INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (August) 2012 Examinations

Wednesday, the 5th September 2012

FINANCIAL ACCOUNTING (S-301)

STAGE – 3

Time Allowed: 02 Hours 45 Minutes **Maximum Marks: 90** **Roll No.:**

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) Use of non-programmable scientific calculators of any model is allowed.
(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
(vii) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 M/s Jano and Sons sends 1,000 washing machines costing Rs.5,000 each to Alberto of Karachi on consignment basis. He incurred and paid the following charges:

(i)	Transportation	@ Rs.500 each
(ii)	Insurance in transit	@ Rs.200 each
(iii)	Special packing	@ Rs.100 each
(iv)	Forwarding charges	Rs.40,000

Mr. Alberto received 950 washing machines due to accidental fire on the board which destroyed 50 machines. He also paid:

(i)	Unloading	Rs. 95,000
(ii)	Go down rent	Rs. 15,000
(iii)	Salespersons salaries	Rs.100,000

Mr. Alberto is allowed following commission:

(a) Regular commission if sold 20% above cost.
(b) Mega commission If sold 40% above cost.

Rates of Commission:

(i)	Regular:	10% of sales value
(ii)	Mega:	20% of sales value

Mr. Alberto made sales in following pattern:

(a) he sold 400 machines at 20% above cost excluding all expenses incurred on it.
(b) he sold 500 machines at 40% above cost excluding all expenses incurred on it.

Insurance company admitted 80% of loss of machines. Mr. Alberto sent a draft of net proceeds after deducting his commission and expenses incurred by him.

Required:

(a) **(i)** Calculate the unsold stock. **03**
(ii) Prepare abnormal loss account. **02**
(iii) Prepare insurance receivable account. **02**

(b) Prepare consignment account. **10**

PTO

Marks

Q. 3 Saleem Traders, whose head office is in Karachi, operates a branch in Lahore. All goods are purchased by head office and invoiced to and sold by the branch at cost plus 50%. Other than sales ledger kept in Lahore, all transactions are recorded in the books in Karachi. The following particulars are given for the transactions at the branch during the year ended December 31, 2011.

	Rs.
Accounts receivable on January 01, 2011	118,940
Inventory on January 01, 2011, at invoice price	132,000
Goods sent from Karachi during the year at invoice price	744,000
Cash discount allowed to debtors	12,840
Invoice value of goods stolen	18,000
Cash sales	72,000
Credit sales	630,000
Bad debts written off	4,440
Returns to head office at invoice price	30,000
Normal loss at invoice price due to wastage	3,000
Cash received from debtors	672,000
Inventory on December 31, 2011, at invoice price	118,440

Required:

You are required to write up the branch inventory account and branch total accounts receivable account for the year ended December 31, 2011, as they would appear in the head office books, showing clearly any abnormal wastage. **14**

Q. 4 A Non-Government Organization is operating a medical facility with the name of Al-Shifa in rural area in order to provide free treatment to poor people. A receipt and payment account for the year ended December 31, 2011 are as follows:

Al-Shifa Medical Services
Receipt and Payment Account
As at December 31, 2011

Receipts	Rs.	Payments	Rs.
Balance b/d (January 1, 2011)	250,000	Payments for medicines	35,000
Subscription	30,000	Doctors' honorarium	60,000
Donation	40,000	Misc. staff salaries	10,000
Interest on investment	3,000	Medical equipment purchased	50,000
Charity shows proceeds	50,000	Charity shows expenses	5,000
		Balance c/d	213,000
	373,000		373,000

Additional Information:

	January 1, 2011 (Rs.)	December 31, 2011 (Rs.)
Accrued subscription	5,000	10,000
Subscription received in advance	10,000	5,000
Medicines stock	25,000	20,000
Amount due to medicine suppliers	5,000	25,000
Hospital building at cost	100,000	100,000
Medical equipments at cost	150,000	?
Life membership fund	100,000	?
10%, long-term investment (purchased on 31/12/2010)	?	?

Adjustments:

(i) Accrued honorarium Rs.15,000
(ii) Outstanding charity expense Rs. 2,000
(iii) Transfer Rs.20,000 from life membership fund to current subscription.
(iv) Depreciation is to be provided as follows:
- Building at 20% on straight-line basis.
- Medical equipment at 10% on straight-line basis.

