THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Foundation Examinations Autumn 2008

September 5, 2008

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

Q.1 (a) Explain the meaning of following accounting concepts/terms with reference to financial statements:

(i) Consistency
(ii) True and fair view
(iii) Completeness
(iv) Materiality **(10)**

(b) Explain the following terms in accordance with the relevant International Accounting Standards (IASs):

(i) Inventories
(ii) Property, Plant and Equipment **(06)**

Q.2 NKL Enterprises produces a single product. On July 31, 2008, the finished goods stock consisted of 4,000 units valued at Rs. 220 per unit and the stock of raw materials was worth Rs. 540,000. For the month of August 2008, the books of account show the following :

	Rupees
Raw material purchases	845,000
Direct labour	735,000
Selling costs	248,000
Depreciation on plant and machinery	80,000
Distribution costs	89,560
Factory manager’s salary	47,600
Indirect labour	148,000
Indirect material consumed	45,000
Other production overheads	84,000
Other accounting costs	60,540
Other administration overheads	188,600

Other information are as under:
(i) 8,000 units of finished goods were produced during August 2008.
(ii) The value of raw materials on August 31, 2008 amounted to Rs. 600,000.
(iii) There was no work-in-progress at the start of the month. However, on August 31, the value of work-in-progress is approximately Rs. 250,000.
(iv) 5,000 units of finished goods were available in stock as on August 31, 2008.

Required:
Compute the value of closing stock of finished goods as on August 31, 2008 based on weighted average cost method. **(12)**

Q.3 A and B are partners who share profits and losses in the ratio of 3:2. Their balance sheet as on June 30, 2008 is as follows:

	Rupees
Assets	
Fixed assets	2,625,000
Investments	437,500
Long term receivables	875,000
Current assets	1,750,000
	5,687,500
Capital and liabilities	
Capital account:	
A	1,050,000
B	700,000
Long term loans	1,750,000
Current liabilities	2,187,500
	5,687,500

They agree to admit C as a new partner with effect from July 1, 2008 on the following terms and conditions:

(i) The goodwill of the firm will be valued at 2 years' purchase of the average normal profits of the firm for the last three years. These profits are as follows:

	Rupees
Year ended June 30, 2006	175,000
Year ended June 30, 2007	(700,000)
Year ended June 30, 2008	1,000,000

Profit for the year ended June 30, 2008 is inclusive of an insurance claim of Rs. 300,000 received in respect of loss incurred in 2006. The loss for the year ended June 30, 2007 includes a penalty of Rs. 500,000 paid to the government.

(ii) Goodwill will not appear in the books of the firm.

(iii) C will bring in cash amounting to Rs. 1,460,000 which includes his share of goodwill in the firm.

(iv) Assets of the firm were agreed to be revalued as under:

	Rupees
Fixed assets (net of depreciation)	3,100,000
Long term receivables	875,000
Current assets	1,575,000

Investments will be taken over equally by A and B at their fair market value of Rs. 400,000.

(v) The new profit sharing ratio shall be 7 : 5 : 8.

Required:

(a) Prepare the following ledger accounts:
- Revaluation Account
- Partners' Capital Accounts

(b) Prepare balance sheet of the firm as on July 1, 2008, after the aforesaid reorganization. **(18)**

Q.4 The following balances have been obtained from the books of Gulshan Cricket Club:

	June 30, 2007	June 30, 2008
Building	6,024,000	6,438,150
Furniture	3,012,000	2,710,800
Books	1,129,500	1,246,950
Sports equipments	1,807,200	1,595,200
Investments	-	436,000
Advance subscription	86,000	92,000
Prepaid expenses	122,000	176,000
Expenses payable	186,900	207,600
Subscriptions receivable	326,000	357,000
Cash	1,204,800	1,586,500

The following information is also available in respect of the year ended June 30, 2008:

(i) Depreciation for the year has been credited directly to the asset accounts. The rates of depreciation are as follows:

Building	5%
Furniture and books	10%
Sports equipments	20%

(ii) The club had 600 members on June 30, 2008. No fresh members were admitted during the year but 10 members left the club on January 1, 2008. Subscription per member is Rs. 500 per month.

Required:
(a) Summary of receipts and payments made during the year ended June 30, 2008.
(b) Income and Expenditure Account for the year ended June 30, 2008. **(20)**

Q.5 A shopkeeper made a net profit of Rs. 256,800 for the year ended June 30, 2008 after charging depreciation of Rs. 17,500 and loss on disposal of furniture of Rs. 6,800. The sale proceeds of the furniture were Rs. 12,000.

During the year, the net book value of fixed assets decreased by Rs. 7,400; debtors increased by Rs. 11,700; stocks decreased by Rs. 21,600 and creditors increased by Rs. 8,900. A long-term loan of Rs. 75,000 was repaid during the year and the shopkeeper withdrew Rs. 120,000 for his own use.

Required:
Prepare the cash flow statement for the year ended June 30, 2008. **(07)**

Q.6 The trial balance of Eastern Products showed a short credit of Rs. 6,264 as at June 30, 2008. A suspense account was opened for the difference and the profit for the year was then calculated at Rs. 956,180.

The following errors and adjustments were discovered subsequently:

(i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.
(ii) Store equipment costing Rs. 8,100 and having a book value of Rs. 3,600 was sold for Rs. 2,500. Cash was debited and store equipment was credited. No other entries were made.
(iii) A cheque of Rs. 1,850 received from a customer was dishonoured on June 25, 2008 but no entry was made in the books. Cash thereagainst was received after year-end.

(iv) Purchase of office equipment costing Rs. 15,200 was entered in the purchases account. Depreciation on office equipment is provided at the rate of 10%.

(v) A purchase invoice of Rs. 197 was debited to the supplier account as Rs. 917.

(vi) Purchase returns book was under-casted by Rs. 650.

(vii) The opening balance of furniture account was brought forward as Rs. 18,300 instead of Rs.13,800. Depreciation on furniture is provided at the rate of 10%.

(viii) A balance of Rs.730 in the sales ledger is to be offset against a balance of Rs. 880 in the purchase ledger.

Required:

(a) Prepare journal entries to adjust the above items.

(b) Recalculate the net profit for the year. **(18)**

Q.7 Following information has been collected from the books of Al-Murtaza Company, as at August 31, 2008:

		Rupees
(a)	Balance as per bank book	272,178
(b)	Cash balance on bank statement	227,522

(c) Cheques outstanding on August 31 were as follows:

Cheque No.	Rupees
670	13,353
679	14,152
690	17,108
996	3,535
997	14,430
999	23,629

(d) On August 31, the cashier resigned. Before leaving, he prepared the following bank reconciliation:

	Rupees
Balance as per books	272,178
Less: Outstanding cheques (Nos. 996, 997 & 999)	39,594
	232,584
Less: undeposited receipts	83,250
	149,334
Add: bill collected by the bank not recorded in cash book	78,188
Balance as per bank statement	227,522

Subsequently, it was discovered that the cashier had misappropriated substantial amount of cash. The management has requested you for help in determining the amount that the former cashier has misappropriated and you have detected the following:

(i) Receipt of Rs. 15,000 was erroneously recorded on the credit side of the bank book.

(ii) A payment of Rs. 12,480 was erroneously recorded on the debit side of the bank book.

(iii) The credit side of the bank book has been over casted by Rs. 4,800.

(iv) The amount of bill collected by the bank as shown in the reconciliation prepared by the cashier as Rs. 78,188 was in fact Rs. 87,188.

Required:

Determine the amount the cashier misappropriated from the Company. **(09)**

(THE END)