The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

Model paper
3 hours – 100 marks

Gateway Examination – I

Accounting and Reporting

Q.1 Following information has been extracted from the financial statements of Yasir Limited (YL) and Bilal Limited (BL) for the year ended 30 June 2016.

Assets	YL	BL	Equity & Liabilities	YL	BL
	Rs. in million			Rs. in million	
Fixed assets	250	540	Share capital (Rs. 10 each)	750	500
Accumulated depreciation	(70)	(70)	Retained earnings	340	258
	180	470		1,090	758
Investment in BL – at cost	675	-	Loan from YL	-	12
Loan to BL	16	-	Creditors & other liabilities	75	51
Stock in trade	160	150			
Other current assets	71	50			
Cash and bank	63	151			
	1,165	**821**		**1,165**	**821**

Additional information:

(i) On 1 July 2014, YL acquired 75% shares of BL at Rs. 18 per share. On the acquisition date, fair value of BL's net assets was equal to its book value except for an office building whose fair value exceeded its carrying value by Rs. 12 million. Both companies provide depreciation on building at 5% on straight line basis.

(ii) Year-wise net profit of both companies are given below:

	2016	2015
	-------- Rs. in million --------	
YL	219	105
BL	11	168

(iii) The following inter-company sales were made during the year ended 30 June 2016:

	Sales	Included in buyer's closing stock in trade	Profit %
	------------ Rs. in million ------------		
YL to BL	120	20	30% on cost
BL to YL	80	32	15% on sale

(iv) BL declared interim dividend of 12% in the year 2015 and final dividend of 20% for the year 2016.

(v) The loan was granted by YL to BL on 1 July 2014 and carries interest rate of 12% payable annually. The principal is repayable in five equal annual instalments of Rs. 4 million each. On 30 June 2016, BL issued a cheque of Rs. 5.92 million which was received by YL on 2 July 2016. No interest has been accrued by YL.

(vi) YL values non-controlling interest on the date of acquisition at its fair value. BL's share price was Rs. 15 on acquisition date.

(vii) An impairment test has indicated that goodwill of BL was impaired by 10% on 30 June 2016. There was no impairment during the previous year.

Required:
Prepare a consolidated statement of financial position as at 30 June 2016 in accordance with the requirements of International Financial Reporting Standards. **(20)**

Q.2 The following information has been extracted from the draft financial statements of Alpha Limited for the year ended 31 December 2015.

Assets	2015	2014	Equity & Liabilities	2015	2014
	Rs. in million			Rs. in million	
Property, plant & equipment	223	193	Share capital (Rs. 10 each)	180	150
Intangible assets	68	23	Share premium	15	-
Trade receivables	45	33	Retained earnings	114	53
Advances and prepayments	84	70	Long term loan	40	-
Inventories	60	46	Deferred liabilities	15	10
Short-term investments	12	9	Trade payables	42	56
Cash at bank	8	7	Accrued expenses	60	70
			Tax payable	34	42
	500	**381**		**500**	**381**

Following relevant information is available:

(i) Depreciation has been provided on straight line basis. Estimated useful lives are as under:

Building	20 years
All other fixed assets	10 years

(ii) On 1 September 2015, the company purchased new machinery costing Rs. 65 million.

(iii) A portion of building costing Rs. 20 million which was purchased on 1 July 2013 was sold for Rs. 20 million on 30 June 2015.

(iv) Trade receivables written off during the year amounted to Rs. 5 million. It is the policy of the company to maintain the provision for doubtful debts at 5% of trade receivables.

(v) Advances and prepayments include advance tax of Rs. 8 million (2014: Rs. 6 million).

(vi) Long term loan was obtained on 1 August 2015. Interest on loan @ 13% is payable on 31st July each year. Interest payable for 5 months has been accrued.

(vii) Deferred liabilities comprise of unfunded gratuity of Rs. 6 million (2014: Rs. 3 million) and deferred tax of Rs. 9 million (2014: Rs. 7 million). During the year, the company paid gratuity of Rs. 6.5 million to outgoing employees.

(viii) Tax expense for the year was Rs. 17 million. (2014: Rs. 8 million).

(ix) Right shares were issued on 1 December 2015 at Rs. 15 per share in the ratio of 1 right share for every 5 shares held.

