CA
PAKISTAN

The Institute of
Chartered Accountants
of Pakistan

2015

FINANCIAL ACCOUNTING AND REPORTING I

QUESTION BANK

CAF-05

Question Bank

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Financial accounting and reporting I

The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

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Contents

Index to questions and answers

Q

Questions

CHAPTER 1 – IAS 2: INVENTORIES

1.1 SHADUR RETAIL

A Shadur Retail has the following purchases and sales of a particular product line.

	Units purchased	Purchase price per unit Rs.000	Units sold	Selling price per unit Rs.000
2 December	100	500	60	530
16 December	60	503	80	528
30 December	70	506	50	526
14 January	50	509	70	524
28 January	80	512	50	522
11 February	40	515	40	520

At 31 December the physical inventory was 150 units. The cost of inventories is determined on a FIFO basis. Selling and distribution costs amount to 5% of selling price and general administration expenses amount to 7% of selling price.

Required:

(a) State any three reasons why the net realisable value of inventory may be less than cost. ***(3)***

(b) Calculate to the nearest Rs.000 the value of inventory at 31 December

(i) at cost

(ii) at net realisable value

(iii) at the amount to be included in the financial statements in accordance with IAS 2 ***(9)***

(12)

1.2 MEASUREMENT OF INVENTORIES

IAS 2 *Inventories* prescribes the accounting treatment for inventories under the historical cost system.

Required:

(a) Briefly explain how IAS 2 requires the following to be dealt with.

(i) Fixed production overheads.

(ii) The determination of the lower of cost and net realisable value.

(iii) The identification of costs when there are large numbers of items which are ordinarily interchangeable. ***(8)***

(b) State four disclosure requirements of IAS 2 in respect of inventories. ***(4)***

(12)

1.3 KHEWRA MANUFACTURING

Khewra Manufacturing was formed on 1 January 2015. The entity manufactures and sells a single product and values it on a first-in, first-out basis.

One tonne of raw material is processed into one tonne of finished goods.

The following details relate to 2015.

Purchases of raw materials

Purchases:	1,000 tonnes of raw materials per week
Price:	Rs.100,000 per tonne on 1 January, increasing to Rs.150,000 per tonne on 1 July
Import duties:	Rs.10,000 per tonne
Transport from docks to factory:	Rs.20,000 per tonne

Production costs

Production capacity:	1,500 tonnes per week
Variable costs:	Rs.25,000 per tonne
Fixed costs:	Rs.30,000,000 per week

Sales details

Selling price:	Rs.240,000 per tonne
Delivery costs to customers:	Rs.8,000 per tonne
Selling costs:	Rs.4,000 per tonne

Inventories at 31 December 2015

Raw materials:	2,000 tonnes
Finished goods:	2,000 tonnes

There is a ready market for raw materials and the NRV of the raw materials is higher than its cost.

Required

Calculate and disclose the value of inventories at 31 December 2015 in accordance with IAS2. ***(10)***

1.4 SUPERIOR ENTERPRISES

Superior Enterprises is engaged in the business of supplying four different products to four different industries. The details relating to the movement of inventory and related expenditures are as follows:

Items	Opening balance		Qty. purchased	Invoice Value	Import Duties		Quantities sold	
	Qty.	Value			Re-fundable	Non-refundable	Qty.	Value
A	30	60,000	360	810,000	120,000	90,000	350	1,015,000
B	60	90,000	780	1,560,000	200,000	150,000	800	2,080,000
C	40	120,000	560	1,820,000	250,000	200,000	580	2,320,000
D	80	200,000	600	1,650,000	-	-	350	1,155,000

The following information is available:

(i) The transportation charges to the company's godown are Rs. 100 per unit.

(ii) The transportation charges from the company's godown to the customers' premises are approximately Rs. 150 per unit.

(iii) 25% of the closing inventory of item A has been damaged due to mishandling and can only be sold at 60% of its selling price.

(iv) A new product has been introduced by a competitor. It is similar to product C and is being marketed at Rs. 3,200 per unit. The management of Superior Enterprises is of the opinion that in future, it will also have to reduce the price of C to Rs. 3,500 per unit.

(v) On October 1, 2015, 200 units of D had been pledged with a bank as security against a short term loan which is repayable on March 31, 2016.

Required:

(a) Compute the value of the inventory as at December 31, 2015, using any of the methods allowed under IAS-2 "Inventories".

(b) List the information that will have to be disclosed in the financial statements, to comply with the requirements of IAS-2 "Inventories". ***(12)***

1.5 INTERNATIONAL ACCOUNTING STANDARDS

Explain the following terms in accordance with the relevant International Accounting Standards (IASs):

(i) Inventories

(ii) Property, Plant and Equipment ***(6)***

1.6 NKL ENTERPRISES

NKL Enterprises produces a single product. On July 31, 2015, the finished goods inventory consisted of 4,000 units valued at Rs. 220 per unit and the inventory of raw materials was worth Rs. 540,000. For the month of August 2015, the books of account show the following:

	Rupees
Raw material purchases	845,000
Direct labour	735,000
Selling costs	248,000
Depreciation on plant and machinery	80,000
Distribution costs	89,560
Factory manager's salary	47,600
Indirect labour	148,000
Indirect material consumed	45,000
Other production overheads	84,000
Other accounting costs	60,540
Other administration overheads	188,600

Other information:

(i) 8,000 units of finished goods were produced during August 2015.

(ii) The value of raw materials on August 31, 2015 amounted to Rs. 600,000.

(iii) There was no work-in-progress at the start of the month. However, on August 31, the value of work-in-progress is approximately Rs. 250,000.

(iv) 5,000 units of finished goods were available in inventory as on August 31, 2015.

Required:

Compute the value of closing inventory of finished goods as on August 31, 2015 based on weighted average cost method. ***(12)***

1.7 FASHION BLUE ENTERPRISES

Fashion Blue Enterprises carries out business of readymade garments through large shops in the major cities of Pakistan.

Its inventory ledger account balance at December 31, 2015 under the perpetual inventory system, was Rs. 73,410,000. The physical count revealed that the cost of inventory on hand was Rs. 71,400,000 only. Its owner Mr. Kaizer expected a small inventory shortfall due to damage and petty theft, but considered this shortfall to be excessive.

On January 5, 2016, Kaizer carried out an investigation and discovered the following:

(i) Goods costing Rs. 300,000 were invoiced to Ebrahim Limited for Rs. 425,000 on December 29, 2015 on FOB basis. The goods were actually despatched to the customer on January 2, 2016.

(ii) Included in the physical count were goods worth Rs. 200,000 which were held on behalf of a third party.

(iii) Goods costing Rs. 410,000 purchased on credit from Mustafa & Co. were received on December 28, 2015 and included in the physical count. However, the purchase had not been recorded.

(iv) On December 23, 2015 goods costing Rs. 400,000 were purchased on credit from Mubina Supplies, Faisalabad. The purchase was recorded on December 27, 2015 i.e. when the goods were lifted by the transport company appointed by Mr. Kaizar, from the warehouse of Mubina Supplies. The goods arrived on January 3, 2016.

(v) List of inventory at a shop situated in Sialkot had been under cast by Rs. 90,000.

(vi) On December 25, 2015 goods costing Rs. 310,000 were sold on credit to Skims Industries for Rs. 500,000. The goods were shipped on December 28, 2015 and were received by the customer on January 2, 2016.

(vii) Goods costing Rs. 2,500,000 had been returned to Ali Garments on December 30, 2015. A credit note was received from the supplier on January 5, 2016 and entered in the books in January 2016. No payment had been made for the goods prior to their return.

(viii) Goods sold to a customer Mr. Saleem were recorded in inventory ledger account at the sale price of Rs. 780,000. The goods were sold at cost plus 30%.

Required:

(a) Reconcile the ledger balance with the physical record to determine the shortage (if any).

(b) Determine the value of inventory that should be recorded in the statements of financial position.

(c) Prepare the adjusting entries that should be recorded in the books of Fashion Blue Enterprises, in December 2015. ***(15)***

1.8 KHAN LIMITED

Khan Limited closes its accounts on June 30 each year. The company was unable to take inventory of physical inventory until July 14, 2015 on which date the physical inventory was valued at Rs. 185,000. The following details are available in respect of the period July 1 to July 14, 2015:

(i) Payments against purchases amounted to Rs. 48,000 and included:

- ❑ Rs. 5,000 in respect of goods received on June 28, 2015;
- ❑ Rs. 6,000 in respect of goods received on July 18, 2015;
- ❑ Rs. 2,000 in respect of goods received and returned to supplier on the same date i.e. July 7, 2015.

(ii) Collection against sales amounted to Rs. 60,000 and included:

- ❑ Rs. 1,500 in respect of goods which left the warehouse on June 29, 2015;
- ❑ Rs. 2,800 in respect of goods which were not dispatched until July 15, 2015;
- ❑ Rs. 760 in respect of goods invoiced and dispatched on July 10, 2015 but returned by the customers on July 12. These were included in the inventory taken on July 14, 2015.

(iii) The rate of gross profit is 25% of selling price.

(iv) Goods costing Rs. 6,000 were purchased on June 28 but remained unpaid till July 24, 2015.

(v) An invoice amounting to Rs. 10,000 was raised on July 9, 2015 but remained uncollected till July 14, 2015.

(vi) An inspection of the inventory count sheets prepared on July 14, 2015 showed that a page total of Rs. 5,000 had been carried to the summary as Rs. 6,000. In addition, the total of another page had been undercast by Rs. 200.

(vii) Included in the physical count were goods costing Rs. 2,200 which were held on behalf of a supplier.

Required:

Determine the amount of inventory required to be disclosed in the financial statements as at June 30, 2015. ***(15)***

1.9 MUGHAL TRADING CORPORATION

(a) On 1 January 2016, a company held 300 units of an item of finished goods inventory. These were valued at Rs. 22 each. During January 2016 three batches of finished goods were received into store from the production department, as follows:

Date	Units	Production cost per unit
	Received	Rupees
10-Jan	400	Rs. 23
20-Jan	400	Rs. 25
25-Jan	400	Rs. 26

Goods sold out of the inventory during January 2016 were as follows:

Date	Units sold	Sale price per unit
		Rupees
14-Jan	500	Rs. 31
21-Jan	500	Rs. 33
28-Jan	100	Rs. 32

Required:

Compute the cost of sales and inventory at 31 January 2016, applying the following basis of inventory valuation:

(i) FIFO

(ii) Weighted Average Cost (Average is updated after every transaction). ***(9)***

(b) The cost of inventory of Mughal Trading Corporation (MTC) based on inventory count carried out on 17 January 2016 was Rs. 675,000. These included goods costing Rs. 15,000 which were purchased in December 2015 and have a net realisable value of Rs. 12,000.

During the period between 31 December 2015 and 17 January 2016, following transactions took place:

(i) Value of goods purchased amounted to Rs. 155,710.

(ii) Sale of goods amounted to Rs. 250,000. MTC normally sells goods at a mark-up of 25% of cost. However, 20% of the sales were made at a discount of 8% of the normal selling price.

(iii) Goods costing Rs. 1990 were returned to a supplier

(iv) Goods sold to a customer on 4 January 2016 were returned on 15 January 2016.

Calculate the value of inventories that should be reported in the financial statements of MTC as at 31 December 2015. ***(6)***

(c) Which of the following items may be included in computing the value of inventory of finished goods manufactured by a business:

(i) raw materials

(ii) foremen's salaries

(iii) carriage inwards

(iv) carriage outwards

(v) plant depreciation

(vi) cost of storage of finished goods

(vii) abnormal waste of materials

(viii) salesmen's commission ***(2)***

(d) What will be the effect of the following on cost of sales, profit and inventory:

(i) if in times of rising prices , the valuation of inventory is done on the basis of FIFO as opposed to weighted average cost method?

(ii) if an item of inventory having cost of Rs. 69,300 and net realisable value of Rs. 65,000 is omitted from original inventory count? ***(3)***

1.10 AFRIDI

Afridi does not keep perpetual records of inventory. At the end of each quarter, the value of inventory is determined through physical inventory. However, the record of inventory taken on 31 March 2015 was destroyed in an accident and Afridi has extracted the following information for the purpose of inventory valuation:

(i) Invoices entered in the purchase day book, during the quarter, totalled Rs. 138,560 of which Rs. 28,000 related to the goods received on or before 31 December 2014. Invoices entered in April 2015 relating to goods received in March 2015 amount to Rs. 37,000.

(ii) Sales invoiced to customers amounted to Rs. 151,073 of which Rs. 38,240 related to goods dispatched on or before 31 December 2014. Goods dispatched to customers before 31 March 2015 but invoiced in April 2015 amounted to Rs. 25,421.

(iii) Credit notes of Rs. 12,800 had been issued to customers in respect of goods returned during the period.

(iv) Purchases included Rs. 2,200 spent on acquisition of a ceiling fan for the shop.

(v) A sale invoice of Rs. 5,760 had been recorded twice in the sales day book.

(vi) Goods having sale value of Rs. 2,100 were given by way of charity.

(vii) Afridi normally sells goods at a margin of 20% on cost. However, he had allowed a special discount of 10% on goods costing Rs. 6,000 which were sold on 15 February 2015.

(viii) On 31 December 2014, the inventory was valued at Rs. 140,525. However, while reviewing these inventory sheets on 31 March 2015 the following discrepancies were found:

(a) A page total of Rs. 15,059 had been carried to the summary as Rs. 25,059.

(b) 1,000 items costing Rs. 10 each had been valued at Rs. 0.50 each.

Required:

Calculate the amount of inventory in hand as on 31 March 2015. ***(14)***

1.11 SUN SOYA OIL & COMPANY

Sun Soya Oil & Company is a wholesaler of cooking oil. Due to an emergency, its annual inventory taking was delayed till 3 July 2015, on which date the physical inventory was valued at Rs. 24 million.

An examination of the related records disclosed that the following events took place on 1st and 2nd July, 2015:

(a) Sales invoices amounting to Rs. 4 million were issued. These included invoices amounting to:

- Rs. 200,000 in respect of oil which was dispatched on 29 June 2015 but had not been invoiced.
- Rs. 400,000 in respect of oil not dispatched until 5 July 2015 and;
- Rs. 200,000 in respect of oil on sale or return basis.
- The average rate of gross profit is $33^1/_3$ % of cost.

(b) Returns from customers totalled Rs. 600,000.

(c) Purchase invoices amounting to Rs. 1.8 million were received. These included invoices worth:

- Rs. 600,000 for oil received in June 2015, and;
- Rs. 300,000 for oil received on 7 July 2015.

(d) Purchase returns totalled Rs. 400,000.

A review of the records also disclosed the following errors:

- Inventories lying in Abbotabad were not included in the physical count. The cost of such inventory on 30 June 2014 and 3 July 2015 was Rs. 0.5 million and Rs. 3 million respectively.
- An arithmetical error in the inventory sheets on 3 July 2015 resulted in an overvaluation of Rs. 450,000.

Required:

Prepare a statement showing the correct amount of the inventory as on 30 June 2015.

(10)

CHAPTER 2 – IAS 16: PROPERTY, PLANT AND EQUIPMENT

2.1 SUNDRY QUESTIONS

1 A company purchased some heavy machinery. The invoice for the machinery showed the following items:

	Rs.000
Cost of machinery	46,000
Cost of delivery	900
Cost of 12-month warranty on the machinery	1,600
Total amount payable	48,500

In addition, the company incurred Rs.3.4 million in making modifications to its factory so that the heavy machinery could be installed.

What should be the cost of the machinery in the company's machinery account in the ledger? ***(3)***

2 A business acquired new premises at a cost of Rs.400 million on 1 January 2015. In the period to the year end of 31 March 2015 the following further costs were incurred.

	Rs.000
Costs of initial adaptation of the building	12,000
Legal costs relating to the purchase	2,500
Monthly cleaning contract	3,400
Cost of air conditioning unit necessary for machinery to be used	2,800
Cost of machinery	12,300

What amount should appear as the cost of premises in the company's statement of financial position at 31 March 2015? ***(4)***

3 The plant and machinery account for a company for the year ended 30 June 2015 is as follows.

Plant and machinery account

2014		Rs.	2015		Rs.
1 July	Balance	960,000	31 March	Transfer to disposal account	80,000
31 Dec	Cash: purchase of machines	200,000	30 June	Balance	1,080,000
		1,160,000			1,160,000

The company's policy is to charge depreciation on plant and machinery at 25% each year on the straight-line basis, with proportionate charges in the year of acquisition and the year of disposal. None of the assets held at 1 July 2014 was more than three years old.

What is the charge for depreciation of plant and machinery for the year ended 30 June 2015? ***(5)***

4 A motor car was purchased in May 2012 for Rs.7.8 million. The accounting policy is depreciation at 20% straight line on the cost of the assets in use at the year end. The car was traded in for a replacement vehicle purchased in July 2015 with the agreed part exchange value being Rs.2.4 million. The company's year-end is 31 December.

What was the profit or loss on disposal? ***(4)***

5 A business purchased some land and buildings on 1 January 2011 for Rs.800 million (land Rs.250 million and buildings Rs.550 million). The buildings are to be depreciated over a period of 50 years.

On 1 January 2015 the land and buildings were revalued to Rs.1,500 million (land Rs.400 million and buildings Rs.1,100 million). At this date the buildings were believed to have a remaining useful life of 40 years.

What is the original depreciation charge for the buildings and the revised charge from 1 January 2015? ***(4)***

6 A business purchased land for Rs.250 million and buildings for Rs.400 million on 1 January 2011. The buildings were to be depreciated over a period of 50 years. On 1 January 2015 the land was revalued to Rs.520 million and the buildings were revalued at Rs.750 million.

What amount is to be taken to the revaluation reserve on 1 January 2015? ***(5)***

2.2 LAHORE MOTORS LIMTED

Lahore Motors Limited leases second-hand German sports cars, generally a standard model. It started business on 1 January 2012 and has decided to depreciate the cars on a straight line basis at 25% per annum on cost at the year-end. During the years 2012 to 2015 the following purchases and sales of cars took place.

2012	Acquired 20 Porsche 924 Turbos at a cost of Rs.18.6 million each
2013	Purchased 6 Porsches for a total cost of Rs.108.6 million.
2014	Traded-in two of the cars acquired in 2012 and received an allowance of Rs.9 million each which was set against the purchase of a further two cars costing Rs.19.8 million each
2015	Replaced 15 cars purchased in 2012 with another 15, each of which cost Rs.21 million. A trade-in allowance totalling Rs.48 million was received

Lahore Motors Limted prepares accounts to 31 December each year.

Required:

Prepare a vehicle account, a provision for depreciation account, a depreciation account and a disposals account for the years 2012 to 2015. ***(10)***

2.3 MB LIMITED

MB Company bought an asset on 24 July 2012 at a cost of Rs.180 million. The asset had an expected useful life of 10 years and an expected residual value of Rs.20 million. The company applies straight-line depreciation to this category of non-current assets. It also charges a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. Its financial year ends on 31 December.

At 31 December 2013, the company re-valued the asset to Rs.240 million. Its expected remaining useful life is now 8 years, but its expected residual value is zero.

Required

(a) Show in T account format the book-keeping entries required to record the revaluation of the asset on 31 December 2013.

(b) The asset was sold on 12 February 2015 for Rs.225 million. Calculate the gain or loss on disposal reported in the statement of comprehensive income for 2015, and show the total effect of the disposal on the retained earnings of the company. Ignore taxation.

(10)

2.4 CHINIOT TRUCKING LIMITED

Chiniot Trucking Limited is a haulage contractor. At 1 May 2014 the company had three lorries, details of which are as follows:

Lorry registration number	Date purchased	Cost
		Rs.000
BOW 1	1 July 2011	16,000
COW 2	1 February 2013	21,000
DOW 3	1 April 2014	31,000

During the year to 30 April 2015, the following lorry transactions took place:

(a) BOW 1 was sold on 31 July 2014 for Rs.3 million on cash terms. On 1 August 2014 Chiniot Trucking Limited replaced it with a new lorry, registration number FOW 4 for which he paid Rs.35 million in cash.

(b) On 1 December 2014, the new lorry (FOW 4) was involved in a major accident, and as a result was completely written off. The company was able to agree a claim with his insurance company, and on 31 December 2014 he received Rs.30 million from the insurance company. On 1 January 2015 he bought another lorry (registration number HOW5) for Rs.41 million.

(c) During March 2015, the company decided to replace the lorry bought on 1 April 2014 (registration number DOW 3) with a new lorry. It was delivered on 1 April 2015 (registration number JOW 6). The company agreed a purchase price of Rs.26 million for the new lorry, the terms of which were Rs.20 million in part-exchange for the old lorry and the balance to be paid immediately in cash.

Notes:

(1) Chiniot Trucking Limited uses the straight-line method of depreciation.

(2) The lorries are depreciated over a five-year period by which time they are assumed to have an exchange value of Rs.1 million each.

(3) A full year's depreciation is charged in the year of acquisition, but no depreciation is charged if a lorry is bought and sold or otherwise disposed of within the same financial year.

(4) Chiniot Trucking Limited does not keep separate ledger accounts for each individual lorry.

Required

(a) Write up the following accounts for the year to 30 April 2015:

(i) lorries account

(ii) lorries disposal account

(iii) allowance for depreciation on lorries account.

(b) Show how the lorries account and the allowance for depreciation account would be presented in Chiniot Trucking Limited's statement of financial position as at 30 April 2015.

(10)

2.5 ASLAM, BASHIR & COMPANY

The accountant of Aslam, Bashir & Company, a partnership concern, has finalised the draft financial statements for the year ended June 30, 2015. Mr Bashir is not satisfied with the non-current assets reported in the above financial statements and have asked you to review the same.

The details of non-current assets appearing in the financial statements are as follows:

	Useful life (years)	Cost (Rs.)		Accumulated depreciation (Rs.)	
		2015	**2014**	**2015**	**2014**
Land		5,000,000	5,000,000	-	-
Building	20	7,250,000	7,000,000	4,562,500	4,200,000
Plant & Machinery	15	11,910,000	10,000,000	3,994,000	3,200,000
Furniture & Fixtures	10	3,075,000	3,000,000	2,257,500	1,950,000

Depreciation is provided on straight line basis from the date of purchase to the date of sale.

An analysis of the working papers has revealed that the details of additions/deletions to non-current assets are as follows:

(i) In January 2015, Rs. 200,000 were spent on the extension of the underground water tank and Rs. 50,000 were spent on fumigation of the entire building.

(ii) On March 31, 2015 a generator which had completed five years of its life was replaced by another generator. The cost of new generator was Rs. 2,000,000 whereas the supplier allowed 10% of the cost of the old generator as trade-in-allowance. As a result, the company made a payment of Rs. 1,910,000 only.

(iii) On July 1, 2014 fully depreciated furniture costing Rs. 400,000 was repaired at a cost of Rs. 75,000. It is expected that the repairs would allow the furniture to be used for the next five years.

Required:

Prepare necessary journal entries to record the required corrections. ***(16)***

2.6 AZFAR AND COMPANY

The written down value of plant and machinery of Azfar and Company as at 30 June 2015 is Rs. 831,128.

Following additional information is also available:

(i) On 1 July 2011, second-hand machinery was purchased for Rs. 300,000. An amount of Rs. 200,000 was spent on its overhauling, before use.

(ii) On 1 January 2012 machinery costing Rs. 250,000 was purchased.

(iii) The machinery purchased on 1 July 2011 became obsolete and was sold for Rs. 100,000 on 1 January 2014. On the same date, new machinery was purchased at a cost of Rs. 600,000.

(iv) Machinery purchased on 1 January 2012 was sold on 30 June 2015 at its book value plus Rs. 50,000.

Azfar and Company provides depreciation on machinery @ 15% on written down value. Depreciation on addition / deletion is provided in proportion to the period of use.

Required:

(a) Machinery Account from 1 July 2013 to 30 June 2015

(b) Machinery Disposal Account for the years ended 30 June 2014 and 2015 ***(22)***

2.7 NAVEED ENTERPRISES

Naveed Enterprises commenced business on 01 July 2012. Certain information about their vehicles, for the years ended 30 June 2014 and 2015 can be ascertained from the following ledger accounts:

Accumulated depreciation on vehicles All amount in Rupees

28-02-12	Vehicle disposal account	435,467	01-07-11	Balance b/d	1,360,000
30-06-12	Balance c/d	2,160,800	30-06-12	Dep. for the year	1,236,267
		2,596,267			2,596,267
30-04-13	Vehicle disposal account	560,000	01-07-12	Balance b/d	2,160,800
30-06-13	Balance c/d	3,025,040	30-06-13	Dep. for the year	1,424,240
		3,585,040			3,585,040

Vehicle disposal account All amount in Rupees

28-02-12	Cost at 01-07-2012	1,420,000	28-02-12	Accumulated Dep.	435,467
28-02-12	Profit on disposal	165,467	28-02-12	Cash received	1,150,000
		1,585,467			1,585,467
30-04-13	Cost at 01-07-2012	1,200,000	30-04-13	Accumulated Dep	. 560,000
			30-04-13	Cash received	500,000
			30-04-13	Loss on disposal	140,000
		1,200,000			1,200,000

Following further information is available in respect of the vehicles for the last three years **(01-07-2012 to 30-06-2015):**

(i) Depreciation is being provided at the rate of 20% per annum on diminishing balance method.

(ii) Accumulated depreciation brought down on 1 July 2013 represents depreciation for the whole year on vehicles bought on 1 July 2012.

(iii) Two vehicles were purchased on 1 November 2013 and 1 September 2014.

Required:

Prepare Vehicles (Asset) Account for the years ended 30 June 2014 and 2015. ***(13)***

2.8 MJ ENTERPRISES

The following information is available in respect of non-current assets of MJ Enterprises (MJE):

(i) The opening balances of cost and accumulated depreciation of non-current assets as on January 1, 2015 were Rs. 100,000 and Rs. 33,000 respectively.

(ii) Assets costing Rs. 20,000 were acquired on July 1, 2014. The remaining non-current assets were acquired when MJE commenced business on January 1, 2011. There were no disposals of non-current assets up to January 1, 2015.

(iii) MJE provides for depreciation on the cost of assets at the rate of 10% per annum using the straight line basis. Depreciation is calculated on a monthly basis.

(iv) Assets acquired on January 1, 2011 whose net book value on June 30, 2015 was Rs. 2,750 were sold for Rs. 1,500.

(v) On July 1, 2015, an asset which was acquired at a cost of Rs. 2,000 when MJE commenced business, was exchanged for a new asset. The balance of the purchase price was settled with a cheque for Rs. 800. The list price of the new asset was Rs. 1,200.

(vi) On October 1, 2015 MJE transferred to its factory an asset which had been included in its trading inventory and which bore a price label of Rs. 15,400 in the showroom. MJE makes a gross profit of 40% of cost, on sale of such assets.

Required:

Prepare the following ledger accounts for the year ended December 31, 2015:

(a) Non-current assets

(b) Accumulated depreciation

(c) Profit/loss on sale of non-current assets ***(9)***

2.9 ZIAKOT STEEL WORKS

Ziakot Steel Works, a sole proprietorship, provides depreciation on plant and machinery at 20% per annum on diminishing balance method.

On July 1, 2014 the balances in the plant and machinery and accumulated depreciation accounts were Rs. 712,000 and Rs. 240,000 respectively.

Depreciation is provided from the month of purchase till the month of disposal.

It was discovered during 2014-2015 that:

(a) Rs. 25,000 being ordinary repairs to machinery, incurred on October 1, 2012 had been capitalised incorrectly.

(b) A machine which was purchased on January 1, 2012 for Rs. 100,000 was traded-in, on March 31, 2014 for a new and more sophisticated machine. The disposal was not recorded and the new machine was capitalised at Rs. 120,000 being the net amount paid to the supplier. The trade-in allowance amounted to Rs. 50,000.

It was decided to correct the above mistakes while finalising the accounts for the year ended June 30, 2015.

Only one machine was purchased during the year ended June 30, 2015 costing Rs. 60,000. The machine was received in the factory on October 1, 2014 and was installed on January 1, 2015.

Required

Plant and machinery account and accumulated depreciation account for the year ended June 30, 2015. (Show all workings) ***(15)***

CHAPTER 3 – IAS 18: REVENUE

3.1 AYUB

The following information relates to the financial statements of Ayub for the year to 31 March 2015.

Ayub has a division that sells capital equipment to companies across Europe. On 27 March 2015 a machine costing Rs.1million, was shipped to a customer. An invoice for Rs.1.4 million was raised the same day and recorded as revenue in the financial statements. The machine could not be operated until a major on-site installation process and safety inspections were completed by Ayub on 14 April 2015.***)***

Required

Explain the correct accounting treatment for the above (with calculations if appropriate). ***(4)***

3.2 SALE OF GOODS AND LEISURE FACILITIES

"Revenue is the gross inflow of economic benefits arising in the course of ordinary activities when those inflows result in increases is equity, other than increases relating to contributions from equity participants."

IAS 18 *Revenue* should be applied to revenue arising from the sale of goods, the rendering of services and the use by others of enterprise assets.

Required:

(a) State the criteria which must be met before revenue is recognised in respect of the sale of goods. **(5)**

(b) An enterprise provides sports and leisure facilities. It charges a fixed annual subscription, payable by advance, which entitles members to use most of the facilities of the enterprise (eg gym, swimming pool). Additional fees are payable for specific activities (eg sauna, squash courts) as used.

Describe how the enterprise should recognise revenue from membership subscriptions and additional activities. ***(7)***

(12)

3.3 DAWOOD

Dawood manufactures and sells machines. Customers are required to pay a deposit of 10% on order. The remaining 90% is paid on delivery.

Machines are delivered to customers by a third party. Within one week after delivery, Dawood's employees install the machines on customers' premises. Installation costs are negligible and installation is straightforward.

Fees for after sales support and servicing for three years, amounting to 5% of the total sales price, are included in the final invoice.

Required

Using the sale of a single machine with a selling price of Rs.100,000 as an example, state how the above should be treated in accordance with IAS 18. ***(8)***

3.4 PARVEZ

The following transactions took place at Parvez in the year ended 31 March 2015.

(1) On 5 March Parvez sold goods to a bank for Rs.18m cash and agreed to repurchase the goods for Rs.20m cash on 5 April 2015.

(2) On 31 March Parvez's car manufacturing division consigned several vehicles to independent dealers for sale to third parties. The sales price to the dealer is Parvez's list price at the date of sale to third parties. If a vehicle is unsold after six months, the dealer has a right to return the vehicle to Parvez.

Required

Discuss how the above transactions should be accounted for in the financial statements of Parvez for the year ended 31 March 2015. ***(8)***

3.5 SCANTECH LIMITED

Scantech Limited is a recently incorporated company. Its business is the development of standard computer software packages, the sale or "licensing to use" of standard or customised standard software packages and the design, development and maintenance of bespoke software to order. Payment by customers is usually in stages over the term of the design-development work. More recently, Scantech Limited has commenced the retailing of computer hardware.

Scantech Limited has also developed a prototype "retail shop" which will aim to sell computer time (on PCs) - customers will be able to visit the "shop" and use either their own or Scantech Limited's software to process data, etc. It is Scantech Limited's aim to establish a nation-wide chain of such shops by licensing interested entrepreneurs to use the concept and benefit from Scantech Limited's nation-wide advertising campaign. Scantech Limited will supply, in addition to know how and advertising, administrative back up, software and hardware.

Scantech Limited is considering alternative methods of charging the independent proprietors of shops, including:

(a) an upfront license fee followed by regular fees based on turnover of the shops; or

(b) no upfront payment but regular fees based on a larger percentage of turnover of the shops.

Software and hardware supplied by Scantech Limited will be charged on delivery at normal selling prices.

Required

Explain the considerations to be taken into account in determining a policy for accounting for revenue from:

(i) the design and sale of software and the retailing of hardware; ***(6)***

(ii) the proposed retail shop licensing operation. ***(6)***

3.6 ISLAMABAD TELEVISUAL INDUSTRIES

Islamabad Televisual Industries (ITI), a public listed company, is preparing its accounts for the year ended 30 September 2015. In May 2015 it bought the rights to a film called 'Wind of Change'. It paid a fixed fee and will not incur any further significant costs or commissions. It has entered into three contracts as follows:

(i) Warmer Cinemas: This is a large company with a chain of cinemas throughout the world. Warmer Cinemas has negotiated the right to screen the film during the period from 1 July 2015 to 31 December 2015 in as many of its cinemas and as frequently as it chooses. ITI will be paid 15% of gross box office receipts.

(ii) Big Screen: This is a small company operating a single cinema. Under the terms of the contract it may screen the film twice a day for the same period as the above contract. It has paid a fixed fee of Rs.10 million.

(iii) Global Satellite: This is a satellite television company that broadcasts to South East Asia. It paid Rs.40 million in August 2015 for the right to screen the film 10 times at intervals of not less than one month apart during the period from 1 January 2016 to 31 December 2016.

Required

Applying the recommendations in the Framework and IAS 18 'Revenue' describe how ITI should treat the income from each of the above contracts in the accounting year ended 30 September 2015. ***(6)***

3.7 CROWN ENTERPRISE

Crown Enterprise (Private) Limited (CEPL) is a supplier of specialised machines. Being the first year of its operations, it is unsure about accounting treatment of the following transactions:

(a) CEPL sold a machine at a markup of 20% for Rs. 150,000. Such machines carry a 12 month warranty in terms of which defective machines are repaired or replaced free of cost. Based on past experience, the manufacturer of the machine has informed that 3% machines need repairs and average repair cost is Rs. 10,000 per machine.

(b) A specialised machine was supplied to a manufacturing company. According to the terms of sale, CEPL is responsible for installation of the machine and the customer will make the payment after the machine has been satisfactorily installed.

(c) CEPL sold a machine on credit to MOO Limited which expects to finalise a contract for providing maintenance facilities to a large textile mill. CEPL has agreed that the machine may be returned if MOO Limited fails to secure the maintenance contract.

(d) A machine was sold on a lay away basis i.e. the purchaser will be entitled to take possession of the machine after payment of final instalment. Out of a total of seven instalments two had been received so far.

Required:

Discuss when it will be appropriate for Crown Enterprise (Private) Limited to recognise revenue in each of the above situation. ***(12)***

3.8 SUNSHINE EDUCATION SYSTEMS

Sunshine Education Systems (SES) has a network of schools in major cities of Pakistan. It has entered into a franchise agreement with Neptune Schooling Systems (NSS). SES would charge franchise fee of Rs. 9 million. Of this amount, Rs. 1.8 million is payable at the time of signing the agreement and the balance in four annual installments of Rs. 1.8 million each.

In return, SES would provide the following services/benefits:

- Allow NSS to use SES's brand name.
- Offer expert advice in selecting the location for the schools, selection of teachers, management training and quality control.
- Provide initial set up comprising of books, unlimited access to teachers' resources available on the SES's website, etc. at a discount of 20%. Generally, SES provides these rights to non- franchisee at a cost of Rs. 1.2 million.
- Carry out promotional activities for the benefit of NSS during the next five years at Rs. 9,000 per month which is included in the franchise fee.

It is the policy of SES to charge Rs. 7,500,180 from those franchisees who opt to pay the full amount upfront, which is the present value of five installments discounted at the rate of 10%.

Required:

Suggest the journal entry in the books of SES at the time of signing of the agreement, under each of the following situations:

(a) The collectability of the future installments is reasonably assured and significant portion of the services have already been performed.

(b) Substantial portion of services are yet to be performed and collectability of future installments is very uncertain. However, down payment has been received and is not refundable. ***(08)***

3.9 BRILLIANT LIMITED

(a) On 1 July 2015, Brilliant Limited, an importer of textile machinery, sold a machine costing Rs. 3.6 million to its regular customer Superb Textile Mills Limited. The details of the transaction are as follows:

- Delivery of the machine was made on 5 July 2015.
- Cash price before trade discount was Rs. 4.8 million.
- Trade discount amounted to Rs. 0.8 million.
- The agreed price is payable in three annual instalments as follows:

30 June 2016	Rs. 0.4 million
30 June 2017	Rs. 0.4 million
30 June 2018	Rs. 4.8 million

Required:

Discuss the recognition and measurement of revenue from the above transaction.

