

**Winter Exam-2016**  
**GATEWAY EXAM – FINANCIAL REPORTING**

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**Short Form Questions**

Marks - 25

Duration: 65 minutes

**Additional time – 15 min for Paper Reading**

**Instructions**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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**Q.1.** On 1<sup>st</sup> October 2014 Construk entered into a construction contract that was expected to be completed on 31<sup>st</sup> December 2016. Details of the contract are:

	Rs. (000)
Agreed contract price	28,000
Estimated total cost of contract	17,000

The correctly reported Statement of Profit or Loss results for the contract for the year ended 31<sup>st</sup> March 2015 was:

	Rs. (000)
Revenue Recognized	7,000
Contract Expenses Recognized	(5,800)
Profit Recognized	<u>1,200</u>

Details of the progress of the contract at 31<sup>st</sup> March 2016 are:

	Rs. (000)
Contract costs incurred to date	12,800
Agreed value of work completed and billed to date	16,800
Total cash received to date (payments on account)	15,400

The percentage of completion is calculated as the agreed value of work completed as a percentage of the agreed contract price.

**Required:**

Calculate the amounts which would appear in the Statement of Profit or Loss and Statement of Financial Position of Construk, including the disclosure note of amounts due to/from customers, for the year ended/as at 31<sup>st</sup> March 2016 in respect of the above contract.

**07**

*Contd.....*

**Q.2.** Metallica Limited is being sued by a competitor for copying one of its product designs. The case is in the early stages and has not yet gone to court. However Metallica Co's lawyers feel that the competitor has a good chance of success even though the financial effect cannot yet be estimated.

**Required:**

As per IAS 37- "Provisions, contingent liabilities and contingent assets", define provisions and contingent liabilities. Also, briefly explain how the above mentioned event should be dealt with in the Financial Statements of Metallica Ltd?

**05**

**Q.3.** Airbest is an airline which treats its aircraft as complex non-current assets. The cost and other details of one of its aircraft are:

	<b>Cost Rs. Million</b>	<b>Estimated life</b>	<b>Residual value</b>
Exterior structure	24	20 years	Nil
Interior cabin fittings	8	6 years	Nil
Engine	5	36,000 flying hours	Nil

The exterior structure and interior cabin fitting were purchased on 1<sup>st</sup> January 2012.

At 1<sup>st</sup> January 2015, the aircraft log showed it had flown 18,000 hours since purchase. In the year ended 31<sup>st</sup> December 2015, the aircraft flew for 7,920 hours.

The aircraft met with an accident on 1<sup>st</sup> January 2015. It caused damage to the exterior of the aircraft which required repainting at a cost of Rs. 1.5 million.

As the aircraft was out of service for some weeks due to the accident, Airbest took the opportunity to upgrade its cabin facilities at a cost of Rs. 5 million. This did not increase the estimated remaining life of the cabin fittings, but the improved facilities enabled Airbest to substantially increase the air fares on this aircraft.

**Required:**

Calculate the charges to the Statement of Profit or Loss in respect of the aircraft for the year ended 31<sup>st</sup> December 2015 and its carrying amount in the Statement of Financial Position as at that date.

**08**

**Q.4.** Paradigm acquired 80% shares in Silverz on 1<sup>st</sup> July 2013. At the date of acquisition, Silverz owned a recently built property with a carrying of Rs. 76 million. The fair value of this property at the date of acquisition was Rs. 92 million and it had an estimated remaining life of 8 years.

At 30<sup>th</sup> June 2016, the property plant and equipment carrying value in Paradigm and Silverz's Statement of Financial Position was Rs. 650 million and Rs. 312 million respectively.

Silverz has been selling some of its products under the brand name of 'Topstone'. At the date of acquisition the directors of Paradigm valued this brand at Rs. 18 million with a remaining life of 10 years. The brand is not included in Silverz's Statement of Financial Position.

**Required:**

As per the information above, calculate the value of non-current assets to be shown in Paradigm's Consolidated Statement of Financial Position at 30<sup>th</sup> June 2016.

**05**

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**Winter Exam-2016**  
**GATEWAY EXAM – MANAGEMENT ACCOUNTING**

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Marks-25

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- Q.1.** Gee Co. operates in the country of Geostan manufacturing home gardening equipments through its 3 factories operating in different parts of the country to help with the effectiveness of supply chain. However in recent years the home gardening equipments are being heavily imported because of them being cheaper even though they are of much lower quality than Gee Co's products. The operating results of the 3 factories are as follows:

Factory	A	B	C
	Rs. (000)		
Sales	500	400	300
Cost of Sales	(300)	(300)	(100)
Gross Profit	200	100	200
Variable Operating Costs	(100)	(50)	(50)
Fixed Operating Costs	(20)	(20)	(20)
Operating Profit	80	30	130
Apportioned Head Office Cost	(50)	(50)	(50)
Net Divisional Profit	30	(20)	80

Gee Co. is considering shutting down Factory B because of the loss it is incurring.

**Required:**

- (a) You are the management accountant of the company and have been asked by the Directors to give your opinion based on the above results whether shutting Factory B down is the best possible solution in terms of financial performance only. **06**
- (b) What are the other factors that the company must consider other than Financial which can possibly affect this decision? **02**

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**Q.2.** BLoL Co. is in the process of making its annual budget for the coming period and the following information is relevant to the process. The functional budgets are first needed to be made before the master budgets.

