The Institute of Chartered Accountants of Pakistan

Modular Examinations **Spring 2001**

March 10, 2001

FINANCIAL ACCOUNTING-1 **(MARKS 100)**
SPECIAL MODULE (Paper – B4) **(3 hours)**

Q.1 You are requested to answer the following with reference to International Accounting Standards.

i. Explain the following:
   a. Going Concern
   b. Substance over form.
   c. Depreciable assets **(09)**

ii. Mention components of a complete set of financial statements. **(03)**

iii. Mention the conditions for offsetting the items of Income and Expenses. **(03)**

Q.2 Factoring is considered to be an important source of working capital financing.

(a) Explain the term Factoring. **(03)**
(b) List its important features. **(06)**

Q.3(a) The following transactions relate to Bills Receivable Account of Faiz Ltd. For the month of December 2000:

		Rupees
Dec.01	Opening Balance	85,500
Dec.14	Kay Ltd. accepted a bill for three months	36,000
Dec.20	A bill receivable from Hai Ltd. was honoured on presentation.	20,250
Dec.24	The Co.'s bank notified that a bill from Zee Ltd. for Rs.30,000 had been discounted with the bank @ 2.5% had been dishonoured	30,000
Dec.31	The bill from Kay Ltd was discounted with the bank. Dicounting charges	750

Required: Calculate the Balance of Bills Receivable as at Dec. 31, 2000. **(04)**

(b) A company purchased a machine for Rs.120,000 with an expected life of 5 years. Straight line method of depreciation is used by the Company. At the beginning of year 3, the Company incurred expenses on major technical improvements amounting to Rs.40,000. This enhanced the useful life of the machine by three years. The expected residual value of Rs.3,000 at the end of 8th year.

Required: What is the depreciable amount of the asset after technical improvements have been made? **(04)**

Q 4 On 31st December 2000, the Cash Book of XYZ Trading Company showed a debit balance of Rs. 850. On comparing the Cash Book with the Bank Statement, the following discrepancies were noted:

(a) Cheques issued for Rs. 600 were not presented at Bank by 31st December 2000.

(b) Cheques of Rs. 800 were deposited in Bank but were not cleared.

(c) Rs. 2,000 being the proceeds of a Bill Receivable collected appears in the Bank Statement but not in the Cash Book.

(d) A cheque for Rs. 100 received from X & Company and deposited in Bank was dishonoured. No advice of non-payment was received from Bank till the first of next January 2001.

(e) The Bank has paid a Bill Payable amounting to Rs. 450 but it has not been entered in the Cash Book.

(f) A Bill Receivable for Rs. 800, which was discounted with the Bank was due this month. It was dishonoured by the drawee on due date.

(g) A cheque for Rs. 510 was paid into Bank but the Bank credited the account with Rs. 501 by mistake.

(h) A cheque for Rs. 50 was deposited into Bank but the same was credited to a wrong account.

(i) Rs. 200 was deposited by a customer direct into the Bank.

(j) The Bank received interest on debentures on behalf of the Company the amount being Rs. 250.

(k) A cheque for Rs. 150 received from a customer deposited into Bank but the same was not entered into the Cash Book.

(l) The bank paid Rs. 125 by way of Insurance premium.

(m) The Bank charged Rs. 9 as their commission for collecting outstation cheques and allowed interest of Rs. 10 on the Company's balance.

(n) A cheque for Rs. 25 entered into the Cash Book was omitted to be banked.

Required:

Prepare a Bank Reconciliation Statement and show the balance as per Bank Statement. **(10)**

Q.5 The Trial Balance of Johnson & Company a manufacturing concern, as at 31st December 2000 was:

		Rs.	Rs.
Drawings		7,650	
Sales			140,500
Income from investment			2,380
Purchase of Raw materials		34,630	
Manufacturing wages		39,720	
Repairs and renewals		1,580	
Rent		2,600	
Heat and light		3,574	
Power		8,600	
Office expense		2,140	
Telephone		662	
Supervisory wages		8,656	
Office salaries		5,460	
Selling and distribution expenses		10,400	
Land, at cost		8,500	
Factory building at cost		25,000	
Depreciation on buildings			8,000
Plant and machinery at cost		54,000	
Depreciation on Plant and machinery			22,000
Investment at cost		8,000	
Opening stock 01 January			
Raw materials	7,800		
Finished goods	21,600	29,400	
Debtors		19,600	
Loans		5,000	
Creditors			27,970
Capital Account			68,400
Provision for doubtful debts			750
Insurance		1,460	
Bank overdraft			6,632
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		276,632	276,632
		=====	=====

