



## Financial Accounting and Reporting-I

### Instructions to examinees:

- (i) Answer all **EIGHT** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

### Section A

Q.1 Following information pertain to Katas Industries Limited for the year ended 30 June 2020:

(i) **Purchase of raw material:**

	Rs. in '000
Purchase price	96,100
Discount on bulk purchases	3,290
Early settlement discounts	1,580

(ii) **Cost incurred at various locations:**

Description	Factory	Head office	Sales office	Warehouse	
				Raw material	Finished goods
----- Rs. in '000 -----					
Salaries & wages	9,200*	2,000	3,800	860	640
Depreciation	3,500	1,250	750	150	120
Rent	3,640	-	2,360	380	160
Utilities	2,780	940	1,230	450	235

\*75% of factory salaries & wages vary with the level of production

(iii) **Breakup of inventories:**

	1 July 2019	30 June 2020
----- Rs. in '000 -----		
Raw material	6,800	8,500
Work in progress	1,980	1,600
Finished goods	8,960	12,000

(iv) Due to a machine break down, raw material costing Rs. 1,560,000 was lost during the production process.

### Required:

Prepare statement of cost of goods manufactured for the year ended 30 June 2020. *(Also show total prime cost)*

(08)

Q.2 Ratios are computed by using numerical values from financial statements to gain meaningful information about an entity. However, due to inherent limitations of ratio analysis, it may not reflect the correct financial situation.

### Required:

Briefly explain any **four** limitations of ratio analysis.

(06)

- Q.3 On 1 July 2014, Indus Pharma Limited (IPL) received a government grant of Rs. 280 million to setup a plant in an under-developed rural area. The grant is repayable in full if the conditions attached to the grant are not met for a period of five years from the date of commencement of the production. At the inception, it was highly probable that IPL would comply with the conditions for the required period.

IPL incurred total cost of Rs. 630 million on plant and it started production on 1 January 2015. Useful life of the plant was estimated at 7 years. IPL deducted government grant in arriving at the carrying amount of the asset.

In January 2019, IPL showed its inability to comply with the conditions attached to the grant and regulatory authority issued a notice to IPL for repayment of the grant in full. Accordingly, the grant was repaid by IPL.

In view of repayment of the grant, IPL carried out an impairment review of the plant on 31 December 2019. Net annual cash inflows for the remaining life of the plant have been estimated at Rs. 90 million and Rs. 80 million for 2020 and 2021 respectively. These cash inflows are net of annual interest and maintenance cost of Rs. 10 million and Rs. 6 million respectively for both years. Applicable discount rate is 12%.

On the date of impairment review, the existing plant can be sold in the local market for Rs. 160 million. Estimated cost of disposal would be Rs. 5 million.

**Required:**

Prepare journal entries for the year ended 31 December 2019 in respect of the above information. *(Show all necessary workings. Narrations are not required)* (08)

- Q.4 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

(i) Which of the following statements is correct about financial statements based on historical cost in times of rising prices?

- (a) Profits will be overstated and assets will be understated
- (b) Assets will be overstated
- (c) Profits as well as assets will be understated
- (d) Depreciation will be overstated

(01)

(ii) Under IAS 40 'Investment property', which of the following disclosures is **NOT** required to be made under cost model?

- (a) Fair value of the property
- (b) Depreciation method
- (c) Reconciliation of carrying amounts at the beginning and end of a period
- (d) Residual value of the property

(01)

(iii) Which of the following would cause negative net cash flow from operating activities?

- (a) Decrease in depreciation expense
- (b) A substantial investment in fixed assets
- (c) A significant increase in credit sales
- (d) Repayment of a long-term loan

(01)

(iv) A company pays to its salesman a minimum salary plus commission based on sales. Salesman's total remuneration is the example of:

- (a) fixed cost
- (b) semi-variable cost
- (c) stepped cost
- (d) variable cost

(01)

- (v) Alpha Club's financial year ends on 31 December. Following information pertain to its members' subscription:

	<b>Rupees</b>
Subscription received in 2018 for 2019	180,000
Subscription received in 2019 for 2018	90,000
Subscription received in 2019 for 2019	1,400,000
Subscription received in 2019 for 2020	200,000
Subscription for 2018 outstanding as on 31 December 2018	150,000
Subscription for 2019 outstanding as on 31 December 2019	325,000

Subscription income for the year ended 31 December 2019 is:

- (a) Rs. 1,845,000 (b) Rs. 1,705,000 (c) Rs. 1,905,000 (d) Rs. 1,665,000 **(02)**
- (vi) A company has current ratio and quick ratio of 2.0 and 0.8 respectively. If the company uses its positive cash balance to pay a creditor, it will:
- (a) increase current ratio as well as quick ratio  
 (b) increase current ratio and decrease quick ratio  
 (c) have no effect on current ratio as well as quick ratio  
 (d) decrease current ratio as well as quick ratio **(01)**
- (vii) Which of the following would increase gearing ratio?
- (a) Issuance of shares at premium  
 (b) Issuance of shares at discount  
 (c) Issuance of bonus shares  
 (d) Declaration and payment of cash dividend **(01)**
- (viii) Which of the following statements is correct in the context of capitalisation of borrowing costs?
- (a) If funds have been arranged from various general borrowings, the amount to be capitalised is based on the weighted average cost of borrowings  
 (b) Capitalisation always commences as soon as expenditure for the asset is incurred  
 (c) Capitalisation always continues until the asset is brought into use  
 (d) Capitalisation always commences as soon as borrowing costs are incurred **(01)**

### Section B

- Q.5 (a) Stupa Limited (SL) sells electrical products at following standalone prices:

<b>Products</b>	<b>Rupees</b>
E-1	30,000
E-2	30,000
E-3	50,000

**Required:**

Calculate transaction price to be allocated to each product under each of the following independent situations:

- (i) SL offered to sell one unit of each of the above products for Rs. 90,000. SL regularly sells one unit each of E-2 and E-3 together for Rs. 70,000. **(04)**
- (ii) SL offered to sell one unit of E-1 and two units of E-3 for Rs. 104,000. **(02)**

- (b) On 1 October 2018, Kushan Construction Limited (KCL) entered into a contract to construct a commercial building for a customer for Rs. 50 million and a bonus of Rs. 10 million if the building is completed on or before 31 December 2019.

Till 30 June 2019, KCL expected that the building will be completed within time at a total cost of Rs. 40 million. However, due to bad weather and time involved in regulatory approvals, the building was completed on 28 February 2020 at a total cost of Rs. 42 million of which Rs. 26 million was incurred till 30 June 2019.

**Required:**

Compute profit to be recognized for the years ended 30 June 2019 and 2020, if:

- (i) performance obligation under the contract is satisfied over time. (04)  
 (ii) performance obligation under the contract is satisfied at a point in time. (01)
- (c) The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.

Define the term 'transaction price' and list down the factors that may affect determination of the transaction price. (04)

Q.6 Statement of financial position of Taxila Limited (TL) as on 30 June 2020 is as follows:

Assets	2020	2019	Equity & liabilities	2020	2019
	Rs. in million	Rs. in million		Rs. in million	Rs. in million
Property, plant and equipment	1,619	1,200	Share capital (Rs. 100 each)	1,200	800
Investment property	290	120	Share premium	290	150
Inventories	205	180	Retained earnings	260	90
Trade receivables	342	291	Revaluation surplus	215	200
Prepayments and other receivables	14	20	Long-term loans	367	445
Short-term investments	60	48	Trade and other payables	144	120
Cash and bank balances	24	6	Current portion of long-term loans	78	60
	<b>2,554</b>	<b>1,865</b>		<b>2,554</b>	<b>1,865</b>

**Additional information:**

- (i) Equipment having fair value of Rs. 240 million was acquired by issuing 2 million shares.  
 (ii) As a result of revaluation carried out on 30 June 2020, property, plant and equipment was increased by Rs. 80 million out of which Rs. 35 million was credited to profit and loss account.  
 (iii) During the year, fully depreciated items of property, plant and equipment costing Rs. 36 million were sold for Rs. 8 million out of which Rs. 3 million is still outstanding.  
 (iv) Depreciation on property, plant and equipment for the year amounted to Rs. 290 million.  
 (v) An investment property was acquired for Rs. 180 million. TL applies cost model for subsequent measurement of its investment property.  
 (vi) Financial charges for the year amounted to Rs. 45 million. Trade and other payables include accrued financial charges of Rs. 12 million (2019: Rs. 17 million).  
 (vii) Short-term investments amounting to Rs. 35 million are readily convertible to cash (2019: Rs. 20 million). Investment income for the year amounted to Rs. 6 million.

