The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examination

Model paper
3 hours – 100 marks
Additional reading time – 15 minutes

Introduction to Accounting

Section A

[This section will be of 25-35 marks and will comprise of 1) short questions not exceeding 08 marks; 2) multiple choice questions with one or more than one correct choices; and/or 3) fill in the blanks.]

Q.1 (a) The following table depicts the effects of certain transactions of Ben Ten Trader in accounting equation form:

	Assets				=	Liabilities	+	Owner's equity
	Cash	**Debtors**	**Inventory**	**Equipment**				
(i)	+50,000	+50,000	–75,000					+25,000
(ii)			–23,000			–23,000		
(iii)	–15,000			+65,000		+50,000		
(iv)		–35,000	+28,000					–7,000
(v)	–39,200					–40,000		+800

Required:
Give brief narrative/description of each of the above transactions. **(05)**

(b) Bannu Traders has three partners A, B and C. The net profit for the year ended 31 December 2018 was Rs. 5.8 million. Following further information pertains to the year ended 31 December 2018:

	A	B	C
	------- Rs. in '000 -------		
Opening balances: Capital accounts	9,000	6,000	3,000
Current accounts	800	1,700	(600)
Drawings during the year	2,500	750	1,000

As per the partnership agreement:

(i) interest on the partners' opening capital is allowed at 10% per annum if the partner has positive opening current account balance.
(ii) A and C are entitled to monthly salaries of Rs. 100,000 and Rs. 120,000 respectively for the months in which they attend the partnership office. C did not attend the office for 3 months during 2018.
(iii) interest is charged at 8% per annum on drawing balances as at 31 December in excess of salary entitlement.
(iv) B is entitled to a bonus of 10% of profit after partners' salaries.
(v) residual profit is to be shared as follows:
- Up to Rs. 1.2 million equally; and
- Balance would be shared by A, B and C in the ratio of 3:3:2 respectively.

Required:
For the year ended 31 December 2018, show how the partnership profits would be shared among the partners. **(07)**

(c) The details of two office buildings acquired on rent by Ninja Enterprises (NE) are as follows:

(i) On 1 April 2017, Building I was acquired on annual rent of Rs. 2,400,000. Effective from 1 October 2018 the rent was increased by 20%. NE pays rent on half yearly basis in advance.
(ii) On 1 September 2017, Building II was acquired on annual rent of Rs. 900,000. Payments were made on quarterly basis in advance. However, the quarterly payment due on 1 December 2018 was made on 15 January 2019.

NE's financial year ends on 31 December each year.

Required:
Prepare rent expense account for the year ended 31 December 2017 and 2018. **(05)**

(d) Kidz Party & Co. (KPC) manufactures and sells toys. Following information is available regarding four of its inventory items as on 31 December 2018:

Items	Units	Cost per unit (Rs.)	Normal selling price per unit (Rs.)
Toy cars	10,000	1,250	1,200
Minion costumes	870	1,500	2,500

Following information is also available:

(i) A sales order for 3,000 toy cars @ Rs. 1,100 per unit is in hand. The remaining units can be sold at normal selling price after incurring selling cost of Rs. 150 per unit.
(ii) All minion costumes have manufacturing faults and can be sold in present condition at Rs. 1,350 per unit. However, 60% of the units can be rectified at a cost of Rs. 200 per unit after which they can be sold at Rs. 1,600 per unit.

Required:
Calculate the amount at which above inventory items should be carried as on 31 December 2018 in accordance with IAS 2 'Inventories'. **(04)**

(e) The doubtful debts allowance brought forward on 1 January 2018 in the books of Haris Traders was Rs. 86,000. Trade receivables at 31 December 2018 amounted to Rs. 2,840,000 and bad debts to be written off totalled Rs. 115,000. Haris Traders has estimated that the closing balance on the doubtful debts allowance account should be 5% of accounts receivable.

Required:
Write up the bad debts expense account and the doubtful debts allowance account for the year ended 31 December 2018. **(03)**

Q.2 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs).

(i) Inventories are assets:

(a) held for sale in the ordinary course of business.
(b) in the process of production for sale.
(c) in the form of materials or supplies to be consumed in the production process or the rendering of services.
(d) all of the above. **(01)**

(ii) According to the Framework for the Preparation and Presentation of Financial Statements, which of the following is **NOT** a qualitative characteristic of financial statements?

(a) Understandability
(b) Materiality
(c) Relevance
(d) Reliability **(01)**

(iii) Dipper Limited purchases motorcycles from China and sells them in the local market. Which of the following costs may be included in the cost of inventory?

