The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

3 March 2021
3 hours – 100 marks
Additional reading time – 15 minutes

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 pertains to Astrazenca Limited (AL):

(i) Shareholders' equity as on 1 January 2020:

	Rs. in million
Share capital (Rs. 100 each)	250
Share premium	138
Retained earnings	142
Revaluation surplus: Land	25
Buildings	20

(ii) Profit and transfer of incremental depreciation as per the draft financial statements for the year ended 31 December 2020 amounted to Rs. 45 million and Rs. 5 million respectively.

(iii) Dividends for the last two years:

For the year ended	*Interim cash dividend	Final bonus dividend
31 December 2019	10%	20%
31 December 2020	12%	15%

***Declared with half yearly accounts**

(iv) AL uses revaluation model for subsequent measurement of its land and buildings only. The revalued amounts of land and buildings have been assessed at 31 December 2020 but not incorporated in draft financial statements. The relevant details are as under:

	Land	Buildings
	--- Rs. in million ---	
Balances as on 31 December 2020 before revaluation:		
Cost	75	240
Accumulated depreciation	-	60
Revalued amounts assessed at 31 December 2020	65	158

Required:
Prepare AL's statement of changes in equity for the year ended 31 December 2020. **(08)**
(Column for total and comparative figures are not required)

Q.2 Describe the behavior of each of the following costs graphically by denoting **'Per unit cost'** on vertical axis and **'Level of activity'** on horizontal axis:

(i) Depreciation expense – Depreciation on plant is computed using units of production method.
(ii) Depreciation expense – Depreciation on plant is computed using straight line method.
(iii) Direct material cost – Bulk discount is available on additional purchases once the total purchases exceed a certain level.
(iv) Generator rent – A generator has been acquired on rent at an hourly rate; however, minimum rent for certain hours is payable irrespective of actual usage.
(v) Machine rent – Machines are acquired on a fixed monthly rent. One machine is required for every 1 million units.
(vi) Direct labour cost – Factory workers are paid at fixed rate per unit. In case production exceeds target in any month, then workers are paid with double rate for additional units. **(08)**

Q.3 On 1 January 2021, Covaxin Telecom (CT) announced a new annual promotional package for its customers. The package comprises of a mobile phone, full year unlimited on-net calls and 1,000 minutes per month on other networks. Package price is Rs. 11,550 per quarter payable in advance on the first day of each quarter. At the end of the contract, the phone would not be returned to CT.

On the first day of the promotional announcement, CT sold 1,000 packages. Based on the data available with CT, it is expected that each customer would utilize 10,000 minutes of other networks with quarterly break-up as under:

Quarter ending	Minutes
31 March 2021	2,700
30 June 2021	2,000
30 September 2021	2,900
31 December 2021	2,400

The mobile phone has a retail value of Rs. 34,000, if sold separately. A monthly subscription for unlimited on-net calls is Rs. 500 while every call on other networks is charged at Rs. 1.5 per minute, if billed separately.

Required:
Compute the quarterly revenue to be recognised for the quarters ending 31 March 2021 and 30 June 2021. **(08)**

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

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

(a) Cash flows on maintaining the asset's performance
(b) Cash flows on enhancing the asset's performance
(c) Cash flows from continuing use of the asset
(d) Cash flows from disposal of the asset **(01)**

(ii) When an impairment review is carried out, an impaired asset is measured at:

(a) fair value less cost to sell
(b) value in use
(c) cost
(d) recoverable amount **(01)**

(iii) Which of the following would be an external indicator that an asset of an entity may be impaired?

(a) Increase in central bank discount rates
(b) Decline in economic performance of an asset
(c) Physical obsolescence of an asset
(d) Future restructuring plan of an asset **(01)**

(iv) Which of the following is **NOT** a measurement base for assets as referred in the Conceptual Framework?

(a) Value in use
(b) Fulfilment value
(c) Current cost
(d) Fair value **(01)**

(v) The accounting principle applied by IFRS 15 when determining whether or not revenue should be recognized in respect of a repurchase agreement is:

(a) prudence
(b) matching
(c) verifiability
(d) faithful representation **(01)**

(vi) An entity recognises revenue over time if:

(a) entity's performance does not create an asset with an alternative use
(b) entity's performance creates an asset whose control will be transferred at the end of contract
(c) customer simultaneously receives and consumes the benefit provided by the entity's performance
(d) entity has an enforceable right to payment for performance completed to-date **(01)**

(vii) An entity made a profit of Rs. 550,000 for the year 2020 based on historical cost accounting principles. It had opening capital of Rs. 1,500,000. During 2020, specific prices indices increased by 15% while general price indices increased by 10%. How much profit should be recorded for 2020 under physical capital maintenance concept?