Description	Units or kg or Rs.
Sales Budgeted (units)	100,000
Selling Price	Rs. 50 per unit
Material (kg) per unit	10 per unit
Material Price per kg	Rs. 5
Opening Inventory of Finished Goods	10,000 units
Budgeted Closing Inventory of Finished Goods	12,000 units
Opening Inventory of Raw Material	150,000 kg
Budgeted Closing Inventory of Raw Material	120,000 kg

**Required:**

Prepare the following budgets in the sequence that is the most appropriate:

- (a) Production Budget **02**
- (b) Finished Goods Inventory Budget **01**
- (c) Sales Budget **01**
- (d) Material Purchase Budget **01**

**Q.3.** **K Co.** specializes in producing Roya, Echo & Vox. It uses the same raw material for both of them called Birset. The company has been very successful in meeting the demands of all three products and the following information has been produced by the management information system at the **K Co.**

However, recently the **K Co's** supplier for Birset have received an abundance of customers and the supply of the raw material has been limited that has affected **K Co.'s** production, even though the distribution channels are strong production of all of them is not possible now. **K Co.** is thinking about getting one of the products from another supplier and then selling it at a margin to the customers. Birset costs Rs. 2 per kg.

Costs	Product		
	Roya	Echo	Vox
Direct Material (Rs.)	5	6	7
Direct Labour (Rs.)	3	2	3
Variable Overheads (Rs.)	2	3	2
Selling Price	18	20	25
Buy in cost	13	15	20

**Required:**

- (a) You as the management accountant need to determine which will be the best product for **K Co.** to make itself and which of the products need to be bought in from another supplier. **04**
- (b) Budgeting is a great way to make plans before taking any actions, explain how budgeting could have helped with situations like the one **K Co.** faced. **03**

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**Q.4.** **R Co.** works as a portfolio management company for a number of investors, who required different types of returns from the money they have invested. All of the investors are concerned about payback and net present value of the investments, as it delivers the ease of mind if these investment appraisal techniques approve the investments. **R Co.** believes that delivering the high quality service of excellent returns to investors is what can build up for the sustainable future.

There is one such investment which would bring cash flows to the company for an indefinite period. Company is not sure of how to apply the different investment appraisal techniques on such an investment and has required you, the new management accountant to assess payback and net present of this investment. The investment has the following cash flow schedule:

Year	Cash Flows (000)
0	(200)
1	50
2	100
3	100
4-	25

**Required:**

You as the new management consultant are required by the Directors to calculate the following assuming that the Weighted Average Cost of Capital (WACC) of the **R Co.** is 10%:

- (a) Simple Payback Period (Years & months) **01**
- (b) Discounted Payback Period (Years & months) **1.5**
- (c) Net Present Value (to the nearest Rs.) **2.5**

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**Winter Exam-2016**  
**GATEWAY EXAM – AUDIT, ASSURANCE & ETHICS**

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**Q.1. (c)** What is Planning Materiality? Explain whether the auditor can revise planning materiality during the course of audit. **03**

**(d)** What is meant by the term audit risk and how is it used to decide the extent of audit procedures to be applied by auditors? **03**

**(e)** Adam Co. makes cheese and sells it locally as well as in foreign markets. Red LLC has recently been hired as auditors and has collected the following details about the business:

Adam Co. has recently spent a substantial amount on repairing its main production plant in order to modernize it. The Finance Director is unsure on how to deal with the expenditure in financial statements. To raise finance for these repairs, a 5-year loan was raised from a bank and the entire amount has been booked in non-current liabilities.

Red LLC has identified several items in inventory that were expired and have not been provided for in financial statements. Since competition has increased in recent years, revenue has fallen drastically over the past year leading to doubts about the company being a going concern.

**Required:**

Identify and explain FOUR MATTERS that increase audit risks for Red LLC. **04**  
Mention how these matters would affect financial statements of Adam Co.

**Q.2. (a)** Welders Co. has recently incurred a significant amount of capital expenditure resulting in a depreciation charge of Rs.570,000 during the year ended 31<sup>st</sup> December 2015. The auditors, during the audit procedures calculated depreciation charge as Rs.750,000 and have asked the management at Welders Co. to adjust financial statements which they have refused. Profit before tax for the year was Rs.2,975,000.

*Contd.....*

<b>Required:</b>	<b>02</b>
Explain the impact on Financial Statements of the treatment of depreciation.	
<b>(b)</b> Outline audit procedures, other than recalculation that the auditor can use to confirm depreciation on assets.	<b>02</b>
<b>(c)</b> If management refuses to amend Financial Statements, what would be the impact on the auditor's report at yearend?	<b>02</b>
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<b>Q.3.</b> Pedro Plc. has been auditing Rob Inc. for five years however, during the audit of the year ended 31 <sup>st</sup> December 2015, Pedro has experienced some issues in confirming the receivable balance.	
Confirmation letters were sent for several balances, however most of the letters have not been replied to. Pedro is now considering alternative procedures to confirm the receivable balance.	
<b>(c)</b> Outline procedures, other than circularization, used to confirm the receivable balance.	<b>02</b>
<b>(d)</b> Rob Inc. has invested a substantial amount in the addition of plant and equipment to modernize its production process.	<b>03</b>
State the audit procedures that can be applied to confirm additions in non current assets.	
<b>(e)</b> Auditor's evidence must be sufficient and appropriate, state the factors that can affect sufficiency of audit evidence.	<b>04</b>

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