The Institute of Chartered Accountants of Pakistan

Financial Accounting and Reporting-I

Certificate in Accounting and Finance
Model Paper
100 marks – 3 hours

Q.1 Rashid Enterprise Limited (REL) is a supplier of specialized machines. Being the first year of its operations, it is unsure about accounting treatment of the following transactions:

(a) REL sold a machine at a markup of 20% for Rs. 150,000. Such machines carry a 12 month warranty in terms of which defective machines are repaired or replaced free of cost. Based on past experience, the manufacturer of the machine has informed that 3% machines need repairs and average repair cost is Rs. 10,000 per machine. **(04)**

(b) A specialized machine was supplied to a manufacturing company. According to the terms of sale, REL is responsible for installation of the machine and the customer will make the payment after the machine has been satisfactorily installed. **(04)**

(c) REL sold a machine on credit to Majid Limited which expects to finalize a contract for providing maintenance facilities to a large textile mill. REL has agreed that the machine may be returned if Majid Limited fails to secure the maintenance contract. **(02)**

Required:
Discuss when it will be appropriate for Rashid Enterprise Limited to recognize revenue in each of the above situation.

Q.2 The head office (HO) of a company invoices goods to its Branch at cost plus 20%. The Branch also purchases goods from local parties for which payments are made by the HO. All cash collected by the branch is banked on the same day to the credit of the HO. All expenses are paid by the HO except payments through petty cash account in which periodical transfers are made from the HO.

Following information is available in respect of the branch, for the year ended 30 June 2013:

	Rs. in '000
Cash sales	45,000
Credit sales	130,000
Direct purchases	45,000
Goods sent to Branch from HO at invoice price	60,000
Amount transferred from HO for petty cash expenses	250
Bad debts	1,000
Discount to customers	2,000
Cash received from customers	125,000
Branch expenses	30,000
Petty expenses incurred by the branch	265
Balances on 1 July 2012:	
Imprest cash	200
Sundry debtors	25,000
Stock: Transferred from HO at invoice price	24,000
Directly purchased by branch	16,000
Stock on 30 June 2013:	
Transferred from HO at invoice price	18,000
Directly purchased by branch	12,000

Required:
Prepare Branch Account in the books of the HO for the year ended 30 June 2013 showing the profit made by the branch. **(12)**

Q.3 Ahmed, a toy manufacturer, has the following trial balance as at 30 June 2013:

	Rupees	
	Debit	**Credit**
Land	1,000,000	
Buildings	683,600	
Plant and machinery	1,275,000	
Fixtures and fittings	300,000	
Provision for depreciation on:		
Buildings		130,800
Plant and machinery		375,000
Fixtures and fittings		60,000
Stocks at 1 July 2012		
Raw materials	92,400	
Work in process	104,850	
Finished Goods	130,200	
Debtors	353,400	
Provision for bad debts		27,750
Cash at bank	107,700	
Creditors		279,900
Bank loan		180,000
Capital		2,625,000
Drawings	565,200	
Sale of finished goods		3,870,950
Discounts received		4,000
Miscellaneous expenses - manufacturing	42,900	
Factory power	55,350	
Supervisor's salary	211,500	
Rent and rates	220,500	
Indirect material	31,800	
Discounts allowed	29,550	
Purchase of raw materials	1,236,900	
Return of raw materials		47,400
Selling expenses	136,950	
Advertising	109,050	
Heating and lighting	63,000	
Machine repairs	61,950	
Carriage on raw materials	36,000	
Wages and salaries	573,000	
General administrative expenses	99,000	
Insurance	81,000	
	7,600,800	**7,600,800**

The following additional information is also available:

(i) Stocks as at 30 June 2013 – Raw materials Rs. 95,850
– Work in Process Rs. 107,700
– Finished Goods Rs. 138,600

(ii) Provision for bad debts is to be made at 10% of the outstanding debtors.

(iii) Rent and rates include rent of Rs. 27,000 paid for the months of July and August 2013
Rent and rates are to be split between factory and office in the ratio of 2:1.

(iv) Accrued wages amounted to Rs. 27,000. Wages and salaries are to be apportioned between direct wages, indirect wages and administrative expenses in the ratio of 6:2:2.

(v) Insurance and heating & lighting are to be split between factory and office in the ratio of 3:2.

