INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall (Winter) 2008 Examinations

Sunday the 23rd November 2008

FINANCIAL ACCOUNTING

Stage- 3

Time Allowed – 2 Hours 45 Minutes | Maximum Marks – 90

(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 on 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.

Marks

Q. 2 **(a)** What is the difference between "Adjusting Events" and "Non-adjusting Events"? Give at least three examples of each. 06

(b) M/s. J & J Limited, Lahore has a branch in Karachi. Usually goods are shipped from Lahore Office to Karachi Branch but the branch is also allowed to make direct purchases from the market. Information available for the year ended June 30, 2008 is as follows:

- For the year ended June 30, 2008, Head Office registered a sale of Rs.1,250,000, while the branch recorded an independent sale of Rs.400,000.
- Goods are shipped from Head Office to the branch at a mark-up of 20%, while the direct purchases of the branch are accounted for at cost.
- Selling expenses amounted to Rs.95,000 and Rs.23,000 for the Head Office and the branch respectively.
- Head Office does not have a policy of sales discount, but the branch offered sales discount of Rs.7,000 during the year.
- General expenses were Rs.110,000, out of which Rs.35,000 were incurred by the branch.
- During the year, Head Office sent goods costing Rs.100,000 to the branch, while the branch made direct purchases of Rs.120,000.

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- Purchases made by the Head Office were of Rs.995,000. Opening inventory in the books of the Head Office was of Rs.275,000, while closing inventory was of Rs.290,000.
- The books of the branch reflected opening and closing inventories (at billed price) of Rs.30,000 and Rs.42,000 respectively.

Required:

(i) Prepare Income Statements for Karachi Branch and Head Office. 08

(ii) Prepare consolidated Income Statement. 06

Q. 3 Ramzan Limited of Lahore sent 5000 pieces of clothes to Super Store, Karachi on consignment basis. The consignee is entitled to receive 5% commission plus expenses, actually incurred. The cost to Ramzan Limited is Rs.12 per piece. Super Store, Karachi pays the following expenses:

Freight etc.	Rs.2,000
Godown rent and insurance	Rs.2,500

Ramzan Limited drew on the consignee, a draft for Rs.30,000, which was duly accepted. Super Store, Karachi sold entire stock for Rs.78,000. The bill was discounted for Rs.28,650.

Required:

Prepare the following ledger accounts:

(i) Consignment to Karachi account. 04

(ii) Super Store, Karachi account and 04

(iii) Goods sent on consignment account. 02

Q. 4 **(a)** (i) What is a partnership? Define it. 02

(ii) Describe the salient features of a partnership. 03

(b) Mr. Akhtar, Mr. Anwer and Mr. Arshad are partners in the ratio of $^1/_2$, $^1/_3$ and $^1/_6$ respectively. The balance sheet of their firm as at December 31, 2007 is as follows:

Balance Sheet
As at December 31, 2007

	(Rs.)	**(Rs.)**		**(Rs.)**	**(Rs.)**
Cash at bank		5,000	Accounts payable		21,000
Accounts receivable	20,000		Notes payable		8,000
Less: allowance for			Reserves		15,000
doubtful accounts	1,000	19,000	Capital accounts:		
Inventory		35,000	Akhtar	50,000	
Furniture & fixtures		10,000	Anwer	35,000	
Plant & machinery		40,000	Arshad	30,000	115,000
Land & buildings		50,000			
		159,000			159,000

Anwer decided to retire from December 31, 2007 with the following conditions:

1- The goodwill of the firm is to be valued at Rs.25,000.

2- Plant is to be depreciated @ 10% and furniture and fixtures @ 15%.

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3- Inventory and building are to be appreciated @ 25% and 10% respectively.

4- The allowance for doubtful accounts is to be increased by Rs.2,000.

It was agreed that Akhtar and Arshad will continue the partnership at a new profit and loss sharing ratio of $^3/_5$ and $^2/_5$ respectively.

Required:

(i) Pass necessary journal entries. 08

(ii) Prepare partners' capital accounts and balance sheet after recording these changes. 07

Q. 5 The financial statements of Nishat Mills are given below. Use these statements to prepare a comprehensive ratio analysis. The market price of shares of Nishat Mills is Rs.16 each:

NISHAT MILLS
Comparative Balance Sheets
As at December 31, 2007 and 2006

ASSETS	**2007 (Rs.)**	**2006 (Rs.)**
Current assets		
Cash	500,000	370,000
Accounts receivable	350,000	290,000
Inventories	90,000	110,000
Total current assets	940,000	770,000
Property, plant and equipment		
Land	200,000	200,000
Building	650,000	650,000
Equipment	950,000	900,000
	1,800,000	1,750,000
Less: Accumulated depreciation	(365,000)	(325,000)
Total property, plant and equipment	1,435,000	1,425,000
Total assets	2,375,000	2,195,000
LIABILITIES		
Current liabilities		
Accounts payable	160,000	200,000
Interest payable	40,000	30,000
Total current liabilities	200,000	230,000
Long-term liabilities		
Long-term notes payable	800,000	700,000
Total liabilities	1,000,000	930,000
SHAREHOLDERS' EQUITY		
Ordinary share capital (Rs.0.50 at par)	100,000	100,000
Share premium	655,000	655,000
Retained earnings	620,000	510,000
Total shareholders' equity	1,375,000	1,265,000
Total Liabilities and equity	2,375,000	2,195,000

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NISHAT MILLS
Income Statement
For the year ended December 31, 2007

	(Rs.)	**(Rs.)**
Revenues		1,685,000
Cost of goods sold		(980,000)
Gross profit		705,000
Operating expenses:		
Salaries	(245,000)	
Interest	(65,000)	
Depreciation	(40,000)	
Other operating expenses	(155,000)	(505,000)
Profit before tax		200,000
Less: income tax expense		(40,000)
Profit for the year		160,000

NISHAT MILLS
Statement of Retained Earnings
For the year ended December 31, 2007

	(Rs.)
Retained earnings, January 1	510,000
Add profit for the year	160,000
	670,000
Less: dividends	(50,000)
Retained earnings, December 31	620,000

Required:

Based on the data given above, calculate the following for Nishat Mills: 20

(i) Current ratio
(ii) Quick ratio
(iii) Debt ratio (or investment ratio)
(iv) Debt to total equity ratio
(v) Times interest earned
(vi) Accounts receivable turnover
(vii) Inventory turnover
(viii) Net profit on sales
(ix) Gross profit margin
(x) Return on assets
(xi) Return on equity
(xii) EPS
(xiii) P/E ratio
(xiv) Dividend yield
(xv) Dividend payout ratio
(xvi) Book value per share
(xvii) Return on capital employed
(xviii) Capital gearing
(xix) Leverage
(xx) Dividend cover

Marks

Q. 6 (a) The following balances have been extracted from the accounting records of Nobel Company, a limited liability company, at December 31, 2007:

	(Rs.)
Sales revenue	4,289,000
Opening inventory	360,000
Purchases	2,184,000
Carriage inwards	119,000
Carriage outwards	227,000
Office equipment at January 1, 2007:	
Cost	1,200,000
Accumulated depreciation	520,000
Trade receivables	620,000
Allowance for doubtful accounts at January 1, 2007	20,000
Bad debts written off during the year	15,000
Sundry administrative expenses	416,000

The following additional information is available:

(1) Closing inventory amounted to Rs.450,000.
(2) Some office equipment, which had cost Rs.200,000, with accumulated depreciation at January 1, 2007 of Rs.140,000, was sold for Rs.150,000 during the year. The sale proceeds were included in the sales revenue.
(3) The cost of new equipment, purchased on July 1, 2007 for Rs.60,000, was included in the purchases account.
(4) The company depreciates its office equipment @ 20% per year on straight-line basis, with proportionate depreciation in the year of purchase but none in the year of sale. None of the equipment, held at January 1, 2007, was more than three years old.
(5) The allowance for doubtful accounts at December 31, 2007 is to be 5% of trade receivables.
(6) Accruals and prepayments on sundry administrative expenses at December 31, 2007 were:
   - Accrued expenses Rs.28,700
   - Prepaid expenses Rs.14,400
(7) The directors proposed a dividend of Rs.6 per share on the ordinary share capital (40,000 shares of Rs.25 each) to be paid in July 2008.
(8) No dividends were paid in 2007.

Required:

(i) Prepare the income statement for the year ended December 31, 2007. 11

(ii) State the total amount of the proposed dividend and explain how it would be dealt with, in the company's financial statements for publication. 02

(b) Javed & Sons (Pvt) Limited, traded off its used plant and machinery for a new model. The old machinery, given off, had a book value of Rs.16,000 and fair value of Rs.12,000. The machine was bought two years back at a cost of Rs.24,000. However, the management traded it off for a new model having invoice price of Rs.32,000. In negotiations with the seller, a trade-in-allowance of Rs.18,000 was agreed for the old machine.

Required: In the light of IAS-16:

(i) Calculate the cost of new machine. 02
(ii) Compute gain/ loss incurred in exchange transaction. 02
(iii) Record the transaction in the books of the company. 03

THE END