(Calculations are not required) ***(07)***

(b) Splendid Limited (SL) publishes a local language newspaper which is distributed through agencies in small cities and towns. The demand for newspapers is quite volatile. Agencies return the unsold newspapers to SL at the end of a particular month for refund/credit.

Required:

Discuss when it would be appropriate for SL to recognise revenue from sale of newspapers. ***(04)***

(c) During the year ended 30 June 2015, Fabulous Enterprise (FE), a construction company, signed an agreement with a highly reputed multinational organization for scraping and re-plastering of 10 buildings for a total contract price of Rs. 22 million.

At the time of signing of the agreement, FE had estimated the total contract cost at Rs. 16 million.

Up to 30 June 2015, scarping and re-plastering of 6 buildings had been completed. The cost incurred up to year end amounted to Rs. 10 million whereas the remaining costs were estimated at Rs. 7 million.

Required:

(i) Explain how would you decide whether Fabulous Enterprise may recognise any revenue in the financial statements for the year ended 30 June 2015.

(ii) Assuming that the answer to (i) above is in the affirmative, describe the basis of recording such revenue. ***(07)***

CHAPTER 4 – PREPARATION OF FINANCIAL STATEMENTS

4.1 SAGODHA SPICES LIMITED

The following trial balance has been extracted from the books of account of Sagodha Spices Limited, a limited liability company, at 31 March 2015.

	Rs. 000	Rs. 000
Administrative expenses	210	
Share capital (ordinary shares of Rs.1 fully paid)		600
Trade receivables	470	
Bank overdraft		80
Income tax (overprovision in 2014)		25
Retirement benefit liability		180
Distribution costs	420	
Non-current asset investments	560	
Investment income		75
Plant and equipment		
At cost	750	
Accumulated depreciation (at 31 March 2015)		220
Accumulated profit (at 1 April 2014)		240
Purchases	960	
Inventories (at 1 April 2014)	140	
Trade payables		260
Revenue		1,950
Dividend paid	120	
	3,630	3,630

Additional information

(1) Inventories at 31 March 2015 were valued at Rs.150,000.

(2) The following items are already included in the balances listed in the above trial balance.

	Distribution costs Rs.000	Administrative expenses Rs.000
Depreciation (for year to 31 March 2015)	27	5
Hire of plant and machinery	20	15
Auditors' remuneration	–	30

(3) The income tax expense based on the profit on ordinary activities is estimated to be Rs.54,000.

(4) The retirement benefit liability is to be increased by Rs.16,000. The increase should be charged to administrative expenses. No retirement benefits are expected to be paid for the foreseeable future.

Required:

Prepare the company's statement of comprehensive income for the year to 31 March 2015 and a statement of financial position at that date in accordance with IAS 1 *Presentation of Financial Statements.* ***(20)***

4.2 KASUR CHEMICALS LIMITED

The list of balances of Kasur Chemicals Limited shows the following balances at 31 December 2015.

	Dr Rs.000	*Cr* Rs.000
Share capital (600,000 shares)		300
Share premium		20
Revaluation reserve		20
Accumulated profit 1 January 2015		40
Inventory (goods for resale) at 1 January 2015	60	
Revenue		1,000
Purchases	540	
Purchases returns		26
Sales returns	28	
Carriage outwards	28	
Warehouse wages	80	
Sales representatives salaries	60	
Administrative wages	40	
Warehouse plant and equipment – cost	126	
Accumulated depreciation – 1 January 2015		50
Delivery vehicle hire	20	
Goodwill	90	
Distribution expenses	10	
Administrative expenses	30	
Directors' salaries (charge to administrative expenses)	30	
Rental income		16
Trade receivables	330	
Cash at bank	60	
Trade payables		60
	1,532	1,532

Additional information

(1) Inventory (goods for resale) at 31 December 2015 amounted to Rs.100,000.

(2) Annual depreciation on warehouse plant and equipment of Rs.32,000 should be provided.

(3) Income tax for 2015 should be taken as Rs.50,000.

Required:

Prepare the company's statement of comprehensive income for the year to 31 December 2015 and a statement of financial position at that date in accordance with IAS 1 *Presentation of Financial Statements.* ***(20)***

4.3 OKARA HAIR PRODUCTS LIMITED

The following draft statement of comprehensive income has been prepared for Okara Hair Products Limited for the year ended 30 June 2015.

	Rs.000		Rs.000
Opening inventory	78	Sales	2,282
Purchases	1,055	Sales returns	(66)
Purchase returns	(25)		
Gross profit c/d	1,170	Closing inventory	62
	2,278		2,278
Wages and salaries	160	Gross profit b/d	1,170
Office expenses	236	Dividends received	20
Depreciation:			
Plant and machinery	84		
Delivery vans	48		
Office furniture	17		
Directors' salaries	163		
Selling expenses	95		
Rent of plant and machinery	21		
Factory expenses	109		
Legal expenses	25		
Interest charges	70		
Net profit c/d	162		
	1,190		1,190
Taxation on profits	54	Net profit b/d	162
Net profit after tax	116	Tax over-provided in the previous year	8
	170		170

Additional information:

(1) Directors' salaries are classified as administrative expenses.

(2) Other wages and salaries are apportioned 70% to distribution costs and 30% to administrative expenses.

(3) Okara Hair Products Limited analyses expenses by function.

Required

Prepare the company's statement of comprehensive income for the year to 30 June 2015 in accordance with IAS 1 *Presentation of Financial Statements.* ***(20)***

4.4 THATTA TOURS LIMITED

The trial balance of Thatta Tours Limited as at 31 December 2015 is as follows:

	DR	CR
	Rs.000	Rs.000
Ordinary share capital (Rs.1 shares)		980
Cash at bank	23	
Tax (over-provision in 2014)		25
10% loan notes (repayable in 2020)		300
General administrative expenses	46	
Administrative salaries	24	
General distribution expenses	25	
Distribution salaries	10	
Directors' remuneration	35	
Loan notes interest paid	15	
Development costs (incurred on 31 Dec. 2015)	30	
Dividend paid	30	
Dividends received		20
Investments	45	
Land and buildings – at cost	4,200	
– accumulated depreciation at 1 January 2015		2,600
Plant and machinery – at cost	200	
– accumulated depreciation at 1 January 2015		75
Retained earnings at 1 January 2015		64
Purchases and sales	405	920
Profit on disposal of factory		60
Trade receivables and trade payables	16	100
Inventory at 1 January 2015	35	
Bad debts	5	
	5,144	5,144

Additional information:

(1) Closing inventory is valued at the lower of cost or net realisable value. At 31 December 2015 it amounted to Rs.55,000.

(2) Non-current assets are depreciated on a straight-line basis assuming no residual value. The following depreciation rates are to be applied:

Buildings	5%
Plant and machinery	20%

The depreciation charge for the year is to be apportioned as follows:

	Distribution costs	Administrative expenses
Buildings	70%	30%
Plant and machinery	75%	25%

The cost of the land was Rs.3,200,000. There were no purchases or sales of non-current assets during the year.

(3) Development costs are an intangible asset and are to be amortised (depreciated) over a three-year period. The amortisation (depreciation) charge is to be allocated to cost of sales.

(4) The profit (after tax) on disposal of the factory is considered to be material amount for which separate disclosure is required.

(5) Tax on the profits for the year is estimated at Rs.95,000.

(6) Directors' remuneration is to be analysed between distribution costs and administrative expenses as follows:

Distribution	Rs.15,000
Administration	Rs.20,000

Required

Prepare the company's statement of comprehensive income for the year ended 31 December 2015 and statement of financial position as at 31 December 2015. ***(25)***

4.5 BSZ LIMITED

The chief accountant at BSZ Limited left the company suddenly for urgent family reasons part way through the year end adjustment process.

The following trial balance has been extracted after some of the closing adjustments but before others for the year ended 30 June, 2015:

	Dr. Rs. m	Cr. Rs. m
Cash at bank	29	
Inventories (closing)	90	
Accounts receivable	60	
Provision for bad debts as at 1 July 2014		1
Advances to suppliers	16	
Advances to staff	6	
Short term deposits	11	
Prepayments	16	
Property, plant and equipment – cost		
Freehold land and buildings	405	
Furniture and fixtures	27	
Machines	85	
Computer equipment	10	
Accumulated depreciation as at 1 July 2014		
Building		26
Machines		27
Furniture and fixtures		8
Computer equipment		2
Short term loan		114
Accounts payable		75
Accrued liabilities		7
Taxation liability		17
Share capital		400
Accumulated profits		65
Suspense account		13
	755	755

Additional Information:

(i) The depreciation charge for the year has not yet been calculated. The company uses the straight line method for charging depreciation. The building is depreciated at a rate of 5% whereas 10% is charged on machines, furniture and fixtures and computer equipment.

(ii) The land element of "freehold land and buildings" cost Rs. 255 million. This is to be revalued upwards by Rs. 120 million.

(iii) The buildings element of "freehold land and buildings" includes costs associated with the construction of an extension to the building. Construction of the extension commenced on 1 March 2015 and is expected to be completed on 30 September 2015. The cost incurred during the year i.e. Rs. 20 million was capitalised on 30 June 2015.

(iv) The cost of furniture and fixtures includes additions of Rs. 8 million made on 1 April 2015.

(v) A machine was sold on 28 February 2015 at a price of Rs. 13 million. The machine cost Rs. 15 million. The accumulated depreciation on this machine as at 1 July 2014 was Rs. 4 million. The only entry made so far has been to credit the sale proceeds to a suspense account.

(vi) 5% of the receivables are considered doubtful.

(vii) Advances given to suppliers include an amount of Rs. 4.0 million paid for goods which will be supplied on 31 December 2017.

Required:

Prepare the statement of financial position as at 30 June 2015. ***(20)***

4.6 YASIR INDUSTRIES LIMITED

The following trial balance related to Yasir Industries Limited (YIL) for the year ended June 30, 2015:

	Dr Rs. m	Cr Rs. m
Share capital	-	120.00
Retained earnings	-	10.20
Sales	-	478.40
Purchases	175.70	-
Production labour	61.00	
Manufacturing overheads	39.00	
Inventories (July 1, 2014)	38.90	
Administrative expenses	40.00	-
Distribution expenses	19.80	-
Financial charges	0.30	-
Cash and bank	-	13.25
Trade creditors	-	30.40
Accrued expenses	-	16.20
Loan	-	120.00
Suspense account	30.00	-
Leasehold property - at cost	230.00	-
Machines – at cost	168.60	-
Software – at cost	20.00	-
Acc. depreciation – Leasehold property (June 30, 2015)	-	40.25
Acc. depreciation – Machines (June 30, 2015)	-	48.60
Acc. amortization – Software (June 30, 2015)	-	12.00
Trade receivables	66.00	-
	889.30	889.30

Additional Information:

(i) Sales include an amount of Rs. 27 million, made to a customer under sale or return agreement. The sale has been made at cost plus 20% and the expiry date for the return of these goods is July 31, 2015.

(ii) The value of inventories at June 30, 2015 was Rs. 42 million.

(iii) A fraud of Rs. 30 million was discovered in March 2015. A senior employee of the company who left in February 2015, had embezzled the funds from YIL's bank account. The chances of recovery are remote. The amount is presently appearing in the suspense account.

(iv) The loan was taken on January 1, 2015 YIL. Interest is paid at 10% per annum in arrears. No amount has been recognised for this interest.

(v) Financial charges comprise bank charges and bank commission.

(vi) The provision for current taxation for the year ended June 30, 2015 after making all the above adjustments is estimated at Rs. 16.5 million.

(vii) On July 1, 2014, the leasehold property having a useful life of 40 years was revalued at Rs. 238 million. No adjustment in this regard has been made in the books.

(viii) Depreciation of leasehold property is charged using the straight line method. 50% of depreciation is allocated to manufacturing, 30% to administration and 20% to selling and distribution.

Required:

Prepare the:

(a) The statement of financial position as of June 30, 2015.

(b) The statement of comprehensive income for the year ended June 30, 2015.***(20)***

CHAPTER 5 –IAS 7: STATEMENT OF CASH FLOWS

5.1 TRANGO LIMITED

The following information has been extracted from the financial statements of Trango Limited for the year ended 31 December 2015.

Statement of comprehensive income for the year ended 31 December 2015

	Rs.
Sales	905,000
Cost of sales	(311,000)
Gross profit	594,000
Loss on disposal of non-current asset	(9,000)
Wages and salaries	(266,000)
Other expenses (including depreciation Rs.46,000)	(193,000)
	126,000
Interest charges	(24,000)
Profit before tax	102,000
Tax on profit	(38,000)
Profit after tax	64,000

The asset disposed of had a carrying amount of Rs. 31,000 at the time of the sale.

Extracts from the statements of financial position:

	At 1 January 2015	**At 31 December 2015**
	Rs.	Rs.
Trade receivables	157,000	173,000
Inventory	42,000	38,000
Trade payables	43,600	35,700
Accrued wages and salaries	4,000	4,600
Accrued interest charges	11,200	10,000
Tax payable	45,000	41,000

Required

Present the cash flows from operating activities as they would be presented in a statement of cash flows:

(a) using the direct method

(b) using the indirect method.

5.2 NARDONE LIMITED

The following information has been extracted from the draft financial information of Nardone Limited.

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000	Rs.000
Sales revenue		490
Administration costs	(86)	
Distribution costs	(78)	
		(164)
Operating profit		326
Interest expense		(23)
Profit before tax		303
Taxation		(87)
Profit after tax		216
Dividends paid		(52)
Retained profit for the year		164

Statements of financial position

	31 December 2015		31 December 2014	
	Rs.000	Rs.000	Rs.000	Rs.000
Non-current assets (see below)		1,145		957
Current assets:				
Inventory	19		16	
Receivables	38		29	
Bank	19		32	
		76		77
Total assets		1,221		1,034
Share capital		323		232
Revaluation reserve		170		0
Retained earnings		553		389
		1,046		621
Non-current liabilities:				
Long-term loans		70		320
Current liabilities:				
Trade payables	12		17	
Tax payable	93		76	
		105		93
Total equity and liabilities		1,221		1,034

Note on non-current assets

	Land and buildings	Machinery	Fixtures &fittings	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Cost or valuation				
At 31 December 2014	830	470	197	1,497
Additions	-	43	55	98
Disposals	-	(18)	-	(18)
Adjustment on revaluation	70	-	-	70
At 31 December 2015	900	495	252	1,647
Depreciation				
At 31 December 2014	(90)	(270)	(180)	(540)
Charge for the year	(10)	(56)	(8)	(74)
Disposals	-	12	-	12
Adjustment on revaluation	100	-	-	100
At 31 December 2015	0	(314)	(188)	(502)
Carrying amount:				
At 31 December 2014	740	200	17	957
At 31 December 2015	900	181	64	1,145

You have been informed that included within distribution costs is Rs.4,000 relating to the loss on a disposal of a non-current asset.

Required

Prepare a statement of cash flows for Nardone Limited for the year ended 31 December 2015. ***(20)***

5.3 HOT SAUCE LIMITED

Hot Sauce Limited summarised final accounts are as follows

Statements of financial position

	31 December 2014		31 December 2015	
	Rs.000	Rs.000	Rs.000	Rs.000
Non-current assets:				
Plant and machinery at cost		2,700		3,831
Accumulated depreciation		(748)		(1,125)
Carrying amount		1,952		2,706
Current assets:				
Inventory	203		843	
Receivables	147		184	
Bank	51		-	
		401		1,027
Total assets		2,353		3,733
Ordinary share capital (Rs1 shares)		740		940
Share premium account		0		100
Retained earnings		671		1,034
		1,411		2,074
Non-current liabilities:				
Loans		320		150
Current liabilities:				
Bank overdraft	0		766	
Trade payables and accruals	152		141	
Current taxation	470		602	
		622		1,509
Total equity and liabilities		2,353		3,733

Statement of comprehensive income for year ended 31 December 2015

	R.s 000
Profit before tax	1,195
Taxation	(602)
Profit after tax	593

Dividend payments during the year were Rs.230,000.

The following information is also available:

(1) The only new loan raised during the year was a five-year bank loan amounting to Rs.65,000.

(2) Interest charged during the year was Rs.156,000. Interest accrued was Rs.24,000 last year and Rs.54,000 this year.

(3) Depreciation charged during the year amounted to Rs.401,000. This does not include any profit or loss on disposal of non-current assets.

(4) During the year plant which originally cost Rs.69,000 was disposed of for Rs.41,000.

(5) During the year the company issued 200,000 new shares.

Required

Prepare a statement of cash flows. ***(20)***

5.4 QUETTA TRACK LIMITED

The financial statements of Quetta Track Limited, a limited liability company, at 30 June were as follows.

	2015		2014	
	Rs.000	Rs.000	Rs.000	Rs.000
ASSETS				
Non-current assets				
Property cost	22,000		12,000	
Depreciation	(4,000)		(1,000)	
		18,000		11,000
Plant and equipment				
Cost	5,000		5,000	
Depreciation	(2,250)		(2,000)	
		2,750		3,000
		20,750		14,000
Current assets				
Inventories	16,000		11,000	
Trade receivables	9,950		2,700	
Cash and cash equivalents	–		1,300	
		25,950		15,000
Total assets		46,700		29,000
	Rs.000	Rs.000	Rs.000	Rs.000
EQUITY AND LIABILITIES				
Capital and reserves				
Equity capital		3,000		3,000
Accumulated profits		16,200		3,800
		19,200		6,800
Non-current liabilities				
Loan		6,000		10,000
Current liabilities				
Operating overdraft	11,000		–	
Trade payables	8,000		11,000	
Income tax payable	1,800		1,000	
Accrued interest	700		200	
		21,500		12,200
Total equity and liabilities		46,700		29,000

Statement of comprehensive income (extracts)

	2015	2014
	Rs.000	Rs.000
Operating profit	15,400	5,900
Financing cost (Interest)	(1,000)	(1,400)
Profit before tax	14,400	4,500
Income tax expense	(2,000)	(1,500)
Net profit for the year	12,400	3,000

Equipment of carrying amount Rs.250,000 was sold at the beginning of 2015 for Rs.350,000. This equipment had originally cost Rs.1,000,000.

In recent years, no dividends have been paid.

Required:

Prepare a statement of cash flows, under the indirect method, for the year ended 30 June 2015. ***(20)***

5.5 MARDAN SOFTWARE LIMITED

The following are the summarised accounts of Mardan Software Limited, a limited liability company.

Statements of financial position at 31 December

	2014		*2015*	
	Rs.(000)	Rs.(000)	Rs.(000)	Rs.(000)
ASSETS				
Non-current assets				
Plant and equipment		2,086		2,103
Fixtures and fittings		1,381		1,296
		3,467		3,399
Current assets				
Inventory	1,292		1,952	
Trade receivables	713		1,486	
Short term investment	1,050		600	
Cash	197		512	
		3,252		4,550
Total assets		6,719		7,949
EQUITY AND LIABILITIES				
Capital and reserves				
Equity capital		4,200		4,500
Share premium reserve		800		900
Accumulated profits **(Note 1)**		431		1,180
		5,431		6,580
Current liabilities				
Dividend payable	132		154	
Income tax payable	257		312	
Trade payables	899		903	
		1,288		1,369
Total equity and liabilities		6,719		7,949

Statement of comprehensive income (extracts) for the year ended 31 December 2015

	Rs.(000)
Profit before taxation	1,381
Income tax expense	(310)
Net profit for the period	1,071

Note 1 Accumulated profits

	Rs.(000)
Balance at 1 January	431
Net profit for period	1,071
Dividend for the year	(322)
Balance at 31 December	1,180

Further information:

(1) Plant and equipment with a carrying amount of Rs184,000 was disposed of for Rs203,000, whilst a new item of plant was purchased for Rs312,000

(2) Fixtures and fittings with a carrying amount of Rs100,000 were disposed of for Rs95,000;

(3) Depreciation recognised on fixtures and fittings amounted to Rs 351,000.

(4) Dividend for the year was declared during the year. Dividend payable in the statements of financial position at each year end relate to dividends declared in that year but not paid over to shareholders by the reporting date.

Required:

Prepare a statement of cash flows for the year ended 31 December 2015 in accordance with IAS 7: *Statement of cash flows* ***(15)***

5.6 TARBELA TRADERS

Tarbela Traders is the trading name of a sole trader.

The statements of financial position of Tarbela Traders at the end of two consecutive financial years were:

Statements of financial position at

	31 December 2015		31 December 2014	
	Rs.000	Rs.000	Rs.000	Rs.000
Non-current assets (at WDV)				
Premises	37,000		38,000	
Equipment	45,800		17,600	
Motor vehicles	18,930		4,080	
		101,730		59,680
Investments		25,000		17,000
		126,730		76,680
Current assets				
Inventories	19,670		27,500	
Trade receivables and prepayments	11,960		14,410	
Short-term investments	4,800		3,600	
Cash and bank balances	700		1,800	
		37,130		47,310
Total assets		163,860		123,990
Capital and reserves				
Opening capital	75,040		67,940	
Capital introduced/(withdrawn)	(6,500)		4,000	
Profit/(loss) for year	25,200		15,300	
Drawings	(15,130)		(12,200)	
Closing capital		78,610		75,040
Non-current liabilities				
Interest-bearing borrowings		25,000		28,000
Current liabilities				
Trade payables and accrued expenses	32,050		20,950	
Bank overdraft	28,200		–	
		60,250		20,950
		163,860		123,990

Profit for the year ended 31 December 2015 (Rs.25,200,000) is after accounting for

	Rs.000
Depreciation	
Premises	1,000
Equipment	3,000
Motor vehicles	3,000
Profit on disposal of equipment	430
Loss on disposal of motor vehicle	740
Interest expense	3,000

The written down value of the assets at date of disposal was:

	Rs.000
Equipment	5,200
Motor vehicles	2,010

Interest accrued at 31 December 2015 is Rs.400,000.

Required:

Prepare a statement of cash flows for the year ended 31 December 2015. Assume that short-term investments are cash equivalents. ***(14)***

5.7 THE SINDH ROBOTICS COMPANY

The statements of financial position and statement of comprehensive incomes of The Sindh Robotics Company for two consecutive financial years are shown below.

Statements of financial position

	31 December 2013			31 December 2014		
	Cost	Dep'n	Net	Cost	Dep'n	Net
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Non-current assets						
Land	43,000	–	43,000	63,000	–	63,000
Buildings	50,000	10,000	40,000	90,000	11,000	79,000
Plant	10,000	4,000	6,000	11,000	5,000	6,000
	103,000	14,000	89,000	164,000	16,000	148,000
Investments			50,000			80,000
Current assets						
Inventories		55,000			65,000	
Trade receivables		40,000			50,000	
Bank		3,000			–	
			98,000			115,000
			237,000			343,000
Capital						
Issued shares of Rs. 1 each		40,000			50,000	
Share premium		12,000			14,000	
Revaluation surplus		–			20,000	
Accumulated profit		25,000			25,000	
			77,000			109,000
Non-current liabilities						
10% loan borrowings			100,000			150,000
Current liabilities						
Trade payables		40,000			60,000	
Dividend payable		20,000			20,000	
Bank overdraft		–			4,000	
			60,000			84,000
			237,000			343,000

Statements of comprehensive incomes

	2013	2014
	Rs.000	Rs.000
Revenue	200,000	200,000
Cost of sales	(100,000)	(120,000)
Gross profit	100,000	80,000
Distribution and administration expenses	(50,000)	(47,000)
	50,000	33,000
Interest	(10,000)	(13,000)
Net profit for year	40,000	20,000

Only one dividend is declared each year which is paid in the following year. No sales of non-current assets have occurred during the relevant period. Ignore taxation.

Required:

Prepare a statement of cash flows for the year ended 31 December 2014 using the *direct* method. ***(15)***

5.8 ABIDA

Abida made a net profit of Rs. 256,800 for the year ended June 30, 2015 after charging depreciation of Rs. 17,500 and loss on disposal of furniture of Rs. 6,800. The sale proceeds of the furniture were Rs. 12,000.

During the year, the net book value of non-current assets decreased by Rs. 7,400; receivables increased by Rs. 11,700; inventories decreased by Rs. 21,600 and creditors increased by Rs. 8,900. A long-term loan of Rs. 75,000 was repaid during the year and Abida withdrew Rs. 120,000 for his own use.

Required:

Prepare the statement of cash flows for the year ended June 30, 2015. ***(07)***

5.9 MR. MOOSANI

The comparative statements of financial position of Mr. Moosani show the following information:

		December 31	
		2015	**2014**
		Rs.	**Rs.**
Cash		5,200	41,400
Accounts receivable		31,700	21,500
Inventory		25,000	19,400
Investments		-	16,900
Furniture		80,000	64,000
Equipment		86,000	43,000
	Total	227,900	206,200
Allowance for doubtful accounts		6,500	9,700
Accumulated depreciation on equipment		24,000	18,000
Accumulated depreciation on furniture		8,000	15,000
Trade creditors		10,800	6,500
Accrued expenses		4,300	10,800
Bills payable		6,500	8,600
Long-term loans		31,800	53,800
Capital		136,000	83,800
	Total	227,900	206,200

Additional data related to 2015 is as follows:

(i) Equipment that had cost Rs. 23,000 and was 40% depreciated at the time of disposal was sold for Rs. 6,500.

(ii) Payments against long-term loans amounted to Rs. 22,000 of which Rs. 12,000 was paid by Mr. Moosani out of his personal account.

(iii) On January 1, 2015, the furniture was completely destroyed by a fire. Proceeds received from the insurance company amounted to Rs. 60,000.

(iv) Investments were sold at Rs. 7,500 above their cost.

(v) Mr. Moosani withdraws Rs. 15,000 each month for his personal use.

Required:

Prepare a statement of cash flows for the year ended 31 December 2015. ***(12)***.

5.10 SAKHAWAT HUSSAIN

The statements of financial position of Sakhawat Hussain as at December 31, 2015 and 2014 are as follows:

	2015	2014
	Rs.	Rs.
Current assets	4,750,000	2,850,000
Investments	2,600,000	2,500,000
Non-current assets	9,750,000	9,600,000
Accumulated depreciation	(2,950,000)	(2,450,000)
	14,150,000	12,500,000
Non-current liability (loan)	2,000,000	2,000,000
Current liabilities	1,850,000	1,450,000
Interest liability	200,000	150,000
Capital	9,000,000	8,000,000
Profit and loss account	1,100,000	900,000
	14,150,000	12,500,000

Other information for the year 2015 is as follows:

(i) Investments costing Rs. 250,000 were sold for Rs. 320,000.

(ii) Fully depreciated furniture costing Rs. 200,000 was written-off.

(iii) Non-current assets costing Rs. 960,000 with a net book value of Rs. 160,000 were sold for Rs. 250,000.

(iv) Interest amounting to Rs. 180,000 was paid during the year.

(v) Sakhawat Hussain withdrew Rs. 1,200,000 from the profits of 2014 and 2015.

(vi) 20% of the opening and closing balances of current assets are represented by cash.

Required:

Prepare a statement of cash flows for the year ended December 31, 2015. ***(11)***

5.11 MR JUNAID JANJUA

Mr Junaid Janjua has provided you the following statements of financial position and statement of comprehensive income.

Statements of financial position as on December 31, 2015

	2015	**2014**
Rupees	**Rupees**	
Cash	145,000	32,000
Accounts receivable	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepaid insurance	24,000	36,000
Office supplies	14,000	7,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	**5,647,000**	**5,429,000**
Accounts payable	158,000	263,000
Wages payable	40,000	24,000
Short-term loans	580,000	580,000
Long-term loans	985,000	1,160,000
Capital	3,884,000	3,402,000
Total liabilities and equity	5,647,000	5,429,000

Statement of comprehensive income for the year ended December 31, 2015

	2015
	Rupees
Sales revenue	9,280,000
Cost of goods sold	(6,199,000)
Gross profit	3,081,000
Operating expenses	
Selling expenses	634,000
Administrative expenses	1,348,000
Depreciation expenses	230,000
	(2,212,000)
Income from operations	869,000
Other revenues/expenses	
Gain on sale of land	64,000
Gain on sale of long term investment	32,000
Loss on sale of equipment	(15,000)
	81,000
Net income	950,000
Drawings	(568,000)
Retained earnings	382,000

Notes:

(a) Part of the long term loan amounting to Rs. 100,000 was paid by Mr. Junaid from his personal account.

(b) Long term investments costing Rs. 100,000 were sold during the year.

(c) Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.

Required:

Prepare a statement of cash flows for the year ended December 31, 2015. ***(14)***

5.12 AMIN INDUSTRIES

The statements of financial position of Amin Industries as at 31 August 2014 and 2015 are as follows:

	2015 Rs.	2014 Rs.		2015 Rs.	2014 Rs.
Capital	33,433,000	27,942,000	**Non-current assets –** book value	15,172,000	12,346,000
Current liabilities			**Current assets**		
Short term finance	2,545,000	1,616,000	Investments	4,911,000	-
Creditors	3,457,000	2,850,000	Inventory	12,178,000	14,950,000
	6,002,000	4,466,000	Trade debts – net of provision for bad debts	6,732,000	4,887,000
			Bank	442,000	225,000
				24,263,000	20,062,000
	39,435,000	32,408,000		39,435,000	32,408,000

The following information is also available:

	Rupees
Profit during the year ended 31 August 201	161,000
Mr. Amin's withdrawals during the year	120,000
Accumulated depreciation on non-current assets – 31 August 2014,	605,000
Accumulated depreciation on non-current assets – 31 August 2015	470,000
Provision for bad debts – 31 August 2014	385,000
Provision for bad debts – 31 August 2015	484,000

During the year non-current assets costing Rs. 1,500,000 with a carrying amount of Rs. 867,000 were sold for Rs. 1,284,000.

Required:

Prepare a statement of cash flows for the year ended 31 August 2015. Show necessary workings. ***(13)***

CHAPTER 6 – INCOME AND EXPENDITURE ACCOUNTS

6.1 GILTAN GOLF CLUB

The treasurer of the Giltan Golf Club has prepared the following receipts and payments account for the year ended 31 March 2016.

	Rs.(000)		Rs.(000)
Balance at 1 April 2015	682	Functions	305
Subscriptions	2,930	Repairs	146
Functions	367	Telephone	67
Sale of land	1,600	Extension of club house	600
Bank interest	60	Furniture	135
Bequest (legacy)	255	Heat and light	115
Sundry income	46	Salary and wages	2,066
		Sundry expenses	104
		Balance at 31 March 2016	2,402
	5,940		5,940

(a) Subscriptions received included Rs.65,000 which had been in arrears at 31 March 2015 and Rs.35,000 which had been paid for the year commencing 1 April 2016.

(b) Land sold had been valued in the club's books at cost Rs.500,000.

(c) Accrued expenses

	31 March 2015	31 March 2016
	Rs.(000)	Rs.(000)
Heat and light	32	40
Wages	12	14
Telephone	14	10
	58	64

(d) Depreciation is to be charged on the original cost of assets appearing in the books at 31 March 2016 as follows:

Buildings	5%
Fixtures and fittings	10%
Furniture	20%

(e) The following balances are from the club's books at 31 March 2015:

	Rs.(000)
Land at cost	4,000
Buildings at cost	3,200
Buildings allowance for depreciation	860
Fixtures and fittings at cost	470
Fixtures allowance for depreciation	82
Furniture at cost	380
Furniture allowance for depreciation	164
Subscriptions in arrears (including Rs.15,000 irrecoverable - member had emigrated)	80
Subscriptions in advance	30

Required:

Prepare an income and expenditure account for the year ended 31 March 2016 and a Statement of financial position as at that date.

6.2 LANGTON HOCKEY CLUB

The Langton Hockey club does not have any formal accounting records but the following information is available.

(1) The payments that have been made by the club for the year ending 30 June 2016 are as follows:

	Rs.(000)
Purchase of second hand table tennis table	250
Rent	600
Tea stall purchases	900
Annual fair expenses	1,450
Outings expenses	370
Prizes for whist evenings	90
Repairs to snooker table	35
Refreshments at social evenings	240

(2) The club's income, apart from annual subscriptions, is as follows:

	Rs.(000)
Contributions to outings	300
Takings at the annual fair	2,150

The club also run a tea stall in the village car park every Sunday in the summer months. This sells tea and coffee, cakes, biscuits and ice creams etc. The profit margin on the tea stall is normally 20% of selling price.

(3) All the club's transactions are in cash but if there are any surplus funds they are banked in a local bank account. The balance on the bank account was Rs.30,000 at 1 July 2015.

(4) The club has an annual subscription rate of Rs.20,000 per annum per person or Rs.50,000 per annum for a family membership. Members are asked to pay their subscription in the July at the beginning of the club's accounting year.

There are 10 family members of the club. Of these two paid their 2016 subscription in June 2015 and all the rest were received before 30 June 2016.

No individual members had paid their 2016 subscriptions in advance but at 30 June 2016 four members still owed their subscriptions. They had been contacted and all four had promised to pay at the next evening social event. There are in total 80 individual members.

(5) The club has the following other assets and liabilities:

	30 June 2015 Rs. (000)	*30 June 2016 Rs. (000)*
Sports equipment	2,560	Note 6
Inventory for the tea stall	120	60
Payables for the tea purchases	110	190
Prepayment of rent	40	50

(6) The sports equipment is all depreciated at 20% per annum on net book value on the basis of the equipment held at 30 June each year.

(7) The old table tennis table was sold during the year for Rs.40,000. Its value as recorded by the club at 30 June 2015 was Rs.30,000.

You are required to prepare an income and expenditure account for the year ended 30 June 2016 and a statement of financial position at that date. ***(20)***

6.3 GULSHAN CRICKET CLUB

The following balances have been obtained from the books of Gulshan Cricket Club:

	June 30, 2014	June 30, 2015
Building	6,024,000	6,438,150
Furniture	3,012,000	2,710,800
Books	1,129,500	1,246,950
Sports equipment	1,807,200	1,595,200
Investments	-	436,000
Advance subscription	86,000	92,000
Prepaid expenses	122,000	176,000
Expenses payable	186,900	207,600
Subscriptions receivable	326,000	357,000
Cash	1,204,800	1,586,500

The following information is also available in respect of the year ended June 30, 2015:

(i) Depreciation for the year has been credited directly to the asset accounts. The rates of depreciation are as follows:

Building	5%
Furniture and books	10%
Sports equipment	20%

(ii) The club had 600 members on June 30, 2015. No fresh members were admitted during the year but 10 members left the club on January 1, 2015. Subscription per member is Rs. 500 per month.

Required:

(a) Summary of receipts and payments made during the year ended June 30, 2015.

(b) Income and Expenditure Account for the year ended June 30, 2015. ***(20)***

6.4 SEHAT CLUB

Following is the Receipts and Payments Account of Sehat Club for the year ended 30 June 2015:

Receipts and payments account for the year ended 30 June 2015

Receipts	Rupees	Payments	Rupees
Opening balance	15,000	Salaries	63,500
Subscriptions	201,000	Rent	34,000
Entrance fees	63,000	Travelling expenses	1,500
Donations	38,000	Printing and stationery	1,000
Interest	16,000	General charges	2,500
Receipt on disposal of furniture	500	Periodicals	500
		Investments	200,000
		Closing balance	30,500
	333,500		333,500

The club's statement of financial position as on 30 June 2014 was as follows:

Statement of financial position as on 30 June 2014

Liabilities	Rupees	Assets	Rupees
General Fund	172,500	Furniture – net	40,000
Liabilities: Rent	11,000	Sports equipment – net	20,000
Salaries	17,500	Investments	100,000
		Subscription receivable	15,000
		Interest receivables	11,000
		Bank balance	15,000
	201,000		201,000

Other details for the year ended 30 June 2015 are as follows:

(i) Furniture purchased on 1 July 2013 costing Rs. 4,000 was disposed off on 1 January 2015 at a scrap value of Rs. 500.

