Time Allowed: 2 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.**

Q. 2 Following trial balance relates to SK Enterprises (Pvt) Limited as on June 30, 2013: **Marks**

TRIAL BALANCE

	Rs. "000" Debit	**Rs. "000" Credit**
Revenue		229,000
Cost of sales	151,300	
Administrative expenses	20,000	
Marketing expenses	16,000	
Financial expenses	2,200	
Other income		1,400
Share capital (100,000 shares of Rs.1,000 each)		100,000
6% loan notes		25,000
Retained earnings – July 1, 2012		18,500
Land – cost	10,000	
Building – cost	40,000	
Plant and machinery – cost	100,000	
Furniture and fixture – cost	4,700	
Accumulated depreciation – building		9,000
Accumulated depreciation – plant and machinery		43,500
Accumulated depreciation – furniture and fixture		700
Inventory – June 30, 2013	35,800	
Trade receivables	48,500	
Deferred tax		1,200
Bank – current account	36,500	
Trade payables		15,000
Accrued liabilities		11,700
Suspense account		10,000
	465,000	**465,000**

(i) The company sold one of its products on July 1, 2012 at Rs.10 million. The company has agreed to provide after sales service for a period of four years i.e., till June 30, 2016 without any extra charge. The estimated cost of servicing is Rs.300,000 per annum, which is included in the sales price. The company charges 25% gross profit margin on the servicing. The accountant of the company is confused as to the accounting treatment of this transaction, therefore, he has recorded Rs.10 million as suspense account.

(ii) Loan notes were issued on July 1, 2012 and issue costs amounting to Rs.1 million, have been charged to administrative expenses. Assume no difference of effective interest rate.

(iii) Land has been revalued by the company during the year and an independent professional valuer has valued the land at Rs. 12 million. The resultant gain has not been recorded in the above trial balance.

Marks

(iv) Depreciation @ 2%, 15% and 10% on written down value is to be charged on building, plant & machinery and furniture & fixture respectively, however, depreciation for the year has not yet recorded in the above trial balance. The company charges entire depreciation expenses to cost of sales.

(v) Current tax expense is to be recorded @ 35% of taxable profits. The tax advisor of the company has calculated current year's taxable profits at Rs.20 million.

(vi) The taxable temporary difference has increased by Rs.10 million at the end of the current year for which no deferred tax entry has been recorded.

Required:

Prepare the following financial statements for the year to June 30, 2013:

(a) Statement of Profit or Loss and Other Comprehensive Income. **09**

(b) Statement of Changes in Equity. **03**

(c) Statement of Financial Position. **13**

Q. 3 The financial statements of Premier Exporters Limited are as follows:

Statements of Financial Position
As at June 30

	2013	2012
ASSETS	**Rs. "000"**	**Rs. "000"**
Non-Current Assets		
Property, plant and equipment	12,034	11,436
Intangible fixed assets	1,240	1,304
Long-term loans and advances	682	979
	13,956	13,719
Current Assets		
Inventory	917	589
Trade receivables	594	385
Advances, deposits and prepayments	378	326
Short-term investments	2,900	2,200
Cash and bank balances	382	288
	5,171	3,788
TOTAL ASSETS	**19,127**	**17,507**
EQUITY AND LIABILITIES		
Ordinary shares @ Rs.10 per share	12,540	11,400
Share premium	378	150
Retained earnings	1,546	943
	14,464	12,493
Non-Current Liabilities		
Long-term loans	3,284	3,891
Current Liabilities		
Short-term loans	82	101
Payables, accrued and other liabilities	891	597
Bank overdraft	23	43
Provision for taxation	383	382
	1,379	1,123
TOTAL EQUITY AND LIABILITIES	**19,127**	**17,507**

Statement of Profit or Loss
for the year ended June 30, 2013

	Rs. "000"
Sales	16,213
Cost of sales	(10,900)
Gross profit	**5,313**
Administrative expenses	(3,090)
Selling expenses	(625)
	(3,715)

	Rs. "000"	Marks
Operating profit	**1,598**	
Interest income	343	
Financial charges	(455)	
Profit before tax	**1,486**	
Income tax	(340)	
Profit for the year	**1,146**	
Profit brought forward	943	
Un-appropriated profit	**2,089**	

(a) Accumulated depreciation including current year's depreciation for overall property, plant and equipment was Rs.5,215,000 as on June 30, 2012 and Rs.6,895,000 as on June 30, 2013.