(vi) Depreciation policy is as follows:
- 5% on Buildings on straight line method; 70% of the depreciation pertains to factory building.
- 15% on plant and machinery on straight line method;
- 20% on fixtures and fittings on reducing balance method; 30% of the depreciation is to be allocated to factory.

No depreciation is provided on land.

(vii) Bank loan was taken on 1 January 2013 with annual interest of 12%.

Required:
(a) Manufacturing account for the year ended 30 June 2013. **(10)**
(b) A Trading and profit and loss account for the year ended 30 June 2013. **(10)**

Q.4 Faheem does not keep proper books of account due to his lack of knowledge of double entry system of accounting. He has supplied you the following information with respect to the year ended 30 June 2013 from the records kept in his diary:

(i) Receipts and payments made during the year:

	Rupees
Cash received from debtors	80,000
Discount allowed to debtors	1,400
Bad debts written off	1,800
Cash paid to creditors	63,000
Discount allowed by creditors	1,000
Sales returns	3,000
Purchases returns	2,000
Expenses paid	6,000
Drawings	5,000
Rent paid	2,500

(ii) Opening balances as on 1 July 2012:

Assets and liabilities	**Rupees**
Debtors	45,000
Creditors	24,000
Cash	4,500
Furniture and fixtures	15,000
Stock	25,000
Motor van	16,000

(iii) Debtors and creditors as on 30 June 2013 amounted to Rs. 48,600 and Rs. 27,000 respectively.
(iv) Outstanding expenses as on 30 June 2013 amounted to Rs. 1,200.
(v) Depreciation is charged on furniture and fixtures at the rate of 10% and on motor van at 20%.
(vi) Faheem sells goods at cost plus 40% and follows a policy of maintaining a provision of 5% of the outstanding debtors.

Required:
(a) Trading and profit and loss account for the year ended 30 June 2013. **(13)**
(b) Balance sheet as at 30 June 2013. **(08)**

Q.5 (a) On 1 June 2013, a company held 300 units of an item of finished goods inventory. These were valued at Rs. 22 each. During June 2013 three batches of finished goods were received into store from the production department, as follows:

Date	Units received	Production cost per unit Rupees
10-June	400	Rs. 23
20-June	400	Rs. 25
25-June	400	Rs. 26

Goods sold out of the inventory during June 2013 were as follows:

Date	Units sold	Sale price per unit Rupees
14-June	500	Rs. 31
21-June	500	Rs. 33
28-June	100	Rs. 32

Required:
Compute the cost of sales and inventory at 30 June 2013, applying the following basis of inventory valuation:
(i) FIFO **(03)**
(ii) Weighted Average Cost (Average is updated after every transaction). **(06)**

(b) The cost of inventory of Kashaan Limited (KL) based on inventory count carried out on 17 July 2013 was Rs. 675,000. These included goods costing Rs. 15,000 which were purchased in June 2012 and have a net realisable value of Rs. 12,000. During the period between 30 June 2013 and 17 July 2013, following transactions took place:

(i) Value of goods purchased amounted to Rs. 155,710.
(ii) Sale of goods amounted to Rs. 250,000. KL normally sells goods at a mark-up of 25% of cost. However, 20% of the sales were made at a discount of 8% of the normal selling price.
(iii) Goods costing to Rs. 1990 were returned to a supplier
(iv) Goods sold to a customer on 4 July 2013 were returned on 15 July 2013.

Required:
Compute the value of inventories that should be reported in the financial statements of KL as at 30 June 2013. **(06)**

Q.6 The written down value of plant and machinery of Abullah and Company as at 30 June 2013 is Rs. 831,128.

Following additional information is also available:

(i) On 1 July 2009, second-hand machinery was purchased for Rs. 300,000. An amount of Rs. 200,000 was spent on its overhauling, before use.
(ii) On 1 January 2010 machinery costing Rs. 250,000 was purchased.
(iii) The machinery purchased on 1 July 2009 became obsolete and was sold for Rs. 100,000 on 1 January 2012. On the same date, new machinery was purchased at a cost of Rs. 600,000.
(iv) Machinery purchased on 1 January 2010 was sold on 30 June 2013 at its book value plus Rs. 50,000.

Abdullah and Company provides depreciation on machinery @ 15% on written down value. Depreciation on addition / deletion is provided in proportion to the period of use.

Required:
(a) Machinery Account from 1 July 2011 to 30 June 2013. **(19)**
(b) Machinery Disposal Account for the years ended 30 June 2012 and 2013. **(03)**

(THE END)