(ii) On 1 July 2014, furniture having written down value of Rs. 6,000 was traded-in with new furniture having fair value of Rs. 6,700.

(iii) Depreciation is charged on diminishing balance basis at 20% on furniture and 15% on sports equipment.

(iv) Sports equipment worth Rs. 12,000 were received at year end as donation.

(v) Following amounts are receivable /outstanding as at 30 June 2015:

	Rs.
Subscription receivable	8,000
Entrance fee receivable	3,000
Salaries outstanding	4,000
Rent outstanding	2,000

Required:

Prepare an income and expenditure account of Sehat Club for the year ended 30 June 2015 and its statements of financial position on that date. ***(18)***

6.5 AB SPORTS AND SOCIAL CLUB

You have agreed to take over the role of bookkeeper for the AB sports and social club.

The summarised statement of financial position on 31 December 2014 as prepared by the previous bookkeeper contained the following items.

Assets		**Rs.**
Heating oil for clubhouse		1,000
Shop and cafe inventories		7,000
New sportswear, for sale, at cost		3,000
Used sportswear, for hire, at valuation		750
Equipment for groundsman		
Cost	5,000	
Depreciation	3,500	1,500
Subscriptions due		200
Bank		
Current account		1,000
Deposit account		10,000
Capital and liabilities		
Accumulated fund		23,150
Payables		
Shop and cafe inventories		1,000
Sportswear		300

The bank account summary for the year to 31 December 2015 contained the following items.

Receipts	**Rs.**
Subscriptions	11,000
Bankings	
Shop and cafe	20,000
Sale of sportswear	5,000
Hire of sportswear	3,000
Interest on deposit account	800
	39,800

Payments	**Rs.**
Rent and repairs of clubhouse	6,000
Heating oil	4,000
Sportswear	4,500
Grounds person	10,000
Shop and cafe purchases	9,000
Transfer to deposit account	6,000
	39,500

You discover that the subscriptions due figure as at 31December 2014 was arrived at as follows.

Subscriptions unpaid for 2013	10
Subscriptions unpaid for 2014	230
Subscriptions paid for 2015	40

Corresponding figures at 31 December 2015 are:

Subscriptions unpaid for 2013	10
Subscriptions unpaid for 2014	20
Subscriptions unpaid for 2015	90
Subscriptions paid for 2016	200

Subscriptions due for more than 12 months should be written off with effect from 1 January 2015.

Asset balances at 31 December 2015 include:

Heating oil for club house	700
Shop and cafe inventories	5,000
New sportswear, for sale, at cost	4,000
Used sportswear, for hire, at valuation	1,000

Closing payables at 31 December 2015 are for:

shop and cafe inventories	800
sportswear	450
heating oil for clubhouse	200

Two thirds of the sportswear purchases made in 2015 had been added to inventory of new sportswear in the figures given in the list of assets above, and one third had been added directly to the inventory of used sportswear for hire.

Half of the resulting 'new sportswear for sale at cost' at 31 December 2015 is actually over two years old. You decide, with effect from 31 December 2015, to transfer these older items into the inventory of used sportswear, at a valuation of 25% of their original cost.

No cash balances are held at 31 December 2014 or 31 December 2015. The equipment for the grounds person is to be depreciated at 10% per annum, on cost.

Required:

Prepare the income and expenditure account and statement of financial position for the AB sports club for 2015. ***(23)***

6.6 GD SPORTS CLUB

The GD Sports Club do not keep any accounting records other than notes concerning the subscriptions of members and the amounts paid for expenses. During discussions with the club committee you discover the following:

(1) The club does not have a bank account and conducts all its transactions in cash, any surplus being paid into a building society account. The interest credited to this account for the year to 31 March 2015
was Rs.350.

(2) A summary of the payments for the year is:

	Rs.
Deposit to building society account	250
Purchase of dartboards	100
Heat/light	262
Repairs to snooker tables	176
Cafe payables	7,455
Rental of premises	1,000
Club match referees' fees and expenses	675
Trophies, etc (treated as an expense)	424
Refreshments for visiting teams	235

(3) The club has 100 members who each pay Rs.5 per annum subscription. However, on 31 March 2014 ten members had already paid their subscriptions for 2015.

On 31 March 2015 two members who had not been seen in the club since August 2014 had not paid their subscriptions for 2015 and it has been decided that the amount due be written off and that their names be removed from the list of members.

(4) The club has only two sources of income from club members – subscriptions and cafe sales. A profit margin of 30% of selling price, is normally applied to determine cafe selling prices but during the year Rs.397 of goods were sold at cost.

(5) The club has the following other assets/liabilities:

	1 April 2014 Rs.	31 March 2015 Rs.
Equipment	4,000	?
Building society account	4,600	5,200
Cafe inventories	840	920
Cafe payables	630	470
Cash in hand	nil	nil
Creditor for heat/light	34	41

(6) Equipment is depreciated at 10% of the value of equipment held on 31 March each year.

Required:

(a) Prepare a cafe trading account for the year ended 31 March 2015; ***(8)***

(b) Prepare an income and expenditure account for the year ended 31 March 2015; ***(7)***

(c) Prepare a statement of financial position at 31 March 2015. ***(5)***

(20)

6.7 HB TENNIS CLUB

The HB Tennis Club was formed on 1 April 2015 and has the following receipts and payments account for the six months ended 30 September 2015:

Receipts	Rs.	*Payments*	Rs.
Subscriptions	12,600	Purchase of equipment	4,080
Tournament fees	465	Groundsman's wages	4,520
Bank interest	43	Rent and business rates	636
Sale of club ties	373	Heating and lighting	674
Life membership fees	4,200	Postage and stationery	41
		Court maintenance	1,000
		Tournament prizes	132
		Purchase of club ties	450
		Balance c/d	6,148
	17,681		17,681

Notes:

(1) The annual subscription fee is Rs.300. On 30 September there were five members who had not paid their subscriptions, but this money was received on 4 October 2015.

(2) The equipment is expected to be used by the club for five years, after which time it will need to be replaced. Its estimated scrap value at that time is Rs.50.

(3) During the six months, the club purchased 100 ties printed with its own design. Forty of these ties remained unsold at 30 September 2015.

(4) The club has paid business rates in advance on 30 September 2015 of Rs.68.

(5) The club treasurer estimates that the following amounts should be accrued for expenses:

	Rs.
Groundsman's wages	40
Postage and stationery	12
Heating and lighting	53

(6) The life membership fees received relate to payments made by four families. The scheme allows families to pay Rs.1,050 which entitles them to membership for life without further payment. It has been agreed that such receipts would be credited to income and expenditure in equal instalments over 10 years.

Required:

(a) Prepare the club's income and expenditure account for the six months ended 30 September 2015. ***(8)***

(b) Prepare the club's statement of financial position at 30 September 2015. ***(7)***

(15)

6.8 MONARCH SPORTS CLUB

The Monarch Sports Club has the following summary of its cash book for the year ended 30 June 2015:

	Rs.	Rs.
Opening bank balance		12,500
Receipts:		
Subscriptions		18,000
Life membership fees	3,000	
Competition receipts	7,500	
Entrance fees		2,500
Equipment sold	1,000	
		32,000
		44,500
Payments:		
Transport to matches	3,700	
Competition prizes	4,300	
Coaching fees	2,100	
Repairs to equipment	800	
Purchase of new equipment	4,000	
Purchase of sports pavilion	35,000	
		(49,900)
Closing balance (overdrawn)		(5,400)

The following information is available regarding the position at the beginning and end of the accounting year:

	1 July 2014 Rs.	30 June 2015 Rs.
Subscriptions in advance	1,100	900
Subscriptions in arrears	200	300
Coaching fees outstanding	150	450

Of the subscriptions outstanding at the beginning of the year, only half were eventually received.

The equipment sold during the year had a net book value of Rs.1,200 at 1 July 2014. Equipment is to be depreciated at 20% per annum straight line. Life membership fees are taken to cover 10 years.

The treasurer insists that no depreciation needs to be charged on the sports pavilion, as buildings do not decrease in value. He says that the last club of which he was treasurer did charge depreciation on its buildings but that when the club came to replace them, there was still insufficient money in the bank to pay for the new building.

Required:

Prepare an income and expenditure account for the Monarch Sports Club for the year ended 30 June 2015. ***(10)***

6.9 LH SPORTS CLUB

The LH Sports Club opened on 1 May 2014 having purchased premises for Rs.80,000 and furniture for Rs.18,000, both financed by an interest-free loan from a member. The club secretary has produced the following income and expenditure account for the year to 30 April 2015.

Income	**Rs.**	**Rs.**
Joining fees (89 members × Rs.200 each)	17,800	
Annual subscriptions	12,000	
Cafe profits	8,450	
Dinner Dance surplus	830	
Equipment hire receipts	1,750	
		40,830
Expenditure		
Premises costs	10,990	
Equipment costs	5,590	
Secretary's expenses	470	
Bank charges	125	(17,175)
Surplus for the year		23,655

The income and expenditure account has been prepared after taking into account the following items at 30 April 2015:

- ❑ cafe inventories Rs.1,400
- ❑ payables for cafe supplies Rs.1,320
- ❑ rates and insurances prepaid Rs.2,280

The following items have not been taken into account:

- ❑ the equipment costs figure includes Rs.4,000 for the purchase of equipment
- ❑ depreciation is to be provided as follows:
  - at 2% on premises
  - at 10% on furniture
  - at 20% on equipment
- ❑ joining fees are to be spread over a five-year period
- ❑ the annual subscriptions figure includes Rs.960 paid in advance
- ❑ subscriptions outstanding at the end of the year, and expected to be collected, amount to Rs.300.

The bank balance at 30 April 2015 was Rs.21,295.

Required:

(a) Calculate the correct surplus for the year. ***(6)***

(b) Prepare the statement of financial position at 30 April 2015. ***(8)***

CHAPTER 7 – PREPARATION OF ACCOUNTS FROM INCOMPLETE RECORDS

7.1 SHORT QUESTIONS

a) A business makes all of its sales at a mark-up of 25%. During the year sales totalled Rs.98,000 and purchases were Rs.71,000. The inventory at the start of the year was valued at Rs.10,200.

What was the value of the closing inventory at the end of the year? ***(3)***

b) A business has the following assets and liabilities at the start and end of March.

	1 March	**31 March**
	Rs.	Rs.
Trade receivables	6,100	7,400
Trade payables	3,900	3,500

The summarised bank statements for the year showed the following figures:

- Bankings for the year were Rs.78,500
- Payments to suppliers for the year were Rs.49,700
- The owner banks her takings from the till each month but before doing so in March she took Rs. 5,000 for her own use.

What are the sales for the year? ***(4)***

c) An accountant has prepared the following list of the assets and liabilities of a business, but has forgotten to enter the cash balance.

	Rs.
Trade payables	4,900
Inventory	9,300
Non-current assets	98,900
Capital	97,200
Bank loan	15,700
Receivables	16,800
Bank	?

What is the missing figure for 'Bank'? ***(4)***

7.2 IRUM

Irum is a sole trader. She does not keep a full set of accounting records but does keep some records of transactions and documents. She has asked you to prepare her accounts for the year ended 31 December 2015.

You have been given a list of the assets and liabilities of the business at the start and end of the year.

Assets and liabilities

	At 1 Jan 2015	**At 31 Dec 2015**
	Rs.000	**Rs.000**
Trade receivables	5,500	6,100
Trade payables	2,800	3,500
Inventory	10,400	?

Irum has no idea what her inventory value was at 31 December as that she did not count or value her inventory at the year end.

She has also been given you a summary of her bank statements for the year.

Summary of bank statements

		Receipts		Payments
		Rs.000		Rs.000
1 Jan	Balance b/d	1,620	To suppliers	42,800
Bankings		65,400	For expenses	9,300
			Living expenses	10,400
			31 Dec Balance c/d	4,520

You have also been able to gather the following information from Irum:

i) Irum banks her takings from the till each week but before doing so pays Rs.50,000 to her employees and takes Rs.30,000 herself. The business operates for 50 weeks each year.

ii) The till always has a cash float of Rs.100,000.

iii) The sales of the business are both cash and credit sales and are all made at a mark-up of 40%.

Required:

(a) Calculate sales for the year. ***(4)***

(b) Calculate the value of the closing inventory at 31 December 2015. ***(4)***

7.3 COST STRUCTURES

(a) A greengrocer made sales during the month of Rs.49,200. Opening inventory amounted to Rs.3,784 and month-end inventory was Rs.5,516. During the month he purchased for cash goods which cost Rs.38,632.

Required:

Determine the gross profit and calculate the gross profit percentage as a percentage of sales value. ***(3)***

(b) A rival has made sales of Rs.50,100 at a fixed mark-up of 25%. Closing inventory was valued at Rs.5,438 and he purchased goods during the month amounting to Rs.38,326.

Required:

Determine the value of the opening inventory. ***(3)***

(c) A local store makes sales at a fixed gross profit of 10% on sales value. Sales during the month amounted to Rs.186,460; closing inventory was Rs.16,800 and represents an increase of 25% over the value of the opening inventory.

Required:

Determine the cost of purchases during the month. ***(3)***

7.4 TAHIR

Tahir retired from his employment abroad and returned to this country, where he purchased a small kiosk.

He took over the business on 1 July 2014, acquiring the existing inventory at a valuation of Rs.1,142,000. The rest of the purchase price was apportioned as to Rs.1,500,000 for fixtures and fittings and the balance for goodwill.

The following day he acquired a second-hand computer and accounts package at a price of Rs.80,000. Unfortunately, Tahir made an error when printing his year-end accounts causing him to lose all data except for printed a summary listing of payments from the till.. Other than this, the only records available were his bank statements and a number of vouchers. Surplus cash was banked during the year.

A summary of his bank account for the year ended 30 June 2015 shows the following.

	Rs.000		Rs.000
Cash introduced	5,000	Purchase of business	3,192
Bankings from shop	16,427	Purchase of accounts computer	80
Loan from mother (long-term)		Rent (15 months to	
(interest at 5% pa)	1,000	30 September 2015)	500
		Rates (9 months to	
		31 March 2015)	84
		Electricity	92
		Purchases for resale	14,700
		Private cheques	1,122
		Balance 30 June 2015	2,657
	22,427		22,427

The computer print-out was as follows.

	Rs.000
Cash purchases for resale	1,606
Staff wages	742
Sundry shop expenses	156
Cash drawings	520

On 30 June 2015 inventory, measured at cost, amounted to Rs.1,542,000, amounts due from customers Rs.74,000, and cash in hand amounted to Rs.54,000. Depreciation is to be recognised on fixtures and fittings at a rate of 10%.

Accounts outstanding on 30 June 2015 were purchases of Rs.470,000 and rates of Rs.120,000 for the year ended 31 March 2016.

Required:

Prepare Tahir's statement of comprehensive income for the year ended 30 June 2015 and a statement of financial position at that date. ***(20)***

7.5 IJAZ

Ijaz is in business but does not keep proper books of account. In order to prepare his income and expenditure account for the year ended 31 December 2015 you are given the following information.

	1 Jan 2015 Rs.000	31 Dec 2015 Rs.000
Inventory on hand	1,310	1,623
Receivables	268	412
Payables for goods	712	914
Payables for expenses	116	103

In addition you are able to prepare the following summary of his cash and bank transactions for the year.

Cash account

	Rs.000		Rs.000
Balance 1 January	62	Payments into bank	3,050
Shop takings	4,317	Purchases	316
Cheques cashed	200	Expenses	584
		Drawings	600
		Balance 31 December	29
	4,579		4,579

Bank account

	Rs.000		Rs.000
Balance 1 January	840	Cash withdrawn	200
Cheques from customers	1,416	Purchases	2,715
Cash paid in	3,050	Expenses	519
		Drawings	400
		Delivery van (purchased 1 September)	900
		Balance 31 December	572
	5,306		5,306

In addition Ijaz says that he had taken goods for personal consumption and estimates that those goods cost Rs.100,000.

In considering accounts receivable Ijaz suggests that a provision is to be made of 5% of amounts due after writing off a specific bad debt of Rs.30,000.

Depreciation on the delivery van is to be recognised at 20% per annum.

Required:

Prepare the statement of comprehensive income and a statement of financial position at 31 December 2015. ***(20)***

7.6 RASHID

Rashid is coming to the end of his first year's trading. He has not kept proper books and records.

The following information relates to the year ended 30 September 2015.

(1) He set up in business when he won Rs. 200,000,000 on football pools. He invested the money in the bank and set up in business as a retailer of clothing.

(2) He banks his takings periodically after payment of the following amounts.

Wages	Rs.75,000 per week
Cleaning	Rs.10,000 per week
Sundries	Rs.15,000 per week
Personal expenses	Rs.25,000 per week

Cash in hand at the end of the year was Rs.250,000.

(3) A summary of his bank statements reveals the following.

	Rs.000		Rs.000
Capital introduced	200,000	Purchase of leasehold premises	150,000
Bankings	125,750	Purchase of vans	6,000
		Telephone	896
		Rent and rates	1,682
		Payments to suppliers	86,232
		Wages	15,282
		Repairs	3,637
		Personal expenses	323
		Balance c/d	61,698
	325,750		325,750

An unpresented cheque of Rs.385,000 for repairs was still outstanding.

(4) Other assets and liabilities at 30 September 2015 were as follows.

	Rs.000
Inventory	8,400
Trade receivables	10,350
Trade payables	29,957
Accrued expense – telephone	125
Prepaid expense– rent and rates	258

(5) Depreciation is to be recognised on the van at 25% of its cost. The lease on the premises is for 50 years.

(6) Rashid estimates that his gross profit percentage is 25% on sale price, and also informs you that he does not keep a record of the goods he took for his own use.

Required:

Prepare a statement of comprehensive income for the year ended 30 September 2015 and a statement of financial position at that date. ***(20)***

7.7 MUDASSAR

Mudassar had retired from the army some years ago to run a grocery business in the country. On 1 October 2015 his assistant failed to report for work and it was later discovered that he had disappeared taking the contents of the cash till with him.

An analysis of Mudassar's bank statements for the year ended 31 December 2015 revealed the following.

	Rs.000		Rs.000
Balance b/f	280	Suppliers	13,600
Tax refund	1,000	Rent	800
Bankings	16,720	Rates	400
		Insurance	200
		Drawings	2,500
		Bank charges	100
		Balance c/f	400
	18,000		18,000

A statement of affairs produced by Mudassar comprised the following.

	31 December	
	2015	2014
	Rs.000	Rs.000
Motor car (NBV)	3,200	3,600
Fixtures (NBV)	3,400	4,000
Inventory	1,200	900
Trade receivables	150	90
Rent prepaid	30	20
Cash	Nil	380
Trade payable	120	110

A rough cash book kept by Mudassar showed the following.

	Rs.000
Assistant's wages	1,800
Sundry expenses	250
Cash purchases	300
Drawings	2,400
Cash received from customers	21,550

A footnote recorded that discounts received and discounts allowed were Rs.200,000 and Rs.300,000 respectively.

The insurance company agreed to admit the claim for loss of cash upon production of a full set of accounts.

Required:

Prepare a statement of comprehensive income for the year ended 31 December 2015 and a statement of financial position at that date. ***(20)***

7.8 ASLAM

Aslam, who has been in business as a contractor since 1 January 2015, received a request from the tax authorities for his first year's accounts.

He had not kept proper records of his business transactions, but was able to supply the following information.

(1) All cheques received for work done had been paid into the bank, whilst cash receipts had been used for paying cash expenses.

(2) From bundles of receipts and a wages notebook some of the cash expenses for the year appeared to have been as follows.

	Rs.000
Wages and Social Security	3,346
Materials	1,400
Electricity	56
General expenses	14

(3) Drawings were estimated at Rs.18,000 per week, out of which Aslam had paid the rent of his builder's yard of Rs.2,000 per week. His own Social Security contributions had been included in Wages and Social Security and totalled Rs.65,000 for the year.

(4) On 1 April he purchased a van for Rs.856,000. His mother lent him Rs.400,000 for the deposit, and the balance was payable by twelve monthly instalments of Rs.38,000 each commencing on 1 June. The loan from his mother had not been repaid at the end of the year.

(5) A summary of his bank account showed the following.

	Rs.000		Rs.000
Balance 1 January 2015	150	Materials	4,790
Bankings	9,204	Van expenses	342
		General expenses	110
		Cheques drawn for cash	3,100
		Cement mixer	200
		Van instalments	266
		Private cheques	342
		Balance 31 December 2015	204
	9,354		9,354

(6) On 31 December 2015 inventory (materials) amounted to Rs.560,000, cash in hand Rs.10,000, trade receivables Rs.1,200,000, trade payables for materials Rs.149,000, and outstanding van expenses Rs.36,000. There was no work in progress on 31 December 2015.

(7) Depreciation of Rs.108,000 is to be recognised on the van and Rs.50,000 on the cement mixer.

Required:

Prepare Aslam's statement of comprehensive income for the year ended 31 December 2015 and a statement of financial position at that date. ***(20)***

7.9 UMAR

Umar is a grocer who had not kept a full set of books. The following was a summary of his bank statements for the year ended 31 December 2015.

	Rs.000		Rs.000
Amounts credited by bank	35,170	Balance 1 January 2015	892
		Payments for trade payables	30,500
		Rent and rates	475
		Fixtures	100
		Lighting and heating	210
		General expenses	800
		Loan interest	120
		Drawings	900
		Customers' cheques dishonoured	180
		Balance 31 December 2015	993
	35,170		35,170

Additional information

(1) Trading receipts consisted partly of cash and partly of cheques. During the year Umar had paid out of his cash takings, wages amounting to Rs.2,950,000 and sundry expenditure of Rs.140,000. He retained Rs.3,000 a week and maintained a balance of Rs.20,000 in the till for change. The balance of his takings, together with cheques amounting to Rs.250,000, which he had cashed out of his takings for the convenience of certain friends, was paid into the bank.

(2) Cheques drawn payable to trade payables, but not presented at 1 January 2015, amounted to Rs.280,000 and at 31 December 2015 to Rs.320,000.

(3) All dishonoured cheques were re-presented and honoured during the year.

(4) The loan interest was paid to Brough who had lent Umar Rs.4,000,000 some years ago at a rate of interest of 3% per annum. The interest was duly paid half-yearly on 31 March and 30 September, and the loan was still outstanding at the end of the year.

(5) Discounts allowed by suppliers amounted to Rs.480,000 and those allowed to customers were Rs.520,000.

(6)

	1 Jan 2015	31 Dec 2015
	Rs.000	Rs.000
Inventories	4,500	5,800
(including a bad debt of Rs. 200,000 to be written off)	2,800	3,200
Accrued general expenses	240	190
Rates paid in advance	40	50
Fixtures (including those purchased during year) valued at	2,800	2,550
Trade payables	1,800	2,200
Amounts due for lighting and heating	80	70

Required:

Prepare

(a) a statement of Umar's capital at 1 January 2015 ***(4)***

(b) a statement of comprehensive income for the year ended 31 December 2015 ***(9)***

(c) a statement of financial position at 31 December 2015. ***(7)***

(20)

7.10 YASIN

Yasin received a legacy of Rs. 20,000,000 on 1 January 2015 and on that date purchased a small retail business. The completion statement from the solicitor revealed the following.

	Rs.000
Freehold shop property	10,000
Goodwill	2,000
Inventories	1,600
Trade receivables	400
Shop fixtures	2,600
Rates in advance to 31 March 2015	100
	16,700

The legacy was used to discharge the amount due on completion and the balance was paid into a newly opened business bank account.

Yasin had not kept proper records of his business transactions but was able to supply the following information.

(1) A summary of the cash till rolls showed his shop takings for the year to be Rs.25,505,000; this includes all cash received from customers including those at 1 January 2015.

(2) The takings had been paid periodically into the bank after payment of the following cash expenses.

	Rs.000
Wrapping materials	525
Staff wages	3,423
Purchases for resale	165
Petrol and oil	236

(3) Personal cash drawings were estimated at Rs.20,000 per week and goods taken for own use at Rs.2,000 per week.

(4) A summary of the bank statements showed the following.

	Rs.000		Rs.000
Legacy – residual balance	3,300	Purchases for resale	14,863
Sale of fixtures purchased		Motor expenses	728
at 1 January 2015 but not required (cost Rs.200,000; depreciation Nil)	130	Delivery van (cost – 1 April 2015)	1,200
Loan from Robin at 10% pa	2,000	General expenses	625
Cash banked	19,900	Loan interest	
		(six months to 30 September)	100
		Private cheques	1,329
		Electricity	228
		Rates (year to 31 March 2016)	500
		Balance per statement at	
		31 December 2015	5,757
	25,330		25,330

A cheque drawn on 28 December 2015 of Rs.125,000 for goods purchased was presented to the bank on 4 January 2016.

(5) During the year bad debts of Rs.223,000 arose and were irrecoverable. The trade receivables at 31 December 2015 amounted to Rs.637,000, of which Rs.100,000 is doubtful and for which an allowance should be recognised should be made.

(6) At 31 December 2015 there were

	Rs.000
Inventories	2,360
Store of wrapping materials	53
Trade payables – purchases	358
Electricity accrued	50
Accountancy fees accrued	100
Cash float in till	180

(7) The difference arising on the cash account was discussed with Yasin but remained unexplained and was dealt with in an appropriate manner.

(8) Depreciation is to be recognised at the rate of 10% per annum on the fixtures and at the rate of 20% on the van.

Required:

Prepare a statement of comprehensive income for the year ended 31 December 2015 and a statement of financial position at that date. ***(20)***

7.11 MUNIRA

Munira is engaged in trading of garments. She has not maintained proper accounting records. She suspects that some of her employees are involved in some sort of misappropriation. The list of creditors, receivables and inventories prepared by her, show the following balances:

	Balances at December 31	
	2015 Rs. 000	2014 Rs. 000
Trade payables	9,500	8,000
Trade receivables	3,600	2,000
Inventories at cost	8,500	12,500

The following transactions were recorded during the year ended December 31, 2015:

	(Rs. 000s)
Sales to staff on cash basis	315
Discounts allowed on early payments	360
Collections banked	18,000
Paid to suppliers in cash	12,700
Trade discounts received	400
Bad debts written off	200

Additional information

(i) Normal sales are made at cost plus 20% but sales to staff are made at cost plus 5%.

(ii) About 4% of the purchases during the year were defective and had to be sold at 30% below normal selling price.

(iii) The list of closing inventory at December 31, 2015 includes four items having a total cost of Rs. 470,000. There was a casting error on the invoice raised by the supplier and the total has been erroneously recorded as Rs. 740,000. The invoice is still unpaid.

(iv) Collections made in the last week of December 2015 amounting to Rs. 860,000 were deposited in bank on January 2, 2016. Likewise, collections made in the last week of December 2014 amounting to Rs. 500,000 were deposited in bank on January 2, 2015.

Required:

You are required to calculate the loss incurred by Munira during the year 2015 on account of misappropriations (if any). ***(19)***

7.12 ADNAN

Adnan runs a wholesale business. On December 31, 2015 he realised that his cash and bank balances have reduced considerably. He has requested you to investigate the situation and has provided you the following information:

(i) Balances

	2015 Rs.	2014 Rs.
Cash in hand	700	14,300
Cash at bank	103,400	349,100
Sundry receivables	80,900	48,700
Inventory	27,500	15,700
Sundry creditors	130,800	116,100
Rent payable (one month)	4,500	3,500
Electricity and telephone bills payable	8,800	-

(ii) 20% of the goods were sold on cash basis at a mark-up of 22% on cost. Credit sales were made at a profit of 20% on sales. All collections from receivables were made in cash.

(iii) Adnan paid wages, rent, electricity and telephone charges in cash out of sale proceeds. The remaining amount of sale proceeds was deposited into bank.

(iv) The bank pass book reveals the following withdrawals:

	Rupees
Creditors	1,423,800
Non-current assets (acquired on July 1, 2015)	75,000
Drawings	122,600

(v) All purchases were made on credit.

(vi) Wages amounted to Rs. 8,900 per month.

(vii) Payment on account of electricity and telephone charges amounted to Rs. 33,000.

(viii) Rent has been increased from October 2015.

(ix) The opening balance in the non-current assets account net of depreciation was Rs. 285,000. Depreciation is recorded @ 10% p.a. on declining balance method and is based on number of months for which the assets have been in use.

Required:

(a) Prepare Adnan's profit and loss account for the year ended December 31, 2015 and his statements of financial position as on that date.

(b) Compute the amount of cash shortage, if any. ***(18)***

7.13 ASIF

Due to the death of his book-keeper, Asif failed to keep proper records for the year ended June 30, 2015. He has forwarded to you the following statements:

Statement of financial position as at June 30, 2014

	Rs.	Rs.
Land and building at cost		130,000
Furniture: Cost	825,000	
Depreciation	(485,000)	340,000
Inventory		482,500
Trade receivables:	670,000	
Less: Provision	(27,000)	643,000
Prepayments		53,800
Cash in hand		10,000
		1,659,300

	Rs.
Asif-capital account	613,300
6% Loan	500,000
Trade creditors	500,100
Accrued expenses	21,700
Bank overdraft	24,200
	1,659,300

Summary of the transactions in the bank book for the year ended June 30, 2015

Receipts	Rs.	Payments	Rs.
Deposits against cash sales	624,750	Creditors	2,509,600
Receipts from receivables	3,071,000	Sundry expenses	212,500
Furniture sold on 1-Jul-12 (purchased for Rs. 280,000 on 1-Jul-09)		Salaries	440,400
	122,400	Furniture purchased on 01-Jan-13	64,000
		Interest on loan up to 31-Mar-13	22,500
Total	3,818,150	Total	3,249,000

You have carried out the necessary scrutiny and ascertained the following:

(i) Asif sells the goods at a profit margin of one-third of their selling price i.e. at a profit margin of 50% of cost of sales.

(ii) On June 30, 2015 trade receivables aggregated Rs. 600,500. These included Rs. 18,000 pertaining to goods which were sent on sale or return basis and were unsold on June 30.

(iii) Closing inventory was valued at Rs. 580,000.

(iv) Receipts from receivables include an advance of Rs. 2,500 for goods delivered in July 2015.

(v) Rs. 3,700 were recovered from a debtor which had been fully provided for on June 30, 2014. A new customer who was introduced in 2015 and owed Rs. 4,200 was declared as bankrupt.

(vi) Sundry expenses payable on June 30, 2015 amounted to Rs. 19,000 (excluding interest on loan) whereas prepayments amounted to Rs. 9,700.

(vii) Asif estimates that he withdrew Rs. 60,000 for his personal use and paid sundry expenses aggregating Rs. 25,000 before depositing the proceeds from cash sales.

(viii) Depreciation on furniture is provided at the rate of 10% per annum on cost.

(ix) Bonus is payable to the manager at 5% of the net profit after charging such bonus.

(x) The following account balances were obtained from the memorandum records:

	Rs.
Purchases	2,570,000
Discounts received	30,300
Sales returns	15,000

Required:

(a) A Profit & Loss account of Mr. Asif for the year ended June 30, 2015; and

(b) a statement of financial position as on June 30, 2015 ***(25)***

7.14 MANSOOR

Mansoor deals in small electrical equipment and appliances. His Statements of financial position for the year ended 30 June 2014 was as follows.

Assets		**Rupees**
Fixtures		235,000
Inventories		552,000
Receivables		281,000
Property tax paid in advance		11,500
Cash in hand		35,000
Cash at bank		307,500
		1,422,000

Capital and Liabilities		**Rupees**
Capital		1,185,000
Liabilities:		
Goods	220,000	
Electricity charges	5,500	
Accounting charges	11,500	237,000
		1,422,000

On 30 June 2015, there was a fire in his shop which destroyed all his fixtures and inventories. The following information has been gathered from the records available with him.

(a) The insurance company agreed to pay Rs. 225,000 for fixtures and Rs. 630,000 for inventory without production of accounts; the inventory on hand was however Rs. 670,000.

(b) The payments made during the year were as follows:

	Rupees		**Rupees**
Personal expenses	188,000	Property tax	32,000
Sundry expenses	15,000	Rent	240,500
Accounting charges	20,500	Purchase of goods	5,061,000
Electricity	50,500	Fixtures	45,000

(c) The following payments were made during the year, out of cash receipts:

(i) Assistant's salary Rs. 132,000.

(ii) Cash purchases averaging Rs. 24,000 per month.

(iii) Drawings which varied between Rs. 10,000 and Rs. 15,000 per month.

All other receipts were deposited into the bank. Total deposits amounted to Rs. 5,780,800 and included scrap sale of Rs. 35,000.

(d) The following balances as on 30 June 2015 were determined from the available records:

Assets and Liabilities	**Rupees**
Receivables	494,000
Creditors for goods	212,000
Creditors for electricity charges	1,900
Accounting charges payable	1,800
Rent outstanding	15,000
Property tax paid in advance	15,000
Cash in hand	40,500

(e) Included in the receivables is an amount of Rs. 14,000 which is considered uncollectible.

(f) The rate of gross profit as a percentage of sale was 20%.

Required:

Prepare the statement of comprehensive income for the year ended 30 June 2015 and a statement of financial position as on that date. ***(24)***

7.15 DANISH

Danish does not keep proper books of account due to his lack of knowledge of double entry system of accounting. He has supplied you the following information with respect to the year ended 31 December 2013 from the records kept in his diary:

(i) Transactions during the year:

	Rupees
Cash received from customers	80,000
Discount allowed to customers	1,400
Bad debts written off	1,800
Cash paid to suppliers	63,000
Discount allowed by suppliers	1,000
Sales returns	3,000
Purchases returns	2,000
Expenses paid	6,000
Drawings	5,000
Rent paid	2,500

(ii) Opening balances as on 1 January 2013:

Assets and liabilities	**Rupees**
Receivables	45,000
Payables	24,000
Cash	4,500
Furniture and fixtures	15,000
Inventory	25,000
Motor van	16,000

(iii) Receivables and payables as on 31 December 2013 amounted to Rs. 48,600 and Rs. 27,000 respectively.

(iv) Outstanding expenses as on 31 December 2013 amounted to Rs. 1,200.

(v) Depreciation is charged on furniture and fixtures at the rate of 10% and on motor van at 20%.

(vi) Danish sells goods at cost plus 40% and follows a policy of maintaining a allowance of 5% of the outstanding receivables.

Required:

(a) Statement of comprehensive income for the year ended 31 December 2013.

(b) Statement of financial position as at 31 December 2013. (21)

8 – BRANCH ACCOUNTS

8.1 HEAD OFFICE

The head office (HO) of a company invoices goods to its Branch at cost plus 20%. The Branch also purchases goods from local parties for which payments are made by the HO.

All cash collected by the branch is banked on the same day to the credit of the HO.

All expenses are paid by the HO except payments through petty cash account in which periodical transfers are made from the HO.

Following information is available in respect of the branch, for the year ended 31 December 2015:

	Rs. 000
Cash sales	45,000
Credit sales	130,000
Direct purchase	45,000
Returns from customers	3,000
Goods sent to Branch from HO at invoice price	60,000
Amount transferred from HO for petty cash expenses	250
Bad debts	1,000
Discount to customers	2,000
Cash received from customers	125,000
Branch expenses	30,000
Petty expenses incurred by the branch	265
Balances on 1 January 2015:	
Imprest Cash	200
Sundry Receivables	25,000
Inventory: Transferred from HO at invoice price	24,000
Directly purchased by branch	16,000
Inventory on 31 December 2015:	
Transferred from HO at invoice price	18,000
Directly purchased by branch	12,000

Required:

Prepare Branch Account in the books of the HO for the year ended 31 December 2015 showing the profit made by the branch. ***(14)***

8.2 DIAMOND LTD (I)

Diamond Ltd. invoices goods to its branch at cost.

The branch makes cash and credit sales. The collections from cash sales as well as receivables are remitted to head office after paying branch's expenses.