Required:
Prepare statement of cash flows for the year ended 31 December 2015 in accordance with the requirements of International Financial Reporting Standards using the indirect method. **(15)**

Q.3 On 1 July 2014, Alpha Trading Limited (ATL) signed an agreement with Quality Builders Limited for construction of an office building at a cost of Rs. 500 million. Construction commenced on 1 July 2014 and is planned to complete on 30 June 2016. The payments made to the builders were as follows:

Invoice date	Payment date	Description	Net payment (Rs. in million)
20-Jan-2014	1-Jul-2014	Advance	50.00
10-Sep-2014	31-Oct-2014	1st progress bill	79.90
30-Dec-2014	31-Jan-2015	2nd progress bill	100.30

The progress bills were paid after deduction of advance and retention money at 10% and 5% of the gross amount of the bills respectively. Retention money is to be refunded on completion of warranty period of one year from the date of completion of the building.

On 1 September 2014, the construction work was stopped for one month to resolve geological complications pertaining to foundation of the building.

The construction cost has been financed from the following sources:

(i) Bank loan of Rs. 100 million was obtained on 1 July 2014. The loan carries a mark-up of 11% payable semi-annually on 31 December and 30 June each year. The principal is repayable in four equal annual instalments, commencing from 1 April 2015.
(ii) Existing finance facility was used for balance payments. Average running finance balance for the year ended 31 December 2014 was Rs. 190 million. Mark-up charges for the year ended 31 December 2014 amounted to Rs. 24.70 million.
(iii) Surplus funds available were invested in a saving account @ 7% per annum.

ATL computes finance cost on a monthly basis.

Required:
From the above information, compute the related amounts and disclose them under appropriate heads in ATL's Statement of Financial Position as at 31 December 2014 in accordance with the International Financial Reporting Standards. **(10)**

Q.4 Following are the relevant extracts from the financial statements of Floor & Tiles Limited (FTL) for the year ended 31 December 2015:

	Rs. in million
Profit before tax	80
Provision for gratuity for the year	12
Bad debts expense for the year	10
Capital gain (exempt from tax)	5

The following information is also available:

(i) Opening balances of deferred tax liability, provision for bad debts and provision for gratuity were Rs. 5.28 million, Rs. 2 million and Rs. 13 million respectively.
(ii) The cost and other details related to buildings (owned) included in property, plant and equipment are as follows:

	Rs. in million
Opening balance (purchased on 1 January 2013)	350
Cost of a building sold on 30 April 2015 (for Rs. 35 million)	30
Purchased on 1 July 2015	40

(iii) Accounting depreciation on buildings is calculated @ 5% per annum on straight line basis whereas tax depreciation is calculated @ 10% on reducing balance method. Accounting depreciation of all other owned assets included in property, plant and equipment is same as tax depreciation.
(iv) On 1 January 2015, a machine costing Rs. 120 million was acquired on finance lease. Some of the relevant information is as follows:

- The lease term as well as the useful life is 5 years.
- Annual lease rentals amounting to Rs. 30 million are payable in advance.
- The interest rate implicit in the lease is 12.59%.
- This machine would be depreciated over its useful life on straight line method.

(v) On 1 June 2015, an amount of Rs. 1 million was paid as penalty to the provincial government due to non-compliance of environmental laws.
(vi) The amount of gratuity paid to outgoing members was Rs. 10 million.
(vii) During the year, entertainment expenses and repair expenses amounting to Rs. 6 million and Rs. 8 million respectively, pertaining to year ended 31 December 2013 were disallowed. FTL has decided to file appeal only against the decision regarding repair expenses.
(viii) Applicable tax rate is 32%.

Required:
Prepare a note on taxation (expense) for inclusion in FTL's financial statements for the year ended 31 December 2015 giving appropriate disclosures relating to current and deferred tax expenses including a reconciliation to explain the relationship between tax expense and accounting profit. **(15)**

Cost & Management Accounting

Q.5 Oceanic Chemicals manufactures two joint products Sigma and Beta in a single process at its production department. Incidental to the production of these products, it produces a by-product known as ZEE. Sigma and ZEE are sold upon completion of processing in production department whereas Beta goes to refining department where it is converted into Theta.

