Accumulated depreciation – building		24,000
Plant and machinery	30,000	
Accumulated depreciation – plant and machinery		15,000
Motor vehicles	16,000	
Accumulated depreciation – motor vehicles		9,600
Furniture, fixtures and equipment	4,500	
Acc. Depreciation – furniture, fixtures and equipment		2,000
Advance for expenses	1,500	
Other receivables	2,000	
Trade debtors	16,000	
Trade creditors		8,000
Other liabilities		1,300
Deposits received from suppliers		5,200
Sarfaraz's Capital A/c		80,700
Cash and bank balances	17,000	
Stock in hand – raw material	11,000	
– work in progress	4,500	
– finished goods	2,100	
Sales		334,050
Purchases – raw materials	216,000	
Discount on purchases		2,300
Purchase returns		17,000
Salaries and wages	33,050	
Advertising expenses	2,500	
All other expenses	66,000	
	499,150	**499,150**

Following details are available:

(i) Depreciation has been provided on straight line basis. Estimated useful lives are as under:

Building	25 years
Motor vehicles	5 years
All other fixed assets	10 years

(ii) Office furniture costing Rs. 750 thousand and book value of Rs. 150 thousand was traded in for Rs. 120 thousand, against new furniture worth Rs. 500 thousand.

No other additions or deletions were made during the year.

(iii) Purchase returns include a sum of Rs. 2,350 thousand which represents the cost of an item which was returned to the supplier erroneously. On the balance sheet date the supplier was holding the item on behalf of Mr. Sarfaraz and delivered it back after the year end.

(iv) On the basis of physical stock check carried out at the factory premises on 30 June 2013 the value of closing stock was determined as under:

	Rs. in '000'
Raw material	8,200
Work in process	3,240
Finished goods	530

(v) 60 % of all expenses other than directly attributable expenses are allocated to manufacturing.

Required:
Prepare the balance sheet and income statement for the year ended 30 June 2013. **(21)**

Q.4 The following information is available in respect of fixed assets of Javed Ali Enterprises (JIE):

(i) The opening balances of cost and accumulated depreciation of fixed assets as on 1 July 2012 were Rs. 100,000 and Rs. 33,000 respectively.
(ii) Assets costing Rs. 20,000 were acquired on 1 January 2012. The remaining fixed assets were acquired when JIE commenced business on 1 July 2008. There were no disposals of fixed assets upto 1 July 2012.
(iii) JIE provides for depreciation on the cost of assets at the rate of 10% per annum using the straight line basis. Depreciation is calculated on a monthly basis.
(iv) Assets acquired on 1 July 2008 whose net book value on 31 December 2011 was Rs. 2,750 were sold for Rs. 1,500.
(v) On 1 January 2013, an asset which was acquired at a cost of Rs. 2,000 when JIE commenced business, was exchanged for a new asset. The balance of the purchase price was settled with a cheque for Rs. 800. The list price of the new asset was Rs. 1,200.
(vi) On 1 April 2013 JIE transferred to its factory an asset which had been included in its trading stock and which bore a price label of Rs. 15,400 in the showroom. JIE makes a gross profit of 40% of cost, on sale of such assets.

Required:
Prepare the following ledger accounts for the year ended 30 June 2013:
(a) Fixed assets
(b) Accumulated depreciation
(c) Profit/loss on sale of fixed assets **(09)**

Q.5 Aleem and Shujaat were in partnership and shared profits and losses in the ratio of 3:2 respectively. The balances on the partners' capital accounts at 1 July 2012 were: Aleem Rs. 250,000, Shujaat Rs. 400,000.

Due to expansion of business, Arsalan was admitted as a partner on 1 October 2012 under the following arrangements:

(i) Assets were revalued upwards by Rs. 200,000 but the revaluation was not recorded in the books.
(ii) Goodwill of the firm was assessed at Rs. 300,000 and was retained in the books.
(iii) Arsalan invested Rs. 500,000 as capital.
(iv) Arsalan was allowed a monthly salary of Rs. 20,000 whereas Aleem and Shujaat continued to receive salaries of Rs. 28,000 and Rs. 25,000 per month respectively, as in the past.
(v) The balance profit was to be shared: Aleem 35%; Shujaat 35% and Arsalan 30%.
(vi) Mr. Shahzad was hired as manager from 1 October 2012 at a salary equal to 5% of the profit remaining after deducting such salary but before charging partners' salaries.

The profit for the year ended 30 June 2013 amounted to Rs. 486,000 after:

(i) making provision for a debt of Rs. 48,000 incurred prior to July 2012; and
(ii) providing for the partners' salaries.

In addition to salaries, the partners withdrew the following amounts:
Aleem Rs. 150,000; Shujaat Rs. 120,000; and Arsalan Rs. 90,000

Required:
Partners' capital accounts for the year ended 30 June 2013. **(20)**

Q.6 Rashid who was appointed at DEF & Company on 1 January 2012 had changed the method of recording debtors and creditors, to save time. Under the new method, he made all entries related to debtors and creditors in the subsidiary ledgers but did not maintain the related control accounts. Although the company's trial balance does agree but the management is not satisfied with the method adopted by Rashid and wants you to draw the related control accounts.

On reviewing various records, you have extracted the following information:

	Rupees
Debtors as on 31 December 2011	2,600,000
Creditors as on 31 December 2011	4,100,000
Cheques issued to suppliers in settlement of Rs. 23,600,000	23,350,000
Cash sales memos issued	14,360,000
Goods returned to suppliers	550,000
Cheques received from debtors in settlement of Rs. 32,000,000	31,650,000
Cheque received from suppliers against return of goods	180,000
Credit sales invoices issued	35,900,000
Returns by customers: from cash sales	320,000
from credit sales	980,000
Goods purchased on credit	27,700,000
Cash refund to a debtor who had paid the amount due twice	120,000
Cheque issued by a debtor on 28 December 2011 was dishonoured on 13 May 2012	200,000
Increase in provision for doubtful debts (from Rs. 1,750,000 to Rs. 2,250,000)	500,000
Bad debts written off	430,000
Contra settlement between creditors and debtors accounts	1,660,000
Credit balances included in debtors' accounts as on 31 December 2012	75,000
A supplier's invoice received on 30 December 2012 relating to goods supplied on 28 December 2012 has not been entered in the books	350,000

Required:
Prepare the debtors and creditors control accounts from the above information for the year ended 31 December 2012. **(11)**

(THE END)