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

Financial Accounting and Reporting-I

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 information pertains to draft financial statements of Pak Ocean Limited (POL) for the year ended 31 December 2018.

(i)

	Rs. in million
Profit after tax	78
Other comprehensive income	12
Incremental depreciation on revaluation of property, plant and equipment	1.5

(ii) Shareholders' equity as at 1 January 2018 was as follows:

	Rs. in million
Share capital (Rs. 100 each)	200
Retained earnings	45

On 30 November 2018, POL issued 25% right shares to its ordinary shareholders at Rs. 120 per share.

(iii) Cash dividend and bonuses declared/paid during the last two years:

For the year ended	**Final**		***Interim**	
	Cash	**Bonus**	**Cash**	**Bonus**
31 December 2017	18%	–	20%	–
31 December 2018	–	25%	–	10%

***Declared with half yearly accounts**

Required:
Prepare Statement of Changes in Equity for the year ended 31 December 2018. **(08)**

(b) On 1 October 2018, Galaxy Telecommunications (GT) entered into a contract with a bank for supplying 20 smart phones to the bank staff with unlimited use of mobile network for one year. The contract price per smart phone is Rs. 34,650 and the price is payable in full within 10 days from the date of contract. At the end of the contract, the phones will not be returned to GT.

The entire amount received as per contract was credited by GT to advance from customers account. The smart phones were delivered on 1 November 2018.

If sold separately, GT charges Rs. 18,000 for a smart phone and a monthly fee of Rs. 1,800 for unlimited use of mobile network.

Required:
Prepare adjusting entry for the year ended 31 December 2018 in accordance with IFRS 15 'Revenue from Contracts with Customers'. **(04)**

(c) Property, plant and equipment as disclosed in the draft financial statements of Apricot Pakistan Limited (APL) for the year ended 30 June 2018 include a plant having a carrying value of Rs. 610 million. The performance of the plant has been deteriorating since last year which is affecting APL's sales.

Following information/estimates relate to the plant for the year ending 30 June 2019:

	Rs. in million
Inflows from sale of product under existing condition of the plant	250
Operational cost other than depreciation	25
Depreciation	170
Expenses to be paid in respect of 30 June 2018 accruals	8
Cost of increasing the plant's capacity	60
Additional inflows (net) expected from the upgrade	40
Interest on finance lease	30
Maintenance cost	15
Tax payment on profits	18

Cash flows from the plant are expected to decrease by 15% each year from 2020 and onward. The plant's residual value after its remaining useful life of 3 years is estimated at Rs. 100 million.

An offer has been received to buy the plant immediately for Rs. 570 million but APL has to incur the following costs.

	Rs. in million
Cost of delivery to the customer	45
Legal cost	10
Costs to re-organize the production process after disposal of plant	50

Applicable discount rate is 9%.

Required:
Calculate the amount of impairment loss (if any) on plant, for the year ended 30 June 2018. **(07)**

(d) Define 'performance obligation'. List any **four** examples of promised goods and services as per IFRS 15 'Revenue from Contracts with Customers'. **(04)**

(e) On 1 June 2017, Quail Limited (QL) commenced construction of its new factory building. The construction is expected to take 4 years. The project has been financed through the following sources:

(i) On 1 June 2017, a long term loan of Rs. 70 million was obtained specifically for the project. The loan carried mark up of 16% per annum. During the year, surplus funds were invested in money market and earned income of Rs. 2 million.

(ii) On 1 June 2017, QL issued right shares amounting to Rs. 100 million to the existing shareholders. The cost of equity to the company is 14%.

Required:
Compute the amount of borrowing costs to be capitalized as on 31 May 2018. **(03)**

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

(i) On 1 January 20X7 Gwadar Limited (GL) purchased a plating machine costing Rs. 1,350,000. GL received a grant of Rs. 135,000 towards the capital cost. GL's policy is to treat the grant as a reduction in the cost of the asset.

What should be the depreciation expense in respect of this machine for the year ended 31 December 20X8, assuming that depreciation is calculated on a 20% reducing balance basis?

(a) Rs. 270,000 (b) Rs. 243,000 (c) Rs. 194,400 (d) Rs. 221,400 **(02)**

(ii) Which **TWO** of the following statements best describe 'owner-occupied property', according to IAS 40 Investment property?