On 1 January 2015 the assets at the branch were as follows:

	Rs.
Cash in hand	10,000
Trade receivables	395,000
Inventory	1,000,000
Furniture and fittings	500,000

During the year ended 31 December 2015 the head office sent goods to the branch in the amount of Rs. 11,750,000.

Transactions at the branch were as follows:

	Rs.
Cash sales	10,680,000
Credit sales	3,192,000
Cash collected by branch from credit customers	2,842,000
Cash remitted to head office	to be calculated
Cash discount allowed to receivables	70,000
Returns by customers	132,000
Bad debts written off	45,000
Expenses paid by branch	850,000

On October 1, 2015 the branch purchased new furniture for Rs. 100,000 for which payment was made by head office through a cheque.

Furniture is depreciated @ 16% per annum on the diminishing balance method.

On 31 December 2015 the assets at the branch were as follows:

	Rs.
Cash in hand	nil
Trade receivables	498,000
Inventory	1,300,000
Furniture and fittings	to be calculated

Required:

Prepare the branch account in the books of head office and a branch trading statement, for the year ended December 31, 2015. ***(20)***

8.3 DIAMOND LTD (II)

Diamond Ltd. invoices goods to its branch at cost plus 20%. The branch makes cash and credit sales at the invoice price. The collections from cash sales as well as receivables are remitted to head office after paying branch's expenses.

On January 1, 2015 the assets at the branch were as follows:

	Rs. in '000
Cash in hand	10
Trade receivables	395
Inventory (at invoice price)	1,200
Furniture and fittings	500

During the accounting year ended December 31, 2015 the invoice price of goods dispatched by the head office to branch amounted to Rs. 14,100,000.

Transactions at the branch were as follows:

	Rs.
Cash sales	10,680,000
Credit sales	3,192,000
Cash collected by branch from credit customers	2,842,000
Cash remitted to head office	to be calculated
Cash discount allowed to receivables	70,000
Returns by customers	132,000
Bad debts written off	45,000
Expenses paid by branch	850,000

Furniture is subject to depreciation @ 16% per annum on diminishing balance method. On October 1, 2015 the branch purchased new furniture for Rs. 100,000 for which payment was made by head office through a cheque.

On 31 December 2015 the assets at the branch were as follows:

	Rs.
Cash in hand	nil
Trade receivables	498,000
Inventory	1,300,000
Furniture and fittings	to be calculated

Required:

Prepare the branch account in the books of head office for the year ended December 31, 2015. ***(23)***

8.4 SUNIL PATEL

Sunil Patel is the proprietor of an expanding business in Lowtown. He owns a shop which sells handbags, cases and various leather goods. The business is organised from offices above the shop, with ample storage space in the warehouse at the rear of the premises. Mr Patel seeks to expand his business and has opened a branch shop 100 kilometres away in Hightown.

Sales are on cash or credit terms. Credit customers settle their accounts through the office at Lowtown. This office maintains all the accounting records for the business. Mr Patel undertakes the buying of goods, which are then charged out from the stores to the branch at selling price, i.e. cost plus 25% mark up.

The Branch Manager is responsible for banking cash takings on a daily basis, and is permitted to use cash received from sales to meet local expenses and pay the shop wages each week.

The Branch account is balanced monthly.

The following figures relate to the Hightown Branch for November 2015, and are shown at selling prices.

	Rs.000
Balances at 1 November	
Branch inventory	21,620
Branch receivables	14,270
Transactions during November	
Inventory transferred to branch from store	119,330
Inventory returned to store from branch	1,245
Cash banked in Hightown	54,837
Credit sales in Hightown	65,241
Damaged inventory written off at Hightown	315
Credit sales returned by customer to Hightown	916
Receipts from Hightown credit customers banked in Lowtown	58,793
Branch expenses paid in Hightown	3,432
Branch wages paid in Hightown	1,920
Inventory counted on 30 November at Hightown (at selling price)	13,500
Branch expenses paid by Lowtown office	14,861
Bad debts written off Hightown branch receivables	1,815

The damaged inventory written off at Hightown and any shortage found as a balancing figure on the branch inventory account is to be treated as a normal loss.

Required

(a) Write up the appropriate ledger accounts for the above transactions of the Hightown Branch in the Head Office ledger. ***(17)***

(b) Advise Mr Patel of four possible reasons for any inventory loss that has been shown up by the accounts. ***(6)***

(23)

8.5 ALI & CO.

Ali & Co., invoices goods to its Sukkur Branch at list price which is cost plus 25%.

All sales by the branch are made on credit.

The following information is available in respect of the year ended December 31, 2015:

	Rupees
Opening balances:	
Branch inventory at invoice price	18,000
Branch receivables	7,000
Transactions during the year:	
Goods sent to branch at invoice price	240,000
Goods returned by branch to head office	8,000
Credit sales by the branch	227,000
Goods returned to branch by customers	1,050
Goods returned by customers of the branch direct to head office	10,200
Closing balances:	
Branch physical inventory at invoice price	10,450
Branch receivables	2,950

At the year-end, goods invoiced for Rs. 10,000 were in transit and reached the branch on January 3, 2016. Certain goods were lost in fire at the branch.

Required:

Prepare the following accounts for the year ended December 31, 2015 in the books of the head office:

(a) Branch inventory account

(b) Branch receivables account

(c) Goods sent to branch account

(d) Branch mark-up account ***(19)***

8.6 ABC ENTERPRISES

The head office of ABC Enterprises is in Lahore. It has a branch in Faisalabad, where all sales are made on credit basis. All purchases are made by the head-office. Goods sent to Faisalabad are invoiced at the selling price which is 33⅓% above cost. The head office maintains the inventory account at cost, with a memorandum column for selling prices. Following information is available in respect of the branch, for the year ended December 31, 2015:

	Rupees
Inventory as at December 31, 2014 at selling price	280,800
Branch receivables as at December 31, 2014	93,600
Branch receivables written-off	15,600
Branch receivables realised and remitted to head office	1,185,600
Discount allowed to branch receivables	49,400
Inventory returned to head office at invoice price	46,800
Credit notes issued to customers on account of sales returns	10,000
Branch sales	1,289,600
Inventory sent to Faisalabad branch at selling price	1,404,000

Required:

Record the above transactions in the following accounts for the year ended December 31, 2015:

(a) Branch inventory account.

(b) Goods sent to branch account.

(c) Branch receivables account. ***(15)***

8.7 KAMRAN ENTERPRISE

Kamran Enterprise (KE) purchases shoes from a number of manufacturers and sells these through three shops. All bookkeeping records are kept at head office. Inventory is transferred from head office to the shops at selling price. KE earns a margin of 12.5% on selling price.

The following figures relate to the year ended 30 June 2015:

	Shop 1 Rs.	Shop 2 Rs.	Shop 3 Rs.
Opening inventory (selling price)	2,716,000	3,123,000	2,444,000
Goods sent to branch (selling price)	32,591,000	37,479,000	29,332,000
Sales	33,332,000	37,529,000	28,937,000
Closing inventory (selling price)	2,500,000	1,990,000	3,091,000

The opening and closing inventory figures were arrived at by means of a physical inventory count.

A portion of the inventory at Shop 2 was damaged due to floods during May-June 2015. This included badly damaged inventory which was disposed of at nil value before 30 June 2015.

Part of the undamaged inventory in the shop was transferred to Shop 1 and 3, where it was treated as normal trading inventory.

None of the shop managers kept proper records of the quantities transferred. Similarly, no record is available in respect of quantities of badly damaged inventory which was disposed of at no value.

On the basis of physical inventory count, it has been found that closing inventory of Shop 2 includes damaged inventory of Rs. 685,000 which can be sold at a discount of 40%.

Required:

(a) Estimate the cost of inventory transferred from Shop 2 to Shops 1 and 3 after the flood and the cost of inventory which was disposed of at Nil value by Shop 2. ***(9)***

(b) Prepare Trading Account to show the gross profit of each shop for the year ended 30 June 2015. ***(10)***

8.8 RAMEEZ

Rameez started up in business on 1 April 2014 in a shop that he acquired in Faisalabad on an 8 year lease. He also rented premises in Multan that were managed by a salaried branch manager.

He acquired job lots of plastic toys and packaged them to customers' order. The packaging was a feature of his marketing and so he spent 10% of the cost price of the toys on the packaging and sold them at a profit of 12% of selling price. Packaged toys were sent to Multan at selling price less 6%.

The trial balance at 31 March 2015 showed.

	Head office		Branch	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Capital		50,000		
Fixtures in Faisalabad	8,000			
Purchase of toys	200,000			
Purchases of packaging	22,000			
Sales		140,000		75,000
Inventory sent to branch		79,900	78,452	
Expenses	20,000			2,000
Receivables	14,000		7,500	
Payables		20,000	2,000	
Current account				
Head Office				14,052
Branch	18,000			
Bank balance	7,900		3,100	
	289,900	289,900	91,052	91,052

The following information is also given.

(a) Packaged inventory despatched by Faisalabad to Multan on 29 March were not received in Multan until 5 April 2015. The selling price of the inventory to the public was to be Rs.1,540.

(b) Multan had sent Rs.2,500 to Faisalabad on 30 March 2015. The cash was not received in Faisalabad until 6 April 2015.

(c) The annual physical inventory count on 31 March 2015 revealed

- (i) Toys costing Faisalabad Rs.500 were considered obsolete.
- (ii) Packaging material at Faisalabad costing Rs.250 was unusable.
- (iii) The Multan inventory count revealed an inventory shortage of Rs.650 at invoice price from Faisalabad to the branch.

(d) Provision is to be made for a bonus to the Multan manager of 10% of net profit after commission.

(e) Provision is to be made for depreciation on fixtures over the term of the lease.

Required

Prepare statements of comprehensive income for the year ended 31 March 2015 and statement of financial positions for the Head Office, the Branch, and the whole business as at 31 March 2015. ***(25)***

CHAPTER 9 – FUNDAMENTALS OF COST ACCOUNTING

9.1 SIGMA LTD

The managing director of Sigma Ltd is concerned about the differences between the reports produced and records maintained by you, as management accountant, and by the company's financial accountant.

Required:

Explain the differences between:

(i) the profit statements produced, and

(ii) the accounting records maintained by the two of you. ***(12)***

9.2 MANAGEMENT INFORMATION FUNCTIONS

Outline the three main functions of management for which information must be provided. ***(7)***

9.3 JOHN PIRELLI

John Pirelli has been running a small printing business for the past six months; his accounting records are limited to an analysed cash book, cheque book stubs and a file of invoices. Both he and his accountant are happy with this for the preparation of annual accounts for the Inland Revenue and the bank, but John Pirelli now wants more information for controlling the business.

When talking to his accountant about setting up a suitable costing system, John Pirelli was clear about the difference between management and financial accounts. However, he became very confused over different categories of cost and has asked you for some clarification.

Required:

Explain the distinction between:

(i) direct and indirect costs

(ii) fixed and variable costs

(iii) production and non-production costs

(iv) committed and discretionary costs. ***(10)***

9.4 CLASSIFICATION OF COSTS

(a) Explain the terms fixed, variable and semi-variable costs.

(b) Classify the following expenses under the headings in (a):

(i)	Telephone charges	(vii)	Direct materials
(ii)	Factory insurance	(viii)	Lift operator's wages
(iii)	Legal expenses	(ix)	Machine servicing and repairs
(iv)	Social security (%)	(x)	Foreman's salary
(v)	Rent of premises	(xi)	Contract cleaning services
(vi)	Light and heat	(xii)	Casual labour

(10)

9.5 REGRESSION 1

Total production costs each week in a production department have been measured for the past five weeks, as follows.

Week	Units produced	Total cost
		Rs.000
1	5	20
2	9	27
3	4	17
4	5	19
5	6	23

Required

(a) Use linear regression analysis to obtain an estimate of fixed costs per week and the variable cost of production per unit.

(b) Use your results to estimate total costs in a week when 8 units are produced.

(c) Estimate a value for fixed costs and variable costs from the same data, using the high/low analysis, and use the values that you obtain to estimate total costs in a week when 8 units are produced.

9.6 REGRESSION 2

A company has achieved the following total sales in each year for the past five years:

Year	Total sales
	Rs. million
20X4 = Year 1	12
20X5 = Year 2	15
20X6 = Year 3	15
20X7 = Year 4	18
20X8 = Year 5	19

Required

Use linear regression analysis to establish a formula for the trend line in sales, and use this formula to estimate what total sales should be in Year 6 and Year 7.

To produce your answer, you can make use of the following calculations:

Year	Total sales			
x	y	xy	x^2	y^2
1	12	12	1	144
2	15	30	4	225
3	15	45	9	225
4	18	72	16	324
5	19	95	25	361
15	79	254	55	1,279

9.7 COST ESTIMATION

The following recorded monthly costs of production will be used to estimate fixed costs per month and the variable cost per unit:

Output	Total cost
000 units	Rs.000
17	63
15	61
12	52
22	74
18	68

Required

(a) Using the high low method, estimate the fixed costs per month and the variable cost per unit. Use your estimate to budget the total costs in a month when output is 25,000 units.

(b) Using linear regression analysis, estimate the fixed costs per month and the variable cost per unit. Use your estimate to budget the total costs in a month when output is 25,000 units.

9.8 IMI LIMITED

The records of direct labour hours and total factory overheads of IMI Limited over first six months of its operations are given below:

	Direct labour	Total factory overheads
	Hours in 000	**Rs. In 000**
September 2009	50	14,800
October 2009	80	17,000
November 2009	120	23,800
December 2009	40	11,900
January 2010	100	22,100
February 2010	60	16,150

The management is interested in distinguishing between the fixed and variable portion of the overheads.

Required:

Using regression analysis, estimate the variable cost per direct labour hour and the total fixed cost per month. **(07)**

9.9 BULBUL LIMITED

Bulbul Limited (BL) produces a specialized product for industrial customers. Following are the details of BL's monthly production and associated cost for the past six months:

Months	Units	Cost (Rs. '000)
March	75	900
April	60	700
May	65	850
June	80	950
July	105	1,200
August	95	1,040

Required:

Using regression analysis, calculate the estimated cost to produce 110 units.

A

Answers

CHAPTER 1 – IAS 2: INVENTORIES

1.1 SHADUR RETAIL

(a) Reasons why NRV may be less than cost

- Due to damage
- Due to obsolescence (wholly or in part)
- Due to declining selling prices
- Due to increasing cost of completion/costs of making sale.

(b) (i) Cost on a FIFO basis

Date purchased	*Units*	*Per unit* Rs.000	*Cost* Rs.000
30 December	70	506	35,420
16 December	60	503	30,180
2 December	20	500	10,000
	150		75,600

(ii) NRV

NRV = selling price less selling and distribution costs = selling price × 95%

Date sold	*Units*	*Per unit* Rs.000	*NRV* Rs.000
14 January	70	497.80	34,846
28 January	50	495.90	24,795
11 February	30	494.00	14,820
			74,461

(iii) Amount to be included in financial statements

Lower of cost and net realisable value: Rs. 74,461,000

1.2 MEASUREMENT OF INVENTORIES

(a) **IAS 2 requirements**

Overheads

The Standard requires inventories to be measured at the lower of cost and net realisable value. The term "cost" includes "cost of conversion" (where appropriate). "Cost of conversion" includes "the systematic allocation of fixed and variable production overheads". Fixed production overheads are indirect costs of production that remain relatively constant regardless of the volume of production (e.g. depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration). Fixed production overhead per unit must be based on the normal level of activity.

Lower of cost and net realisable value (NRV)

Inventories are usually written down to NRV on an item by item basis. In some circumstances it may be appropriate to group similar or related items.

Identification of costs

Specific identification of costs is inappropriate where there are large numbers of items which are ordinarily interchangeable. The cost of such inventories should be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas.

(b) **Disclosure requirements of IAS 2**

- ❑ Accounting policies used in measuring inventories including the cost formula used.
- ❑ The total carrying amount and the carrying amount in appropriate classifications.
- ❑ The carrying amount of inventories carried at net realisable value.
- ❑ The carrying amount of inventories pledged as security for liabilities.

1.3 KHEWRA MANUFACTURING

	Rs.000
Raw materials (2,000 x 180,000 (W1))	360,000
Finished goods (2,000 x 228,000 (being the lower of cost **(W1)** and NRV **(W2)**)	456,000
	816,000

Workings

1 **Cost per unit**

	Rs.000
Raw materials	150,000
Import duties	10,000
Transport costs (to present location and condition)	20,000
Total raw materials cost	180,000
Variable costs	25,000
Fixed costs (Rs.30,000,000 ÷ 1,000) (based on normal level of activity)	30,000
Total finished goods cost	235,000

2 **Net realisable value of finished goods**

	Rs.000
Estimated selling price	240,000
Less: All costs necessary to make the sale (as above)	(12,000)
	228,000

1.4 SUPERIOR ENTERPRISES

Weighted average price method

	Product A		Product B		Product C		Product D		Total	
	Units	**Cost**	**Units**	**Cost**	**Units**	**Cost**	**Units**	**Cost**	**Units**	**Cost**
Opening inventory	30	60,000	60	90,000	40	120,000	80	200,000	210	470,000
Purchases										
Invoice value	360	810,000	780	1,560,000	560	1,820,000	600	1,650,000		5,840,000
Non-refundable duties		90,000		150,000		200,000				440,000
Transportation charges		36,000		78,000		56,000		60,000		230,000
		936,000		1,788,000		2,076,000		1,710,000		6,510,000
Goods available for sales	390	996,000	840	1,878,000	600	2,196,000	680	1,910,000		6,980,000
Sales	350		800		580		350			
Closing inventory	40	102,154	40	89,429	20	73,200	330	926,912		1,191,695
Cost per unit		2,554		2,236		3,660		2,809		
Realisable value less transport cost		1,590	{(60x2900)-150}			3,350	(3500-150)			
Write off of inventory per unit		964				310				
Write off of inventory - total	10	9,640				6,200				15,840
Value of closing inventory net of write off										1,175,855
Cost of sales										5,804,145

Notes:

(i) Inventories are valued at the lower of weighted average cost and net realisable value.

(ii) An amount of Rs. 15,840 has been charged to cost of sales, being the cost of inventories written down during the year.

(iii) Value of inventory at the end of the year and cost of sales during the year amounted to Rs. 1,175,855 and Rs. 5,804,145 respectively.

(iv) Inventories valuing Rs. 561,800 (200 × 2,089) have been pledged with a bank as security against a short term loan which is repayable on March 31, 2016.

1.5 INTERNATIONAL ACCOUNTING STANDARDS

(i) Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(ii) Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one accounting period.

1.6 NKL ENTERPRISES

Cost of production

	Rupees
Raw materials: Opening inventory	540,000
Purchases	845,000
Closing inventory	(600,000)
Raw Materials consumed	785,000
Direct labour	735,000
Depreciation cost	80,000
Factory manager's salary	47,600
Indirect labour	148,000
Indirect material consumed	45,000
Other production overheads	84,000
	1,924,600
Less: work-in-progress – closing	250,000
Cost of 8,000 units of finished goods produced	1,674,600

Finished goods	Units	Amount (Rs.)
Opening inventory	4,000	880,000
Production	8,000	1,674,600
Total	12,000	2,554,600
Closing inventory	5,000	1,064,416

1.7 FASHION BLUE ENTERPRISES

(a) Fashion Blue Enterprises: Statement reconciling the inventory balance

	Recorded Balance Rs. 000	Physical Count Rs. 000
Balance prior to adjustment	73,410	71,400
Add: Goods sold, but not dispatched by 31 December 2015	300	
Less: Goods held on behalf of third parties		(200)
Add: Unrecorded purchases	410	
Add: Goods purchased, in transit at 30 December 2015		400
Add: Goods at Sialkot undercasted		90
Less: Unrecorded purchase return	(2,500)	
Add: Adjustment of sales to Saleem now recorded at cost (780 × $^{30}/_{130}$)	180	
Less: Inventory shortfall / loss (balancing figure)	(110)	
(b) Value of inventory at 31 December 2015	**71,690**	**71,690**

No adjustment required for goods costing Rs.310,000 sold on credit to Skims Industries Ltd.

The value of inventory that should be recorded in the Statements of financial position is Rs. 71,690 thousand

(c) Adjustments in the books of Fashion blue enterprises

		Debit	Credit
		Rs. 000	**Rs. 000**
(i)	Inventory	300	
	Cost of goods sold		300
(iii)	Inventory	410	
	Account payable – Mustafa & Co.		410
	Being: Correction of unrecorded purchases		
(iv)	Account payable (Ali Garments)	2,500	
	Inventory		2,500
	Being: Correction of unrecorded purchases return		
(viii)	Inventory account	180	
	Cost of sales		180
	Being: Sales to Saleem recorded at sale price instead of cost now adjusted		
Part (a)	Inventory losses / write downs (P&L)	110	
	Inventory		110
	Being: Unexplained difference / inventory theft / inventory damage		

1.8 KHAN LIMITED

Khan Limited: Inventory Reconciliation Statement

		Rs.	Rs.
	Inventory as per physical inventory at July 14, 2015		185,000
(i)	Less: Purchases for July 1 to 14, 2015 included in the physical inventory:		
	Payment against purchases	48,000	
	Adjustments to the above		
	Last year purchases	(5,000)	
	Purchased and not delivered yet	(6,000)	
	Purchased and returned July 07	(2,000)	(35,000)
(ii)	Add: Sales for July 1 to 14, 2015 excluded from the physical inventory:		
	Collection against sales	60,000	
	Adjustments to the above		
	Last year sales	(1,500)	
	Sold and not delivered	(2,800)	
	Sold and returned	(760)	
		54,940	
(v)	Sales on account	10,000	
		64,940	
(iii)	Profit element (25% of 64,940)	(16,235)	
	Cost of sales during 1-14 July		48,705
(iv)	No adjustment is required for purchase of goods on June 28 for Rs, 6,000, as already included in inventory on 14 July, 2015		–
(vi)	Error in carry forward of page total		(1,000)
	Error in casting		200
(vii)	Goods held on consignment		(2,200)
			198,705

1.9 MUGHAL TRADING CORPORATION

(a) (i) **FIFO**

Date	Cost of sales - issue Units	Unit cost	Total	Cost of sales	Closing inventory
			Rupees		
14-Jan	300	22	6,600		
	200	23	4,600	11,200	
21-Jan	200	23	4,600		
	300	25	7,500	12,100	
28-Jan	100	25	2,500	2,500	
Closing inventory	400	26	10,400		10,400
				25,800	10,400

OR

Particulars	Units	Per unit cost	Total
Opening inventory	300	22	6,600
Purchases	1,200		29,600
Closing inventory (Rate of last purchases)	400	26	(10,400)
Cost of sales	1,100		25,800

(ii) **Weighted average cost**

Date	Particulars	Cost of sales - issue Units	Unit cost	Total	Cost of sales	Closing inventory
				Rupees		
1-Jan	Opening inventory	300	22.000	6,600		
10-Jan	Purchases	400	23.000	9,200		
		700	22.571	15,800		
14-Jan	Sales	500	22.571	11,286	11,286	
		200	22.575	4,515		
20-Jan	Purchases	400	25.000	10,000		
	-	600	24.192	14,515		
21-Jan	Sales	500	24.192	12,096	12,096	
		100	24.190	2,419		
25-Jan	Purchases	400	26.000	10,400		
		500	25.638	12,819		
28-Jan	Sales	100	25.638	2,564	2,564	
31-Jan		400	25.638	10,255	25,946	10,255

(b)

	Rupees
Inventory value on 17 January 2016	675,000
Less: Adjustment NRV (15,000 – 12,000)	(3,000)
Add: Cost of sales (normal sales 250,000 × 80% × 100/125)	160,000
Cost of sales {discounted sales 250,000 × 20% × 100/(125×0.92)}	43,478
Purchases	(155,710)
Purchase returns	1,990
Inventory value on 31 December 2015	721,758

Goods sold on 4 January 2016 and returned on 12 January 2016, no entry.

(c)

(i) Include

(ii) Include

(iii) Include

(iv) Do not include

(v) Include

(vi) Do not include

(vii) Do not include

(viii) Do not include

(d) (i) Cost of sales will be lower whereas profit and inventory will be higher.

(ii) Cost of sales will be higher by Rs. 65,000 whereas profit and inventory will be lower by the same amount.

1.10 AFRIDI

Statement showing the amount of physical inventory as on March 31, 2015

	Rupees
Inventory as on December 31, 2015 **(W1)**	140,025
Add: Purchases for the quarter **(W2)**	145,360
	285,385
Less: Adjusted Cost of sales **(W3)**	(100,345)
Less: goods given in charity ($^{100}/_{120}$ of Rs. 2,100)	(1,750)
Physical inventory balance as on March 31, 2015	183,290

Working - 1

Inventory as on December 31, 2014

Inventory as valued previously	140,525
Add: Cost of 1,000 items recorded at Re. 0.50 per item instead of Rs. 10 per item.	9,500
	150,025
Less: error in carry forward of a page total	(10,000)
Actual inventory as on December 31, 2014	140,025

Working - 2

Purchases for the quarter ended March 31, 2015

Total of invoices from Jan. 01 to Mar. 31, 2015 as per purchased day book	138,560
Add: Goods purchased before march 31, 2015 but recorded in April 2015	37,000
Less : Invoices pertaining to Goods received before December 31, 2015	(28,000)
Less : Purchase of ceiling fan	(2,200)
	145,360

Working - 3

Cost of sales for the quarter

Total of sales invoices raised from January 01 to March 31, 2015	151,073
Add: Goods dispatched before March 31, 2015 but invoiced in April 2015	25,421
Less: Goods dispatched before December 31, 2014 but invoiced during the quarter ended March 31, 2015	(38,240)
Less: sales return during the quarter	(12,800)
Less: Sale invoice recorded twice	(5,760)
Net sales	119,694
Add: Discount allowed (6,000 × 1.20 = 7,200 × 10%)	720
Sales before discount	120,414
Less: gross margin of 20% on cost (120,414*20/120)	(20,069)
	100,345

1.11 SUN SOYA OIL & COMPANY

	Rs. 000	Rs. 000
Value of physical inventory as on 3 July 2015		24,000
Add: Cost of sales between 1st and 3rd July		
(a) Sales during 1-2 July 2015	4,000	
- Goods dispatched on 29 June 2015 but not invoiced	(200)	
- Goods dispatched after inventory-taking	(400)	
- Goods on sale or return basis	(200)	
	3,200	
(b) Returns inward/Sales returns	(600)	
	2,600	
Gross profit @ **25%** of above	(650)	1,950
Goods on sale or return basis (200 × 0.75)		150
(c) Purchase invoices received on 1 and 2 July	(1,800)	
- Goods received in June 2015	600	
- Goods received on 7 July	300	
	(900)	
(d) Purchase Returns	400	(500)
Inventory at Abbotabad		3,000
Overvaluation of inventory		(450)
Value of inventory as on 30 June 2015		28,150

CHAPTER 2 – IAS 16: PROPERTY, PLANT AND EQUIPMENT

2.1 SUNDRY QUESTIONS

1 The cost of the machinery should include the delivery cost and also the cost of preparation work or modification work carried out by the entity to enable the machinery to be installed and become operational. = Rs.50.3 million (46 + 0.9 + 3.4).

2

	Rs.000
Cost	400,000
Adaptation	12,000
Legal fees	2,500
	414,500

3

Depreciation charge	Rs.
On asset disposed of in the year: 25%× Rs.80,000 × 9/12	15,000
On other assets held at the beginning of the year: 25%× (Rs.960,000 - Rs.80,000)	220,000
On assets purchased in the year: 25%× Rs.200,000 × 6/12	25,000
Total depreciation charge	260,000

4

	Rs.000
Cost	7,800
Depreciation (7,800 × 20% × 3 years)	(4,680)
Net book value	3,120
Trade in value	(2,400)
Loss on disposal	720

5 Original depreciation = Rs.550 million /50 years = Rs.11 million
Revised depreciation = Rs.1,100 million /40 years = Rs.27 million

6

	Rs.m	Rs.m
Land (520 - 250)		270
Buildings – cost	400	
depreciation (400/50 x 4 years)	(32)	
Net book value	368	
Revaluation	750	
Transfer to revaluation reserve		382
Total revalution surplus		652

2.2 LAHORE MOTORS LIMITED

Vehicle a/c

2012	Rs.000	*2012*	Rs.000
Cash	372,000	Balance c/d	372,000
2013		*2013*	
Balance b/d	372,000		
Cash	108,600	Balance c/d	480,600
	480,600		480,600
2014		*2014*	
Balance b/d	480,600	Disposals	37,200
Disposals (allowance)	18,000		
Cash (βal fig)	21,600	Balance c/d	483,000
	520,200		520,200
2015		*2015*	
Balance b/d	483,000	Disposals	279,000
Disposals (allowance)	48,000		
Cash (βal fig)	267,000	Balance c/d	519,000
	798,000		798,000
2010			
Balance b/d	519,000		

Accumulated depreciation a/c

2012	Rs.000	*2012*	Rs.000
Balance c/d	93,000	Depreciation a/c (25% × Rs.372,000,000)	93,000
2013		*2013*	
		Balance b/d	93,000
Balance c/d	213,150	Depreciation a/c (25% × Rs. 480,600,000)	120,150
	213,150		213,150
2014		*2014*	
Disposals	18,600	Balance b/d	213,150
Balance c/d	315,300	Depreciation a/c (25% × Rs.483,000,000)	120,750
	333,900		333,900
2015		*2015*	
Disposals	209,250	Balance b/d	315,300
Balance c/d	235,800	Depreciation a/c (25% × Rs.519,000,000)	129,750
	445,050		445,050
		2010	
		Balance b/d	235,800

Depreciation a/c

	Rs.000		Rs.000
2012		*2012*	
Accumulated depreciation	93,000	P&L	93,000
2013		*2013*	
Accumulated depreciation	120,150	P&L	120,150
2014		*2014*	
Accumulated depreciation	120,750	P&L	120,750
2015		*2015*	
Accumulated depreciation	129,750	P&L	129,750

Disposals a/c

	Rs.000		Rs.000
2014		*2014*	
Vehicle a/c	37,200	Accumulated depreciation (W1)	18,600
		Vehicle a/c (allowance against car)	18,000
		Loss on disposal	600
	37,200		37,200
2015		*2015*	
Vehicle a/c	279,000	Accumulated depreciation (W2)	209,250
		Vehicle a/c (allowance)	48,000
		Loss on disposal	21,750
	279,000		279,000

WORKINGS

(1) **Depreciation on 2014 disposals**

2 years @ 25% × Rs.37.2 million = Rs.18.6 million

(2) **Depreciation on 2015 disposals**

3 years @ 25% × Rs.279 million = Rs.209.25 million

Note: Detail of dates is not given so depreciation has been charged on year basis.

2.3 MB LIMITED

(a) Asset revaluation

Working: Annual depreciation = Rs.(180 million – 20 million)/10 years = Rs.16 million.

Accumulated depreciation to 31 December 2013 (= two years) = Rs.32 million.

Non-current asset

	Rs. m		Rs. m
Balance b/f	180	Revaluation account	180
Revaluation account	240	Balance c/f	240
	420		420
Balance b'f	240		

Accumulated depreciation

	Rs. m		Rs. m
Revaluation account	32	Balance b/f	32

Revaluation account

	Rs. m		Rs. m
Non-current asset a/c	180	Accumulated depreciation	32
Revaluation reserve	92	Non-current asset a/c	240
	272		272

Revaluation reserve

	Rs. m		Rs. m
		Revaluation account	92

(b) Disposal calculation

Working: Annual depreciation in 2014 = (Rs.240 million - Rs.0)8 years = Rs.30 million.

Net book value at the date of disposal in 2015 = Rs.240 million - Rs.30 million = Rs.210 million.

	Rs. m
Disposal value	225
Net book value at the date of disposal	210
Gain on disposal	15

	Rs. m
Gain on disposal (reported in statement of comprehensive income)	15
Transfer from revaluation reserve	92
Total increase in retained earnings reserve	107

Tutorial note

The transfer of the revaluation surplus from the revaluation reserve to retained earnings is recorded in the main ledger by:

Debit: Revaluation reserve: Rs.92 million

Credit: Retained earnings reserve: Rs.92 million.

2.4 CHINIOT TRUCKING LIMITED

(a) Lorries account entries

Lorries account

Date		Rs. 000	Date		Rs.000
1.5.2014	Balance b/d	68,000	31.7.2014	Disposal a/c (BOW1)	16,000
1.8.2014	Cash (FOW4)	35,000	15.12.2014	Disposal a/c (FOW4)	35,000
1.1.2015	Cash (HOW5)	41,000	1.4.2015	Disposal a/c (DOW3)	31,000
1.4.2015	Cash (JOW6)	6,000			
1.4.2015	Disposal account (part exchange)	20,000	30.4.2015	Balance c/d	88,000
		170,000			170,000
1.5.2015	Balance b/d	88,000			

Lorries disposal account

Date		Rs. 000	Date		Rs. 000
31.7.2014	Lorries a/c (BOW1)	16,000	31.7.2014	Allowance for depreciation a/c (BOW 1)	9,250
15.12.2014	Lorries a/c (FOW4)	35,000	31.7.2014	Cash (BOW1)	3,000
1.4.2015	Lorries a/c (DOW3)	31,000	1.12.2014	Allowance for depreciation a/c (BOW 1)	2,267
			31.12.2014	Cash (FOW4)	30,000
			1.4.2015	Allowance for depreciation a/c (DOW 3)	6,000
			1.4.2015	Lorries a/c – part exchange JOW 6 for DOW 3	20,000
			30.4.2015	P & L: loss on disposal	11,483
		82,000			82,000

Allowance for depreciation on lorries account

Date		Rs. 000	Date		Rs. 000
31.7.2014	Lorries disposal a/c (BOW 1) **(W)**	9,250	1.5.2014	Balance b/d	14,000
1.12.2014	Lorries disposal a/c (FOW 3) **(W)**	2,267			
1.4.2015	Lorries disposal a/c (DOW 3) **(W)**	6,000	30.4.2015	P & L: Charge for the year **(W)**	15,601
30.4.2015	Balance c/d	25,000			
		12,084			29,601
			1.5.2015	Balance b/d	12,084

(b) Statement of financial position (extract) at 30 April 2015

Non-current assets	Rs. 000
Lorries, at cost	88,000
Less: Accumulated depreciation	(12,084)
	75,916

(Note: The balance on the account at the end of the year represents the combined cost of lorries COW2, HOW5 and JOW6 = Rs.21 million + Rs.41 million + Rs.26 million).

