The Institute of Chartered Accountants of Pa

Introduction to Financial Accounting

Foundation Examination — 8 March 2013
Spring 2013 — 100 marks – 3 hours
Module B — Additional reading time – 15 minutes

Q.1 (a) As on 31 December 2012, the book value of finished goods of Ahmed Enterprises (AE) was Rs 750,000. However, on physical count, it was found that:

(i) 80% of the goods were in good condition.
(ii) 15% were slightly damaged and required additional expenditure of 24% to make them saleable at normal price.
(iii) 5% were damaged and would fetch only 40% of their normal sale price.
(iv) The goods are normally sold at a margin of 20% of sale price. However, 30% of customers are allowed a discount of 5%.

Required:
Calculate the revised value of stock that should be reported on AE's balance sheet as of 31 December 2012. **(07)**

(b) Ammar is a manufacturer of personal products and has factories in two different cities. On 1 November 2011, he bought a new state-of-the-art plant from Krones Inc. USA. The invoice value of the plant was Rs. 250 million. Other relevant details are as follows:

(i) Costs of import:

	Rs. in million
LC opening charges	1.00
Import duty	25.00
Sales tax paid, recoverable against production output	40.00
Clearing & transportation	5.00

(ii) Costs incurred on SITE preparation:

Amount paid to consultants	2.00
Civil and electrical works	3.00
The above includes cost of equipment damaged due to mishandling	0.80

(iii) The plant was received at the SITE on 1 February 2012. The installation and test run were successfully completed in three months time at a cost of Rs. 6 million. The net sale proceeds of test production were Rs. 1.2 million.
(iv) Commercial production commenced on 1 May 2012. During the period in which the plant was installed, administration and general overheads increased by Rs. 1 million as compared to the previous period.
(v) Salary of factory manager is Rs. 250,000 per month. He contributed 30% of his time in supervising the installation.
(vi) Staff training cost amounted to Rs. 0.25 million.
(vii) The plant is expected to last fifteen years with no residual value.

Required:
In accordance with IAS-16 calculate:
- cost at which the plant would be capitalised.
- depreciation for the year ended 31 December 2012 under the straight line method. **(08)**

Q.2 The treasurer of a golf club has produced the following receipts and payments account for the year ended 31 December 2012:

Receipts	**Rupees**	**Payments**	**Rupees**
Balance at 1 January 2012	157,800	Canteen payments	213,000
Subscriptions	654,900	Wages & salaries – clubhouse	284,000
Canteen receipts	331,400	Wages & salaries – canteen	78,900
Golf course fees	284,000	Course repairs	149,900
Events receipts	86,800	Insurance	72,000
Competition fees	46,600	Electricity	47,300
Course equipment sold	19,800	Telephone	19,700
		Events expenses	47,300
		Sundry expenses	15,000
		Competition expenses	12,600
		Balance at 31 December 2012	641,600
	1,581,300		1,581,300

(i) Opening and closing balances of current assets and liabilities are as follows:

	1 January 2012	**31 December 2012**
	----------Amount in Rupees----------	
Canteen trade payables	71,000	55,200
Canteen inventory	60,000	39,500
Subscriptions in arrears	15,800	27,600
Subscriptions in advance	55,200	35,500
Telephone due	3,900	5,900
Competition expenses due	3,200	3,900

(ii) Fixed assets balances at 1 January 2012, and the applicable depreciation rates are as follows:

	Cost	**Accumulated depreciation**	**Rate of dep. on cost**
	-------Amount in Rupees-------		
Clubhouse and course	3,156,000	214,600	5%
Fixtures and fittings	552,000	166,000	10%
Course equipment	1,262,000	542,000	20%

(iii) The value of clubhouse and course comprises of freehold land and buildings in the ratio of 60:40.

(iv) Course equipment costing Rs. 55,000 was disposed of during the year for Rs. 19,800. The equipment had been purchased on 1 January 2008. No depreciation is charged in the year of sale.

(v) The insurance premium paid during the year covers the period 1 October 2012 to 30 September 2013. The premium for the previous year amounted to Rs. 48,000.

(vi) The canteen manager is entitled to a bonus equal to 20% of canteen profits after charging his bonus.

(vii) Canteen trade payables at 31 December 2012 include a debit balance of Rs. 6,000.

(viii) NRV of the opening canteen inventory was Rs. 55,200.