**Required:**

Prepare TL's statement of cash flows for the year ended 30 June 2020 in accordance with the requirements of IFRSs. (17)

Q.7 You have been appointed as accountant of Gandhara Enterprises (GE) to replace Nasim who was terminated on suspicion of fraud. Following information has been compiled for preparation of GE's financial statements for the year ended 30 June 2020:

(i) Summarised bank statement:

Receipts	Rs. in '000	Payments	Rs. in '000
Opening balance	600	Creditors	8,300
Cheques from debtors	7,420	Salaries	900
Cash	2,400	Repair and maintenance	450
Rent	980	Utilities	500
		Office furniture	150
		Drawings	640
		Closing balance	460
	<b>11,400</b>		<b>11,400</b>

(ii) Other balances worked out from the available records:

Particulars	30-Jun-2020	30-Jun-2019
	----- Rs. in '000 -----	
Fixed assets – WDV	3,400	3,460
Inventories	750	715
Goods in transit	140	-
Debtors	900	730
Unearned rent	300	450
Cash in hand	48	36
Creditors	895	690
Salaries payable	86	120

- (iii) All debtors settle their accounts through cheques. All payments are made through cheques except for average monthly petty expenses of Rs. 25,000.
- (iv) Cheques of Rs. 950,000 issued to creditors in the last week of June 2020 were presented in July 2020. Cheques from debtors amounting to Rs. 860,000 deposited on 30 June 2020 were cleared in July 2020.
- (v) Goods are sold on cash and credit at cost plus 25% and 30% respectively.
- (vi) Apart from misappropriating amounts from cash sales, the following matters were also noted in respect of Nasim's fraud:
- Physical cash count revealed that cash in hand was Rs. 20,000.
  - Fixed assets having written down value of Rs. 65,000 were sold for Rs. 120,000 which was not recorded in the books.
  - Goods in transit represent goods purchased in May 2020. However, in actual there were no goods in transit.
  - Goods costing Rs. 130,000 appearing in the closing inventory sheets were not found physically.
  - All the debtors confirmed their balances except for an amount of Rs. 260,000. It was found that the related goods had been issued against fake invoices.

**Required:**

- (a) Determine the amount of suspected fraud. (06)
- (b) Prepare GE's statement of profit or loss for the year ended 30 June 2020. (11)

Q.8 Following information pertain to property, plant and equipment of Harappa Industries Limited (HIL) for the year ended 30 June 2020:

Assets	Balance as on 30 June 2019			Depreciation method	Useful life/rate
	Cost/revalued amount	Accumulated depreciation	Revaluation surplus		
----- Rs. in '000 -----					
Land*	100,000	-	-	-	Infinite
Buildings	70,000	14,000	16,000	Straight line	20 years
Plant	180,000	60,000	-	Straight line	15 years
Vehicles	8,800	4,000	-	Reducing balance	20%

\*An amount of Rs. 12 million had been charged to profit or loss upon previous revaluation

- (ii) On 30 June 2020, the revalued amounts of the land and buildings were assessed by Smart Consultant at Rs. 120 million and Rs. 35 million respectively.
- (iii) Setting up of a new plant was commenced on 1 July 2019 and substantially completed on 29 February 2020. The plant was available for use on 1 April 2020 and immediately put into use. Useful life of the plant was estimated at 10 years. Details of the cost incurred are as under:

Description	Payment date	Rs. in '000
1 <sup>st</sup> payment	1 August 2019	12,000
2 <sup>nd</sup> payment	1 October 2019	48,000
3 <sup>rd</sup> payment	29 February 2020	48,000
4 <sup>th</sup> payment	31 July 2020	12,000
		<b>120,000</b>

The cost of the plant was financed through an existing running finance facility with a limit of Rs. 200 million carrying mark-up of 12% per annum. A government grant of Rs. 20 million related to the plant was received on 1 January 2020. The grant amount was used for repayment of the running facility.

- (iv) One of the vehicles had an engine failure on 1 January 2020 and its engine had to be sold as scrap for Rs. 0.1 million. The vehicle had been acquired on 1 January 2018 at a cost of Rs. 2.5 million. 40% of the cost is attributable to its engine. Though the engine of similar capacity was available at a cost of Rs. 1.2 million, the old engine was replaced on 1 January 2020 with a higher capacity engine at a cost of Rs. 1.8 million.
- (v) HIL uses cost model for subsequent measurement of property, plant and equipment except for land and buildings.
- (vi) HIL accounts for revaluation on net replacement value method and transfers the maximum possible amount from revaluation surplus to retained earnings on an annual basis.
- (vii) HIL deducts government grant in arriving at the carrying amount of the asset.

**Required:**

In accordance with IFRSs, prepare a note on 'Property, plant and equipment' for inclusion in HIL's financial statements for the year ended 30 June 2020.

*(Comparatives figures and column for total are not required)*

(20)

**(THE END)**