Workings: Depreciation

	BOW 1	**COW 2**	**DOW 3**	**FOW 4**	**HOW 4**	**JOW 4**
Calculation	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**
Cost	16,000	21,000	31,000	35,000	41,000	26,000
Residual value	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Depreciable amount	15,000	20,000	30,000	34,000	40,000	25,000
Annual charge	3,000	4,000	6,000	6,800	8,000	5,000

	BOW 1	**COW 2**	**DOW 3**	**FOW 4**	**HOW 4**	**JOW 4**	
	Rs. 000	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**	
2012 depreciation							
$3,000 \times {}^{10}/_{12}$	2,500						
2013 depreciation	3,000						
$4,000 \times {}^{3}/_{12}$		1,000					
2014 depreciation	3,000	4,000					
$6,000 \times {}^{1}/_{12}$			500				**Total**
At 30 April 2014	8,500	5,000	500				14,000
2015 depreciation		4,000					
$3,000 \times {}^{3}/_{12}$	750						
$6,000 \times {}^{11}/_{12}$			5,500				
$6,800 \times {}^{4}/_{12}$				2,267			
$8,000 \times {}^{4}/_{12}$					2,667		
$5,000 \times {}^{1}/_{12}$						417	
Charge for the year	750	4,000	5,500	2,267	2,667	417	15,601
	9,250	9,000	6,000	2,267	2,667	417	
Disposal	(9,250)		(6,000)	(2,267)			
	–	9,000	–	–	2,667	417	12,084

2.5 ASLAM, BASHIR & COMPANY

		Dr. Rs.	Cr. Rs.
(i)	Repairs and maintenance - building	50,000	
	Building account		50,000
	(Fumigation cost previously capitalised now charged to revenue)		
	Accumulated depreciation – building (5,000 + 2,500)	7,500	
	Depreciation – building		7,500
	(Excess depreciation on Rs. 200,000 for six months reversed: Rs. 5,000		
	Depreciation on Revenue item of Rs. 50,000 reversed; 50,000÷20: Rs. 2,500)		
(ii)	Plant and machinery account	90,000	
	Loss on disposal of old generator	510,000	
	Accumulated depreciation – plant and machinery	300,000	
	Plant and machinery		900,000
	(To record disposal of old generator and the loss incurred thereby)		
	Depreciation – plant and machinery	1,500	
	Accumulated depreciation – plant and machinery		1,500
	(Adjustment of Depreciation on new generator short provided; Rs. 90,000 ÷ 15 ÷ 4)		
	Accumulated depreciation – plant and machinery	15,000	
	Depreciation – plant and machinery		15,000
	Depreciation on old generator provided for the whole year now adjusted for nine months; 900,000 ÷ 15 × 3 ÷ 12		
	Accumulated depreciation – plant and machinery	95,500	
	Depreciation – plant and machinery		95,500
	Depreciation on new generator provided for the whole year now adjusted for three months – 1,910,000 ÷ 15 × 9 ÷ 12		
(iii)	Accumulated depreciation – furniture and fixtures	32,500	
	Depreciation – furniture and fixtures		32,500
	*(Depreciation excess provided now reversed: **W1**)*		

W1

	Rs.
Cost of all furniture	3,075,000
Items fully depreciated	400,000
Depreciable assets	2,675,000
Depreciation on major repair (75,000/5)	15,000
Depreciation on remaining furniture and fixture ($^{2,675,000\,-\,75,000}/_{10}$)	260,000
	275,000
Depreciation provided	307,500
Amount to be reversed	32,500

2.6 AZFAR AND COMPANY

Machinery Account

		Rs.			Rs.
01.07.2013	Balance b/d	1,055,222	01.01.2014	Depreciation on disposal (W-1)	27,094
01.01.2014	Additions	600,000	01.01.2014	Disposal (W-1)	334,156
			30.06.2014	Depreciation (W-2)	104,096
			30.06.2014	Depreciation on additions (W-1)	45,000
			30.06.2014	Balance c/d	1,144,876
		1,655,222			1,655,222
01.07.2014	Balance b/d	1,144,876	30.06.2015	Depreciation (W-2)	146,670
			30.06.2015	Depreciation on disposal (W-1)	25,062
			30.06.2015	Disposal (W-1)	142,016
			30.06.2015	Balance c/d	831,128
		1,144,876			1,144,876

Machinery Disposal Account

		Rs.			Rs.
01.01.2014	Machinery account	334,156	01.01.2014	Sales proceeds	100,000
				Profit and loss A/c	234,156
		334,156			334,156
30.06.2015	Machinery account	142,016	30.06.2015	Sales proceeds	192,016
30.06.2015	Profit and loss account	50,000			
		192,016			192,016

Working – 1

		Machine I	Machine II
01.07.2011	Cost (300+200)	500,000	
01.01.2012	Cost		250,000
30.06.2012	Dep. @ 15%	(75,000)	(18,750)
30.06.2012	W.D.V	425,000	231,250
30.06.2013	Dep. @ 15%	(63,750)	(34,688)
30.06.2013	W.D.V	361,250	196,562
01.01.2014	Dep. @ 15%	(27,094)	
01.01.2014	W.D.V	334,156	
30.06.2014	Dep. @ 15%		(29,484)
30.06.2014	W.D.V		167,078
30.06.2015	Dep. @ 15%		(25,062)
30.06.2015	W.D.V		142,016

Working - 2

Working for depreciation expense and other adjustments:

		2015	2014
Closing balance	**A**	831,128	1,144,876
Additions during the year	**B**	–	600,000
Disposed during the year (WDV)	**C (W1)**	142,016	334,156
Depreciation			
On additions during the year	**D = B × 15% × $^{1}/_{2}$**	–	45,000
On closing balance excluding additions	**E =(A – B + D) × $^{15}/_{85}$**	146,670	104,096
On disposals during the year	**F (W1)**	25,062	27,094
Opening balance	**(A – B +C + D + E + F)**	1,144,876	1,055,221
Total depreciation		171,732	176,190

2.7 NAVEED ENTERPRISES

Vehicles at cost

01/07/11	Balance b/d **(W1)**	6,800,000	28/02/10	Vehicle disposal account	1,420,000
01/11/12	Additions **(W2)**	1,680,000	30/06/11	Balance c/d	7,060,000
		8,480,000			8,480,000
11/07/12	Balance b/d	7,060,000	30/04/12	Vehicle disposal account	1,200,000
01/09/12	Additions **(W2)**	2,820,000	30/06/12	Balance c/d	8,680,000
		9,880,000			9,880,000

W-1: Vehicles opening balance

Vehicle balance on 01/07/2013 (1,360,000 × 100/20) 6,800,000

W-2 : Cost of addition of Vehicles	**2014**	**2015**
Depreciation for the year	1,236,267	1,424,240
On deletions (1,420,000×0.8×0.2×8/12)	(151,467)	
On deletions (1,200,000×0.8×0.8×0.2×10/12)		(128,000)
On other b/f balances ((6,800,000-1,420,000)×0.8×0.2)	(860,800)	
On other b/f balances ((6,800,000-1,420,000-1,200,000)×0.8×0.8×0.2)		(535,040)
On additions during 2013 ((1,680,000-224,000) × 0.2)		(291,200)
Balance being dep. on additions during the year	224,000	470,000
Cost of vehicle purchased on 1/11/2013 (224,000 × 12/8/0.2)	1,680,000	
Cost of vehicle purchased on 1/9/2014 (470,000 × 12/10/0.2)		2,820,000

2.8 MJ ENTERPRISES

Non-current assets Account

Debit	**(Rs.)**	**Credit**	**(Rs.)**
Balance b/d	100,000	Gain/Loss on asset disposal **W1**	5,000
Gain/Loss on asset disposal **W2**	400	Gain/Loss on asset disposal	2,000
Cash (New machine)	800		
Inventory A/c (15,400/1.4)	11,000	Balance c/d	105,200
	112,200		112,200

Accumulated Depreciation Account

Debit	**(Rs.)**	**Credit**	**(Rs.)**
Gain/Loss on asset disposal (5,000 – 2,750)	2,250	Balance b/d	33,000
Gain/Loss on asset disposal **W2**	900	Depreciation Expense **W3**	9,985
Balance c/d	39,835		
	42,985		42,985

Gain/Loss on asset disposal

Debit	**(Rs.)**	**Credit**	**(Rs.)**
		Non-current assets Account **W2**	400
		Accumulated Depreciation Account	2,250
		Accumulated Depreciation	900
Non-current assets Account **W1**		Account	1,500
Non-current assets Account	5,000	Cash (Sale proceeds)	1,950
	2,000	P& L A/c – loss on disposal	
	7,000		7,000

W1:

The depreciation on asset up to June 30, 2015 is 45% i.e. 10% each year, therefore its NBV represents 55% of cost. Hence cost of asset = 2,750 ÷0.55 = Rs. 5,000

W2:	**Rupees**
Cost of asset	2,000
Depreciation 2011 – 2014 – (40%) + six months of 2015	(900)
Written down value at the date of exchange	1,100
Cost of new machine less amount paid (1,200 – 800)	400
Loss on exchange/disposal of asset	700

W3: Depreciation for the year

Depreciation on asset held throughout the year (100,000 – 5,000 – 2,000) *10%	9,300
Depreciation on asset sold (5,000 + 2,000) × 10% × $^{6}/_{12}$	350
Depreciation on new asset obtained in exchange (1,200*10%*$^{6}/_{12}$)	60
Depreciation on new asset (transferred from inventory) (11,000*10%*$^{3}/_{12}$)	275
Total depreciation for the year 2015	9,985

2.9 ZIAKOT STEEL WORKS

Plant and Machinery A/c

Balance b/d	712,000	Repairs wrongly capitalised	25,000
Trade in value (2014) now recorded	50,000	Machine traded-off	100,000
New machine purchased	60,000	Balance c/d	697,000
	822,000		822,000

Accumulated Depreciation A/c

Repairs wrongly capitalised	8,000	Balance b/d	240,000
Machine traded-off	42,400	Depreciation for the year	97,480
Balance c/d	287,080		
	337,480		337,480

Workings:

		Rs.
1.	Repair wrongly capitalised on 01.10.2012	25,000
	Less: Depreciation from 01.10.2012 to 30.06.2013	3,750
		21,250
	Less: Depreciation for 01.07.2013 to 30.06.2014	4,250
	WDV on 01.07.2014	17,000
2.	**Machine traded off in 2014**	
	Cost of machine (01.01.2012)	100,000
	Less: Depreciation for six months 01.01.2012 to 30.06.2013	10,000
		90,000
	Less: Depreciation 01.07.2012 to 30.06.2013	18,000
		72,000
	Less: Depreciation 01.07.2013 to 30.06.2014	14,400
		57,600
	Total depreciation provided up to 30.06.2014 (10,000 + 18,000 + 14,400)	42,400
3.	**Calculation of depreciation for 2014-2015**	**WDV**
	Opening balance	472,000
	Adjustment for prior year – repairs wrongly capitalised	(17,000)
	Disposal not recorded in 2014	(57,600)
	Short capitalised as trade-in value netted off against cost	47,500
		444,900
	Depreciation on Rs. 50,000 for the period 01.04.2014 to 30.06.2014	2,500
	Depreciation for full year on Rs.444,900 × 0.20	88,980
	Depreciation on machine purchase during the year (60,000 × 0.20 × 6/12)	6,000
		97,480

CHAPTER 3 – IAS 18: REVENUE

3.1 AYUB

Revenue recognition

IAS 18 *Revenue* requires that revenue should only be recognised when the risks and rewards of ownership of the goods have been transferred to the customer. This may be at the point of sale, but in this instance will not be until the installation process has taken place and the safety inspection is complete. Until this point in time the customer has not accepted the machine and so the risks and rewards of ownership have not passed.

Therefore, the revenue should not have been recorded at the year end. The transaction should be reversed, leading to a reduction in revenue and receivables of Rs.1.4 million. The machine should be returned to closing inventory at its cost of Rs.1 million. This will result in gross profit being reduced by Rs.0.4 million.

3.2 SALE OF GOODS AND LEISURE FACILITIES

(a) **Criteria for revenue recognition**

The significant risks and rewards of ownership have been transferred to the buyer. This usually coincides with transfer of legal title or passing of possession.

Neither continuing managerial involvement nor effective control over goods sold are retained.

The amount of revenue can be measured reliably.

It is probable that economic benefits associated with the transaction will flow to enterprise.

Costs incurred (or to be incurred) in respect of the transaction can be measured reliably.

(b) **Revenue recognition**

Membership subscriptions

The enterprise is performing a contractually agreed task (provision of sports and leisure facilities) over an agreed period of time (one year). As the outcome of the transaction can be reliably estimated (fixed subscription), revenue should be recognised by reference to the state of completion of the transaction at the statement of financial position date.

The state of completion of the transaction must be assessed for each member. For example, if a member joined 5 months before the enterprise's year end, 5/12 of that member's subscription should be regarded as revenue of the period.

Additional activities

Revenue should be recognised for all transactions completed by year end. For example, charges for squash courts used before year end should be recorded as revenue of the period.

3.3 DAWOOD

The revenue from this machine comes in as follows.

	Rs.
Initial deposit (Rs.100,000 × 10%)	10,000
Balance to pay on delivery	90,000
Three year service contract (Rs.100,000 × 5%)	5,000
Total	105,000

The revenue from the initial deposit of Rs.10,000 should not be recognised until the machine is delivered because, at that stage, the risks and rewards of ownership have not passed to the buyer.

When the machine is delivered to the buyer, possession of the goods passes and therefore this would usually mean that the significant risks and rewards of ownership have also passed to the buyer. Although installation still has to take place, we are told that this is a simple process and the costs are negligible. Therefore the fact that installation has not yet taken place does not mean that the 'significant risks and rewards of ownership' have not passed. If installation had been a complex process or was used to determine the final price in some way then the revenue should not be recognised until installation was complete.

In this case therefore the Rs.100,000 selling price of the machine should be recognised on delivery of the machine.

The Rs.5,000 is respect of after sales support and servicing costs should be recognised as revenue over the three year period during which these services are performed. Depending on the pattern of servicing costs it may not be appropriate to take this revenue on a straight line basis. It may be that more revenue should be allocated to later years when servicing costs will be greater.

3.4 PARVEZ

(1) Sale and repurchase agreement

The risks and rewards of ownership have not passed because Parvez has agreed to repurchase the inventories at a later date.

The substance of the arrangement is that Parvez has obtained a loan secured on the inventories. The difference between the sale price of Rs.18m and the repurchase price of Rs.20m represents the interest on the loan.

To account for the transaction in accordance with its substance:

- the goods should remain in inventories at the lower of cost and net realisable value
- no sale should be recorded
- the obligation to repurchase the inventories should be treated as a current liability of Rs.20m
- Rs.2m (20m – 18m) should be charged as interest in profit or loss.

(2) Consignment inventories

Whether Parvez should continue to hold the inventories in its statement of financial position on 31 March 2015 depends on whether the risks and rewards of ownership have been passed to the dealer. They do not appear to have passed as:

- the dealer has a right of return over inventories (and therefore does not bear the risk of obsolescence)
- the selling price to the dealer is Parvez's list price at the date of sale (and therefore Parvez has not transferred the risk of prices falling in the intervening period).
- So the vehicles should remain in inventories in Parvez's statement of financial position on 31 March 2015.

3.5 SCANTECH LIMITED

General considerations for revenue recognition

International accounting standard (IAS18) adopts what is known as the *critical event* approach to revenue recognition when dealing with sale of goods and the rendering of services. What this essentially requires is sales should not be recognised until such time as all significant risks and rewards of ownership have transferred from the seller to the buyer and that all uncertainties regarding the earnings cycle have been removed. This approach is an application of prudence whereby revenues should not be recognised until they are reasonably certain. The standard gives criteria, set out below, which determine when these two critical events have taken place.

Transfer of risks and rewards of ownership

- All significant acts of performance have been completed by the seller.
- All effective control or managerial involvement in the goods is relinquished by the seller.
- The payment of the debt is not dependent upon the buyer deriving revenue from the sale of goods.

Removal of uncertainties

The standard states that recognition should be deferred until uncertainties in respect of the following have been removed.

- The collection of the debt.
- The extent to which the goods may be returned.

Therefore it is necessary to establish at which point in the earnings cycle both significant risks and rewards of ownership pass to the buyer and any significant uncertainties are removed.

(i) Design and sale of software and the retailing of hardware

The first conditions to consider are the phases of Scantech Limited's sales cycle which will vary depending upon whether the software is "Off-the Shelf" (customised or standard) or else made to order.

Bespoke software to order

- Customer orders software
- Scantech Limited Ltd develops software (and receives stage payments)
- Customer take delivery of software (and makes final payments)
- Scantech Limited provides maintenance service.

The key decision making criteria will be as follows:

- At which point in the cycle does ownership pass and are all uncertainties removed.
- If it is once the product has been developed and accepted by the customer the point of delivery will represent the critical event for revenue recognition.

Due to the fact that Scantech Limited is developing software to customer order it maybe appropriate to depart from the above critical event approach and instead adopt what is known as the accretion approach whereby revenue is recognised during the period of development, rather than when the product is complete. Essentially this would require the following:

- An irrevocable contract.
- Certain profit on the contract overall.

If these conditions were satisfied then the revenue could be recognised on a percentage completion basis i.e. if a development was say 60% complete at the reporting date then 60% of the total contract price could be recognised as revenue and matched against 60% of the costs expected to be incurred.

- The existence of after sales maintenance costs present additional considerations.

If the sales price includes an amount to cover maintenance costs then this portion should be deferred and matched against the provision of that service.

Off the shelf

- Software is developed.
- Customer orders software.
- Customer takes delivery of software.
- Customer makes payment for software.

The key point in the cycle is at what point has Scantech Limited performed its duties and receipt of cash is certain.

This will normally occur at the point of delivery unless:

(i) There are doubts as to the collectability of the debt.

(ii) The goods are held on a “trial” period.

In which case, recognition should be deferred until the latter of those dates, as until this point uncertainties still exist.

Retailing of hardware

The critical point for sale of hardware will be when Scantech Limited has transferred ownership to the customer (per the criteria in (a) above) and has made the product available to the customer by delivering to their premises or by collection. Again, consideration needs to be given to:

(i) doubts as to the collectability of the debt.

(ii) whether any right of return is possible during a probationary period.

Again, existence of (i) or (ii) will defer recognition until that date.

(ii) Retail Shop Licensing operation

Up front license fee

Based upon the observations made as regards Scantech Limited's software operations, the company should not recognise the license fee until such time as the services to which it relates have been performed by Scantech Limited and as a result no uncertainty exists as to the collectability or non-repayment of the fees.

Essentially the fee could cover the following:

(i) The initial costs of setting up a shop (including a proportion of advertising spend)

(ii) A fee for the licensing rights

The amount of the license fee relating to (i) above should be recognised as soon as Scantech Limited has provided all services necessary for the shop to commence operations.

The proportion of the license fee relating to the licensing rights may also be recognised immediately if the following conditions are satisfied:

(a) Scantech Limited has performed all of its duties under the franchise agreement.

(b) The licensee has no cancellation rights.

(c) The regular fees are sufficient to cover the cost of providing the on going licensing service.

Revenue recognition should be deferred until the completion of (a) and (b) and if (c) is not satisfied then a proportion should be deferred and matched against the cost of providing licensing services (i.e. know how, advertising, administrative costs).

Regular fees

Should be recognised in the period that they fall due ie at the end of the period in which the licensee made the sale.

Sale of software and hardware

Should be recognised once the goods have been delivered to the licensee.

3.6 ISLAMABAD TELEVISUAL INDUSTRIES

(a) Warner Cinemas

Although the 'performance' side of this contract is complete from ITI's point of view, the income is only earned as the film is shown. Therefore ITI should accrue for 15% of Warmer Cinemas box office revenues from this film for the period 1 July 2015 to the year end of 30 September 2015. The only problems here would be prompt access to the relevant information from Warmer Cinemas and the possibility, which is probably remote, of a bad debt.

(b) Big Screen

In this case the income is a fixed fee and not dependent on any future performance from either party to the contract. Therefore, ITI should recognise the whole of the Rs.10 million in the current year even though some of the screenings may take place after the year end.

(c) Global Satellite

A traditional view of this contract may be that Rs.40 million has been paid by Global Satellite to screen the film 10 times and ITI should therefore recognise Rs.4 million each time the film is screened. If this were the case it would mean that no income would be recognised in the current year. However if:

- the film is complete and the rights to it are owned by ITI; - a contract has been signed;
- the consideration has been received; and
- ITI have no significant future obligations to perform.

This would appear to meet all of the criteria for income recognition and thus the whole of the Rs.40 million should be recognised in the current year.

3.7 CROWN ENTERPRISE

(a) The company should recognise the revenue at the date of sale based on meeting the recognition criteria, i.e. transfer of risks and rewards of ownership, no managerial involvement, measurement of revenue, probable inflow of economic benefit and reliable measurement of cost of goods sold. Warranty will not affect any of these criteria.

(b) Some of the conditions for recognition of revenue have been met such as reliable estimate of cost and revenue at the time of supply. However, company has retained significant risk of ownership due to non compliance with primary condition of sale i.e. the conditions of installation. Consequently, there is no transfer of ownership, managerial involvement exists, inflow of economic benefit is not probable. Therefore, revenue will be recognised after satisfactory installation.

(c) The completion of the sale transaction is uncertain because it is contingent upon purchaser being awarded the contract. Therefore the company will recognise the revenue when it is certain that the purchaser will be granted the contract.

(d) Revenue from lay away sales is recognised when the goods are delivered. However, based on experience, such revenue may be recognised when it is probable that sale will materialise and significant deposit is received. But in given case there is no history available and only two out of seven instalments have been received. Therefore, revenue will only be recognised when machine has been delivered.

3.8 SUNSHINE EDUCATION SYSTEMS

	Particulars	Dr. Rs.	Cr. Rs.
(a)	Cash / bank / Receivable	1,800,000	
	Franchise fee receivable	7,200,000	
	Deferred financial income on installment plan **(W-1)**		1,499,820
	Revenue from Franchise Fees **(W-1)**		6,720,180
	Unearned Franchise Fees – discount in setup **(W-1)**		240,000
	Unearned franchise fees – advertising **(W-1)**		540,000
(b)	Cash / bank / Receivable	1,800,000	
	Revenue from Franchise Fees		1,800,000

W-1:

		Rs.
Total franchise fees		9,000,000
Less:	Deferred financial income on instalment plan (9,000,000 - 7,500,180)	(1,499,820)
	Discount on setup (Rs. 1,200,000 x 20%)	(240,000)
	Advertising (9,000 × 60)	(540,000)
		(2,279,820)
Revenue to be recognised		6,720,180

3.9 BRILLIANT LIMITED

(a) This transaction involves two type of revenue:

(a) Revenue from sale of goods

(b) Interest income

Revenue from **sale of goods** will be recognised, as all the required criteria are met:

(i) The significant risks and rewards of ownership are transferred to STML on the date of delivery, i.e. 5 July 2015.

(ii) BL's managerial involvement and control associated with the ownership ceased on 5 July 2015 when STML accepted the delivery.

(iii) The revenue from the sale can be reliably measured as it is the fair value being the net selling price that was agreed to at the time of transaction i.e. Rs. 4.0 million (net of trade discount).

(iv) STML is a regular customer of BL and no such evidence has been given to suggest that the customer may be a bad debt. Therefore we may assume the inflow of future economic benefits associated with the transactions will flow to BL.

(v) The cost incurred in respect of this transaction can be reliably measured, as Rs. 3.6 million.

Conclusion:

The revenue from the sale of the machine of Rs. 4 million should be recognised on the date of delivery, i.e. 5 July 2015.

Interest income should be recognised when the following criteria are met:

(c) Since there is no indication of bad debts, therefore it may be assumed that the economic benefits will flow to BL.

(d) The amount of revenue can be measured reliably using the effective interest rate method over the period for which the finance is offered. Effective interest rate can be worked on the basis of information given in the question.

Conclusion:

The interest should be recognised over the three year period of the financing.

(b) (e) Since the newspapers are sold on consignment therefore the risks of ownership are transferred when the unsold newspapers are returned.

(f) SL's managerial involvement continues until all unsold newspapers are returned to the SL.

(g) The amount of revenue can only be reliably measured once SL knows the number of newspaper sold.

(h) A reliable estimate of the cost of the newspapers is possible because the returned newspapers would have very insignificant value.

Conclusion:

Revenue should only be recognised when SL is certain of the number of papers sold on their behalf. Prior to this stage the probability of an inflow of benefits is uncertain based on the unpredictability of newspaper sales.

(c) (i) Revenue may only be recognised when <u>all the following criteria</u> are met:

(i) The revenue can be measured reliably which is stipulated in the agreement i.e. Rs. 22 million.

(j) The costs can be reliably measured which is worked out at year end as follows:

Incurred to date	Rs. 10 million
Future costs	Rs. 7 million

(k) It is probable that the economic benefits will flow to Fabulous Enterprise. Since the customer is a well established company, it is unlikely that the customer will default on payment.

(l) The stage of completion can be reliably measured. A variety of methods of calculating the stage of completion are allowed, of which either the 'percentage of completion method' or the 'number of services method' would be suitable.

Conclusion:

A portion of the revenue should therefore be recognised at 30 June 2015 since all recognition criteria are met.

(ii) Fabulous Enterprises can recognise the revenue on the basis of cost method as the costs are reliably measureable. It can use number of services method if each building is similar, since we know that 6 of the 10 buildings have been completed.

CHAPTER 4 – PREPARATION OF FINANCIAL STATEMENTS

4.1 SAGODHA SPICES LIMITED

Statement of comprehensive income for the year ended 31 March 2015

	Rs.000
Revenue	1,950
Cost of sales (140 + 960 – 150)	(950)
Gross profit	1,000
Other operating income	75
Distribution costs	(420)
Administrative expenses (210 + 16)	(226)
Profit before tax	429
Income tax expense	(29)
Profit for the year	400

Statement of financial position at 31 March 2015

	Rs.000	Rs.000
ASSETS		
Non-current assets		
Property, plant and equipment (750 – 220)		530
Investments		560
		1,090
Current assets		
Inventories	150	
Trade receivables	470	
		620
Total assets		1,710
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital		600
Accumulated profits (240 – 120 + 400)		520
		1,120
Non-current liabilities		
Retirement benefit obligations (180 + 16)		196
Current liabilities		
Trade and other payables	260	
Operating overdraft	80	
Income tax payable (29 + 25)	54	
		394
Total equity and liabilities		1,710

4.2 KASUR CHEMICALS LIMITED

Statement of financial position as at 31 December 2015

	Rs.000	Rs.000
Non-current assets		
Plant and equipment (126 – 50 – 32)		44
Goodwill		90
		134
Current assets		
Inventories (goods for resale)	100	
Trade receivables	330	
Cash	60	
		490
		624
Capital and reserves		
Share capital	300	
Share premium	20	
Revaluation reserve	20	
Accumulated profits (40 +134)	174	
		514
Current liabilities		
Trade payables	60	
Income tax	50	
		110
		624

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000
Revenue (1,000 – 28)	972
Cost of sales **(W)**	474
Gross profit	498
Other operating income	16
Distribution costs **(W)**	(230)
Administrative expenses **(W)**	(100)
Profit before tax	184
Income tax expense	(50)
Profit for the period	134

Workings

	Cost of sales Rs.000	Distribution costs Rs.000	Administrative expenses Rs.000
Opening inventory	60		
Purchases	540		
Purchases returns	(26)		
Carriage outwards		28	
Warehouse wages		80	
Salespersons' salaries		60	
Administrative wages			40
Delivery vehicle hire		20	
Distribution expenses		10	
Administrative expenses			30
Directors' salaries			30
Closing inventory	(100)		
Depreciation		32	
	474	230	100

4.3 OKARA HAIR PRODUCTS LIMITED

Okara Hair Products Limited - Statement of comprehensive income for the year ended 30 June 2015

	Rs.000
Revenue (2,282 – 66)	2,216
Cost of sales **(W)**	1,260
Gross profit	956
Other income	20
Distribution costs **(W)**	(255)
Administrative expenses **(W)**	(489)
	232
Finance costs (interest cost)	(70)
Profit before tax	162
Tax (54 – 8)	(46)
Profit for the year	116

Workings

	Cost of sales	Distribution costs	Administrative expenses
	Rs.000	**Rs.000**	**Rs.000**
Opening inventory	78		
Purchases	1,055		
Purchase returns	(25)		
Closing inventory	(62)		
	1,046		
Wages and salaries (0:70:30)		112	48
Office expenses			236
Depreciation:			
Plant and machinery	84		
Delivery vans		48	
Office furniture			17
Directors' salaries			163
Selling expenses		95	
Rent of plant and machinery	21		
Factory expenses	109		
Legal expenses			25
	1,260	255	489

4.4 THATTA TOURS LIMITED

Thatta Tours Limited: Statement of financial position as at 31 December 2015

Non-current assets	**Rs.000**	**Rs.000**
Land and buildings **(W1)**		1,550
Plant and machinery **(W1)**		85
Property, plant and equipment		1,635
Intangible assets		30
Investments		45
		1,710
Current assets:		
Inventory	55	
Trade receivables	16	
Cash	23	
		94
Total assets		1,804
Equity and liabilities		
Share capital and reserves		
Share capital		980
Retained earnings **(W5)**		314
Total equity		1,294
Non-current liabilities		
10% loan notes repayable 2020		300
Current liabilities		
Trade payables	100	
Taxation payable (25 + 70)	95	
Accrued loan note interest	15	
		210
Total equity and liabilities		1,804

Thatta Tours Limited: Statement of comprehensive income for the year ended 31 December 2015

	Rs.000
Revenue	920
Cost of sales **(W2)**	(385)
Gross profit	535
Other income	20
	555
Distribution costs **(W2)**	(115)
Administrative expenses **(W2)**	(120)
Operating profit	320
Profit on disposal of factory	60
Interest costs **(W3)**	(30)
Profit before tax	350
Income tax expense **(W4)**	(70)
Profit for the year	280

Workings

(W1) Non-current assets

	Land and buildings Rs.000	Plant and machinery Rs.000
Cost:	4,200	200
Accumulated depreciation:		
At 1 January 2015	2,600	75
Charge for the year		
(5% × (4,200 – 3,200))	50	
(20% × 200)		40
At 31 December 2015	(2,650)	(115)
Carrying amount	1,550	85

(W2) Cost analysis

	Cost of sales Rs.000	Distribution costs Rs.000	Admin expenses Rs.000
Purchases	405		
Opening inventory	35		
Closing inventory	(55)		
General administration			46
Administration salaries			24
General distribution		25	
Distribution salaries		10	
Directors' remuneration		15	20
Depreciation of buildings:			
Distribution (70% of 50 **W1**)		35	
Administrative expenses (30%of 50 **W1**)			15
Depreciation of plant and machinery:			
Distribution (75% of 40 **W1**)		30	
Administrative expenses (25%of 40 **W1**)			10
Bad debts			5
	385	115	120

(W3) Interest charge

	Rs.000
Loan notes interest paid	15
Accrued interest (balance)	15
Charge for the year (10% x 300)	30

(W4) Taxation charge

	Rs.000
Over-provision in the previous year	(25)
Tax on current year profits	95
Charge for the year	70

(W5) Retained earnings

	Rs.000
Accumulated profits at beginning of the year	64
Profit after tax	280
Dividends paid	(30)
At end of year	314

4.5 BSZ LIMITED

BSZ Limited
Statement of financial position as at June 30, 2015

	2015 Rs. m
ASSETS	
Non-current assets	
Property, plant and equipment	
Land and buildings **(W2)**	492.5
Furniture and fixtures **(W2)**	16.9
Machines **(W2)**	40.0
Computer equipment **(W2)**	7.0
	556.4
Long term advances **(W5)**	4.0
	560.4
Current assets	
Inventories	90.0
Accounts receivable **(W4)**	57.0
Other receivables **(W5)**	45.0
Cash at bank	29.0
	221.0
	781.4

	2015 Rs. m
EQUITY AND LIABILITIES	
Share capital and reserves	
Share capital	400.0
Accumulated profits **(W6)**	48.4
	448.4
Revaluation surplus	120.0
	568.4
Current liabilities	
Short term loan	114.0
Accounts payable and other payables (75 + 7)	82.0
Taxation	17.0
	213.0
	781.4

Workings

(W1) Depreciation

	2015 Rs. m
Land and buildings	
Cost per trial balance	405.0
Less: Non-depreciable assets	
Freehold land	(255.0)
Capital work in progress (not yet ready for intended use)	(20.0)
	130.0
Depreciation (5%)	6.5
Furniture	
Cost per trial balance	27.0
Of which:	
Held for the whole year (10% × 19)	(1.9)
Bought 1 April (10% × 8 × $^{3}/_{12}$)	(0.2)
Depreciation (5%)	2.1
Machines	
Cost per trial balance	85.0
Of which:	
Held for the whole year (10% × 70)	(7.0)
Sold 28 February (10% × 15 × $^{8}/_{12}$)	(1.0)
Depreciation (5%)	8.0
Computer equipment	
Cost per the trial balance	10.0
Accumulated depreciation as of July 1, 2014	2.0
Depreciation for the year	1.0
Accumulated depreciation as of June 30, 2015	3.0
Carrying value as at June 30, 2015	7.0

(W2) Property, plant and equipment

1.1 Operating assets

Cost/revalued amount	**Freehold land and buildings Rs. m**	**Furniture and fixtures Rs. m**	**Machines Rs. m**
Cost per trial balance	405.0	27.0	85.0
Revaluation	120.0	-	-
Disposal	-	-	(15.0)
Adjusted balances	525.0	27.0	70.0
Accumulated depreciation			
As of July 1 2014 (per trial balance)	26.0	8.0	27.0
For the year **(W1)**	6.5	2.1	8.0
Disposals	-	-	(5.0)
As at June 30 2015	(32.5)	(10.1)	30.0
Carrying amount	492.5	16.9	40.0

(W3) Profit on disposal

	Rs. m
Proceeds	13.0
Cost	15.0
Accumulated depreciation	(5.0)
Carrying amount	(10.0)
Profit on disposal	3.0

(W4) Accounts receivable

	Rs. m
Balance per trial balance	60.0
Less: Provision for bad debts (see below)	3.0
	57.0
Provision for bad debts	
Balance as at July 1, 2014	1.0
Provision made during the year (bal. figure)	2.0
Balance as at June 30, 2015 (Rs. 60 million x 5%)	3.0

(W5) Other receivables (advances, deposits, prepayments etc.)

	Rs. m
Advances to suppliers	16.0
Less amount classified as non-current	(4.0)
	12.0
Advances to staff	6.0
Short term deposits	11.0
Prepayments	16.0
	45.0

(W6) Accumulated profits

	Rs. m
Per the trial balance	65.0
Less: depreciation (6.5 + 2.1 + 8.0 + 1.0 **(W1)**)	(17.6)
Profit on disposal **(W3)**	3.0
Increase in provision for bad debts**(W4)**	(2.0)
	48.4

4.6 YASIR INDUSTRIES LIMITED

Yasir Industries Limited: Statement of Financial Position as of June 30, 2015

	2015
Assets	**Rs. m**
Non-current assets	
Property, plant and equipment **(W2)**	351.00
Intangible assets (20 – 12)	8.00
	359.00
Current assets	
Inventories **(W6)**	64.50
Trade receivables **(W5)**	39.00
	103.50
	462.50
Equity and Liabilities	
Equity	
Share capital	120.00
Retained earnings **(W4)**	97.65
	217.65
Revaluation surplus	42.5
Non-current liabilities	
Redeemable preference shares	40.00
Debentures	80.00
	120.00
Current liabilities	
Trade payables	30.40
Accrued expenses **(W3)**	22.20
Taxation	16.50
Bank overdraft	13.25
	82.35
Total Equity and Liabilities	462.50

Yasir Industries Limited
Statement of Comprehensive Income for the year ended June 30, 2015

	2015
	Rs. m
Sales revenue **(W5)**	451.40
Cost of sales **(W7)**	(250.72)
Gross profit	200.68
Distribution costs **(W8)**	(20.05)
Administrative expenses **(W8)**	(40.38)
Financial charges **(W9)**	(6.30)
	133.95
Loss due to fraud	(30.00)
Profit before tax	103.95
Income tax expense	(16.50)
Profit for the year	87.45
Other comprehensive income	
Revaluation surplus	42.50
Total comprehensive income for the year	129.95

Workings

(W1) Leasehold property

Annual depreciation before the revaluation (230 ÷ 40 years) = Rs. 5.75 million per annum.
Depreciation this year has been charged incorrectly on cost (whereas it should have been on the revalued amount).
This year's charge must be added back

	Dr	Cr
Accumulated depreciation	5.75	
Cost of sales (50%)		2.88
Administrative expenses (30%)		1.72
Distribution costs (20%)		1.15

	Rs. m
Carrying amount at the 30 June (as per trial balance)(230.00 – 40.25)	189.75
Add back depreciation incorrectly charged (see above)	5.75
Carrying amount of property at the start of the year	195.5

Revaluation surplus	**Rs. m**
Revalued amount of leasehold property	238.00
Less: WDV of leasehold property at revaluation	195.50
Revaluation Surplus	42.50

Depreciation of revalued property

Number of years depreciation by the year end: (40.25 ÷ 5.75) = 7 years.