(a) Property held for sale in the ordinary course of business.
(b) Property held for use in the production and supply of goods or services.
(c) Property held to earn rentals.
(d) Property held for administrative purposes. **(01)**

(iii) If the fair value less costs to sell cannot be determined,

(a) the value of the similar asset is the value-in-use.
(b) the carrying value of the asset remains the same.
(c) the net realizable value is to be the carrying value.
(d) the recoverable amount is the value-in-use. **(01)**

(iv) Under IAS 40 'Investment property', which **ONE** of the following additional disclosures must be made when an entity chooses the cost model as its accounting policy for investment property?

(a) fair value of the property.
(b) present value of the property.
(c) value in use of the property.
(d) net realisable value of the property. **(01)**

(v) Under the Concept of Physical Capital Maintenance, a profit is earned only if the:

(a) financial amount of net assets at the end of the period exceeds the financial amount of net assets at the beginning of the period.
(b) physical productive capacity of the entity at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.
(c) value of production for the period exceeds the value of production for the prior period, after excluding any distributions to, and contributions from, owners during the period.
(d) all of the above. **(01)**

(vi) In the case of grants related to income, which of the following accounting treatment is prescribed by IAS-20 "Accounting for Government Grant and Disclosure of Government Assistance"?

(a) Credit the grant to general reserve.
(b) Present the grant in the statement of comprehensive income as other income or deduct it from a related expense.
(c) Credit the grant to retained earnings in the statement of financial position.
(d) Credit the grant to other revenue from operations in the statement of comprehensive income. **(01)**

Section B

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

Q.3 Following information pertains to Nadir Limited:

Extract from statement of profit or loss for the year ended 31 December 2018

	Rs. in '000
Sales	100,055
Cost of sales	(65,400)
Gross profit	**34,655**
Selling and administrative expenses	(24,600)
Finance cost	(1,100)
Profit before taxation	**8,955**
Taxation	(2,945)
Profit after taxation	**6,010**

Extract from statement of financial position as on 31 December 2018

Equity and liabilities	**2018**	**2017**	**Assets**	**2018**	**2017**
	---- Rs. in '000 ----			**---- Rs. in '000 ----**	
Share capital	12,400	10,000	Property plant &		
Share premium	1,400	-	equipment – net	21,400	15,800
Retained earnings	13,450	12,440	**Current assets:**		
Surplus on revaluation	4,000	-	Stock-in-trade	5,600	5,750
Non-current liabilities:			Trade receivables – net	6,840	4,446
Long-term loans	4,100	5,000	Other receivables	1,800	-
Current liabilities:			Cash & bank	2,940	4,004
Trade payables	1,900	1,400			
Accruals & other payables	680	660			
Tax liability	650	500			
	38,580	**30,000**		**38,580**	**30,000**

Other information:

(i) Shares issued during the year were as follows:
- 10% bonus shares in March 2018.
- Right shares in July 2018.

(ii) During the year, a plant costing Rs. 9,500,000 and having a book value of Rs. 5,200,000 was disposed of for Rs. 4,800,000 of which Rs. 1,800,000 are still outstanding.

(iii) Depreciation for the year amounted to Rs. 7,350,000.

(iv) Financial charges for the year amounted to Rs. 1,100,000. Accrued financial charges as on 31 December 2018 amounted to Rs. 112,000 (2017: Rs. 48,000).

(v) Provision for doubtful trade receivables is maintained at 5%.

Required:

Prepare statement of cash flows for the year ended 31 December 2018, in accordance with IAS 7 'Statement of Cash Flows' using direct method. **(17)**

Q.4 Saleem is the owner of S-Mart, a grocery store. His accountant resigned and left on 1 January 2019. Saleem suspects that the previous accountant was involved in some sort of misappropriation. The information available with him is as follows:

(i) Summary of bank statement:

Receipts	Rupees	Payments	Rupees
Balance as at 1 Jan 2018	250,000	Suppliers	1,807,500
Cheques from debtors	824,000	Salaries	48,000
Cash sales	1,450,000	Rent	72,000
Sale of old vehicle on 1 Jan 2018	15,000	Utilities	36,000
		Other expenses	24,750
		New vehicle on 1 Mar 2018	230,000
		Balance as at 31 Dec 2018	320,750
	2,539,000		**2,539,000**

