Financial Accounting & Analytical Review of Audited Accounts

Summer-2022

Summer Exam-2022

Solutions – Financial Accounting and Analytical Review of Audited Accounts

Q.1.

Saqib Textiles Limited			
Trading Account of Shop			
	Rs.		**Rs.**
Opening Stock **(1)**	15,000	Sales **(1)**	154,770
Goods Received from Head office **(1)**	140,000	Goods Lost (660 ×120/132) **(2)**	600
		Closing Stock (b/f) **(1)**	13,700
Gross profit (154,770×12/132) (1)	**14,070**		169,070
Less: Expenses **(1)**	7,200		
Loss by accident (abnormal loss) **(1)**	600		
Net profit (1)	**6,270**		

Note: Alternate layouts are acceptable.

Total Marks 10

Q.2.

Percentage mark-up = Gross profit/ Cost of Sales x 100	60,000/180,000 x 100 **= 33.33% (3.5)**
Percentage profit for the year to revenue = Profit/Revenue x 100	15,000/240,000 x 100 **= 6.25% (3.5)**
Return on capital employed (ROCE) = Profit/ Capital Employed x 100	15,000/100,000 x 100 **= 15% (3)**

Total Marks 10

Q.3.

Cash flow statement for the year ended 31-12-2006		
Cash flows from operating activities:	**Rs.**	**Rs.**
Net profit before tax **(1)**	55,000	
Adjustment for:		
Dep. On machinery **(2)**	30,000	
Increase in Accounts Payable**(1)**	60,000	
Increase in Bills Payable**(1)**	20,000	
Increase in Inventory**(1)**	(10,000)	
Increase in Accounts Receivable**(1)**	(40,000)	
Income tax paid**(2)**	(25,000)	
Net cash from operating activities		**90,000**
Cash flows from investing activities:		
Machinery purchased **(2)**	(280,000)	
Net cash from investing activities		**(280,000)**
Cash flows from financing activities		
Issue of shares **(2)**	100,000	
Issue of debenture **(2)**	210,000	
Cash flows from financing activities		**310,000**
Net increase in cash & cash equivalents**(2)**		120,000
Add: opening cash balance **(2)**		75,000
Closing cash balance (1)		**195,000**

Total Marks 20

Q.4.

	Rs.
Opening inventory **(2)**	1,250,000
Purchases (Note-1)**(2)**	9,125,000
Cost of sales (Note-2)**(2)**	(7,500,000)
Amount of insurance claim / loss caused by fire**(2)**	**2,875,000**

Notes(2)
1. Purchases 8,250,000 – 375,000 +1,250,000 = 9,125,000
2. Cost of sales (9,625,000 + 625,000 – 1,250,000) x 100/120 = 7,500,000

Total Marks 10

Q.5.

	Rs.
Cost of machine**(1)**	10,000,000
Depreciation (10,000,000 - 3,000,000) x 20% x 2 years**(2)**	(2,800,000)
WDV as at June 30, 2014**(1)**	7,200,000
Residual value (10% of the cost of machine)**(2)**	(1,000,000)
Depreciable amount - on July 1, 2014**(2)**	6,200,000
Remaining useful lives**(2)**	6 years
Depreciation charge for the year ended June 30, 2015	**1,033,333**

Total Marks 20

Q.6. a The finance cost of the loan must be calculated using the effective rate of 10%, so the total finance cost for the year ended 31 March 2016 is Rs. 100,000 (Rs.1 million x 10%). 06

As the loan relates to a qualifying asset, the finance cost (or part of it in this case) can be capitalized.

The Standard says that capitalization commences from when expenditure is being incurred on the asset (1 April 2015) and must cease when the asset is ready for its intended use (31 December 2015); in this case a 9-month period. Thus only nine months of the year's finance cost can be capitalized = Rs. 75,000 (Rs. 100,000 x 9/12).

The remaining three-months finance costs of Rs. 25,000 must be expensed. IAS 23 also says that interest earned from the temporary investment of specific loans should be deducted from the amount of finance costs that can be capitalized.

As per this case, the interest was earned during a period in which the finance costs were being capitalized, thus the interest earned of Rs. 31,500 (700,000*.06*9/12) would be credited to the capitalized finance costs. As per IAS 16, depreciation of the power generation facilities should be started when the asset is available for use which is on 1 April 2016.

(Answers may vary as appropriate)
(1 mark for each valid point up to a max of 6 marks)

Q.6. b 04

Income statement for the year ended 31 March 2016 (Rs'000)	
Finance cost**(1)**	(25)
Statement of financial position as at 31 March 2016 (Rs'000)	
Property, plant and equipment (cost incurred +finance cost element) (1,000,000+75,000-31,500)**(3)**	1,043.50

Total Marks 20

Q.7. The advantages of forming partnership business are as follows:

1. More capital than that of sole trader business as there are more than one person as investor in the business (however in banking partnership, there could be more than 20 partners as investors, because the banking business needs as much capital as possible).
2. Responsibility of work, decision making, and burden of unlimited liability can be shared among the partners.
3. Motivation for all the partners as greater the hard work and dedication is contributed by the partners; the more profit is enjoyed by all the partners.

The disadvantages of forming partnership business are as follows:

1. Unlimited liability for all the partners, however in limited partnership, all the partners will have limited liability except one partner who will be responsible for the debts and losses of the business and he will be the one who will sell all of his property to compensate the losses.
2. No separate legal identity which means in partnership also there will be a risk of discontinuity but not as much as in sole trader ship. If there are two partners, one dies, business could be at the risk of discontinuity.
3. Risk of disagreement among partners on various decision making.
4. Dishonesty of one particular partner may put everyone into loss.

(Answers may vary as appropriate)
(1 mark for each valid point up to a max of 10marks)

Total Marks 10

****