Joint costs are allocated to Sigma and Beta on the basis of their net realizable values. Proceeds from sale of by-product are treated as reduction in joint costs. In both the departments, losses upto 5% of the input are considered as a normal loss.

Actual data for the month of June 2015:

	Department	
	Production	**Refining**
Cost	------ **Rs. in '000** ------	
Material input at Rs. 50 per kg	3,000	-
Direct labour at Rs. 100 per hour	2,500	350
Production overheads	1,850	890
Output	---------- **Liters**----------	
Sigma	34,800	-
Beta	16,055	-
ZEE (by-product)	5,845	-
Theta	-	15,200

Sigma, Theta and by-product ZEE were sold at Rs. 300, Rs. 500 and Rs. 40 per liter respectively. There was no work in process at the beginning and the end of the month.

Required:
Compute the cost per kg of Sigma and Theta, for the month of June 2015. **(12)**

Q.6 Global (Pvt.) Limited (GPL) is in the process of preparing bid documents for a special order of 5,000 units of a new product Zeta. In this respect, GPL's technical department has worked-out the following projections/information:

(i) The order would be completed in 15 days.
(ii) GPL has sufficient stock of the required materials to produce Zeta. Some of the relevant information is as follows:

	Material A	**Material B**	**Material C**
Quantity required	5,000 kg	3,000 kg	2,000 kg
Original purchase price	Rs. 180 per kg	Rs. 150 per kg	Rs. 50 per kg
Current purchase price	Rs. 200 per kg	Rs. 175 per kg	Rs. 60 per kg
Current disposal price	Rs. 100 per kg	Rs. 135 per kg	Nil

- Material A is used by GPL in many products and therefore sufficient stock is maintained.
- Material B has no use other than in the production of Zeta.
- The stock of material C was purchased several years ago for another project. It can only be used in the production of Zeta. Otherwise, it will have to be disposed of at a cost of Rs. 10 per kg to meet environmental legislation.

(iii) The production of Zeta would require:

- 800 skilled labour hours at Rs. 200 per hour. Presently, 1,440 labour hours remain idle during each month.
- 250 unskilled labour hours which can be hired at Rs. 120 per hour.
- 150 machine hours. If the machine is not used for Zeta, it may be leased out at Rs. 4,000 per day.

(iv) GPL absorbs overheads at Rs. 400 per skilled and unskilled labour hours. Based on normal capacity of 50,000 hours, fixed overheads are estimated at Rs. 6,000,000. If GPL decides to produce Zeta, fixed overheads would increase by Rs. 150,000.

(v) As a result of production of Zeta, general administration cost would increase by Rs. 100,000.

(vi) The planning department of GPL has incurred a cost of Rs. 20,000 on preparing feasibility for production of Zeta.

Required:
Compute the bid price that GPL should quote, if it wants to earn profit (based on relevant costs only) of 20% of selling price. **(15)**

Q.7 Hexa Limited is using a standard absorption costing system to monitor its costs. The management is considering to adopt a marginal costing system. In this respect, following information has been extracted from the records for the month of December 2016:

(i) Actual as well as budgeted sale was 10,500 units at Rs. 2,000 per unit.

(ii) Standard cost per unit is as follows:

		Rupees
Direct material	5 kg @ Rs. 158	790
Direct labour	3 hours @ Rs. 150	450
Production overheads (fixed & variable)	Rs. 120 per labour hour	360
		1,600

(iii) Budgeted fixed overheads were Rs. 1,650,000.

(iv) Production and actual costs were as under:

	Units
Production: Budgeted	11,000
Actual	12,000
Actual variable costs:	**Rupees**
Direct material (58,000 kg @ Rs. 160)	9,280,000
Direct labour (35,000 hours @ Rs. 155)	5,425,000
Variable overheads	2,975,000

(v) Applied fixed overheads exceeded actual overheads by Rs. 200,000.

(vi) There was no opening finished goods inventory. Closing finished goods inventory was 1,500 units.

Required:

(a) Compute the profit for the month of December 2016, using **standard marginal costing**. **(03)**

(b) Reconcile the profit computed above with actual profit under marginal costing, by incorporating the related variances. **(08)**

(c) Reconcile the actual profit under marginal and absorption costing. **(02)**

(THE END)