Marks

Required:

(a) Prepare Income and Expenditure Account for the year ended on December 31, 2011. **12**

(b) Prepare Statement of Financial Position as at December 31, 2011. **11**

Q. 5 **(a)** Bilal and Company, imported machine having list price of Rs.1,000,000 subject to 5% discount. 2% import duty was paid and 1% of non-refundable purchase tax and 3% of refundable tax were also paid. It was to be installed in work place where a machine already existed. The cost of dismantling and removing old machine amounted Rs.21,500. Following costs were also paid:

(i) Site preparation cost Rs.30,000.
(ii) Construction of a room costs Rs.100,000.
(iii) The engineer was paid Rs.70,000 for testing and operation.
(iv) During operation of machine some samples items were produced which could be sold for Rs.50,000.
(v) Transporting and loading and unloading costs Rs.150,000.

Required:

Calculate total cost of machine under IAS 16 applicable to the given situation. **05**

(b) As you know, IAS 10 deals with events after the reporting period and such events either favourable or unfavourable occur between the end of the reporting period and the date when financial statements are authorized for issue. You are required to segregate the following events as: Adjusting events after reporting period; or non-adjusting events after reporting period. (Consider each case separately) **06**

1- 'CB' Company facing a breach of contract case and a penalty is confirmed by the court after reporting period.
2- Plant and machinery of Alico Limited has been destroyed by fire after reporting period.
3- A bankruptcy of a major customer who owes to P and Q company, this event occur after the reporting period.
4- Soft-Tech Company announced a plan to discontinue its 'equipment – check up' operation after reporting period.
5- 'D' company purchased a huge plant after reporting period.
6- Saaqi Company disposed of its major asset after reporting period.
7- Auditors of 'FA' Company discovered that the financial statements are incorrect.
8- 'J.J' Company reported that market value of its investment has declined after reporting period.

Q. 6 Rainbow Company Limited, presents its Trial Balance as on December 31, 2011:

	Debit (Rs.)	Credit (Rs.)
Cash in hand and at Bank	15,550,000	
Accounts receivable	4,000,000	
Insurance expense (20% Administrative, 60% factory, 20% selling)	500,000	
Selling and distribution expenses	300,000	
Electric and power (60% factory, 30% Administrative, 10% selling)	1,500,000	
Rent and tax (50% Administrative, 30% factory, 20% selling)	500,000	
Raw material (opening)	200,000	
Finished good (opening)	300,000	
Work in process (opening)	400,000	
Purchase of material	1,200,000	
Transportation in	50,000	
Wages and salaries (60% direct, 30% Administrative.10% selling)	3,000,000	
Courier and other postage expenses	50,000	
Machinery at cost	8,000,000	
Building premises at cost	10,000,000	
Furniture and fixture at cost	3,000,000	

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	Debit (Rs.)	Credit (Rs.)
Accounts payable		2,300,000
General reserves		1,800,000
Retained earnings		3,000,000
Sales		13,000,000
1,500,000 ordinary shares of Rs.10 each		15,000,000
Capital work in progress	4,500,000	
Dividend – interim paid	450,000	
Accumulated depreciation:		
Machinery		3,200,000
Building premises		4,000,000
Furniture and fixtures		1,200,000
8%, long term financing (July 01, 2011)		10,000,000
	53,500,000	53,500,000

Additional Information:

(i) The company has an authorised capital of 2,500,000 ordinary shares of Rs.10 each.

(ii) Inventories on December 31, 2011:

	Amount in Rs.
(a) Raw material	450,000
(b) Finished goods	1,300,000
(c) Work in process	2,150,000

(iii) Income tax rate is 35%.

(iv) Final dividend declared is 5%.

(v) Capital work-in-process at December 31, 2011 is Rs.500,000.

(vi) Depreciation is to be charged @ 20% by straight-line method on all fixed assets. Depreciation on building and furniture will be allocated as: 50% administrative and 50% selling respectively. As per company's policy, no depreciation will be charged on newly completed building.

(vii) Transfer Rs.2,000,000 to general reserves.

Required:

Prepare the following statements in accordance with International Financial Reporting Standard/ IAS-1 (revised):

(a) Income Statement for the year ended on December 31, 2011. **08**

(b) Statement of Financial Position as on December 31, 2011. **10**

(c) Statement of Changes in Equity for the year ended on December 31, 2011. **02**

(d) Schedule of various expenses. **05**

THE END