The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examination

4 September 2019
3 hours – 100 marks
Additional reading time – 15 minutes

Financial Accounting and Reporting-I

Section A

Q.1 The following information pertains to Wednesday Limited (WL) for the year ended 30 June 2019:

(i) Shareholders' equity as at 1 July 2018:

	Rs. in million
Share capital (Rs. 100 each)	200
Share premium	85
Retained earnings	124
Revaluation surplus	65

(ii) On 30 November 2018, WL issued 30% right shares at a premium of Rs. 120 per share.

(iii) Cash dividend and bonus shares for the last two years:

For the year ended	Final dividend		*Interim dividend	
	Cash	Bonus	Cash	Bonus
30 June 2018	18%	-	20%	-
30 June 2019	-	25%	-	10%

Declared with half yearly accounts

(iv) Profit for the year amounted to Rs. 95 million.

(v) Revaluation surplus arising during the year amounted to Rs. 35 million whereas transfer of incremental depreciation for the year was Rs. 9 million.

Required:
Prepare WL's Statement of Changes in Equity for the year ended 30 June 2019. **(07)**
(Column for total and comparative figures are not required)

Q.2 Discuss how the following should be dealt with in the financial statements of relevant entities according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance:

(a) The government makes a grant to an entity which is planning to develop teaching software for children with learning difficulties. The purpose of the grant is to help the entity to meet its general financing requirement in the initial phase. There are no further conditions attached to the grant. **(01)**

(b) A manufacturing entity sets up a plant in an area of high unemployment. A government grant of Rs. 4 million is received with a condition that the grant is repayable in full if the number of its employees fell below 100 at any time during the next four years. It is highly probable that the entity will comply with the condition attached to the grant. **(03)**

(c) Free technical advice has been provided by the government's export promotion department to help an exporter to market his new technology in North America. **(01)**

Q.3 Tuesday Manufacturers Limited produces a single product. The following costs were incurred in the month of June 2019:

	Rs. in '000
Direct labour	2,075
Depreciation on plant and machinery	380
Distribution costs	589
Factory manager's salary	247
Indirect labour	848
Indirect material consumed	345
Raw material purchases	3,845
Selling costs	1,248
Other production overheads	580
Other administration overheads	388

Following other information is available:

(i) On 1 June 2019, stock of finished goods consisted of 1,350 units valued at Rs. 1,640 per unit while stock of raw materials was valued at Rs. 1,490,000.
(ii) 5,200 units of finished goods were produced during June 2019.
(iii) There was no work-in-progress at the end of the month whereas work in progress at 1 June 2019 was valued at Rs. 208,000.
(iv) Stock of raw materials on 30 June 2019 was valued at Rs. 970,000.
(v) 1,500 units of finished goods were available in stock as on 30 June 2019.
(vi) Cost of finished goods is determined using FIFO method.

Required:
Compute cost of goods sold for the month of June 2019. **(07)**

Q.4 Select the most appropriate answer(s) from the options available for each of the following Multiple Choice Questions (MCQs).

(i) An entity made a profit of Rs. 480,000 for the year 2018 based on historical cost accounting principles. It had opening capital of Rs. 1,100,000. During 2018, specific price indices increased by 15% while general price indices increased by 12%. How much profit should be recorded for 2018 under real financial capital maintenance concept?

(a) Rs. 480,000 (b) Rs. 315,000
(c) Rs. 348,000 (d) Rs. 645,000 **(01)**

(ii) Morning Football Club has a monthly subscription fee of Rs. 800 per member. The club has 240 members on 31 December 2018. No fresh members were admitted during 2018 but 30 members left the club on 1 July 2018. As at 31 December 2018, the club has received subscription in advance amounting to Rs. 60,000. The club's subscription income for 2018 would be:

(a) Rs. 2,448,000 (b) Rs. 2,388,000
(c) Rs. 2,160,000 (d) Rs. 2,100,000 **(02)**

(iii) Which of the following can **NOT** be a 'qualifying asset' under IAS 23 Borrowing Costs?

(a) Inventories
(b) Manufacturing plants
(c) Assets that are ready for their intended use when acquired
(d) Investment property **(01)**

(iv) Afternoon Limited (AL) uses cost model for its property, plant and equipment and fair value model for its investment property. AL has an office building which was being used for administrative purposes. At 1 July 2018, the building had a carrying amount of Rs. 20 million. On that date, the building was let out to a third party and therefore reclassified as an investment property. The building had a fair value of Rs. 23 million on 1 July 2018 and Rs. 23.4 million on 30 June 2019.

What would be the increase in the profit or loss and other comprehensive income for the year ended 30 June 2019?

	Profit or loss	**Other comprehensive income**
(a)	Nil	Rs. 3.4 million
(b)	Rs. 0.4 million	Rs. 3 million
(c)	Rs. 3.4 million	Nil
(d)	Rs. 3 million	Rs. 0.4 million

(02)

(v) Which **TWO** of the following fall under the definition of investment property?