(b) Plant and machinery costing Rs.235,000 and having a book value of Rs.143,000 was sold for Rs.157,000 during 2013.

(c) There was no addition or disposals of intangible assets during the year.

(d) Advances, deposits and prepayments include interest receivable amounting to Rs.125,000 on June 30, 2012 and Rs.150,000 on June 30, 2013.

(e) Short-term investments are highly liquid with one to two months' maturity.

(f) The company issued one rights share for 10 previously held shares at a premium of 20% of the par value.

(g) Retained earnings in statement of financial position are after payment of dividend during the year out of un-appropriated profits of the company.

(h) Financial charges represent interest of Rs. 452,000 on loans and include bank charges of Rs. 3,000 deducted by the bank.

(i) Payables, accrued and other liabilities include interest payable of Rs.80,000 and Rs.75,000 as on June 30, 2012 and June 30, 2013 respectively.

Required:

Prepare Statement of Cash Flows for the year ended June 30, 2013 using indirect method including reconciliation of cash and cash equivalents in accordance with IAS 7 *Statement of Cash Flows*. **25**

Q. 4 **(a)** **(i)** What do you understand by the phrase 'elements of financial statements'? Identify the elements that relate to statement of profit or loss and statement of financial position. **03**

(ii) What are the criteria for recognition of an 'element' in the financial statements? **02**

(b) Following information is available relating to a construction contract, which commenced on July 1, 2010:

	Rs. "000"
Initial amount of revenue agreed	2,000,000
Initial estimate of cost	1,750,000
Revised cost estimates on June 30, 2011	1,800,000
Further variation agreed during 2011-2012:	
Expected revenue from further variation agreed with customer	200,000
Additional cost of further variation	150,000
Material as on June 30, 2012 stored on site for use during 2012-2013	10,000

The stage of completion is determined by calculating proportion that contract costs incurred for work to date bear to the latest estimated total contract costs.

The costs incurred relating to the contract are as follows:

Till June 30, 2011	750,000
Till June 30, 2012 (including material in store)	1,525,000
Till June 30, 2013	1,950,000

Marks

Required:

Calculate:

(i) Stage of completion for each year of the contract. **04**

(ii) Revenue, cost and profit recognized for each year of the contract. **07**

Q. 5 (a) Identify components of complete set of financial statements as provided in IAS1. **03**

(b) During the first year of Reliable Solutions (Pvt.) Limited, the company purchased a number of assets. Following information is available:

Description of assets	Cost (Rs.)
Furniture and fixture	500,000
Computer equipment	1,000,000

The accountant of the company knew about useful life and depreciation concepts and determined useful life of all these assets as five years and charged depreciation on straight-line basis. However, he was confused as to application of deferred tax provisions. Tax laws of the country allow depreciation on furniture and fixture @ 15% and computer equipment @ 30%.

Required:

(i) Calculate difference between accounting and tax base of above referred assets. **04**

(ii) Identify for above referred assets whether difference is deductible or taxable. **01**

(iii) Identify deferred tax income/ expense/ asset/ liability to be recognized by the company. **01**

(c) The directors of ABC Company identify the necessity of expenditure to harmonize the production process for better efficiency. During the year, the company incurred expenditure of Rs.2,000,000 on a new production process out of which Rs.1,500,000 was incurred till June 1, 2013 and Rs.500,000 were spent after June 1, 2013 till June 30, 2013. On June 1, 2013, the company was able to demonstrate that the new production process meets the criteria for recognition as an intangible asset. The recoverable amount of the intangible asset is estimated to be Rs.800,000.

Required:

(i) Advise whether all the expenditures shall be treated as expense in profit or loss or as intangible asset and in case any intangible asset is recognized, what should be the amount at which such intangible asset is to be recognized. **03**

(ii) Explain when any impairment provision is to be recognized and identify, in this case, if any impairment provision is to be recognized. **02**

Q. 6 (a) Mughal Garments Limited has discovered a material prior period error. Identify if accounting standards require any specific disclosures regarding material prior period errors. **06**

(b) The outstanding balances of two bank loans as on July 1, 2012 were Rs.60 million and Rs.40 million carrying interest rate of 10% and 9.5% respectively. On July 1, 2012, ABC Company began construction of a qualifying asset using existing borrowings. Expenditure drawn out was: Rs.15 million on July 1, 2012 and Rs.10 million on April 1, 2013.

Required:

Calculate borrowing cost to be capitalized for the qualifying asset. Give notes to explain your calculation. **04**

THE END