Therefore, remaining useful life as at the year-end = 33 years

Revaluation was at the start of the year

Remaining useful life at the start of the year = 34 years

	Rs. m
Depreciation charge based on the revalued amount ($^{238}/_{34\text{ years}}$)	7.0

	Dr	Cr
Cost of sales (50%)	3.5	
Administrative expenses (30%)	2.1	
Distribution costs (20%)	1.4	
Accumulated depreciation		7.00

(W2) Property, plant and equipment

	Rs. m
Leasehold property (Rs. 238m – 7)	231
Machines (Rs. 168.6 – Rs. 48.6m)	120
	351

(W3) Accrued Expenses

	Rs. m
As per trial balance	16.20
Accrued interest on loan (Rs. 120m × 10% × $^{6}/_{12}$)	6.00
	22.20

(W4) Retained earnings

	Rs m
Balance as per trial balance	10.20
Profit for the year	87.45
	97.65

(W5) Sales and receivables

	Sales. Rs. m	Rec. Rs. m
Given in the trial balance	478.40	66.00
Deduct revenue incorrectly recognised (sale or return)	(27.00)	(27.00)
Cost of sales	451.40	39.00

(W6) Closing inventory

	Sales. Rs. m
Given in the question	42.00
Add back inventory held by customer on sale or return ($^{100}/_{120} \times 27$)	22.50
Cost of sales	64.50

(W7) Cost of sales

	Rs. m
Opening inventory as of July 1, 2014	38.90
Purchases	175.70
Direct labour	61.00
Manufacturing overheads excluding incremental depreciation	39.00
Less: Closing inventory	(64.50)
Deduct depreciation incorrectly charged on cost	(2.88)
Add depreciation charged on revalued amount	3.50
Cost of sales	250.10

(W8) Administrative expenses and distribution costs

	Admin. Rs. m	DIst/ Rs. m
Given in the trial balance	40.00	19.80
Deduct depreciation incorrectly charged on cost	(1.72)	(1.15)
Add depreciation charged on revalued amount	2.10	1.40
Cost of sales	40.38	20.05

(W9) Financial charges

	Rs m
Balance as per trial balance	0.30
Accrued interest on loan (Rs. 120m × 10% × $^{6}/_{12}$)	6.00
	6.30

CHAPTER 5 – IAS 7: STATEMENT OF CASH FLOWS

5.1 TRANGO LIMITED

Statement of cash flows: direct method	**Rs.**
Cash flows from operating activities	
Cash receipts from customers **(W1)**	889,000
Cash payments to suppliers **(W4)**	(314,900)
Cash payments to employees **(W2)**	(265,400)
Cash paid for other operating expenses **(W4)**	(147,000)
Cash generated from operations	161,700
Taxation paid **(W5)**	(42,000)
Interest charges paid **(W5)**	(25,200)
Net cash flow from operating activities	94,500

Statement of cash flows format: indirect method	Rs.
Cash flows from operating activities	
Profit before taxation	102,000
Adjustments for:	
Depreciation and amortisation charges	46,000
Loss on disposal of non-current asset	9,000
Interest charges in the statement of comprehensive income	24,000
	181,000
Increase in receivables (173,000 – 157,000)	(16,000)
Decrease in inventories (42,000 – 38,000)	4,000
Decrease in trade payables	
(43,600 + 4,000) – (35,700 + 4,600)	(7,300)
Cash generated from operations	161,700
Taxation paid **(W5)**	(42,000)
Interest charges paid**(W5)**	(25,200)
Net cash flow from operating activities	94,500

Workings:

W1: Cash from sales	Rs.
Trade receivables at 1 January 2015	157,000
Sales in the year	905,000
	1,062,000
Trade receivables at 31 December 2015	(173,000)
Cash from sales during the year	889,000

W2: Cash paid for wages and salaries	Rs.
Accrued wages and salaries at 1 January 2015	4,000
Wages and salaries expenses in the year	266,000
	270,000
Accrued wages and salaries at 31 December 2015	(4,600)
Cash paid for wages and salaries	265,400

W3: Purchases	Rs.
Closing inventory at 31 December 2015	38,000
Cost of sales	311,000
	349,000
Opening inventory at 1 January 2015	(42,000)
Purchases in the year	307,000

W4: Cash paid for materials supplies	Rs.
Trade payables at 1 January 2015	43,600
Purchases in the year **(W3)**	307,000
	350,600
Trade payables at 31 December 2015	(35,700)
Cash paid for materials	314,900

Cash paid for other expenses is the amount for expenses in the statement of comprehensive income after deducting the depreciation charge: Rs.193,000 - Rs.46,000 = Rs.147,000.

W5: Interest and tax payments	**Tax**	**Interest**
	Rs.	Rs.
Liability at 1 January 2015	45,000	11,200
Taxation charge/interest charge for the year	38,000	24,000
	83,000	35,200
Liability at 31 December 2015	(41,000)	(10,000)
Tax paid/interest paid during the year	42,000	25,200

5.2 NARDONE LIMITED

Nardone Limited: Statement of cash flows for the year ended 31 December 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Profit before taxation	303	
Adjustments for:		
Depreciation	74	
Interest charges in the statement of comprehensive income	23	
Losses on disposal of non-current assets	4	
	404	
Increase in receivables (38 – 29)	(9)	
Increase in inventories (19 – 16)	(3)	
Decrease in trade payables (17 – 12)	(5)	
Cash generated from operations	387	
Taxation paid **(W1)**	(70)	
Interest charges paid	(23)	
Net cash flow from operating activities		294
Cash flows from investing activities		
Purchase of non-current assets	(98)	
Proceeds from sale of non-current assets **(W2)**	2	
Net cash used in (or received from) investing activities		(96)
Cash flows from financing activities		
Proceeds from issue of shares (323 – 232)	91	
Repayment of loans (320 – 70)	(250)	
Dividends paid to shareholders	(52)	
Net cash used in (or received from) financing activities		(211)
Net increase/(decrease) in cash and cash equivalents		(13)
Cash and cash equivalents at beginning of the year		32
Cash and cash equivalents at the end of the year		19

Workings

W1: Taxation paid	Rs.000
Taxation payable at the beginning of the year	76
Tax charge for the year (statement of comprehensive income)	87
	163
Taxation payable at the end of the year	(93)
Therefore tax paid during the year	70

W2: disposal of machinery	Rs.000
Cost of machinery disposed of	18
Accumulated depreciation on machinery disposed of	(12)
Net book value at disposal	6
Loss on disposal	4
Therefore cash received from the disposal	2

5.3 HOT SAUCE LIMITED

Hot Sauce - Statement of cash flows for the year ended 31 December 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Profit before taxation	1,195	
Adjustments for:		
Depreciation	401	
Loss on sale of plant (W1)	4	
Interest charges in the statement of comprehensive income	156	
	1,756	
Increase in receivables (184 – 147)	(37)	
Increase in inventories (843 – 203)	(640)	
Decrease in trade payables (W2)	(41)	
Cash generated from operations	1,038	
Taxation paid (W3)	(470)	
Interest charges paid (W4)	(126)	
Net cash flow from operating activities		442
Cash flows from investing activities		
Purchase of non-current assets	(1,200)	
Proceeds from sale of non-current assets (see W1)	41	
Net cash used in (or received from) investing activities		(1,159)
Cash flows from financing activities		
Proceeds from issue of shares (W5)	300	
Bank loan raised	65	
Repayment of loans (W6)	(235)	
Dividends paid to shareholders	(230)	
Net cash used in (or received from) financing activities		(100)
Net increase/(decrease) in cash and cash equivalents		(817)
Cash and cash equivalents at beginning of the year		51
Cash and cash equivalents at the end of the year		(766)

Workings

W1: Gain or loss on disposal	**Rs.**
Cost of asset disposed of	69
Accumulated depreciation on asset disposed of	(24)
Carrying amount at date of disposal	45
Disposal proceeds	(41)
Therefore loss on disposal	4

W2: Increase or decrease in trade payables	Rs.	Rs.
Trade payables and accruals at 31 December 2015		141
Less accrued interest		(54)
		87
Trade payables and accruals at 31 December 2014	152	
Less accrued interest	(24)	
		(128)
Decrease in trade payables and accruals		(41)

Tutorial note

The accrued interest is removed from the figures because accrued interest is relevant to the amount of interest paid in the year. This is a separate item in the statement of cash flows.

W3: Taxation paid	Rs.
Current taxation liability at 31 December 2014	470
Taxation charge in the year	602
	1,072
Current taxation liability at 31 December 2015	(602)
Therefore taxation paid in the year	470

W4: Interest paid	Rs.
Accrued interest liability at 31 December 2014	24
Interest charge in the year	156
	180
Accrued interest liability at 31 December 2015	(54)
Therefore interest paid in the year	126

W5: Proceeds from the issue of shares	Rs.	Rs.
Ordinary share capital at 31 December 2015		940
Share premium at 31 December 2015		100
		1,040
Ordinary share capital at 31 December 2014	740	
Share premium at 31 December 2014	0	
		(740)
Proceeds from the issue of shares		300

W6: Loans repaid	Rs.
Loans at 31 December 2014	320
New loan during the year	65
	385
Loans at 31 December 2015	(150)
Therefore loans repaid during the year	235

5.4 QUETTA TRACK LIMITED

Quetta Track Limited: Statement of cash flows for the year ended 30 June 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Net profit before tax	14,400	
Adjustments for		
Depreciation Rs.(3,000 + 1,000)	4,000	
Profit on sale of non-current assets (W3)	(100)	
Interest expense	1,000	
Operating profit before working capital adjustments	19,300	
Increase in inventories	(5,000)	
Increase in trade receivables	(7,250)	
Decrease in trade payables	(3,000)	
Cash generated from operations	4,050	
Interest paid (W5)	(500)	
Income taxes paid (W4)	(1,200)	
Net cash from operating activities		2,350
Cash flows from investing activities		
Purchase of property	(10,000)	
Purchase of plant and equipment (W1)	(1,000)	
Proceeds from sale of plant and equipment (W3)	350	
Net cash used in investing activities		(10,650)
Cash flows from financing activities		
Part repayment of loan	(4,000)	
Net cash used in financing activities		(4,000)
Net decrease in cash and cash equivalents		(12,300)
Cash and cash equivalents at beginning of year		1,300
Cash and cash equivalents at end of period		(11,000)

Workings

(1) **Plant and machinery – Cost**

ii)	Rs.000		Rs.000
Bal b/d	5,000	Disposal	1,000
Additions (β)	1,000	Bal c/d	5,000
	6,000		6,000

(2) **Plant and machinery – Accumulated depreciation**

iii)	Rs.000		Rs.000
Disposal	750	Bal b/d	2,000
Bal c/d	2,250	Depreciation charge for year (β)	1,000
	3,000		3,000

(3) **Plant and machinery – Disposals**

iv)	Rs.000		Rs.000
Cost	1,000	Accumulated depreciation	750
Profit on sale	100	Proceeds	350
	1,100		1,100

(4) **Tax payable**

v)	Rs.000		Rs.000
Cash paid (β)	1,200	Bal b/d	1,000
Bal c/d	1,800	Tax charge to P&L	2,000
	3,000		3,000

(5) **Interest payable**

vi)	Rs.000		Rs.000
Cash paid (β)	500	Bal b/d	200
Bal c/d	700	Charge to P&L	1,000
	1,200		1,200

5.5 MARDAN SOFTWARE LIMITED

Marden Software Limited: Statement of cash flows for the year ended 31 December 2015

	Rs.000	Rs.000
Cash flow from operating activities		
Net profit before tax	1,381	
Adjustments for		
Depreciation charges (111 + 351) (W1, W2)	462	
Profit on sale of machinery (W1)	(19)	
Loss on sale of fixtures (W2)	5	
Operating profit before working capital adjustments	1,829	
Increase in inventories	(660)	
Increase in trade receivables	(773)	
Increase in trade payables	4	
Cash generated from operations	400	
Income tax paid (W3)	(255)	
Net cash from operating activities		145
Cash flows from investing activities		
Purchase of plant and equipment (312 + 366) (W1, W2)	(678)	
Proceeds from sale of plant and equipment (203 + 95) (W1, W2)	298	
Net cash used in investing activities		(380)
Cash flows from financing activities		
Equity dividends paid (W4)	(300)	
Proceeds from issuance of ordinary share capital	400	
		100
Net decrease in cash and cash equivalents		(135)
Cash and cash equivalents at beginning of year (1,050 + 197)		1,247
Cash and cash equivalents at end of year (600 + 512)		1,112

Workings

(1) **Plant and equipment (carrying amt.)**

	Rs.000		Rs.000
Balance b/f	2,086	P & E – disposal	184
Bank – purchase	312	Depreciation (βal fig)	111
		Balance c/f	2,103
	2,398		2,398

Plant and equipment – Disposal

	Rs.000		Rs.000
P & E – Carrying amt.	184	Cash – proceeds	203
Gain on disposal	19		
	203		203

(2) **Fixtures and fittings (Carrying amount)**

	Rs.000		Rs.000
Balance b/f	1,381	F & F – disposal	100
Bank – purchase (Bal. figure)	366	Depreciation	351
		Balance c/f	1,296
	1,747		1,747

Fixtures and fittings – Disposal

	Rs.000		Rs.000
F & F – Carrying amt.	100	Cash – proceeds	95
		Loss on disposal	5
	100		100

(3) **Tax payable**

	Rs.000		Rs.000
Bank – tax paid (βal fig)	255	Balance b/f	257
Balance c/f	312	P&L a/c	310
	567		567

(4) **Dividends paid**

	Rs.000		Rs.000
Bank – dividends paid (βal fig)	300	Balance b/f	132
Balance c/f	154	2015 dividend	322
	454		454

5.6 TARBELA TRADERS

Tarbela Traders: Statement of cash flows for the year ended 31 December 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Net profit	25,200	
Adjustments for		
Depreciation	7,000	
Net loss on disposals	310	
Interest expense	3,000	
Operating profit before working capital changes	35,510	
Decrease in trade receivables (11,960 – 14,410)	2,450	
Decrease in inventories (19,770 – 27,500)	7,830	
Increase in trade payables ((32,050 – 400) – 20,950)	10,700	
Cash generated from operations	56,490	
Interest paid (3,000 – 400)	(2,600)	
Net cash from operating activities		53,890
Cash flows from investing activities		
Purchase of long-term investments (25,000 – 17,000)	(8,000)	
Purchase of equipment and cars (36,400 (W1)+ 19,860 (W2))	(56,260)	
Proceeds from sale of equipment and cars (W3)	6,900	
Net cash used in investing activities		(57,360)
Cash flows from financing activities		
Capital and other drawings (6,500 – 15,130)	(21,630)	
Borrowings repayment	(3,000)	
Net cash used in financing activities		(24,630)
Net decrease in cash and cash equivalents		(28,100)
Cash and cash equivalents at beginning of period (3,600 + 1,800)		5,400
Cash and cash equivalents at end of period (4,800 + 700 – 28,200)		(22,700)

Workings

(1) **Equipment (WDV)**

vii)	Rs.000		Rs.000
Bal b/d	17,600	Disposal	5,200
		Depreciation	3,000
Additions (β)	36,400	Bal c/d	45,800
	54,000		54,000

(2) **Motor vehicles (WDV)**

viii)	Rs.000		Rs.000
Bal b/d	4,080	Disposal	2,010
		Depreciation	3,000
Additions (β)	19,860	Bal c/d	18,930
	23,940		23,940

(3) **Disposals**

ix)	Rs.000		Rs.000
Equipment	5,200		
Motor vehicle	2,010	Loss on disposal (vehicles)	740
Profit on disposal (equipment)	430	Proceeds (β)	6,900
	7,640		7,640

Tutorial note: Alternatively, consider 2 separate disposal a/cs.

5.7 THE SINDH ROBOTICS COMPANY

The Sindh Robotics Company: Statement of cash flows for the year ended 31 December 2014

	Rs.000	Rs.000
Cash flows from operating activities		
Cash receipts from customers **(W1)**	190,000	
Cash paid to suppliers and employees **(W2)**	(155,000)	
Cash generated from operations	35,000	
Interest paid	(13,000)	
Dividends paid*	(20,000)	
Net cash from operating activities		2,000
Cash flows from investing activities		
Purchase of property and plant (40,000 + 1,000)	(41,000)	
Purchase of investments	(30,000)	
Net cash used in investing activities		(71,000)
Cash flows from financing activities		
Proceeds from issued shares (10,000 + 2,000)	12,000	
Proceeds from long-term borrowings	50,000	
Net cash from financing activities		62,000
Net decrease in cash and cash equivalents		(7,000)
Cash and cash equivalents at 1 January 2014		3,000
Cash and cash equivalents at 31 December 2014		(4,000)

* Could be shown as a financing cash flow.

Workings

(1) Receipts from sales

Receivables control

	Rs.000		Rs.000
Balance b/d	40,000	Cash receipts (βal fig)	190,000
Sales	200,000	Balance c/d	50,000
	240,000		240,000

(2) Payments

Payables and wage control

	Rs.000		Rs.000
Cash paid (βal fig)	155,000	Balance b/d	40,000
Depreciation *	2,000	Purchases (W3)	130,000
Balance c/d	60,000	Expenses	47,000
	217,000		217,000

(3) Cost of sales

	Rs.000		Rs.000
Opening inventory	55,000	Cost of sales	120,000
Purchases and wages	130,000	Closing inventory	65,000
	185,000		185,000

* Alternatively, depreciation could be adjusted against cost of sales.

5.8 ABIDA

Cash flow for year ended June 30, 2015

Profit for the year		256,800
Depreciation		17,500
Loss on sale of furniture		6,800
Increase/decrease in working capital		
Decrease in inventories		21,600
Increase in payables		8,900
Increase in receivables		(11,700)
		18,800
		299,900
Add: Proceeds from sale of non-current assets		12,000
		311,900
Less: Purchase of non-current assets **(W)**		28,900
Payment of long term loan		75,000
Drawings		120,000
		223,900
Net increase in bank balance		88,000

W **Non-current assets**

Decrease in assets	7,400	Depreciation	17,500
Purchase of assets – balancing figure	**28,900**	Sale of furniture	12,000
		Loss on above sale	6,800
	36,300		36,300

5.9 MR MOSSANI

Statement of cash flows for the year ended 31 December 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Net profit for the year **(W1)**	220,200	
Adjustments for		
Depreciation – equipment (24,000 + 9,200 – 18,000)	15,200	
– furniture	8,000	
Loss on sale of equipment (23,000 – 9,200 – 6,500)	7,300	
Gain on sale of investments	(7,500)	
Insurance claim over book value (60,000 – [64,000 – 15,000])	(11,000)	
Operating profit before working capital adjustments	232,200	
Increase in payables	4,300	
Decrease in bills payable	(2,100)	
Decrease in accrued expenses	(6,500)	
Increases in receivables	(13,400)	
Increase in inventory	(5,600)	
Cash generated from operations	208,900	
Net cash from operating activities		208,900
Cash flows from investing activities		
Insurance claim against furniture	60,000	
Sale of investments (16,900 + 7,500)	24,400	
Sale of equipment	6,500	
Capital Expenditure – purchase of equipment (86,000 + 23,000 – 43,000)	(66,000)	
Capital Expenditure – purchase of furniture (80,000 + 64,000 – 64,000)	(80,000)	
Net cash used in investing activities		(55,100)
Cash flows from financing activities		
Capital invested (payment of long-term loan)	12,000	
Payment of long-term loan	(22,000)	
Drawings / withdrawals of capital (15,000 x 12)	(180,000)	
Net cash used in financing activities		(190,000)
Net decrease in cash and cash equivalents		**(36,200)**
Cash and cash equivalents at beginning of year		**41,400**
Cash and cash equivalents at end of period		**5,200**

Working

W1: Profit for the year	**Rs.**
Capital b/f	83,800
Capital introduced (loan repayment)	12,000
Less: drawings	(180,000)
Profit for the year (balancing figure)	**220,200**
Capital c/f	136,000

5.10 SAKHAWAT HUSSAIN

Statement of cash flows for the year ended December 31, 2015

	Rs.000	Rs.000
Cash flows from operating activities		
Net profit before tax	1,400,000	
Adjustments for		
Depreciation on non-current assets (2,950,000 – 2,450,000)+200,000+(960,000 – 160,000)	1,500,000	
Profit on sale of investment	(70,000)	
Profit on sale of non-current assets	(90,000)	
Interest expense (180 + 200 – 150)	230,000	
Operating profit before working capital adjustments	2,970,000	
Increase in payables	400,000	
Increase in current assets 80% of (4,750,000 – 2,850,000)	(1,520,000)	
Cash generated from operations	1,850,000	
Interest paid	(180,000)	
Net cash from operating activities		1,670,000
Cash flows from investing activities		
Purchase of non-current assets (9,750,000 + 200,000 + 960,000 – 9,600,000)	(1,310,000)	
Purchase of investment (2,600,000+250,000 – 2,500,000)	(350,000)	
Proceeds from sale of investment	320,000	
Proceeds from sale of non-current assets	250,000	(1,090,000)
Net cash used in investing activities		
Cash flows from financing activities		
Capital introduced	1,000,000	
Withdrawal by owner against profits	(1,200,000)	
Net cash used in financing activities		(200,000)
Net increase in cash and cash equivalents		380,000
Cash and cash equivalents at beginning of year		570,000
Cash and cash equivalents at end of period		950,000

Working: Profit for the year

Closing balance	1,100,000
Drawings	1,200,000
	2,300,000
Less: opening balance	900,000
Net profit for the year	1,400,000

5.11 MR JUNAID JANJUA

Statement of cash flows for the year ended 31 December 2015

	Rs.	Rs.
Net income		950,000
Depreciation (170,000 + 60,000)		230,000
Items for separate consideration:		
Gain on sale of land		(64,000)
Gain on sale of long term investment		(32,000)
Loss on sale of equipment		15,000
(Increase) / decrease in current assets:		
Accounts receivable	(176,000)	
Inventory	(224,000)	
Prepaid insurance	12,000	
Office supplies	(7,000)	
	(395,000)	
(Decrease) / Increase in current liabilities:		
Decrease in accounts payable	(105,000)	
Increase in wages payable	16,000	
Net (increase) / decrease in working capital		(484,000)
Cash generated from operations		615,000
Cash invested		100,000
Proceeds from sale of:		
Land (2,500,000 – 1,810,000 + 64,000)	754,000	
Equipment (75,000 – 15,000)	60,000	
Long term investments (100,000 + 32,000)	132,000	946,000
Fixed capital expenditure – building (2,800,000 – 2,300,000)		(500,000)
– equipment (1,200,000+105,000*–1,150,000)		(155,000)
Long term investments (220,000 +100,000-170,000)		(150,000)
Payment of long term loan (1,160,000– 985,000)		(175,000)
Drawings		(568,000)
Net increase in cash		113,000
Cash - opening		32,000
Cash - closing		145,000

*Book value 75,000 + accumulated depreciation 30,000 = Cost Rs. 105,000

5.12 Amin Industries

Amin Industries: Statement of cash flows for the year ended 31 August 2015

	Rs.	Rs.
Cash flows from operating activities		
Profit for the year	3,161,000	
Adjustments for:		
Depreciation charge	2,498,000	
Profit on sale of non-current assets (1,284,000 – 867,000)	(417,000)	
Provision for doubtful debts (484,000 – 385,000)	99,000	
Operating profit before working capital adjustments	5,341,000	
Decrease in inventory	2,772,000	
(Increase) in trade debts	(1,944,000)	
Increase in payables	607,000	
Increase in short term finance	929,000	
Net cash from operating activities		7,705,000
Cash flows from investing activities		
Purchase of non-current assets	(6,191,000)	
Sale proceeds of non-current assets	1,284,000	
Purchase of investment	(4,911,000)	
Net cash from investing activities		(9,818,000)
Cash flows from financing activities		
Capital input	5,450,000	
Withdrawals by Mr. Amin	(3,120,000)	
Net cash from financing activities		2,330,000
Increase in cash and cash equivalents		217,000
Opening bank balance		225,000
Closing bank balance		442,000

Workings

Non-current assets – cost

Opening	(12,346+5605)	17,951,000	Sale		1,500,000
Additions – balancing figure		6,191,000	Closing	(15,172+7,470)	22,642,000
		24,142,000			24,142,000

Accumulated depreciation

On assets sold	(1,500-867)	633,000	Opening		5,605,000
Closing balance		7,470,000	Charge for the year		2,498,000
		8,103,000			8,103,000

Trade debts

Opening	(4,887+385)	5,272,000			
Increase in balance		1,944,000	Closing	(6,732+484)	7,216,000
		7,216,000			7,216,000

Capital account – Mr. Amin

Withdrawals	3,120,000	Opening	27,942,000
Closing balance	33,433,000	Profit for the year	3,161,000
		Capital introduced	5,450,000
	36,553,000		36,553,000

CHAPTER 6 – INCOME AND EXPENDITURE ACCOUNTS

6.1 GILTAN GOLF CLUB

Income and expenditure account for Giltan Golf Club for year ending 31 March 2016

	Rs.(000)	Rs.(000)
Income		
Functions surplus (367 – 305)		62
Sale of land (1,600 – 500)		1,100
Bank interest		60
Bequest		255
Sundry income		46
Subscriptions **(W1)**		2,860
		4,383
Expenditure		
Bad debts	15	
Repairs	146	
Telephone (67 – 14 + 10)	63	
Heat and light (115 – 32 + 40)	123	
Salaries and wages (2,066 – 12 + 14)	2,068	
Sundry expenses	104	
Depreciation - building	190	
Depreciation - furniture	103	
Depreciation - fixtures and fittings	47	
		(2,859)
Surplus for the year		1,524

Giltan golf club: Statement of financial position as at 31 March 2016

Non-current assets	**Cost**	**Accumulated depreciation**	**Carrying amount**
	Rs.(000)	**Rs.(000)**	**Rs.(000)**
Land (4,000 – 500)	3,500	-	3,500
Buildings **(W3)**	3,800	(1,050)	2,750
Fixtures and fittings **(W4)**	470	(129)	341
Furniture **(W5)**	515	(267)	248
	8,285	(1,446)	6,839
Current assets			
Bank			2,402
			9,241
Accumulated Fund **(W2)**			7,618
Surplus for the year			1,524
			9,142
Current liabilities			
Accruals			64
Subscriptions in advance			35
			99
			9,241

Workings

W1 Subscriptions account

	Rs.(000)		Rs.(000)
Subs in arrears b/d	80	Subs in advance b/d	30
Income and expenditure	2,860	Bank	2,930
Subs in advance c/d	35	Bad debts	15
	2,975		2,975

W2 Opening statement of affairs 2015

Assets	**Rs.(000)**
Bank	682
Subscriptions in arrears	80
Land	4,000
Buildings (3,200 – 860)	2,340
Fixtures (470 – 82)	388
Furniture (380 – 164)	216
Liabilities	7,706
Accruals (58 + 30)	(88)
	7,618

W3 Buildings

	Cost Rs.(000)	**Acc. Depreciation Rs.(000)**
Balance b/d	3,200	860
Extension to clubhouse	600	
Depreciation (5% × 3,800)		190
	3,800	1,050

W4 Fixtures and fittings

	Cost Rs.(000)	**Acc. Depreciation Rs.(000)**
Balance b/d	470	82
Depreciation (10% × 470)		47
	470	129

W5 Furniture

	Cost Rs.(000)	**Acc. Depreciation Rs.(000)**
Balance b/d	380	164
Additions	135	
Depreciation (20% × 515)		103
	515	267

6.2 LANGTON HOCKEY CLUB

Income and Expenditure Account for the year ended 30 June 2016

	Rs.(000)	Rs.(000)
Income		
Profits from tea stall **(W1)**		260
Profit from annual fair (2,150 - 1,450)		700
Subscriptions **(W4)**		2,100
Profit on sale of table tennis table (40 - 30)		10
		3,070
Expenditure		
Rent (600 + 40 - 50)	590	
Net expense of outings (370 - 300)	70	
Prizes for whist evenings	90	
Repairs to snooker table	35	
Refreshments	240	
Depreciation **(W2)**	556	
		1,581
Excess of income over expenditure		1,489

Statement of financial position as at 30 June 2016

	Rs.(000)	Rs.(000)
Assets		
Non-current assets		
Sports equipment		2,224
Current assets		
Inventories for tea stall	60	
Subscriptions due (4 × 20)	80	
Prepayments - rent	50	
Bank (W3)	1,805	
		1,995
Total assets		4,219
Equity and liabilities		
Accumulated fund b/f **(W5)**		2,540
Excess of income over expenditure		1,489
		4,029
Current liabilities		
Trade payables (tea stall)		190
Total equity and liabilities		4,219

Workings

(W1) Tea stall

	Rs.(000)	Rs.(000)
Opening inventory		120
Purchases (900 - 110 + 190)		980
		1,100
Less: Closing inventory		60
Cost of sales		1,040
Sales 1,040 × $^{100}/_{80}$	1,300	
Cost of sales	1,040	
Gross profit 1,300 × 20%	260	

(W2)

Opening value of sports equipment	2,560
Less: Table tennis table disposed of	(30)
Add: Purchase of new table tennis table	250
	2,780
Less: Depreciation (20% × 2,780)	556
Book value at 30 June 2016	2,224

(W3)

Cash account

	Rs.(000)		Rs.(000)
Opening balance	30	Table tennis table	250
Contribution to outings	300	Rent	600
Annual fair takings	2,150	Tea stall purchases	900
Tea stall sales (W1)	1,300	Annual fair	1,450
Subscriptions (1,520 + 400)	1,920	Outings	370
		Prizes	90
Sale of table tennis table	40	Repairs	35
		Refreshments	240
		Bal c/f (bal fig)	1,805
	5,740		5,740

(W4)

Subscriptions account

	Rs.(000)		Rs.(000)
Income and expenditure (bal fig)	2,100	Bal. b/f - Family (2 × 50,000)	100
		Bank - Family (8 × Rs.50,000)	400
		Bank - Individual (76 × 20,000)	1,520
		Bal. c/f - Individual (4 × 20,000)	80
	2,100		2,100

(W5) Opening accumulated fund

	Rs.(000)
Sports equipment	2,560
Inventory for tea stall	120
Subscriptions in advance (2 × 50,000)	(100)
Rent prepaid	40
Bank	30
Payables for the tea stall	(110)
	2,540

6.3 GULSHAN CRICKET CLUB

Receipt & payment account for the year ended June 30, 2015

Receipts	Rupees	Payments	Rupees
Balance b/d	1,204,800	Additions: to:	
		Building	753,000
Subscriptions received	3,605,000	Sports Equipment	186,800
		Books	256,000
		Investments made	436,000
		Expenses (payments) Balancing	**1,591,500**
		Balance c/d	1,586,500
	4,809,800		4,809,800

Income & expenditure account for the year ended June 30, 2015

Receipts		Rupees	Payments	Rupees
Expenses A/c		1,558,200	Subscription	
			(600 x 6000 + 10 x 3000)	3,630,000
Dep. Exp.	-Building	338,850		
	-Furniture	301,200		
	-Sports Equipment	398,800		
	-Books	138,550		
Surplus of Income over Exp.		**894,400**		
		3,630,000		3,630,000

Workings

Building Account

Receipts	Rupees	Payments	Rupees
Balance b/d	6,024,000	Depreciation (6,438,150×5/95)	338,850
Addition	**753,000**		
		Balance c/d	6,438,150
	6,777,000		6,777,000

Sports Equipment Account

Receipts	Rupees	Payments	Rupees
Balance b/d	1,807,200	Depreciation (1,595,200 $\times {}^{20}/_{80}$	398,800
Addition	**186,800**		
		Balance c/d	1,595,200
	1,994,000		1,994,000

Furniture Account

Receipts	Rupees	Payments	Rupees
Balance b/d	3,012,000	Depreciation (2,710,800 $\times {}^{10}/_{90}$	301,200
		Balance c/d	2,710,800
	3,012,000		3,012,000

Books Account

Receipts	Rupees	Payments	Rupees
Balance b/d	1,129,500	Depreciation (1,246,950 $\times {}^{10}/_{90}$	138,550
Addition	**256,000**		
		Balance c/d	1,246,950
	1,385,500		1,385,500

Subscription Account

Receipts	Rupees	Payments	Rupees
Sub. Receivables - Balance b/d	326,000	Adv. Subscription - b/d	86,000
Income & Exp. Account	3,630,000	Cash Received	**3,605,000**
Adv. Subscription - Balance c/d	92,000	Sub. Receivables - Balance c/d	357,000
	4,048,000		4,048,000

Expenses Account

Receipts	Rupees	Payments	Rupees
Balance b/d	122,000	Balance b/d	186,900
Payment made (Rcpt. & Pay. A/c)	1,591,500	Income & Exp A/c (Bal. Amount)	**1,558,200**
Balance c/d	207,600	Balance c/d	176,000
	1,921,100		1,921,100

6.4 SEHAT CLUB

Sehat Club: Income and Expenditure Account for the year ended 30 June 2015

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
Salaries (63.5+4-17.5)	50,000	Subscriptions (201+8-15)	194,000
Rent (34+2-11)	25,000	Entrance fees (63+3)	66,000
Travelling expenses	1,500	Donation (38+12)	50,000
Printing and stationary	1,000	Interest (16-11)	5,000
General charges	2,500	Gain on trade-in of furniture	700
Periodicals	500		
Depreciation on furniture	*7,820		
Depreciation on sports equipment	3,000		
Loss on furniture disposed of (2880 - 500)	2,380		
Excess of income over expenditure	222,000		
	315,700		315,700

Sehat Club: Statement of financial position as at 30 June 2015

Assets		**Rupees**
Furniture (see account below)		30,000
Sports equipment (20-3+12)		29,000
Investments (100+200)		300,000
Subscription receivable		8,000
Entrance fee receivable		3,000
Bank balance		30,500
		400,500
Equity and liabilities		**Rupees**
General fund		
Opening balance	172,500	
Add: Excess of income over expenditure	222,000	394,500
Liabilities:		
Salaries payable		4,000
Rent payable		2,000
		400,500

Furniture Account

	Rupees		Rupees
Balance b/d	40,000	Asset disposed off (4,000 – 800 – 320)	2,880
New furniture	6,700	Asset exchanged	6,000
		Depreciation expense	*7,820
		Balance c/d	30,000
	46,700		46,700

**** Depreciation on furniture:***
20% of (40,000+6,700–3,200–6,000) = 7,500+320 (i.e. 10% of Rs. 3,200).

6.5 AB SPORTS AND SOCIAL CLUB

AB Sports and social club: Income and expenditure account

	Rs.	Rs.
Subscriptions (W1)		10,720
Shop and cafe profit (W2)		9,200
Sale of sportswear (W3)		1,400
Hire of sportswear (W4)		1,700
Interest on deposit account		800
		23,820
Rent of clubhouse	6,000	
Heating oil (1,000 + 4,000 + 200 – 700)	4,500	
Grounds person	10,000	
Bad debts (unpaid subscriptions = 10 +20)	30	
Depreciation	500	
		21,030
Net surplus		2,790

AB Sports and Social Club statement of financial position as at 31 December 2014

Non-current assets	**Rs.**	**Rs.**
Equipment for grounds person		
Cost		5,000
Depreciation		4,000
		1,000
Current assets		
Heating oil	700	
Shop and cafe inventories	5,000	
New sportswear	2,000	
Hire sportswear	1,500	
Subscriptions due	90	
Bank		
Current account	1,300	
Deposit account	16,000	
		26,590
		27,590
Capital and liabilities		
Accumulated fund b/f	23,150	
Surplus for year	2,790	
		25,940
Current liabilities		
Shop and cafe	800	
Sportswear	450	
Heating oil	200	
Subscriptions prepaid	200	
		1,650
		27,590

Workings

(W1) Subscriptions

Summary subscriptions account

	Rs.		Rs.
Opening balance (10 + 230)	240	Opening balance	40
Income for period	10,720	Bank	11,000
		Bad debts (10 + 20)	30
Closing balance	200	Closing balance	90
	11,160		11,160

(W2) Shop and cafe results

	Rs.	Rs.
Sales		20,000
Opening inventory	7,000	
Purchases (9,000 + 800 – 1,000)	8,800	
	15,800	
Closing inventory	5,000	
		10,800
Profit (gross)		9,200

(W3) Sale of sportswear

	Rs.	Rs.
Sales		5,000
Opening inventory	3,000	
Purchases (4,500 + 450 – 300) × ⅔	3,100	
	6,100	
Closing inventory	4,000	
		2,100
Profit (gross)		2,900
Loss on sportswear transferred		1,500
Profit		1,400

(W4) Hire of sportswear

	Rs.	Rs.
Rentals		3,000
Opening balance	750	
Additions of cost (4,500 + 450 – 300) × ⅓	1,550	
	2,300	
Closing inventory at valuation	1,000	
		1,300
Surplus		1,700

6.6 GD SPORTS CLUB

(a) **The GD sports club: Cafe trading account for the year ended 31 March 2015**

	Rs.	Rs.
Sales (W1) 9,740 + 397		10,137
Opening inventory	840	
Purchases (W3)	7,295	
Closing inventory	(920)	
		7,215
Cafe profit		2,922

(b) **Income and expenditure account for the year ended 31 March 2015**

Income	Rs.	Rs.
Subscriptions (W2)		500
Profit		
From cafe		2,922
Building society interest		350
		3,772
Expenditure		
Rent of premises	1,000	
Heat and light (262 – 34 + 41)	269	
Repairs to snooker tables	176	
Referees' fees and expenses	675	
Trophies etc.	424	
Refreshments for visitors	235	
Bad debts (unpaid subscriptions)	10	
Depreciation (10% × (4,000 + 100))	410	
		3,199
Surplus for the year		573

(c) **Statement of financial position at 31 March 2015**

Assets	Rs.	Rs.
Non-current assets:		
Equipment at 1 April 2015	4,000	
Additions in year – Dartboards	100	
	4,100	
Less: Depreciation	(410)	
		3,690
Current assets:		
Cafe inventory	920	
Building society deposit	5,200	
		6,120
		9,810
Capital and liabilities		
Accumulated fund:		
Surplus at 1 April 2015 (W4)	8,726	
Surplus for the year	573	9,299
Current liabilities:		
Payables		
Cafe	470	
Heat and light	41	
		511
		9,810

Workings

(W1)

Cash account

	Rs.		Rs.
Balance b/d Cash	Nil	Payments as per note 2	10,577
Subscriptions (W2)	440	Balance c/d Cash	Nil
Cafe sales			
At cost	397		
At normal selling price (bal fig)	9,740		
	10,577		10,577

Tutorial note: Sales have been found as a balancing figure from the cash account. An alternative approach is to use the profit margin supplied in the question. Total purchases need to be computed (W3) and then calculate:

	Purchases **Rs.**	***Sales*** **Rs.**
At cost	397	397
At margin	$6{,}818 \times \frac{100}{70}$	9,740
	7,215	10,137

(W2)

Subscriptions account

	Rs.		**Rs.**
Income and expenditure account (bal fig)	500	Balance b/d (Subs in advance (10 × Rs.5))	50
		Cash receipts ((100 – 10 – 2) × Rs.5)	440
		Bad debt (2 × Rs. 5)	10
	500		500

(W3)

Cafe purchases account

	Rs.		**Rs.**
Cash payments	7,455	Balance b/d	630
Balance c/d	470	Purchases (bal fig)	7,295
	7,925		7,925

(W4) Accumulated fund at 31 March 2015

	Rs.
Equipment	4,000
Cafe inventory	840
Building society account	4,600
Payables - Cafe	(630)
Payables - Heat and light	(34)
Subscriptions in advance	(50)
	8,726

6.7 HB TENNIS CLUB

(a) **HB Tennis Club income and expenditure account for the six months ended 30 September 2015**

	Rs.	Rs.
Income		
Subscriptions (W1)		7,050
Net income from tournaments (465 – 132)		333
Bank interest		
Profit from sale of club ties (W2)		103
Life membership (W3)		210
		7,739
Expenditure		
Groundsman's wages (4,520 + 40)	4,560	
Rent and rates (636 – 68)	568	
Heating and lighting (674 + 53)	727	
Postage and stationery (41 + 12)	53	
Court maintenance	1,000	
Depreciation of equipment (W4)	403	
		(7,311)
Excess of income over expenditure		428

(b) **HB Tennis Club statement of financial position as at 30 September 2015**

	Rs.	Rs.
Non-current assets		
Equipment at cost		4,080
Accumulated depreciation		(403)
		3,677
Current assets		
Inventory of ties ($^{40}/_{100} \times 450$)	180	
Subscriptions in arrears ($5 \times 300 \times ^{6}/_{12}$)	750	
Rates paid in advance	68	
Balance at bank	6,148	
		7,146
		10,823
Accumulated fund		
Excess of income over expenditure		428
Life membership fund (W3)		3,990
		4,418
Current Liabilities		
Subscriptions in advance ($12,600 \times ^{6}/_{12}$)	6,300	
Accrued expenses (40 + 12 + 53)	105	
		6,405
		10,823

(W1) The subscriptions received of Rs.12,600 are for a full year and we are also told that 5 subscriptions were paid after 30 September.