(a) Property occupied by an employee
(b) A building owned by an entity and leased out under an operating lease
(c) Property being constructed on behalf of third party
(d) Land held for long term appreciation **(01)**

(vi) Under IAS 36 Impairment of Assets, if the fair value less costs to sell of an asset cannot be determined then:

(a) the asset is not impaired
(b) the recoverable amount is the value in use
(c) the net realizable value is used
(d) the carrying value of the asset remains the same **(01)**

(vii) Which **TWO** of the following would be external indicators that one or more of an entity's assets may be impaired?

(a) An unusually significant fall in the market value of one or more assets
(b) Evidence of obsolescence of one or more assets
(c) A decline in the economic performance of one or more assets
(d) An increase in market interest rates used to calculate value in use of the assets **(01)**

(viii) Which of the following future cash flows should **NOT** be included in the calculation of value in use of an asset?

(a) Cash flows from disposal
(b) Income tax payments
(c) Cash flows from the sale of inventory produced by the asset
(d) Cash outflows on the maintenance of the asset **(01)**

(ix) Night Limited has a current ratio of 1.8. This ratio will increase if Night Limited:

(a) receives cash in respect of a short term loan
(b) receives cash from an existing receivable
(c) pays an existing trade payable
(d) purchases inventory on credit **(01)**

(x) A debtor turnover of 6 times means that:

(a) one-sixth of the debtors are collected in one month
(b) average debtors are collected in 6 months
(c) average debtors are collected in 2 months
(d) average debtors are collected 2 times in a year **(01)**

Section B

Q.5 Following are the extracts from the financial statements of Sunday Traders Limited (STL) for the year ended 30 June 2019:

Statement of financial position as on 30 June 2019

Assets	2019	2018	Equity & liabilities	2019	2018
	Rs. in million			Rs. in million	
Property, plant and equipment	8,555	7,240	Share capital (Rs. 100 each)	4,650	3,450
Investment property	1,800	1,120	Share premium	1,600	1,240
Stock in trade	4,800	4,500	Retained earnings	1,652	(655)
Prepayments	184	268	Long term loans	6,024	6,523
Trade receivables	3,800	3,600	Trade payables	3,422	5,390
Cash	194	480	Contract liability	250	40
			Accrued liabilities	310	180
			Interest payable	135	110
			Current maturity of long term loans	850	700
			Provision for taxation	440	230
	19,333	**17,208**		**19,333**	**17,208**

Statement of profit or loss for the year ended 30 June 2019

	Rs. in million
Sales	29,700
Cost of sales	(15,750)
Gross profit	13,950
Distribution cost	(6,185)
Administrative cost	(2,302)
Other income	404
Profit before interest and tax	5,867
Interest expense	(1,210)
Profit before tax	4,657
Tax expense	(1,150)
Profit after tax	**3,507**

Additional information:

(i) 72% of sales were made on credit.

(ii) Depreciation expense for the year amounted to Rs. 750 million which was charged to distribution and administrative cost in the ratio of 3:1.

(iii) Distribution cost includes:

- Rs. 40 million in respect of loss on disposal of equipment. The written down value at the time of disposal was Rs. 152 million.
- impairment loss on vehicles amounting to Rs. 24 million.

(iv) Loan instalments (including interest) of Rs. 1,984 million were paid during the year.

(v) Other income comprises of:

- increase in fair value of investment property amounting to Rs. 220 million.
- rent received from investment property amounting to Rs. 184 million.

(vi) During the year, STL issued right shares at premium.

Required:
Prepare STL's statement of cash flows for the year ended 30 June 2019 using **direct method**. **(19)**

Q.6 The following information pertains to Monday Limited (ML):

(i) The balances of property, plant and equipment as on 1 January 2018:

Assets	**Cost/Revalued amount**	**Accumulated depreciation**
	----------- Rs. in million -----------	
Office building	240	36
Equipment	190	60

Revaluation surplus related to the office building as at 1 January 2018 amounted to Rs. 8.5 million.

(ii) On 1 September 2018, a new equipment was acquired by making payment of Rs. 70 million to the supplier. An old equipment was also given in exchange to the supplier. The fair values of the old and new equipment were assessed at Rs. 21 million and Rs. 93 million respectively. The old equipment had been acquired at a cost of Rs. 40 million on 1 July 2016. Cost incurred on installing the new equipment amounted to Rs. 5 million.

(iii) On 1 January 2018, ML commenced construction of a manufacturing plant. The whole process of assembling and installation was completed on 31 October 2018. However, the work was stopped from 16 to 31 August 2018 due to unexpected rains.

The total cost of Rs. 660 million incurred on the plant was paid as under:

Description	**Payment date**	**Rs. in million**
1st payment	1 February 2018	140
2nd payment	1 April 2018	214
3rd payment	1 September 2018	146
4th payment	1 December 2018	160

The plant was financed through a bank loan of Rs. 500 million obtained on 1 March 2018. The loan carries a mark-up of 18% payable annually. The surplus funds available from the loan were invested in a saving account and earned Rs. 17 million during capitalization period.