Required:

(a) A Canteen Trading Account for the year ended 31 December 2012. **(04)**

(b) An Income & Expenditure Account for the year ended 31 December 2012 and a balance sheet of the club as at that date. Results of canteen, competition and events should be shown separately as a line item. **(20)**

Q.3 Explain the meaning of following accounting concepts/terms:

(i) Substance over form (ii) True and fair view

(iii) Completeness (iv) Fair value **(08)**

Q.4 The Receivables and Payables Control Accounts of Abbas Enterprises showed net balances of Rs. 286,720 and Rs. 153,650 respectively as at 31 December 2012. These balances did not agree with the total of the sales and purchases ledger balances. On investigation, the following differences were discovered:

(i) The sales day book in July was overcast by Rs. 5,060.
(ii) A debit balance of Rs. 7,120 and a credit balance of Rs. 8,750 were omitted from list of balances of sales and purchases ledgers respectively.
(iii) A bad debt of Rs. 1,560 had been written off in the sales ledger but no entry had been made in the Control Account.
(iv) Purchase of goods from a supplier for Rs. 2,630 had been posted on the wrong side of his ledger account.
(v) Return of goods by a customer worth Rs. 1,890 had not been entered anywhere in the books.
(vi) An invoice from a supplier for Rs. 2,320 had been entered in the purchase day book as Rs. 3,230.
(vii) A balance of Rs. 3,670 due from a customer was set off against his payable account without any entries in the Control Accounts.
(viii) In November, purchase return of Rs. 2,150 was posted in the Control Account as Rs. 5,120.
(ix) Purchase returns day book in October was undercast by Rs. 950.
(x) A refund of Rs. 970 to a customer has been posted to the debit side of his account in the payables ledger.
(xi) A discount of Rs. 870 received from a supplier has been entered to the credit side of the discount allowed account.

Required:
(a) Compute the correct balances of the Receivables and Payables Control Accounts. **(09)**
(b) Identify which of the above items would result in a change in the list of balances of debtors and creditors. **(06)**

Q.5 Salman Brothers commenced business on 1 January 2012 with a Head Office (HO) and a branch. Purchases were made exclusively by the HO from where goods were supplied to the branch at cost plus 10%. However, all sales, whether by HO or the branch, were at a uniform gross profit of 25% on cost.

Following is the Trial Balance of Salman Brothers as on 31 December 2012:

Particulars	Head office		Branch	
	Debit	Credit	Debit	Credit
	----------Amount in Rupees----------			
Capital		162,000		
Drawings	26,000			
Purchases	404,000			
Sales		256,000		164,000
Goods sent to branch/received from HO		184,800	176,000	
Administrative and selling expenses	37,800		4,240	
Debtors	41,810		32,920	
Creditors		100,170		12,360
Current Accounts	77,960			52,300
Bank Balance	115,400		15,500	
	702,970	702,970	228,660	228,660

The following additional information is also available:
- A remittance of Rs. 16,860 from the branch to HO was not received until 31 December 2012.
- Stock-taking at the branch disclosed a shortage of goods of Rs. 4,000 (at selling price)

Required:
Prepare in adjacent columns (a) the Head Office, (b) the branch and (c) the combined Trading and Profit & Loss Account for the year ended 31 December 2012 and a combined Balance Sheet as at that date. The branch profit is to be computed by reference to Head Office invoice price. **(23)**

Q.6 The bank book for the month of February 2013 of Abid Ali & Brothers is as follows:

Bank Book

Date		Rupees	Date		Cheque	Rupees
01-02-13	Opening Balance	991				
05-02-13	Ayaz	2,386	04-02-13	Kashif Ltd.	184	3,120
05-02-13	Ayub	3,009	07-02-13	Qasim & Sons	185	4,092
			10-02-13	Babar	186	918
13-02-13	Zahid Ltd.	15,414	12-02-13	Super Ltd. - DD		565
21-02-13	Zubair Merchant	12,221	17-02-13	Mateen	187	2,441
27-02-13	Athar	2,055	18-02-13	Mazhar	188	4,588
			23-02-13	Tabish Ltd. - SO		1,229
			24-02-13	Salaries		4,771
			25-02-13	Ilyas	189	947
			26-02-13	Akbar	190	1,652
			28-02-13	Closing balance		11,753
		36,076				**36,076**

The Bank Statement for February 2013 appears as follows:

Account Statement

Account Name:	Abid Ali & Brothers			
Account Number:	6770251 (Pak Rupee account)			
Date	**Description**	**Debit**	**Credit**	**Balance**
01-02-13	Balance			3,633
01-02-13	Cheque **182**	440		3,193
01-02-13	Cheque **181**	2,202		991
03-02-13	Cash deposit		2,386	3,377
03-02-13	Cash deposit		3,009	6,386
06-02-13	Cheque **184**	1,320		5,066
09-02-13	DD – Waqas	551		5,415
12-02-13	DD – Super Ltd.	565		3,950
13-02-13	Clearing		15,414	19,364
19-02-13	Cheque **185**	4,092		15,272
20-02-13	Cheque **187**	2,414		12,858
21-02-13	Clearing		12,122	24,980
23-02-13	Tabish Ltd. - Standing Order	1,229		23,751
24-02-13	Salaries transfer	4,771		18,980
26-02-13	Yasir - Standing Order	918		18,062
27-02-13	Cheque **188**	5,488		12,574
28-02-13	Bank Charges	459		12,115

Required:

(a) A bank reconciliation statement for Abid Ali & Brothers as at 28 February 2013 after incorporating necessary entries/corrections in the bank book. ***All amounts appearing in the bank statement are correct.*** **(13)**

(b) Outline three advantages of preparing a bank reconciliation statement on a regular basis. **(02)**

(THE END)