	Rs.
Subscriptions paid for 6 month period ($\frac{6}{12} \times 12,600$)	6,300
Subscriptions in arrears ($5 \times \frac{6}{12} \times 300$)	750
Subscription income	7,050

Alternatively this may be presented:

Subscriptions account

	Rs.		Rs.
Income and expenditure	7,050	Bank	12,600
Bal c/d subscriptions in advance ($\frac{6}{12} \times 12,600$)	6,300	Bal c/d subscriptions in arrears ($5 \times 300 \times \frac{6}{12}$)	750
	13,350		13,350

Note also that the remaining Rs.6,300 that has been paid for subscriptions but which relates to the six months from 1 October 2015 to 31 March 2016 will be shown as a creditor, subscriptions in advance, in the statement of financial position.

(W2)

	Rs.	Rs.
Sale of ties		373
Cost of sales		
Purchases	450	
Closing inventory ($\frac{40}{100} \times 450$)	(1840)	
		2470
Profit on sale of ties		1043

(W3) The life membership fees paid of Rs.4,200 are to be taken to the income and expenditure account over 10 years or 120 months. Therefore the amount to be taken to income and expenditure in this 6 month period is $6/120 \times$ Rs.4,200 = Rs.210.

This will leave Rs.4,200 – Rs.210 = Rs.3,990 in the Life membership fund on 30 September 2015.

(W4)

	Rs.
Cost of equipment	4,080
Less: Estimated scrap value	450
	4,030

This is to be depreciated over 5 years or 60 months.

Depreciation charge $\frac{6}{60} \times 4,030$ = Rs.403.

6.8 MONARCH SPORTS CLUB

Monarch Sports Club: Income and expenditure account year ended 30 June 2015

	Rs.	Rs.
Income		
Annual subscriptions (W1)	18,400	
Life membership (3,000 × 10%)	300	
Entrance fees	2,500	
Surplus from competitions (W2)	3,200	
		24,400
Expenditure		
Transport	3,700	
Coaching fees (2,100 – 150 + 450)	2,400	
Repairs	800	
Bad debts	100	
Loss on disposal of equipment (W3)	200	
Depreciation (W4)	800	
		(8,000)
Surplus for the year		16,400

Workings

(W1)

Subscriptions account

	Rs.		Rs.
Balance b/d (in arrears)	200	Balance b/d (in advance)	1,100
I + E a/c	18,400	Cash	
Balance c/d (in advance)	900	Bad debts	100
		Balance c/d (in arrears)	300
	19,500		19,500

(W2) Competitions

	Rs.
Receipts	7,500
Prizes	(4,300)
Surplus	3,200

(W3) Sale of equipment

Disposals account

	Rs.		Rs.
NBV	1,200	Cash	1,000
		Loss to I & E a/c	200
	1,200		1,200

(W4) Depreciation

20% × 4,000 = 800.

6.9 LH SPORTS CLUB

(a) **Surplus for the year**

	Rs.	Rs.
Surplus per draft income and expenditure account		23,655
Add capital expenditure		4,000
Deduct depreciation		
Premises	1,600	
Furniture	1,800	
Equipment	800	
		(4,200)
Less 80% joining fee		(14,240)
Less net subscriptions in advance (960 – 300)		(660)
New surplus for year		8,555

(b) **LH Sports Club: Statement of financial position as at 30 April 2015**

Assets		
Non-current assets	**Rs.**	**Rs.**
Premises	78,400	
Furniture	16,200	
Equipment	3,200	
		97,800
Current assets		
Inventory	1,400	
Subscriptions in arrears	300	
Prepaid rates and insurance	2,280	
Bank	21,295	
		25,275
		123,075
Capital and liabilities		
Accumulated fund at 1 May 2014		98,000
Surplus for year		8,555
Accumulated fund at 30 April 2015		106,555
Joining fees c/f		14,240
Current liabilities		
Payables	1,320	
Subscriptions in advance	960	
		2,280
		123,075

Working

Non-current assets	**Cost** **Rs.**	**Depreciation** **Rs.**	**Net** **Rs.**
Premises	80,000	(1,600)	78,400
Furniture	18,000	(1,800)	16,200
Equipment	4,000	(800)	3,200
	102,000	4,200	97,800

CHAPTER 7 – PREPARATION OF ACCOUNTS FROM INCOMPLETE RECORDS

7.1 SHORT QUESTIONS

a)

	Rs.
Sales	98,000
Cost of sales (98,000 × 100/125)	78,400
Opening inventory	10,200
Purchases	71,000
	81,200
Less: closing inventory (bal fig)	(2,800)
Cost of sales	78,400

b)

Receivables account

	Rs.		Rs.
Opening balance	6,100	Takings (78,500 + 5,000)	83,500
Sales (bal fig)	84,800	Closing balance	7,400
	90,900		90,900

c)

Assets	**Rs.**	**Rs.**
Non-current assets		98,900
Inventory		9,300
Receivables		16,800
		125,000
Liabilities		
Capital	97,200	
Bank loan	15,700	
Trade payables	4,900	
		117,800
Assets exceed liabilities: therefore bank overdraft		7,200

7.2 IRUM

a)

Cash account

	Rs.000		Rs.000
Opening balance	100	Bankings	65,400
		Wages (50 x Rs.50,000)	2,500
		Drawings (50 x Rs.30,000)	1,500
Cash takings (bal fig)	69,400	Closing balance	100
	69,500		69,500

Total receivables account

	Rs.000		Rs.000
Balance b/d	5,500	Cash takings	69,400
Sales (bal fig)	70,000	Closing balance	6,100
	75,500		75,500

b)

Sales (part a) = Rs.70,000,000

Cost of sales = Rs.70,000,000 x $^{100}/_{140}$ = Rs.50,000,000

Total payables account

	Rs.000		Rs.000
Payments to suppliers	42,800	Opening balance	2,800
Closing balance	3,500	Purchases (bal fig)	43,500
	46,300		46,300

Cost of sales

	Rs.000
Opening inventory	10,400
Purchases	43,500
	53,900
Less: closing inventory (balancing figure)	(3,900)
Cost of sales (above)	50,000

7.3 COST STRUCTURES

(a) **Greengrocer**

	%	Rs.	Rs.
Sales revenue	*100*		49,200
Less Cost of goods sold			
Opening inventory		3,784	
Purchases		38,632	
		42,416	
Less Closing inventory		(5,516)	
	(75)		(36,900)
Gross profit	*25*		12,300

(b) **Rival**

	%	Rs.
Sales revenue	*125*	50,100
Cost of goods sold ($\frac{100}{125}$ × Rs.50,100 = Rs.40,080)	*(100)*	(40,080)
Gross profit	*25*	10,020
Opening inventory (βal fig)		7,192
Purchases		38,326
		45,518
Less Closing inventory		(5,438)
Cost of goods sold		40,080

(c) **Local store**

	%	Rs.
Sales revenue	*100*	186,460
Cost of goods sold	*(90)*	(167,814)
Gross profit (10% × Rs.186,460)	*10*	18,646
Opening inventory ($\frac{100}{125}$ × Rs.16,800)		13,440
Purchases (βal fig)		171,174
		184,614
Closing inventory		(16,800)
Cost of goods sold		167,814

7.4 TAHIR

Statement of comprehensive income for the year ended 30 June 2015

	Rs.000	Rs.000
Revenue (74 + 16,427 + 3,024 + 54)		19,579
Opening inventory	1,142	
Purchases (14,700 + 1,606 + 470)	16,776	
	17,918	
Closing inventory	(1,542)	
		(16,376)
Gross profit		3,203
Less Expenses		
Rent (500 – 100)	400	
Rates (84 + 30)	114	
Electricity	92	
Wages	742	
Sundry expenses	156	
Depreciation (10% × Rs. 1,580,000)	158	
Loan interest (5% × Rs. 1,000,000)	50	
		(1,712)
Net profit		1,491

Statement of financial position at 30 June 2015

	Rs.000	Rs.000
Non-current assets		
Intangible – Goodwill (3,192 – 1,500 – 1,142)		550
Tangible – Fixtures and fittings (1,500 + 80 – 158)		1,422
		1,972
Current assets		
Inventory	1,542	
Receivables	74	
Prepaid rent	100	
Bank	2,657	
Cash in hand	54	
		4,427
		6,399

Capital account	Rs.000	Rs.000
Capital introduced		5,000
Profit for the year		1,491
		6,491
Drawings (1,122 + 520)		(1,642)
		4,849
Non-current liability		
Loan		1,000
Current liabilities		
Trade payables	470	
Accrued expenses (30 + 50)	80	
		550
Total capital and liabilities		6,399

7.5 IJAZ

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000	Rs.000
Revenue (W2)		5,877
Opening inventory	1,310	
Add Purchases (W3)	3,133	
	4,443	
Less Closing inventory	(1,623)	
		(2,820)
Gross profit		3,057
Expenses (W4)	1,090	
Bad debts (W6)	49	
Depreciation (W7)	60	
		(1,199)
Net profit		1,858

Statement of financial position at 31 December 2015

	Rs.000	Rs.000	Rs.000
Non-current asset			
Delivery van, at cost			900
Less Depreciation (W7)			(60)
			840
Current assets			
Inventory		1,623	
Receivables	382		
Less Provision for doubtful debts (W6)	(19)		
		363	
Cash at bank	572		
Cash in hand	29	601	
			2,587
Total assets			3,427
Capital account			
At 1 January 2015 (W1)			1,652
Add Profit for year			1,858
			3,510
Less Drawings (W5)			(1,100)
			2,410
Current liabilities			
Trade payables		914	
Accrued expenses		103	
			1,017
Total capital and liabilities			3,427

Workings

(1) Opening statement of affairs

	Rs.000
Inventory	1,310
Receivables	268
Cash	62
Bank	840
	2,480
Less Payables (712 + 116)	(828)
Capital at 1 January 2015	1,652

(2) Total sales (receivables) a/c

1	Rs.000		Rs.000
Balance b/d	268	Cheques receipts from customers	1,416
Revenue for year (βal fig)	5,877	Bad debt written off	30
		Cash takings	4,317
		Receivables c/d (412 – 30)	382
	6,145		6,145
Balance b/d	382		

(3) Total purchases (payables) a/c

2	Rs.000		Rs.000
Cash	316	Balance b/d	712
Bank	2,715	Drawings	100
Balance c/d	914	Purchases for year (βal fig)	3,133
	3,945		3,945
		Balance b/d	914

(4) Expenses

3	Rs.000		Rs.000
Cash	584	Balance b/d	116
Bank	519	P & L a/c	1,090
Balance c/d	103		
	1,206		1,206
		Balance b/d	103

(5) **Drawings**

4	Rs.000		Rs.000
Purchases	100		
Cash a/c	600		
Bank a/c	400	Balance c/d *(or trf capital)*	1,100
	1,100		1,100

(6) **Bad debts a/c**

5	Rs.000		Rs.000
Bad debt (w/off receivables)	30	P & L a/c	49
Provision for doubtful debts a/c (5% × 382) (increase)	19		
	49		49

(7) **Depreciation**

$20\% \times 900{,}000 \times {}^{4}/_{12} = \text{Rs.}60{,}000$

7.6 RASHID

Statement of comprehensive income for the year ended 30 September 2015

	%	Rs.000	Rs.000
Revenue (W8)	*100*		142,850
Opening inventory		–	
Purchases (balancing figure)		115,538	
Closing inventory		(8,400)	
Cost of sales	*(75)*		(107,138)
Gross profit	*25*		35,712
Expenses			
Cleaning		520	
Sundries		780	
Depreciation			
Van		1,500	
Leasehold premises		3,000	
Telephone (W4)		1,021	
Wages (W3)		19,182	
Rent and rates (W5)		1,424	
Repairs (W7)		4,022	
			(31,449)
Net profit			4,263

Statement of financial position at 30 September 2015

	Cost Rs.000	Depn Rs.000	Rs.000
Non-current assets			
Leasehold premises	150,000	3,000	147,000
Van	6,000	1,500	4,500
	156,000	4,500	151,500
Current assets			
Inventory		8,400	
Trade receivables		10,350	
Prepayment (W5)		258	
Cash at bank		61,313	
Cash in hand		250	
			80,571
Total assets			232,071
Capital account			
Capital introduced			200,000
Add Net profit			4,263
			204,263
Less Drawings (W2)			(2,274)
			201,989
Current liabilities			
Trade payables		29,957	
Accrued expenses (W4)		125	
			30,082
Total capital and liabilities			232,071

Workings

(1) **Cash**

6	Rs.000		Rs.000
Balance b/d	Nil	Wages (75 × 52)	3,900
Total sales (βal fig)	132,500	Cleaning (10 × 52)	520
		Sundries (15 × 52)	780
		Drawings (25 × 52)	1,300
		Bank	125,750
		Balance c/d	250
	132,500		132,500

(2) **Drawings**

7	Rs.000		Rs.000
Cash	1,300	Balance c/d *(or trf capital)*	2,274
Bank	323		
Total purchases (W6)	651		
	2,274		2,274

(3) **Wages**

8	Rs.000		Rs.000
Cash	3,900	P & L a/c	19,182
Bank	15,282		
	19,182		19,182

(4) **Telephone**

9	Rs.000		Rs.000
Bank	896	P & L a/c	1,021
Balance c/d	125		
	1,021		1,021

(5) **Rent and rates**

10	Rs.000		Rs.000
Bank	1,682	P & L a/c	1,424
		Balance c/d	258
	1,682		1,682

(6) **Total purchases (payables)**

11	Rs.000		Rs.000
Bank	86,232	Trading a/c	115,538
Balance c/d	29,957	Goods for own use (βal fig)	651
	116,189		116,189

(7) **Repairs**

12	Rs.000		Rs.000
Bank	3,637	P & L a/c	4,022
Bank	385		
	4,022		4,022

(8) **Total sales (receivables)**

13	Rs.000		Rs.000
Trading a/c (βal fig)	142,850	Cash (W1)	132,500
		Balance c/d	10,350
	142,850		142,850

7.7 MUDASSAR

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000	Rs.000
Revenue (W4)		21,910
Cost of sales		
Opening inventory	900	
Purchases (W3)	14,110	
	15,010	
Closing inventory	(1,200)	
		(13,810)
Gross profit		8,100
Less Expenditure		
Rent (800 + 20 – 30)	790	
Rates	400	
Insurance	200	
Bank charges	100	
Assistant's wages	1,800	
Discounts (net) (300 – 200)	100	
Sundry expenses	250	
Depreciation		
Car	400	
Fixtures	600	
		(4,640)
Net profit		3,460

Statement of financial position at 31 December 2015

	Rs.000	Rs.000
Non-current assets		
Motor car		3,200
Fixtures		3,400
		6,600
Current assets		
Inventory	1,200	
Trade receivables and prepayments (150 + 30)	180	
Insurance company claim (W2)	460	
Bank	400	
		2,240
Total assets		8,840
Capital account b/f (W1)		9,160
Add Capital introduced		1,000
		10,160
Profit for the period		3,460
		13,620
Less Drawings (2,500 + 2,400)		4,900
		8,720
Current liabilities		
Trade payables		120
Total capital and liabilities		8,840

Workings

(1) **Statement of affairs as at 31 December 2014**

	Rs.000
Motor car	3,600
Fixtures	4,000
Inventory	900
Receivables	90
Prepayments	20
Bank	280
Cash	380
	9,270
Less Trade payables	(110)
	9,160

(2) **Cash a/c**

14	Rs.000		Rs.000
Balance b/f	380	Wages	1,800
Customers' receipts	21,550	Sundry expenses	250
		Purchases	300
		Drawings	2,400
		Bankings	16,720
		Defalcation (theft!)	460
	21,930		21,930

(3) **Total purchases (payables)**

15	Rs.000		Rs.000
Cash	300	Balance b/f	110
Bank	13,600	Purchases	14,110
Discounts received	200		
Balance c/d	120		
	14,220		14,220

(4) **Total sales (receivables)**

16	Rs.000		Rs.000
Balance b/f	90	Receipts	21,550
Sales	21,910	Discounts allowed	300
		Balance c/f	150
	22,000		22,000

7.8 ASLAM

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000	Rs.000	Rs.000
Work done (= Revenue) (W3)			13,066
Direct expenses			
Materials (W2)	5,779		
Wages and Social Security (3,346 – 65)	3,281	9,060	
Van expenses			
Running costs (342 + 36)	378		
Depreciation	108	486	
Miscellaneous expenses			
Electricity	56		
Depreciation of cement mixer	50		
Rent	104		
General expenses (14 + 110)	124	334	
			(9,880)
Net profit for the year			3,186

Statement of financial position at 31 December 2015

	Rs.000	Rs.000	Rs.000
Non-current assets	Cost	Dep^n	
Van	856	108	748
Cement mixer	200	50	150
	1,056	158	898
Current assets			
Inventory		560	
Trade receivables		1,200	
Balance at bank		204	
Cash in hand (W1)		10	
			1,974
Total assets			2,872

	Rs.000	Rs.000
Capital account		
Capital introduced		150
Add Profit for the year		3,186
		3,336
Less Drawings (936 – 104 + 65 + 342)		(1,239)
		2,097
Non-current liability		
Loan account – mother		400
Current liabilities		
Trade payables	149	
Accrued expenses	36	
Van instalments (5 × 38)	190	
		375
		2,872

Workings

(1) **Cash a/c**

17	Rs.000		Rs.000
Bank a/c (cash from bank)	3,100	Bank a/c (bankings)	9,204
Work done a/c (βal fig = takings)	11,866	Wages a/c	3,281
		Drawing a/c (private NIC)	65
		Materials a/c	1,400
		Electricity a/c	56
		General expenses a/c	14
		Drawings a/c (52 × 16)	832
		Rent a/c	104
		Balance c/d (cash in hand)	10
	14,966		
	14,966		

(2) **Materials a/c**

18	Rs.000		Rs.000
Cash a/c	1,400	Balance c/d (inventory)	560
Bank a/c	4,790	P & L a/c	5,779
Balance c/d (liability)	149		
	6,339		6,339

(3) **Work done a/c**

19	Rs.000		Rs.000
P & L a/c	13,066	Cash a/c	11,866
		Balance c/d	1,200
	13,066		13,066

7.9 UMAR

To get sales and purchases, start with the cash account and then move on to the total accounts. Many incomplete records questions require the use of these "collection" accounts to find missing balances.

(a) **Capital at 1 January 2015**

	Assets Rs.000	**Liabilities Rs.000**
Operating overdraft		1,172
Cash in till	20	
Inventories	4,500	
Trade receivables	2,800	
Brough's loan		
Principal		4,000
Accrued interest (40000 × 3% × $^{3}/_{12}$)		30
Accrued general expenses		240
Rates in advance	40	
Fixtures	2,800	
Trade payables		1,800
Accrued light and heat		80
	10,160	7,322
	(7,322)	
Net assets – Capital account	2,838	

(b) **Statement of comprehensive income for the year ended 31 December 2015**

	Rs.000	**Rs.000**	**Rs.000**
Revenue (W2)			39,156
Opening inventory		4,500	
Purchases (W3)		31,420	
		35,920	
Less Closing inventory		(5,800)	
			(30,120)
Gross profit			9,036
Administrative expenses			
Rent and rates (475 + 40 – 50)	465		
Light and heat (210 – 80 + 70)	200		
Wages	2,950		
Depreciation of fixtures (2,880 + 100 – 2,550)	350		
Sundry expenses (140 + 800 – 240 + 190)	890	4,855	
Financing costs			
Loan interest	120		
Bad debt	200		
Discounts (net) (520 – 480)	40	360	
			(5,215)
Net profit for the year			3,821

(c) **Statement of financial position at 31 December 2015**

	Rs.000	Rs.000
ASSETS		
Non-current assets		
Tangible assets at cost less depreciation		
Fixtures		2,550
Current assets		
Inventories	5,800	
Trade receivables	3,000	
Prepayment	50	
Cash (993 – 320 + 20)	693	9,543
Total assets		12,093
CAPITAL AND LIABILITIES		
Capital account		
At 1 January 2015 (per (a))		2,838
Add Net profit for the year (per (b))		3,821
		6,659
Less Drawings (156 + 900)		(1,056)
		5,603
Non-current liabilities		
Loan – Brough		4,000
Current liabilities		
Trade and other payables (2,200 + 190 + 70 + 30)		2,490
Total capital and liabilities		12,093

Workings

(1) **Cash and bank a/cs**

	Cash Rs.000	*Bank* Rs.000		*Cash* Rs.000	*Bank* Rs.000
Balance b/f	20		Balance b/f		1,172
Bank (cheques cashed)	250		Purchases		30,540
Cash (bankings)		35,170	Rent and rates		475
Sales (cash takings)	38,416		Fixtures		100
			Light and heat		210
			General expenses	140	800
			Loan interest		120
			Drawings (52 × 3)	156	900
			Sales (dishonoured cheques)		180
			Wages	2,950	
			Bank		
			Cheques cashed	250	
			Bankings	35,170	
			Balance c/f	20	673
	38,686	35,170		38,686	35,170

Tutorial note: This working is not specifically required therefore no marks are awarded to it.

(2) **Sales (or total receivables) a/c**

20	Rs.000		Rs.000
Balance b/f	2,800	Cash a/c (takings)	38,416
Bank a/c		Discounts allowed a/c	520
(dishonoured cheques)	180	Bad debts a/c	200
Trading a/c (βal fig)	39,156	Balance c/f	3,000
	42,136		42,136

(3) **Purchases (or total payables) a/c**

21	Rs.000		Rs.000
Bank a/c	30,540	Balance b/f	1,800
Discounts received a/c	480	Trading a/c (βal fig)	31,420
Balance c/f	2,200		
	33,220		33,220

7.10 YASIN

Statement of comprehensive income for the year ended 31 December 2015

	Rs.000	Rs.000
Revenue (W1)		25,965
Opening inventory	1,600	
Purchases (15,346 (W2) + 165 – 104)	15,407	
	17,007	
Less Closing inventory	(2,360)	
		(14,647)
Gross profit		11,318
Expenses		
Selling and distribution costs		
Wages	3,423	
Wrapping materials (525 – 53)	472	
Motor expenses (728 + 236)	964	
Bad debts (223 + 100)	323	
Depreciation of van (1,200 × 20% × $^{9}/_{12}$)	180	
		(5,362)
Administrative expenses		
Rates (500 – 125 + 100)	475	
General expenses	625	
Electricity (228 + 50)	278	
Depreciation of fixtures (2,600 – 200) × 10%	240	
Loss on disposal of fixtures (200 – 130)	70	
Loan interest (100 + 50)	150	
Accountancy costs	100	
		(1,938)
Net profit for the year		4,018

Statement of financial position at 31 December 2015

ASSETS	Cost Rs.000	Depn Rs.000	Rs.000
Non-current assets			
Property, plant and equipment			
Freehold property	10,000	–	10,000
Fixtures (2,600 – 200)	2,400	240	2,160
Delivery van	1,200	180	1,020
	15,600	420	13,180
Goodwill	2,000	–	2,000
Current assets			
Inventories		2,360	
Trade receivables (637 – 100)		537	
Prepayments (125 + 53)		178	
Cash (5,757 – 125) + 180		5,812	
			8,887
Total assets			24,067

CAPITAL AND LIABILITIES	Rs.000	Rs.000
Capital		
Capital at 1 January 2014	20,000	
Net profit for the year	4,018	
	24,018	
Drawings (1,040 + 104 + 1,329 + 36 (W3))	(2,509)	
		21,509
Non-current liabilities		
Loan		2,000
Current liabilities		
Trade and other payables (358 + (50 + 50 + 100))		558
Total capital and liabilities		24,067

Workings

(1) **Trade receivables control a/c**

22	Rs.000		Rs.000
Balance b/f	400	Cash received	25,505
Sales (βal)	25,965	Bad debt	223
		Balance c/f	637
	26,365		26,365
Balance b/f	637		

(2) **Trade payables control a/c**

23	Rs.000		Rs.000
Bank	14,863	Credit purchases (βal)	15,346
Bank (unpresented cheque)	125		
Balance c/f	358		
	15,346		15,346
		Balance b/f	358

(3) **Cash a/c**

24	Rs.000		Rs.000
Cash received	25,505	Wrapping materials	525
		Staff wages	3,423
		Purchases for resale	165
		Petrol and oil	236
		Drawings (20 × 52)	1,040
		Cash banked	19,900
		Balance c/f	180
		Difference (drawings) (βal)	36
	25,505		25,505

7.11 MUNIRA

(i)

Purchases ledger control account

	Rs. 000		Rs. 000
Cash	12,700	Bal b/f	8,000
Trade discount Received (not to be booked)	0	Purchases (Credit) Balancing figure	13,930
Bal c/f (9,500 + 470 – 740)	9,230		
	21,930		**21,930**

(ii)

Sales ledger control account

	Rs. 000		Rs. 000
Balance b/f	2,000	Bank (18,000 – 500 + 860)	18,360
Credit sales **(balancing figure)**	20,520	Discount allowed	360
		Bad debts	200
		Balance c/d	3,600
	22,520		**22,520**

(iii)

Cost of Sales as per record	**Rs. 000s**
Opening Inventory	12,500
Add: Purchases (W-1)	13,930
Goods available for sale	**26,430**
Less: Closing Inventory	8,500
Cost of sales – as per record	**17,930**

(iv)

Cost of sales on mark-up basis

Description	**Sales *(Rs. 000)***
Total normal and old inventory sales (as per (ii) above):	20,520
Sale of defective inventories:	
Cost (4% of 13,930 = 557)	
Normal sale price (557 x 1.20) = 668	
Sales at 70% of 668	(468)
	20,052
Sales to staff	315
Cost of sales at Standard Mark-up	
Staff (315 × $^{100}/_{105}$)	300
Cost of defective inventories (4% of 13,930)	557
Normal sales (20,052 × $^{100}/_{120}$)	16,710
	17,567
Less: Cost of sales as per record (see (iii) above)	(17,930)
Shortage of inventory	363

7.12 ADNAN

Adnan: Statement of comprehensive income for the year ended December 31, 2015

	Rs.	Rs.
Sales **(W)**		1,774,815
Opening inventory	15,700	
Purchases (130,800+1,423,800 – 116,100)	1,438,500	
	1,454,200	
Closing inventory	(27,500)	
		1,426,700
Gross profit		348,115
Less expenses:		
Wages	106,800	
Rent (3,500×9) + (4,500×3)	45,000	
Electricity & telephone (33,0000+8,800)	41,800	
Depreciation (285,000×0.1)+(75,000×0.1×6/12)	32,250	
		(225,850)
Net profit		122,265

Adnan: Statement of financial position as at 31 December

Assets	***2015 Rs.***	***2014 Rs. (see note)***
Non-current assets *(285,000 + 75,000 – 32,250)*	327,750	
		285,000
Inventory	27,500	15,700
Receivables	80,900	48,700
Bank	103,400	349,100
Cash	700	14,300
	540,250	712,800
Capital and liabilities	***Rs.***	***Rs.***
Capital Account (Bal. Figure)	396,150	593,200
Sundry payables	130,800	116,100
Outstanding expenses:		
Rent	4,500	3,500
Electricity & Telephone	8,800	-
	540,250	712,800

Note: *The statement of financial position for 2014 is not a part of the requirement, but has been prepared for computing opening balance of capital.*

Cash shortage	**Rs.**
Opening Capital on December 31, 2014	593,200
Profit for the year	122,265
Less: Drawings	(122,600)
Capital on December 31, 2015	396,150
Cash shortage	(196,715)

Working

Computation of sales

Cost of sales (15,700 + 1,438,500 – 27,500)	1,426,700
Sales	
Cost of cash sales (20% of 1,426,700)	285,340
Adjusting for mark up	× 1.22
Cash sales	348,115
Cost of credit sales (80% of 1,426,700)	1,141,360
Adjusting for margin	$\times\ ^{100}/_{80}$
Credit sales	1,426,700
Total	1,774,815

7.13 ASIF

Mr. Asif: Statement of comprehensive income for the year ended June 30, 2015

	Rs.	Rs.
Cash sales **(W4)**		709,750
Credit sales **(W6)**		2,996,000
Less: Returns		(15,000)
		3,690,750
Cost of goods sold:		
Opening inventory	482,500	
Add: Purchases	2,570,000	
	3,052,500	
Less: Closing inventory (including inventory at cost on sale or return basis) **(W1)**	(592,000)	
		2,460,500
Gross profit		1,230,250
Discounts received		30,300
		1,260,550
Less expenses		
Salaries	440,400	
Trade expenses (212,500+19,000 +53,800 –21,700 – 9,700 +25,000)	278,900	
Interest on loan (6% of 500,000)	30,000	
Provision for doubtful debts (4,200 – 3,700)	500	
Loss on sale of furniture **(W2)**	73,600	
Depreciation for year **(W3)**	57,700	
		(881,100)
		379,450
Commission- ($^{5}/_{105}$ of 379,450)		(18,069)
Net profit for the year		361,381

Statement of financial position as at June 30, 2015

Non-current assets	Rs.	Rs.
Land and building at cost		130,000
Furniture		
Cost: (825-280+64)		609,000
Less: Depreciation (485-84+57.7)		(458,700)
		150,300
		280.300
Current assets		
Inventory (580,000 + 12,000)	592,000	
Receivables	582,500	
Less: Provision (27,000 + 500)	(27,500)	
	555,000	
Prepayments	9,700	
Bank balance (3,818,150-24,200-3,249,000)	544,950	
Cash in hand **(W5)**	10,000	
		1,711,650
		1,991,950

Capital and liabilities	Rs.	Rs.
Asif-capital on July 1	613,300	
Add: Net profit	361,381	
	974,681	
Less: Drawings	(60,000)	
		914,681
Non-current liabilities		
6% Loan on mortgage	500,000	
Add: Accrued interest (30,000–22,500)	7,500	
		507,500
Current liabilities		
Trade payables **(W7)**	530,200	
Accrued expense	19,000	
Advance from customer	2,500	
Due to manager	18,069	
		569,769
		1,991,950

Workings:

1. **Closing inventory**	Rs.
Inventory on premises	580,000
Add: Inventory with customers on sale or return (Rs.18,000/1.2)	12,000
	592,000

2. **Non-current assets disposal**	Rs.
Cost of furniture	280,000
Less: Three years depreciation at 10% p.a. on cost: 3×28,000	84,000
Book value on July 1, 2014	196,000
Less: Sales proceeds	122,400
Loss on sale	73,600

3. Depreciation

	Rs.
(i) On Rs.825,000-Rs.280,000 = Rs.545,000 at 10% p.a.	54,500
(ii) On Rs.64,000 at 10% p.a. for six months	3,200
	57,700

4. Cash Sales

	Rs.
Cost of goods sold	2,460,500
1/3 of selling price i.e. 33-1/3% of selling price = 50% of cost	
Therefore, total sales would be (2,460,500×1.5)	3,690,750
Less: Credit sales – net (2,996,000 – returns 15,000)	2,981,000
Cash sales	709,750