(a) Rs. 325,000
(b) Rs. 400,000
(c) Rs. 467,500
(d) Rs. 495,000 **(01)**

(viii) In order to survive in the long run, a business must generate positive net cash flow from:

(a) investing activities
(b) operating activities
(c) financing activities
(d) both (a) and (b) **(01)**

Section B

Q.5 A fire broke out in the office of Moderna Sports Club (MSC) and burnt all the accounting records. The accountant was able to retrieve a burnt copy of financial statements of MSC for the year ended 31 December 2020. However, few information (as indicated by capital alphabets) were unreadable. The retrieved copy is as follows:

Balance sheet as on 31 December 2020

Funds and liabilities	Rs. in '000		Assets	Rs. in '000	
	2020	2019		2020	2019
General fund:			Fixed assets - net	1,403	1,300
Opening balance	A	1,586	Members' subscription	270	158
Excess of income over expenditure	B	C	Misc. supplies	13	10
			Tuck-shop rent	E	37
Tennis court fund	260	200	Advance salaries	18	15
			Bank	F	530
Liabilities:					
Members' subscription	20	25			
Salaries	52	41			
Utilities	25	D			
Annual sports event	10	-			

Income and expenditure account for the year ended 31 December 2020

Expenditure	Rs. in '000	Income	Rs. in '000
Salaries	G	Members' subscriptions	919
Utilities	221	Tuck-shop rent	252
Misc. supplies	H	Donation - sports equipment	70
Members' subscription written off	12	L	M
Annual sports event	I		
J	K		
Disposal of fixed assets	8		
Repair and maintenance	40		
Excess of income over expenditure	B		

Receipts and payments account for the year ended 31 December 2020

Receipts	Rs. in '000	Payments	Rs. in '000
Opening balance	530	Salaries	560
N	O	Fixed assets	92
Tennis court fund	P	Annual sports event	180
Contribution for annual sports event	49	Misc. supplies	132
Entrance fee - annual sports event	86	Utilities	214
Sale of fixed assets	21	Repair and maintenance	Q
Tuck-shop rent	248	Construction of tennis court	131
Scrap sale	15	Closing balance	F

Required:
Determine the missing information as indicated by capital alphabets.
(Redrafting of above financial statements is not required) **(18)**

Q.6 Epivac Limited is considering to take some of the following measures during the last week of the year ending 31 March 2021 in order to show better financial performance;

(i) Pay balance of a major supplier from bank overdraft facility and avail 5% discount.
(ii) Sell slow moving stock items at a price equal to cost.
(iii) Recover debtors' balances by offering cash discounts of 10%.
(iv) Offer extended credit terms of 90 days which would increase sales at existing margins.
(v) Dispose-off some non-current assets at gain.

Required:
State the effect (increase, decrease, no effect) of each of the above measure on the financial ratios as per following format:

	Ratios	**(i)**	**(ii)**	**(iii)**	**(iv)**	**(v)**
(a)	Gross profit margin					
(b)	Net profit margin					
(c)	Current ratio					
(d)	Stock turnover (times)					
(e)	Return on non-current assets					
(f)	Quick ratio					

(17)

Q.7 You have recently joined as the finance manager of Corv Limited (CL). While reviewing the draft financial statements for the year ended 31 December 2020 prepared by the junior accountant, you have noted the following:

(i) In January 2020, Government allotted an industrial plot to CL at a prime location subject to the condition that CL will establish a factory. CL constructed the factory building which was available for use on 1 October 2020. Due to delay in recruitment of key factory employees, the production activities will commence on 15 March 2021.

The accountant has not recorded the land as it was given free of cost. While the factory building is still appearing in capital work in progress as production activities will commence on 15 March 2021. **(06)**

(ii) CL acquired a three story building on 1 March 2020. CL uses the ground floor for its marketing department while remaining two floors were in excess of CL's need and therefore were rented out. The first floor was rented out on 1 June 2020 and the second floor was rented out on 1 December 2020.

The accountant has recorded the building as property, plant and equipment. The depreciation on ground, first and second floors has been computed from 1 March 2020, 1 June 2020 and 1 December 2020 respectively. **(05)**

(iii) CL is constructing a power generation plant for its factory. The project started on 1 February 2020 and would complete on 30 November 2021. The work remained suspended for 3 months. The project is financed through long term loan, acquired specifically on 1 January 2020. The unutilised amount of loan is kept in a separate saving account.

The accountant has deducted income of separate saving account from full year's interest on loan and presented the net amount as finance cost in the statement of profit or loss. **(05)**

The accounting policy of CL is to carry land and building at fair value (wherever permitted by IFRS).

Required:
Discuss how the above issues should be dealt in the financial statements of CL for the year ended 31 December 2020 in accordance with the requirements of IFRSs.

Q.8 Sputnik Sea Limited (SSL) runs a cruise business across oceans. Following information in respect of one of SSL's cruise ship is available:

(i) SSL bought a cruise ship on 1 March 2018. After completing all the required formalities, the ship was ready to sail on 1 April 2018.

(ii) Details regarding components of the ship are as under:

Component	Cost (Rs. in million)	Useful life	Estimated residual value (Rs. in million)
Engine	840	50,000 hours	40
Body	535	25 years	35
Dry-docking (overhaul)	60	5 years	-

(iii) On 1 May 2019, the ship suffered an accident which damaged its body. Repair work took 2 months and costed Rs. 26 million. The repair work did not change useful life and residual values of the components.

(iv) The average monthly sailing of the ship during the last three years are as under:

Year	Hours
2018	360
2019	480
2020	600

(v) SSL uses revaluation model for subsequent measurement. SSL accounts for revaluation on net replacement value method and transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.

(vi) The revalued amounts of the ship as at 31 December 2019 and 2020 were determined as Rs. 1,400 million and Rs. 1,000 million respectively. Revalued amounts are apportioned between the components on the basis of their book values before the revaluation.

Required:

Prepare necessary journal entries to record the above transaction from the date of acquisition of the ship to the year ended 31 December 2020. **(17)**

(THE END)