(ii) Other balances extracted from the records maintained by the previous accountant:

Particulars	31-Dec-2018	31-Dec-2017
	---------- Rupees ----------	
Furniture and fixtures – WDV	555,000	550,000
Equipment – WDV	64,000	80,000
Vehicle – WDV	210,000	18,500
Inventory	215,000	250,000
Debtors	340,000	260,000
Advance rent	-	3,000
Cash in hand	31,510	45,000
Creditors	354,500	100,000
Salaries payable	22,000	18,000

(iii) Before depositing the receipts from cash sales in the bank, Saleem took Rs. 12,000 per month for personal use. All other payments were made through bank and the debtors settled their accounts through cheques.

(iv) The creditors have confirmed the balances due from them. However review of the statement provided by one of the creditors indicates that goods returned for cash amounting to Rs. 24,000 were not recorded in the books.

(v) Unpaid invoice for furniture purchased during the year for Rs. 45,000 is included in creditors.

(vi) The margin on cash sales and credit sales is 20% and 25% respectively. From 1 July 2018, prices to cash customers were further reduced by 6% due to which quantity sold against cash in the 2nd half of the year increased by 25% as compared to the first half of the year.

(vii) All the debtors confirmed their balances except an amount of Rs. 50,000. On investigation it was found that the related goods had been issued against fake invoices.

Required:

(a) Determine the amount of suspected fraud. **(04)**

(b) Prepare statement of profit or loss for the year ended 31 December 2018. **(11)**

Q.5 Soya Fry Limited manufactures Cooking Oil. Following information is available with respect to purchases and overheads for the year ended 31 December 2018.

Details of purchases:	**Rs. in '000**
Raw material purchased (including 17% sales tax which is refundable)	60,500
Packing material purchased	2,050
Settlement discount received on raw material purchases	400
Transportation cost relating to raw material (70%) and packing material (30%)	300
Details of overheads:	
Rent	2,700
Salaries and wages	2,500
Other variable overheads	5,000
Other fixed overheads	1,500

Other information:

(i) The break-up of rent is as follows:

	Rs. in '000
Factory	2,000
Warehouse (50% for raw material, 10% for packing material and 40% for finished goods)	500
Shelf spacing in super markets	200

(ii) Break-up of salaries and wages, other variable and fixed overheads is as follows:

	Allocation between	
	Manufacturing	**Administration**
Salaries and wages	*60%	40%
Other variable overheads	80%	20%
Other fixed overheads	60%	40%

Manufacturing salaries includes 70% direct wages to labourers working in the factory which vary with the level of production.

(iii) Normal production level is 45,000 units per annum. Actual production during the year was 40,000 units.

(iv) Opening and closing inventories are as follows:

	1-Jan-2018	**31-Dec-2018**
	--------- Rs. in '000 ---------	
Packing material	700	285
Raw material	5,000	7,780
Finished goods	2,962	4,162
Work in process	1,950	3,000

Goods costing Rs. 200,000 (2017: Rs. 300,000) are considered as obsolete and have been fully provided. Further, closing stock of finished goods include goods costing Rs. 75,000 which were damaged due to flood and can only be sold at 60% of its cost.

Required:

'Cost of goods sold' as would appear in the profit and loss account for the year ended 31 December 2018. **(17)**

Q.6 The following information pertains to Sherdil Limited (SL):

(i) Buildings and equipment were acquired on 1 January 2016 for Rs. 450 million and Rs. 50 million respectively.

(ii) The relevant information relating to both assets is summarised below:

Assets	Depreciation method	Life/rate	Subsequent measurement
Buildings	Straight line	20 years	Annual revaluation
Equipment	Reducing balance	10%	Cost

SL transfers the maximum possible amount from revaluation surplus to retained earnings on an annual basis.

(iii) The revalued amount of buildings as determined by Accurate Valuers (Private) Limited, an independent valuation company, on 1 January 2017 and 2018 was Rs. 456 million and Rs. 378 million respectively.

(iv) Equipment costing Rs. 35 million was purchased on 1 August 2017. Half of the equipment purchased on 1 January 2016 was disposed off on 30 June 2018.

Required:
In accordance with International Financial Reporting Standards, prepare a note on 'Property plant & equipment' (including comparative figures) for inclusion in SL's financial statements for the year ended 31 December 2018. **(18)**

(THE END)