(a) Brokerage commission payable to agents for arranging imports
(b) Sales commission payable to sales agents
(c) Adjustable / refundable income tax paid on import
(d) None of the above **(01)**

(iv) A bank statement shows a credit balance of Rs. 8,360. Comparison with the cash book reveals:

- Cheques totalling Rs. 18,725, sent to suppliers, have not been presented.
- Cheques totalling Rs. 16,223, received from customers, have not been credited by the bank.
- Bank charges of Rs. 124 have not been entered in the cash book

What is the correct cash book balance?

(a) Rs. 5,734 credit
(b) Rs. 5,734 debit
(c) Rs. 5,858 debit
(d) Rs. 10,986 credit **(02)**

(v) In the books of Y how could a credit entry of Rs. 500 in X's account have arisen?

(a) X bought goods from Y
(b) X returned goods to Y
(c) Y made a payment to X
(d) Y returned goods to X **(01)**

(vi) Which statement contains the correct accounting treatment for accrued income?

(a) Added to income and shown as a current asset
(b) Added to income and shown as a current liability
(c) Deducted from income and shown as a current asset
(d) Deducted from income and shown as a current liability **(01)**

(vii) Which of the following is the definition of a business as a going concern?

(a) The assets owned by the business exceed its liabilities.
(b) The business has accumulated revenue reserves.
(c) The business is currently liquid and able to pay its trade payables.
(d) The business will continue in operational existence for the foreseeable future. **(01)**

(viii) What would not appear in a trade receivable account?

(a) Cash received from trade receivables
(b) Discount allowed
(c) Provision for doubtful debts
(d) Returns inwards **(01)**

(ix) When a businessman introduces capital into his business, the transaction is debited in the cash book and credited to his capital account.

Which of the following accounting concepts relates to the above example?

(a) Business entity
(b) Going concern
(c) Matching
(d) Prudence **(01)**

(x) Contra between the trade receivable account and the trade payable account is recorded in:

(a) Cash book
(b) General journal
(c) Purchases journal
(d) Sales journal **(01)**

Section B

[This section will be of 65-75 marks and will comprise of questions not exceeding 20 marks]

Q.3 Ravi Traders (RT) commenced its business on 1 January 2019. The books of prime entry as maintained by RT for the month of January 2019 are reproduced below:

CASH BOOK – RECEIPTS				
Date	**Description**	**Discount**	**Cash**	**Bank**
		------------- Rupees -------------		
1-Jan	Capital	-	1,000	8,000
10-Jan	Return outward	-	50	-
11-Jan	Trade debtors - Quality Traders	150	-	6,100
14-Jan	Sales	-	-	1,250
20-Jan	Trade debtors - Himalaya Super Store	90	300	1,410
26-Jan	Bank	-	500	-
		240	**1,850**	**16,760**

CASH BOOK – PAYMENTS				
Date	**Description**	**Discount**	**Cash**	**Bank**
		------------- Rupees -------------		
4-Jan	Office rent	-	200	300
5-Jan	Fixed assets (Office equipment)	-	-	1,500
7-Jan	Purchases	-	-	650
14-Jan	Trade debtors - Quality Traders	-	-	6,100
15-Jan	Trade creditors - Zee Traders	100	500	3,400
20-Jan	Return inward	-	60	-
21-Jan	Fixed assets (Computers)	-	250	-
24-Jan	Drawings	-	100	180
25-Jan	Utility bills	-	120	140
26-Jan	Cash	-	-	500
		100	**1,230**	**12,770**

PURCHASES DAY BOOK		
Date	**Suppliers' name**	**Rupees**
2-Jan	ABC & Co.	4,500
10-Jan	Zee Traders	6,000
28-Jan	Unity Enterprises	7,500
		18,000

PURCHASES RETURNS DAY BOOK		
Date	**Suppliers' name**	**Rupees**
12-Jan	Zee Traders	900

SALES DAY BOOK		
Date	**Customers' name**	**Rupees**
8-Jan	Quality Traders	6,250
19-Jan	Himalaya Super Store	2,350
24-Jan	ABC & Co.	8,000
		16,600

GENERAL JOURNAL			
Date	**Particulars**	**Debit**	**Credit**
		-------- Rupees --------	
1-Jan	Fixed assets (Furniture)	300	
	Capital		300
14-Jan	Drawings	100	
	Purchases		100
14-Jan	Trade debtors – Quality Traders	150	
	Discount allowed		150
31-Jan	Drawings	50	
	Fixed assets (Computers)		50
31-Jan	Trade creditors – ABC & Co.	4,500	
	Trade debtors – ABC & Co.		4,500

Required:
Prepare trial balance for the month ended 31 January 2019. ***(Preparation of ledger accounts is not necessary)*** **(15)**

Q.4 Draft income statement of Timothy Enterprises (TE) for the year ended 31 December 2018 shows gross profit of Rs. 850,000 and net profit of Rs. 460,000.