Notes:

a. Closing Stock (at cost) were:

Raw materials	8,240
Finished goods	23,420

b. Rent for the ½ year to 31st March next year had been paid Rs. 2,040. The rented building is used 80 % for manufacturing and 20 % for administration.

c. The following accruals were estimated:

Heat and light	140
Power	430
Telephone	31

d. Insurance had been paid:

02 January. whole year	340
24 June, whole year	642

e. Office repairs Rs. 83.

f. The factory occupies four-fifth of the buildings and this fraction is applied to insurances, as well as to heat and light to apportion these costs.

g. Bad Debts provision is to be adjusted to 5 % of debtors.

h. Depreciation on cost at straight line method is:

Building	5 %
Plant and machinery	10 %

Required:

Prepare a manufacturing, trading and profit and loss account and Balance Sheet as at 31st December 2000. **(15)**

Q.6 The Income and Expenditure Account of the Citizen Club for the year 2000 is as follows:

Expenditure	Rs.	Income	Rs.
Salaries	120,000	Subscription	170,000
Printing and Stationery	6,000	Enterance fee	4,000
Postage	500	Contribution for Dinner	36,000
Telephone	1,500		
General Expenses	12,000		
Interest and Bank charges	5,500		
Audit Fees	2,500		
Annual Dinner expenses	25,000		
Depreciation	7,000		
Surplus	30,000		
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	210,000		210,000
	======		======

The account has been prepared after the following adjustments:

		Rs.
a.	Subscription outstanding as at 31st December 1999	16,000
b.	Subscription outstanding as at 31st December 2000	18,000
c.	Subscription received in advance on 31st December 1999	13,000
d.	Subscription received in advance on 31st December 2000	8,400
e.	Salaries outstanding as at 31st December 1999	6,000
f.	Salaries outstanding as at 31st December 2000	8,000
g.	Audit fees for 1999 paid during 2000	2,000
h.	Audit fees for 2000 not paid	2,500
i.	The club owned a building since 1999	190,000
j.	The club had sports equipment on 31st December 1999 valued at	52,000
	At the end of the year after depreciation of Rs. 7,000	
	Equipment amounted to	63,000
k.	In 1999, the Club had raised a bank loan which is still not paid	30,000
l.	Cash in hand on 31st December 2000	28,500

Required: Prepare the Receipt and Payment Account of the Club for the year 2000 and the Balance Sheet as at 31st December 2000. All workings should form part of your answer. **(15)**

Q.7 Tauheed, Kashif and Tanveer are in partnership sharing profits and losses in proportion of 2:2:1 respectively. It was agreed that in case of retirement or death of a partner, the value of the goodwill shall be determined at 1 ½ years purchase of the average profits of the last four years. Tanveer retired from the business with effect from 1st July 2000, and the following matters came up for consideration in connection therewith:

a. Capital expenditure of Rs. 3,000 incurred on 15th November 1996 wrongly debited to purchase account is to be written back and the depreciation at 10 % is to be charged annually on the closing balances on reducing balance method.

b. No adjustment was made for goods worth Rs. 1,000 taken over by Tauheed 28th March 2000.

c. The profits for four years ended 30th June

1996-97	Rs.	12,000
1997-98	Rs.	15,000
1998-99	Rs.	14,000
1999-00	Rs.	16,000

d. Tanveer's Capital a/c stood at Rs.55,000 as on 30th June 2000.

Required: Draw up capital account of Tanveer and find out the amount due to him.

(10)

Q.8 M/s. Mukhtar Brothers, with their Head Office at Karachi had a branch at Lahore. They supply goods to its branch at selling price less 20 %. The Company as well as the Branch sell goods to their customers at profit of 100 % on cost. Mukhtar Brothers also sell goods to their approved stockists at the same price at which they are selling to their Branch at Lahore.

Required: From the following particulars prepare trading account of the Head Office and of the Branch for the second year of their business and show the provision for unrealised profits on stock at the Branch supplied by the Head Office. **(15)**

Particulars	Head Office	Branch
	Rs.	Rs.
Stock in the beginning	3,000	160
Purchases during the year	25,600	
Goods sent to the Branch	4,000	
Goods received from the Head Office		4,000
Goods sold to approved stockist	6,000	
Goods sold to customers	12,000	3,600
Expenses	200	100

(THE END)