(iv) On 31 December 2018, the revalued amount of office building was assessed at Rs. 178 million by Precise Valuers, an independent valuation firm. Value in use of the office building as at 31 December 2018 was estimated at Rs. 186 million.

(v) Other relevant details are as follows:

Assets	**Depreciation method**	**Life/rate**	**Subsequent measurement**
Office building	Straight line	20 years*	Revaluation
Equipment	Reducing balance	20%	Cost
Manufacturing plant	Straight line	15 years	Cost

**** Remaining life at the date of last revaluation***

ML accounts for revaluation on net replacement value method and transfers the maximum possible amount from revaluation surplus to retained earnings on an annual basis.

Required:
In accordance with IFRSs, prepare a note on 'Property plant and equipment' for inclusion in ML's financial statements for the year ended 31 December 2018.
(Comparatives figures and column for total are not required) **(17)**

Q.7 Friday Traders (FT) is engaged in the business of supplying Blenders and Juicers. FT purchases its products from Sigma Electronics. FT is presently negotiating with a bank for a long term loan and has been asked to provide the latest financial statements. Since FT does not maintain proper accounting records, you are requested to prepare the financial statements from the following information:

(i) Assets and liabilities as on 1 January 2018:

	Rs. in '000
Equipment (40% depreciated)	2,490
Stock (stock value of Blenders was double of the Juicers)	3,705
Prepaid rent up to 30 April 2018	280
Trade debtors (only for Blenders)	1,410
Payable to Sigma Electronics	3,600
Salaries payable	98
Bank overdraft	740

(ii) Sales of Blenders are made on credit while Juicers are sold on cash basis.

(iii) Upto last year, FT was earning a gross profit of 30% on cost of Blenders and 35% on sale value of Juicers. With effect from 1 January 2018:

- FT increased sales prices of both the products by 20%; and
- Sigma Electronics increased the prices of Juicers only by 40%.

(iv) 60% of the amount of purchases made during the year represents blenders.

(v) Summary of bank transactions during the year:

	Rs. in '000
Receipts from credit customers	6,570
Payments:	
Sigma Electronics	8,850
Insurance for one year starting 1 February 2018	204
Rent	826
Equipment	550
Salaries and wages	685
	11,115

(vi) Debtors amounting to Rs. 138,000 are considered as irrecoverable.

(vii) Rent of the premises was increased by 30% with effect from 1 September 2018.

(viii) Following payments were made from cash sales and remaining amounts were deposited into the bank:

	Rs. in '000
Repairs and maintenance	186
Salaries and wages	124
Drawings	477
	787

(ix) Equipment is depreciated at 8% on cost.

(x) Some balances ascertained as at 31 December 2018:

	Rs. in '000
Stock* – Juicers	975
– Blenders	2,597
Payable to Sigma Electronics	2,420
Salaries payable	134

Comprises of stock purchased in 2018

Required:

(a) Prepare statement of profit or loss account for the year ended 31 December 2018. **(10)**

(b) Prepare statement of financial position as at 31 December 2018. **(08)**

Q.8 Thursday Enterprise (TE) is a supplier of product Zee and has provided you the following information:

(a) On 1 August 2018, TE entered into a six months contract with customer Alpha for sale of Zee for Rs. 250 per unit, under the following terms and conditions:

- if Alpha purchases more than 5,000 units during the contract period, the price per unit would be retrospectively reduced to Rs. 215 per unit.
- TE's unconditional right to receive consideration would be established upon:
  - completion of quality control procedures by Alpha for the first order. The procedure would take a week after receiving the goods.
  - placement of order by Alpha for subsequent orders.

At the inception of the contract, TE concludes that Alpha's purchases will not exceed the 5,000 units threshold for the discount.

Alpha placed the following orders:

Order date	Units	Delivery date (Transfer of control)	Payment date
10 August 2018	3,000	28 August 2018	12 September 2018
25 December 2018	4,000	15 January 2019	10 January 2019

(10)

(b) On 1 February 2019, TE entered into a six months contract with another customer Beta for sale of Zee for Rs. 250 per unit, under the following terms and conditions:

- if the Beta purchases more than 15,000 units during the contract period, the price per unit would be retrospectively reduced to Rs. 215 per unit.
- TE's unconditional right to receive consideration would be established upon delivery of goods to Beta.

At the inception of the contract, TE concludes that Beta will meet 15,000 units threshold for the discount.

Beta placed the following orders:

Order date	Units	Delivery date (Transfer of control)	Payment date
14 February 2019	10,000	28 February 2019	20 March 2019
1 June 2019	8,000	15 July 2019	18 July 2019

(05)

Required:
In respect of the above contracts, prepare journal entries to be recorded in the books of TE for the years ended 31 December 2018 and 2019.
(Entries without date will not be awarded any marks)

(THE END)