5. Cash on hand

	Rs.
Opening Cash balance	10,000
Cash sales	709,750
	719,750
Total of cash sales banked	(624,750)
Drawings	(60,000)
Sundry expenses	(25,000)
Closing cash balance	10,000

6. Credit sales & receivables

Total Receivables Account

	Rs.		Rs.
Balance, 1st January, 2014	670,000	Receipt	3,071,000
Advance receipts (Cr.)	2,500	Sales Return	15,000
Credit sales (balancing figure)	2,996,000	Balance, June 30, 2015	582,500
		(Rs. 600,500-18,000)	
	3,668,500		3,668,500

7. Payables

Total Payables Account

	Rs.		Rs.
Discounts	30,300	Balance, July 1, 2014	500,100
Bank	2,509,600	Purchases	2,570,000
By balance, June 30, 2015 (bal.fig)	530,200		
	3,070,100		3,070,100

7.14 MANSOOR

Mansoor: Statement of comprehensive income for the year ended June 30, 2015

	Rs.	Rs.
Sales 125% of (552,000 + 5,341,000 - 670,000)		6,528,750
Opening inventory	552,000	
Purchases (288,000+5,053,000)	5,341,000	
	5,893,000	
Closing inventory (Destroyed in fire)	(670,000)	
		(5,223,000)
Gross profit b/d		1,305,750
Scrap sales		35,000
		1,340,750
Less: expenses		
Assistant's salary	132,000	
Electricity (50,500 + 1,900 - 5,500)	46,900	
Rent (240,500 + 15,000)	255,500	
Property tax (32,000 +11,500 -15,000)	28,500	
Accounting charges (20,500 + 1,800 – 11,500)	10,800	
Sundry expenses	15,000	
		(488,700)
Loss from fire:		
Fixtures (235,000 + 45,000 – 225,000)	55,000	
Inventories (670,000 – 630,000)	40,000	
Provision for bad debt	14,000	
		(109,000)
Net profit		743,050

Mansoor: Statement of financial position as at 30 June 2015

Assets	**Rs.**
Receivables (494,000 – 14,000)	480,000
Receivable from Insurance Co.	855,000
Property tax paid in advance	15,000
Cash in hand	40,500
Cash at bank	435,800
	1,826,300

Capital and liabilities	**Rs.**	**Rs.**
Capital		1,185,000
Net profit		743,050
Drawings (144,450 + 188,000)		(332,450)
		1,595,600
Payables:		
For goods	212,000	
Electricity	1,900	
Accounting charges	1,800	
Rent	15,000	
		230,700
		1,826,300

Workings:

Payables

Bank	5,061,000	Opening balance	220,000
Closing balance	212,000	Purchases (Balancing figure)	5,053,000
	5,273,000		5,273,000

Receivables

Opening balance	281,000	Cash (Balancing figure)	6,315,750
Sales	6,528,750	Closing balance	494,000
	6,809,750		6,809,750

Amount in Rupees
Cash and Bank

	Cash	Bank		Cash	Bank
Opening balance	35,000	307,500	Assistant's salary	132,000	
Receivables	6,315,750		Purchases	288,000	
Scrap sales	35,000		Drawings-bal figure	144,450	
Cash		5,780,800	Bank	5,780,800	
			Drawings		188,000
			Sundry expenses		15,000
			Accounting charges		20,500
			Electricity		50,500
			Property tax		32,000
			Rent		240,500
			Payables		5,061,000
			Fixtures		45,000
			Closing balance	40,500	435,800
	6,385,750	6,088,300		6,385,750	6,088,300

7.15 DANISH

Danish
Statement of comprehensive income
for the year ended 31 December 2013

		Rupees			**Rupees**
Opening inventory		25,000	Sales **(W - 1)**	89,800	
Purchases **(W - 2)**	69,000		less: Returns	(3,000)	86,800
Less returns	(2,000)	67,000	Closing Inventory **(W - 5)**		30,000
Gross profit c/d		24,800			
		116,800			**116,800**
Discount allowed		1,400	Gross profit b/d		24,800
Bad debts*****		4,230	Discount received		1,000
Expenses (6,000+1,200)		7,200			
Rent		2,500			
Depreciation					
Furniture		1,500			
Motor Van		3,200			
Net profit		**5,770**			
		25,800			**25,800**

1800+(48,600 × 5%)

Danish
Statement of financial position as at 31 December 2013

		Rupees			**Rupees**
Liabilities and Capital			**Assets**		
Capital **(W - 1)**	81,500		Motor Van	16,000	
Less: drawings	(5,000)		Less: Depreciation	(3,200)	12,800
Add: net profit	5,770	82,270	Furniture and fixtures	15,000	
			Less: Depreciation	(1,500)	13,500
			Closing Inventory		30,000
Payables **(W-2)**		27,000	Receivables **(W-3)**	48,600	
Accrued expenses		1,200	Less: allowance	(2,430)	46,170
			Cash **(W - 4)**		8,000
		110,470			**110,470**

W-1	**Opening Capital**	**Rupees**
	Assets	
	Motor Van	16,000
	Furniture and fixture	15,000
	Inventory	25,000
	Receivables	45,000
	Cash	4,500
		105,500
	Liabilities	
	Payables	(24,000)
	Opening Capital	**81,500**

W -2 **Payables control account**

	Rupees		Rupees
Cash paid	63,000	Balance b/d	24,000
Discount received	1,000	Purchases (bal. fig)	69,000
Purchases return	2,000		
Balance c/d	27,000		
	93,000		**93,000**

W-3 **Receivables control account**

	Rupees		Rupees
Balance b/d	45,000	Cash received	80,000
Sales (bal fig)	89,800	Discount allowed	1,400
		Bad debts	1,800
		Sales return	3,000
		Balance c/d	48,600
	134,800		**134,800**

W-4 **Cash**

	Rupees		Rupees
Balance b/d	4,500	Payments to suppliers	63,000
Receipts from customers	80,000	Expenses paid	6,000
		Drawings	5,000
		Rent paid	2,500
		Balance c/d	8,000
	84,500		**84,500**

W-5 **Calculation of closing inventory**

Net Sales	86,800
Net purchases	67,000
Opening Inventory	25,000
	92,000
Less cost of goods sold (100/140 of net sales)	62,000
Closing Inventory	**30,000**

CHAPTER 8 – BRANCH ACCOUNTS

8.1 HEAD OFFICE

Books of Head Office
Branch Account

	Rs. in 000	**Rs. in 000**	.	**Rs. in 000**	**Rs. in 000**
Balance b/d			Inventory reserve		
Inventory:			Opening inventory		
- From H.O.	24,000		(24,000 x 1/6)		4,000
- From direct purchase	16,000				
Receivables	25,000				
Petty cash			Bank A/c – remittances recvd		
	200				
		65,200	- Cash sales	45,000	
			- Cash from customers	125,000	
					170,000
Goods sent to branch a/c		60,000	Goods sent to branch a/c		
Bank a/c - direct purchases		45,000	- Loading on goods sent		
			(60,000 x 1/6)		10,000
Bank A/c - Expenses	30,000				
Bank A/c - Petty Expenses	250		Balance c/d		
		30,250	Inventory:		
Inventory reserve a/c			- From H.O.	18,000	
Closing inventory			- From direct purchase	12,000	
(18,000 x $^{1}/_{6}$)		3,000	Receivables **(W)**	24,000	
			Petty cash		
			(200+250 –265)	185	
					54,185
Profit and loss a/c					
- Branch profit transferred		34,735			
		238,185			238,185

Working:

Receivables as on 31 December 2015:

*25,000+130,000–125,000 –3,000–1,000–2,000 = 24,000

8.2 DIAMOND LTD (I)

Branch Account

Balance b/d			
Cash in hand	10,000		
Trade receivables	395,000		
Inventory	1,000,000		
Furniture and fittings	500,000		
	1,905,000		
Goods sent to branch	11,750,000	Cash sent to head office	12,682,000
Bank (payment for furniture)	100,000		
		Balance c/d	
		Trade receivables	498,000
		Inventory	1,300,000
		Furniture and fittings	516,000
			2,314,000
Profit and loss	1,241,000	-	
	14,996,000		**14,996,000**

Branch Inventory (memorandum account)

Balance b/d	1,000,000		
Goods sent to branch A/c	11,750,000		
		Cost of sales	11,450,000
		Balance c/d	1,300,000
	12,750,000		**12,750,000**

Branch Receivables (memorandum account)

Balance b/d	395,000	Branch cash	2,842,000
Sales	3,192,000	Branch discount	70,000
		Sales (Returns)	132,000
		Branch bad debts	45,000
		Balance c/d	498,000
	3,587,000		**3,587,000**

Branch Cash (memorandum account)

Balance b/d	10,000	Branch expenses	850,000
Sales	10,680,000	Branch (Remittances to H.O)	12,682,000
Branch receivables	2,842,000		
	13,532,000		**13,532,000**

Branch Furniture and Fittings (memorandum account)

Balance b/d	500,000	Depreciation	84,000
Bank	100,000	Balance c/d	516,000
	600,000		**600,000**

Working: Depreciation

16% × 500,000	80,000
16% × 100,000 × $^{3}/_{12}$	4,000
	84,000

Trading account:

	Rs.
Sales	
Credit sales (3,192,000 – 132,000)	3,060,000
Cash sales	10,680,000
	13,740,000
Cost of sales	(11,450,000)
	2,290,000
Less: expenses	
Expenses	850,000
Bad debts	45,000
Discounts allowed	70,000
Depreciation	84,000
	(1,049,000)
	1,241,000

8.3 DIAMOND LTD (II)

Branch Account

Balance b/d		Balance b/d	
Cash in hand	10,000		
Trade receivables	395,000		
Inventory	1,200,000	Inventory Reserve	200,000
Furniture and fittings	500,000		
	2,105,000		200,000
Goods sent to branch	14,100,000	Goods sent to branch (14,100,000 x $^{20}/_{120}$)	2,350,000
Bank (payment for furniture)	100,000	Cash sent to head office	12,682,000
Balance c/d		Balance c/d	
		Trade receivables	498,000
Inventory reserve (1,560,000 x $^{20}/_{120}$)	260,000	Inventory	1,560,000
		Furniture and fittings	516,000
	260,000		2,574,000
Profit and loss(net profit)	1,241,000	-	
	17,806,000		**17,806,000**

Branch Inventory (memorandum account)

Balance b/d	1,200,000	Inventory reserve	200,000
Goods sent to branch A/c	14,100,000	Inventory reserve	2,350,000
		Cost of sales	11,450,000
Inventory reserve	260,000	Balance c/d	1,560,000
	15,560,000		**15,560,000**

Branch Receivables (memorandum account)

Balance b/d	395,000	Branch cash	2,842,000
Sales	3,192,000	Branch discount	70,000
		Branch inventory (Returns)	132,000
		Branch Bad debts	45,000
		Balance c/d	498,000
	3,587,000		**3,587,000**

Branch Cash (memorandum account)

Balance b/d	10,000	Branch expenses	850,000
Cash sales	10,680,000	Branch (Remittances. to H.O)(Bal.)	12,682,000
Branch receivables	2,842,000		
	13,532,000		**13,532,000**

Branch Furniture and Fittings (memorandum account)

Balance b/d	500,000	Depreciation	84,000
Bank	100,000	Balance c/d	516,000
	600,000		**600,000**

Working: Depreciation

16% × 500,000	80,000
16% × 100,000 × $^{3}/_{12}$	4,000
	84,000

Trading account:

	Rs.
Sales	
Credit sales (3,192,000 – 132,000)	3,060,000
Cash sales	10,680,000
	13,740,000
Cost of sales	(11,450,000)
	2,290,000
Less: expenses	
Expenses	850,000
Bad debts	45,000
Discounts allowed	70,000
Depreciation	84,000
	(1,049,000)
	1,241,000

8.4 SUNIL PATEL

(a) **Branch inventory account**

	Rs.000		Rs.000
Opening inventory b/d	21,620	Inventory sent to	
Inventory sent to branch	119,330	branch – Returns	1,245
		Branch receivables	
Branch receivables		Credit sales	65,241
Returns	916	Cash	
		Banked	54,837
		Wages	1,920
		Expenses	3,432
		Branch mark-up –	
		Damaged inventory	315
		Normal loss (bal fig)	1,376
		Closing inventory c/d	13,500
	141,866		141,866

Inventory sent to branch

	Rs.000		Rs.000
Branch inventory – returns		Branch inventory	
$\frac{100}{125} \times 1,245$	996	$\frac{100}{125} \times 119,330$	95,464
Trading account	94,468		
	95,464		95,464

Branch receivables

	Rs.000		Rs.000
Balance b/d	14,270	Branch inventory – returns	916
Branch inventory	65,241	Cash	58,793
		P&L – bad debts	1,815
		Balance c/d	17,987
	79,511		79,511

Branch mark-up account

	Rs.000		Rs.000
		Bal b/d	
Branch inventory – returns		Unrealised profit on inventory	
$\frac{25}{125} \times 1{,}245$	249	$21{,}620 \times \frac{25}{125}$	4,324
Branch inventory –		Branch inventory	
Damaged inventory	315	$\frac{25}{125} \times 119{,}330$	23,866
Gross profit to P&L (bal. fig.)	23,550		
Bal c/d unrealised profit			
$\frac{25}{125} \times 13{,}500$	2,700		
Normal loss (bal fig)	1,376		
	28,190		28,190

Extracts from head office statement of comprehensive income for the month to 30 November 2015

	Rs.000	Rs.000
Gross profit for branch		23,550
Expenses – cash	3,432	
Wages	1,920	
Expenses – Lowtown payments	14,861	
Bad debts	1,815	
		(22,028)
Net profit of branch		1,522

(b) (i) Inventory stolen by staff or customers.

(ii) Cash stolen by staff.

(iii) Errors in counting inventory

(iv) Some inventory not sold at 25% mark up.

(v) Payments made out of cash prior to banking not properly recorded.

(vi) Inventory count did not tie in with deliveries to the branch.

8.5 ALI & CO.

Branch inventory account

	(Rs.)		(Rs.)
Balance b/d	18,000		
Goods sent to branch a/c	240,000	Goods sent to branch a/c	8,000
Branch receivables a/c Goods returned to branch by credit customers	1,050	Branch receivables a/c Credit sales by branch	227,000
Branch receivables a/c Sales returns from customers direct to HO	10,200	Goods sent to branch a/c Sales returns from customers direct to HO	10,200
		Branch mark-up a/c (goods lost by fire - balancing figure)	3,600
		Balance c/d: Physical inventory	10,450
		Goods in transit	10,000
	269,250		269,250

Branch receivables account

	(Rs.)		(Rs.)
Balance b/d	7,000		
Branch inventory a/c Branch sales	227,000	Branch inventory a/c Sales returns from credit customers	1,050
		Branch inventory a/c Sales returns from credit customers direct to HO	10,200
		Branch cash a/c *(balancing figure)*	219,800
		Balance c/d	2,950
	234,000		234,000

Goods sent to branch account

	(Rs.)		(Rs.)
Branch mark-up a/c	48,000	Branch inventory a/c	240,000
Branch inventory a/c	8,000	Branch mark-up a/c	1,600
Branch inventory a/c Sales returns from customers direct to HO	10,200	Branch mark-up a/c On sales returns from customers direct to HO	2,040
Purchases a/c (Bal)	177,440		
	243,696		243,640

Branch mark-up account

	(Rs.)		(Rs.)
Goods sent to branch a/c (mark-up on goods returned to HO by Branch – 8,000×$^{25}/_{125}$)	1,600	Inventory reserve a/c (mark-up on opening inventory)	3,600
Goods sent to branch a/c (mark-up on goods returned by cash customers to HO - 10,200 × $^{25}/_{125}$)	2,040	Goods sent to branch a/c (mark-up on goods sent to inventory)	48,000
Branch profit	40,214		
Branch inventory a/c (goods lost in fire)	3,600		
Balance c/d (mark-up on closing inventory including inventory in transit – 20,450 × $^{25}/_{125}$)	4,090		
	51,600		51,600

8.6 ABC ENTERPRISES

Lahore branch inventory account

	(Memo. selling price) Rs.	Rs.		(Memo. selling srice) Rs.	Rs.
Jan.1 Balance b/f	280,800	210,600			
Dec.31:			**Dec.31:**		
Goods sent to branch.	1,404,000	1,053,000	Goods ret. from branch.	46,800	35,100
Returns by customers	10,000	10,000	Sales	1,289,600	1,289,600
P & L a/c branch gross profit (1,289,600-10,000) × 25%		319,900	Balance c/f	358,400	268,800
	1,694,800	1,593,500		1,694,800	1,593,500

Goods sent to branch account

	Rs.		Rs.
Dec. 31:		**Dec. 31**	
LHE branch inventory acc. (returns)	35,100	Branch inventory account	1,053,000
H/O trading account	1,017,900		
	1,053,000		1,053,000

Lahore Branch Receivables' Control Account

	Rs.		Rs.
Jan. 1 Balance b/f	93,600		
Dec. 31		**Dec. 31**	
Sales	1,289,600	Cash	1,185,600
		Returns by customers	10,000
		Discounts	49,400
		Bad debts	15,600
		Balance c/f	122,600
	1,383,200		1,383,200

8.7 KAMRAN ENTERPRISE

(a) **Cost of inventory transferred and disposed of by Shop 2**

	Shop 1	Shop 2	Shop 3
At selling prices	**Rs.**	**Rs.**	**Rs.**
Opening Inventory	2,716,000	3,123,000	2,444,000
Goods sent to branch	32,591,000	37,479,000	29,332,000
Goods sold	(33,332,000)	(37,529,000)	(28,937,000)
Closing inventory (selling price)	1,975,000	3,073,000	2,839,000
Actual inventory	2,500,000	1,990,000	3,091,000
Inter-shop transfers/disposal of inventory	525,000	(1,083,000)	252,000
Inventory transfers between shops	525,000	(777,000)	252,000
Inventory disposed of at nil value before 30-06-2015		(306,000)	
		(1,083,000)	
At cost (at 0.875)			
Inventory transfer between shops	459,375	(679,875)	220,500
Inventory disposed of at nil value before 30-06-2015		(267,750)	-
		(947,625)	-

(b) **Shops trading accounts**

	Shop 1	Shop 2	Shop 3
	Rs.	**Rs.**	**Rs.**
Sales	33,332,000	37,529,000	28,937,000
Cost of sales :			
Opening inventory	2,376,500	2,732,625	2,138,500
Goods received from HO	28,517,125	32,794,125	25,665,500
Inter Branch Transfers	459,375	(679,875)	220,500
	31,353,000	34,846,875	28,024,500
Closing inventory	(2,187,500)	**W1** (1,552,875)	(2,704,625)
Loss due to flood damages	-	**W2** (456,125)	-
Cost of Sales	29,165,500	32,837,875	25,319,875
Gross profit	4,166,500	4,691,125	3,617,125

W1: Closing Inventory – Shop 2	**Rs.**
Cost of good inventory (1,990,000 – 685,000) × 0.875	1,141,875
Damaged inventory at lower of cost and NRV (Cost 685,000 × 0.875) : (NRV 60% of 685,000)	411,000
Cost of total inventory	1,552,875

W2: Flood damage – Shop 2	**Rs.**
Cost of damaged inventory disposed of at no value (0.875 × 306,000)	267,750
Loss on valuation of damaged inventory at NRV [(0.875 × 685,000) – 411,000]	188,375
	456,125

8.8 RAMEEZ

Statements of comprehensive income 31 March 2015

	Head office Rs.	Multan branch Rs.	Goods in transit	Unreal. profit	Whole business Rs.
Sales	140,000	75,000			215,000
Inventory sent to branch (W1)	79,900	–	79,900 Dr		–
	218,452				215,000
Purchases					
Toys	200,000	–			200,000
Packaging	22,000	–			22,000
Inventory from Head Office	–	78,452	78,452 Cr		–
	222,000	78,452			222,000
Less: Closing inventory (W2)	(23,250)	(7,302)	1,448 Cr	558 Dr	(31,441)
Cost of sales	198,750	71,150			190,559
Gross profit	21,150	3,850			24,442
Expenses	20,000	2,000			22,000
Depreciation	1,000	–			1,000
Net profit	(21,000)	(2,000)			(23,000)
Profit before commission	150	1,850			1,442
Commission (W3)	–	(168)			(168)
Increase in provision for unrealised profit	(558)	–			–
Entity profit (loss)	(408)	1,682			1,274
	1,682	(1,682)			–
	1,274	–			1,274

Statement of financial position 31 March 2015

	Head Office Rs.	Multan branch Rs.	Whole business Rs.
Assets			
Long-term assets			
Tangible assets – fixtures	7,000	–	7,000
Current assets			
Cash at bank and in hand	10,400	3,100	13,500
Branch account (W4)	15,734	–	–
Receivables	14,000	7,500	21,500
Inventories (W2)	24,605	7,302	31,441
	64,739	17,902	66,441
	71,739	17,902	73,441
Capital and liabilities			
Trade payables and accruals	20,000	2,168	22,168
Provision for unrealised profit	466	–	–
Head office account		15,734	
		17,902	
Capital	51,273		51,273
	71,739		73,441

Workings

1	Head office cost structure	External	Internal
		Rs.	Rs.
	Selling price	100	94
	Cost of sale:		
	Toy	80	80
	Packaging	8	8
		88	88
	Profit	12	6

W2: Head office inventories

This is calcualted by starting with the purchase figure and adjusting it for goods sold, goods transferred and any loss.

	Rs.	Rs.
Inventory of toys (HO)		
Toys purchased		200,000
Less toys sold (at cost)		
Sold Rs.140,000 × $\frac{80}{100}$ **(W1)**	112,000	
To branch 79,900 × $\frac{80}{94}$ **(W1)**	68,000	(180,000)
Less obsolete inventory		(500)
		19,500
Inventory of packaging (HO)		
Packaging purchased	22,000	
Used – 10% of toys used	18,000	
	4,000	
Less: damaged packaging	(250)	
		3,750
		23,250
Branch inventories		
Inventory from Head Office	78,452	
Sold 75,000 × $\frac{94}{100}$ **(W1)**	(70,500)	
Shortage	(650)	
		7,302
Unrealised profit (7,302× $^{6}/_{94}$ **(W1)**)		(466)
Goods in transit		
At transfer price (1,540 × 94%**(W1)**)		1,448
Unrealised profit (1,448× $^{6}/_{94}$ **(W1)**)		(92)
Combined inventories		31,441

Note: Total unrealised profit = 466 + 92 = 558.

(3) Commission $^{10}/_{110}$ × 1,850 = Rs.168

(4) Current accounts

	Receivable in HO books Rs.	**Payable in branch books Rs.**
Per trial balance	18,000	14,052
Less goods in transit	(1,448)	
Branch profit	1,682	1,682
Cash in transit	(2,500)	
	15,734	15,734

CHAPTER 9 – FUNDAMENTALS OF COST ACCOUNTING

9.1 SIGMA LTD

(i) **Differences in profit statements**

The differences in the statements reflect the different *uses* of the two sets of accounts, as detailed below.

- Financial accounts analyse costs by function (e.g. production, selling, finance, etc.) and comply with generally accepted accounting practice (e.g. IASs) and relevant legislation, as they are used externally by shareholders and creditors.
- Management accounts analyse costs by nature (e.g. fixed, variable, semi-variable, etc.), as they are used internally for decision-making.
- Management accounts profit statements may be prepared either on an absorption or on a marginal costing basis, the latter giving better information for short-term decision-making, as fixed costs are treated as period costs and charged to the profit and loss account when incurred. Management accounts record costs through cost centres (departments) and cost units (products) to give responsibility for control of costs to individuals. A standard costing system may be used in the business to analyse variances effectively, and management accounts profit statements prepared, say, on a departmental basis, may include notional intra-departmental charges (e.g. for rent).
- Financial accounts in the main give a financial record of past transactions but are very limited in their use for control as they do not separate fixed and variable costs. They must be prepared on an absorption basis, where fixed production overheads are treated as product costs and charged to the income and expenditure account when units are sold, in line with the accruals basis in IAS 1 (and *The Framework*) and inventory measurement principle in IAS 2. The financial accounts profit will include non-cost items, such as finance costs and profits or losses on disposal of assets.

(ii) **Differences in accounting records**

- The accounting records for financial accounts are summarised records accounting for costs as they accrue.
- The accounting records for management accounts are far more detailed in that they break down costs by centre and unit for control purposes.
- The cost accounts produced by the management accountant may be integrated within the financial ledgers where the basis of valuation used in each is the same. However, the cost accounts may well be kept separately from the financial accounts in a larger organisation where different people can be responsible for the different areas.
- Where cost accounts are kept separate, control accounts are maintained in both sets of books to ensure that the double entry is maintained in each system.

9.2 MANAGEMENT INFORMATION FUNCTIONS

The role of the management accountant within an organisation is to provide information for management in order that they may manage effectively. Although the information that the management accountant must provide will be specific to the organisation and the industry in which it operates, there are three main functions for which information is required – planning, decision-making and control.

The planning activities of an individual manager will depend on the objectives of the organisation as a whole. It will be assumed that normally these objectives will include the achievement of at least a target level of profit. Planning must take place to ensure that those products are sold which give the highest contribution towards profit. Therefore information regarding the revenue and costs for each product under consideration will be needed in order that relative profitability may be evaluated.

Once all the necessary information is available, the decision-making process can take place. The chosen production plan must be expressed in financial terms as well as in terms of units of product.

At the end of the accounting period under consideration, actual production and sales figures must be compared with the results expected in the original plan. This is necessary for management to control the business properly. Where there are differences between actual and planned performance, investigation may be required so that, if necessary, corrective action may be taken.

9.3 JOHN PIRELLI

(i) **Direct and indirect costs**

Direct cost is also called prime cost; indirect costs are often referred to as overheads.

Direct costs are those specifically attributable to units of output (clients' jobs); these would include printers' time, paper costs, plate-making costs.

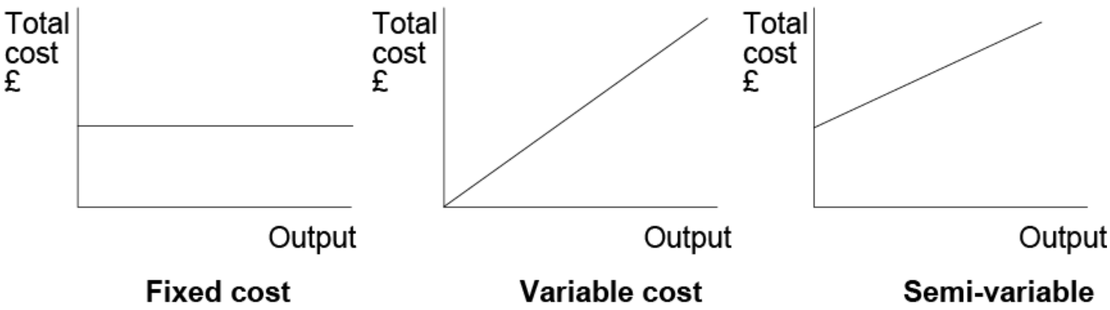
Indirect costs are those not capable of such close matching, such as rent and rates, insurance, depreciation of machinery.

(ii) **Fixed and variable costs**

Fixed costs are those independent of the level of output (the amount of printing work done). Into this category would come rent and rates, advertising, audit fee, electricity for lighting and heating.

Variable costs increase as output increases, such as paper costs, electricity costs for powering printing presses and the cost of ink or plates.

A third category of cost is "semi-variable", such as electricity (with a fixed and variable element). These three can best be described graphically.



(iii) **Production and non-production costs**

The category of "production costs" is important to the extent that such types of cost can be incorporated in the valuation of any stocks of finished work at the end of an accounting period which in turn is needed for profit determination. Examples of these costs would be as follows.

Production	Paper, all print-room costs
Non-production	Your secretary's salary, advertising, delivery van, running expenses

(iv) **Committed and discretionary costs**

Committed costs are those essential for the running of the business: paper, depreciation of presses, assistant printer's wages, rent of printing room.

Discretionary costs are incurred at the whim of management: machine maintenance contract charges, cost of Christmas party, advertising costs.

Note Whatever you call them, it is necessary to recover all these costs from fees charged to customers. To do that you need to know how much is their amount. Hence the need for your costing system.

9.4 CLASSIFICATION OF COSTS

(a) Fixed, variable and semi-variable costs

- A *fixed* cost item is one for which the expenditure will not be affected by changes in the level of activity. In general, fixed costs are incurred in providing the facilities or conditions to undertake production. Therefore, they are more usually incurred in relation to time periods than to activity. This is not to say that such costs are a constant amount even for short periods of time. Clearly, price changes will vary the amount, as in the instance of paying local rates based on rateable value where the annual charges are in line with inflation. Finally, fixed cost per unit of product varies inversely with output.
- A *variable* cost item is one for which the total expenditure will tend to vary more or less directly with output or activity. Nevertheless, the variable cost expenditure may also vary as the result of other influences, such as inflation or competition or even changes in supply. It is possible that any change in the number of units purchased could be more than offset by an opposite price change. Even so, the total expenditure at the new price will vary directly with output. Variable cost per unit of product tends to be more or less constant at each different level of output, other things being equal.
- A *semi-variable* cost is one for which the total expenditure tends to vary directly with the volume of output/activity, but proportionately less than the change in output/activity. Generally, such cost items are composites with a variable element and a fixed element. A good example is telephone charges in which the rental is a fixed charge and payable irrespective of activity levels. The variable element comprises the charge for calls made and tends to be related to business activity. The cost per unit of product will reflect both.

(b) Examples of each type of cost

	Fixed		*Variable*		*Semi-variable*
2	Factory insurance	7	Direct materials	1	Telephone (standing charge + calls)
3	Legal expenses	4	Social Security	6	Light and heat
5	Rent of premises	12	Casual labour	9	Machine servicing/repairs
8	Lift operator's wages			11	Contract cleaning services
10	Foreman's salary				

Tutorial note: Each classification is open to debate. Hard and fast rules cannot be laid down; precise classification *would depend upon the particular circumstances of the firm.*

9.5 REGRESSION 1

Workings

Output units	Total cost Rs.000			
x	y	Σx^2	Σxy	Σy^2
5	20	25	100	400
9	27	81	243	729
4	17	16	68	289
5	19	25	95	361
6	23	36	138	529
29	106	183	644	2,308
$= \Sigma x$	$= \Sigma y$	$= \Sigma x^2$	$= \Sigma xy$	$= \Sigma y^2$

There are five pairs of data, so n = 5.

$$b = \frac{n\Sigma xy - \sum x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2}$$

$$b = \frac{5\,(644) - (29)(106)}{5\,(183) - (29)^2} = \frac{3{,}220 - 3{,}074}{915 - 841} = \frac{146}{74}$$

b (in Rs.000) = 1.97

$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{106}{5} - \frac{1.97\,(29)}{5} = 21.2 - 11.4$$

a (in Rs.000) = 9.8

Answer

(a) The estimate of monthly fixed costs and the variable cost per unit is therefore:

y = 9,800 + 1,970x.

(b) When output is expected to be 8 units, the expected total costs will be:

	Rs.
Fixed	9,800
Variable (8 x Rs.1,970)	15,760
Total costs	25,560

(c) **Using the high/low analysis**:

	units		Rs.000
High: Total cost of	9	=	27
Low: Total cost of	4	=	17
Difference: Variable cost of	5	=	10

Therefore variable cost per unit produced = Rs.10,000/5 units = Rs.2,000.

Substitute in low equation	**Cost**
	Rs.
Total cost of 4 units	17,000
Variable cost of 4 units (× Rs.2,000)	8,000
Therefore fixed costs per week	9,000

Cost estimate for 8 units	**Cost**
	Rs.
Fixed costs	9,000
Variable cost of 8 units (× Rs.2,000)	16,000
Estimated total costs	25,000

9.6 REGRESSION 2

$$b = \frac{5(254) - (15)(79)}{5(55) - (15)(15)}$$

$$= \frac{1,270 - 1,185}{275 - 225}$$

b = 85/50 = 1.7

$$a = \frac{79}{5} - \frac{1.7(15)}{5}$$

a = 10.7

Forecast: Sales in Rs.millions = 10.7 + 1.7x

Forecast for Year 6 = 10.7 + 1.7(6) = 20.9 (Rs.20.9 million)

Forecast for Year 7 = 10.7 + 1.7(7) = 22.6 (Rs.22.6 million).

9.7 COST ESTIMATION

(a) **High low method**

		Rs.
Total cost of	22,000 units	74,000
Total cost of	12,000 units	52,000
Therefore variable cost of	10,000 units	22,000

Variable cost per unit = Rs.22,000/10,000 units = Rs.2.20.

			Rs.
Total cost of	22,000 units		74,000
Variable cost of	22,000 units	(× Rs.2.20)	48,400
Therefore fixed costs	10,000 units		25,600

Fixed costs = Rs.25,600 per month.

In a month when output is 15,000 units, the estimated total costs are:

		Rs.
Fixed costs		25,600
Variable costs	(25,000 × Rs.2.20)	55,000
Total costs		80,600

(b) **Linear regression analysis**

Workings

Output			**Total cost**	
x	**y**	**x^2**	**xy**	**y^2**
17	63	289	1,071	3,969
15	61	225	915	3,721
12	52	144	624	2,704
22	74	484	1,628	5,476
18	68	324	1,224	4,624
84	318	1,466	5,462	20,494

$$b = \frac{5(5{,}464) - (84)(318)}{5(1{,}466) - (84)^2}$$

$$= \frac{27{,}310 - 26{,}712}{7{,}330 - 7{,}056}$$

$$= \frac{598}{274} = 2.18$$

$$a = \frac{318}{5} - \frac{2.18(84)}{5}$$

= 63.6 – 36.6 = 27.0

Variable costs = Rs.2.18 per unit and fixed costs per month are Rs.27,000.

		Rs.
Fixed costs		27,000
Variable costs	(25,000 × Rs.2.18)	54,500
Total costs		81,500

9.8 IMI LIMITED

	Direct labour Hours (x)	Overheads (y)	(xy)	(x^2)
September 2009	50	14,800	740,000	2,500
October 2009	80	17,000	1,360,000	6,400
November 2009	120	23,800	2,856,000	14,400
December 2009	40	11,900	476,000	1,600
January 2010	100	22,100	2,210,000	10,000
February 2010	60	16,150	969,000	3,600
	450	105,750	8,611,000	38,500

$$b\,(\text{Variable cost per unit}) = \frac{n(\sum xy) - (\sum x)(\sum y)}{n(\sum x^2) - (\sum x)^2} = \frac{6 \text{ x } 8{,}611{,}000 - 450 \text{ x } 105{,}750}{6\,(38{,}500) - (450)^2} = 143.1053$$

$$a\,(\text{Fixed costs per month}) = \frac{(\sum y) - b(\sum x)}{n} = \frac{(105{,}750 - 143.11(450))}{6} = 6{,}892$$

9.9 BULBUL LIMITED

	Units (x)	Cost Rs.000' (y)	(xy)	(x^2)
March 2011	75	900	67,500	5,625
April 2011	60	700	42,000	3,600
May 2011	65	850	55,250	4,225
June 2011	80	950	76,000	6,400
July 2011	105	1,200	126,000	11,025
August 2011	95	1,040	98,800	9,025
	480	5,640	465,550	39,900

$$b\,(\text{Variable cost per unit}) = \frac{n(\sum xy) - (\sum x)(\sum y)}{n(\sum x^2) - (\sum x)^2} = \frac{6 \times 465{,}550 - 480 \times 5{,}640}{6\,(39{,}900) - (480)^2} = 9.57$$

$$a\,(\text{Fixed costs per month}) = \frac{(\sum y) - b(\sum x)}{n} = \frac{(5{,}640 - 9.57\,(480))}{6} = 174$$

Estimated cost to produce 110 units:

Y = a + b (x)

= 174 + 9.57 x 110 = Rs. 1,227

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