During the review of the financial statements, following errors were noticed:

(i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.
(ii) Transportation inward amounting to Rs. 2,000 was included in transportation outward.
(iii) The sub-total of a closing stock sheet had been carried forward as Rs. 21,830 instead of Rs. 21,380.
(iv) A receipt of Rs. 21,850 was credited to sales. The amount was received from a debtor as full and final settlement of an outstanding balance of Rs. 23,000.
(v) Goods having sales value of Rs. 4,500 were used for office repairs. No entry has been made in the books.
(vi) Purchase of office computer on 1 April 2018 amounting to Rs. 42,000 was entered in the purchase account.
(vii) An item of furniture was sold on credit for Rs. 3,000 and entered in the sales day book. The book value of this item was Rs. 5,000.
(viii) Purchase return amounting to Rs. 6,700 has been recorded as sales return.
(ix) The owner had withdrawn goods costing Rs. 4,680 for personal use. No entry has been made in the books.

TE uses periodic inventory method. Goods are sold at cost plus mark up of 25%. Depreciation on office computer is provided at the rate of 25%.

Required:
Compute the corrected gross profit and net profit for the year. **(14)**

Q.5 Following is the trial balance of Younus Limited (YL) as on 30 June 2018:

Particular	Debit Rs. in '000	Particular	Credit Rs. in '000
Property, plant and equipment	200,000	Share capital (Rs. 10 each)	35,000
Receivables and advances	13,000	Un-appropriated profit	66,820
Office rent	1,120	5% Bank loan	52,000
Opening stock	54,000	Trade payables	10,000
Cash and bank	46,000	Accumulated dep. – 30 June 2018	120,000
Purchases	170,000	Sales	240,000
Selling expenses	20,000		
Administrative expenses	17,000		
Financial charges	2,700		
	523,820		**523,820**

The following additional information is available:

(i) On 1 July 2017 engine of a delivery truck seized and was replaced at a cost of Rs. 2 million on the next day. Rs. 1.2 million was paid in cash whereas the remaining amount was adjusted against the trade in value of the seized engine. The payment was charged to selling expenses.

The delivery truck was purchased on 1 July 2011. The cost of the delivery truck is Rs. 5 million of which approximately Rs. 1 million is attributable to the seized engine. Delivery trucks are depreciated over their useful life of 10 years.

(ii) Certain goods despatched on 28 June 2018 reached YL's warehouse on 2 July 2018. Break-up of the amount paid against these goods is as follows:

	Rs. in '000
20% advance to supplier	500
Insurance in transit	50
Delivery charges	100

The above amounts are appearing under the head 'Receivables and advances'.

(iii) Cost of stock in hand as on 30 June 2018 is Rs. 50 million.

(iv) During the year, YL gave free samples to certain customers. The selling price and gross profit on these goods was Rs. 5.4 million and 20% of cost respectively. No adjustment has been made in the books in this regard.

(v) Office rent pertains to the period from July 2017 to December 2018 and is inclusive of an upward revision of 10% with effect from 1 January 2018.

(vi) Bank loan was obtained on 1 July 2016. The principal is repayable in 20 equal quarterly instalments. The principal along with interest is paid on the first day of the next quarter.

Required:
Prepare statement of financial position as at 30 June 2018 and statement of profit or loss for the year ended 30 June 2018 in accordance with International Financial Reporting Standards. **(20)**

Q.6 The following information is available in respect of machines of Akmal Brothers (AB):

(i) The balances of cost and accumulated depreciation of machines as on 1 January 2018 were Rs. 800,000 and Rs. 333,000 respectively.

(ii) A machine acquired on 1 January 2015 having net book value of Rs. 31,935 on 1 January 2018 was sold for Rs. 34,000 on 30 April 2018. Cost of disposal incurred was Rs. 5,000.

(iii) On 1 July 2018, a machine having fair value of Rs. 40,000 on that date was exchanged for a new machine. The balance of the purchase price was paid through a cheque of Rs. 80,000. The list price of the new machine was Rs. 130,000. The old machine had been acquired at a cost of Rs. 65,000 on 1 October 2016.

(iv) AB started using an inventory item as machine (for own use) effective from 1 October 2018. The cost and selling price of this item are Rs. 145,000 and Rs. 182,000 respectively.

(v) Machines are depreciated at 15% per annum using the reducing balance method.

Required:
Prepare the following ledger accounts pertaining to the machines for the year ended 31 December 2018:

(a) Cost **(04)**
(b) Accumulated depreciation **(07)**
(c) Gain/loss on disposal **(05)**

(THE END)