**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**Foundation Examinations Spring 2004**

**March 09, 2004**

# INTRODUCTION TO FINANCIAL ACCOUNTING (MARKS 100)
## Module B (3 hours)

Q.1 (a) What are the components of a financial statement? **(06)**

(b) Give brief description of any four categories of users of financial statements. **(04)**

(c) Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, what disclosures should be given by the enterprise, in addition to the period covered by the financial statements? **(03)**

(d) What are the circumstances which allows an enterprise to continue to classify its long term interest-bearing liabilities as non current, even when they are due to be settled within twelve months of the balance sheet date? **(05)**

Q.2 Explain the following fundamental accounting concepts and terminologies giving one practical example of each:

(a) Materiality
(b) Going Concern
(c) Offsetting **(06)**

Q.3 (a) What are depreciable assets? **(05)**

(b) What factors should be considered to estimate the useful life of a depreciable asset? **(03)**

(c) The following appeared in the balance sheet of a limited company:

Loose Tools –

| | **Rupees** |
|---|---|
| Balance as per last balance sheet | 60,000 |
| Additions during the year | 5,000 |
| | 65,000 |
| Less: Depreciation | 6,500 |
| | 58,500 |

These tools are used in the ordinary course of the company's business and depreciation at 10 percent is written off the final balance of the account each year.

**Required:**
Comment whether the provision made for depreciation appears to be adequate. **(05)**

Q.4 The Mayfair Sports and Social Club's assets and liabilities for the previous and current year were as follows:

| | At December 31, 2002 Rupees | At December 31, 2003 Rupees |
|---|---|---|
| Equipment | 125,000 | 140,000 |
| Subscriptions in arrears | 10,000 | 9,000 |
| Subscriptions in advance | 6,500 | 5,500 |
| Creditors for soft drinks stock | 17,500 | 21,500 |
| Soft Drinks stocks | 40,000 | 30,000 |
| Rent owing | 7,500 | 5,000 |
| Electricity owing | 5,250 | 7,000 |
| Bank balance | 36,150 | 65,000 |

During the year the cash receipts were:

| | |
|---|---|
| Subscriptions (including Rs. 3,000 of arrears from previous year and the balance to be written off) | 105,000 |
| Soft Drinks takings | 205,000 |
| Sale of tickets for annual dinner | 120,000 |
| Sale of raffle tickets | 9,000 |

The following payments were made during the year:

| | |
|---|---|
| Affiliation fees | 5,000 |
| Purchase of equipment | 40,000 |
| Soft Drinks stocks | 102,500 |
| Soft Drinks salesman's wages | 37,500 |
| Catering | 72,000 |
| Hire of band | 15,000 |
| Raffle prizes | 3,000 |
| Rent of hall | 75,000 |
| Printing and postage | 10,000 |
| Electricity | 29,050 |
| Hon. Secretary's expenses | 6,100 |
| Repairs to equipment | 15,000 |

**Required:**

The Mayfair Sports and Social Club's

(i) Soft Drinks trading account for the year ended December 31, 2003 **(03)**

(ii) Income and expenditure account for the year ended Dec. 31, 2003 **(07)**

(iii) Balance sheet as at 31 December 2003. **(05)**

Q.5 The financial year of Ibrahim and Sons ended on December 31, 2003 but it was not possible to carry out stocktaking till January 8, 2004. On this date the value of actual stock on the premises was found to be Rs.229,400 at cost price. The following additional information is available:

(i) Sales made during this period totalled Rs.93,000.

(ii) Goods with an original cost of Rs.2,250 have been found to be damaged and now have a value Rs.1050.

(iii) Goods with a retail price of Rs.14,000 have been sent to a customer on a sale or return basis on December 24, 2003. Only goods with a retail price of Rs.8,500 were sold till December 31, 2003.

(iv) A purchase return credit note for Rs.3,400 was received on January 5, 2004 for goods returned on that date.

(v) It was discovered that goods included in the stock valuation at Rs.4,600 have been valued in error at their selling price.

(vi) Purchase invoices received during this period totaled Rs.55,500. Of these, Rs.6,500 of the goods were not received till January 8, 2004

(vii) The stock sheet used in the valuation had been overcast by Rs.4,450.

(viii) A sale return credit note of Rs.4,200 was issued on January 6, 2004 for goods returned on that date.

(ix) It was found that goods that had cost Rs.3,950 when purchased in early December had a market value of Rs.4,750.

(x) Fixed assets costing Rs.8,000 was mistakenly included in stock count at January 8, 2004.

(xi) A constant markup of 33.33% is maintained.

**Required:**
Prepare a statement to show the value of stock, at cost price, as at December 31, 2003. **(12)**

Q.6 The following errors and omissions were discovered in the books of Merchant Ltd., after the closure of books for December 31, 2003:

(i) Sales on approval amounting to Rs 22,500 has been included in the sales account; Rs. 16,000 of these goods were returned. No record of the return was made in the books, but the returned goods were included in stock at their cost price of Rs.12,800.

(ii) There were three compensating errors; Discount received were undercast by Rs.270, Sales ledger control account was over cast by Rs.540; and a payment of Rs.810 for legal expenses had not been posted from the Cash Book.

(iii) A credit customer settled his account of Rs.22,000 in cash. This went through the books as a cash sale on the day of receipt.

(iv) The stocktaking took place on January 3, 2004. However, during the period from January 1, 2004 to January 3, 2004, purchases of Rs.28,000 took place, sales of Rs.20,000 were made and sales of goods amounting to Rs.2,000 were returned. Adjustments have not been made for these transactions. The company earns a gross profit of 20% on sales.

(v) No provision has been made for the year on plant and machinery bought on January 1, 2001 for Rs. 250,000. Depreciation is provided on assets in use at the end of the year at a rate of 25% using the reducing balance method. The machine has a life of 5 years with a residual value of 10%.

**Required:**
Pass journal entries to correct the above errors. **(13)**

Q.7 Mr. Surti wrote a book "Advanced Accountancy" and got it published with Javed Printers on the terms that royalties will be paid at Rs.75 per copy sold, subject to a Minimum Rent of Rs. 225,000 per year, with a right to recoup the short workings over the first two years of the royalty agreement. The details are as under:

| Year | Number of copies printed | Number of copies of closing stock |
|---|---|---|
| 1999 | 2,000 | 100 |
| 2000 | 3,000 | 200 |
| 2001 | 4,000 | 400 |
| 2002 | 5,000 | 500 |

**Required:**
Prepare the following accounts in the books of Javed Printers:
- i) Minimum Rent account
- ii) Royalty Account
- iii) Short working
- iv) Surti's Account **(13)**

Q.8 Mansoor from Faisalabad consigned 100 machines costing Rs.750,000 to his agent Bilal in Lahore at 20% above cost to be sold on his behalf. Mansoor incurred Rs.750 on each machine as packing charges.
Bilal received consignment by paying Rs.7,500 as transportation and spent Rs.750 for carriage to godown. He rendered an account sales showing that:

20 Machines realized Rs.180,000 in cash;
50 Machines sold on credit at Rs.9,750 each;
10 Machines taken to his own stock at Rs.9,150 each.

Consignee remitted the balance after deducting his commission worked out at 5% on invoice price of goods sold and 15% on any excess price realized.

**Required:**
Prepare the consignment account in the books of Mansoor. **(10)**

**(THE END)**