Financial Accounting

Summer-2023

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Summer Exam-2023
Solutions – Financial Accounting

Q.1. a

Motor Vehicle Account			
	Rs.		**Rs.**
Balance b/d	124,000	Disposal	36,000
Bank	28,000	Balance c/d	136,000
Disposal	20,000		
	172,000		**172,000**
Balance b/d	136,000		

Motor Vehicle Provision for Depreciation Account			
	Rs.		**Rs.**
Disposal	15,750	Balance b/d	54,250
Balance c/d	62,875	Income statement	24,375
	78,625		**78,625**
		Balance b/d	62,875

Disposal of Non-Current Assets			
	Rs.		**Rs.**
Motor vehicle at cost	36,000	Motor vehicle at cost	20,000
		Motor vehicle provision for depreciation	15,750
		Income statement	250
	36,000		**36,000**

Q.1. b Depreciation for the year ended 31 December 2015 would be Rs. 27,200 using the straight-line method, but Rs. 24,375 using the reducing balance method.

The loss on sale of the motor vehicle would be Rs. 1,600 (36,000 – 20,000 – 14,400) using the straight-line method, compared to Rs.250 using the reducing balance method.

Using straight line depreciation 27,200 + loss 1,600 = Rs. 28,800

Using reducing balance method 24,375 + loss 250 = Rs. 24,625

Profit for the year would be reduced by Rs. 4,175 (Rs. 28,800 – 24,625) if using the straight-line method.

Total Marks 20

Q.2.

Profit and Loss Appropriation Account For the year ended 31st December 2022				
	Ahsan	**Naveed**	**Tariq**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Profit before appropriation				40,500,000
Salary Rs. 300,000 x 12 months			3,600,000	(3,600,000)
Interest on capital (3)				
25m x 12% x 12/12	3,000,000			
15m x 12% x 12/12		1,800,000		
5m x 12% x 12/12 + 5m x 12% x 6/12			900,000	(5,700,000)
Interest on drawings				
2m x 16% x 8/12 + 1m x 16% x 3/12	(253,333)			
1.6m x 16% x 4.5/12		(96,000)		349,333

				31,549,333
Commission 5% in excess of 7m			1,227,467	(1,227,467)
Profit share Naveed (1/5)		6,309,866		(6,309,866)
				24,012,000
Profit share (6:2)	18,009,000		6,003,000	(24,012,000)
	20,755,667	**8,013,866**	**11,730,467**	**0**

Total Marks 10

Q.3. a **Table**: Cost is Rs. 1,250
NRV: Expected selling price is Rs. 450

This item should be valued at Rs. 450 (NRV)

Q.3. b **Wardrobe**: Cost is Rs. 720
NRV: Expected selling price less repair cost (Rs. 750 – Rs. 120) i.e., Rs. 630

This item should be valued at Rs. 630 (NRV)

Q.3. c **Dress**: Cost is Rs. 1,832
NRV: Expected selling price less commission less delivery costs (Rs. 2,250 less Rs. 105 less Rs.158) i.e., Rs. 1987

This item should be valued at Rs. 1,832 (cost)

Total Marks 08

Q.4. This is a contract in which the performance obligation is satisfied over time. The entity is carrying out the work for the benefit of the customer rather than creating an asset for its own use and in this case, it has an enforceable right to payment for work completed to date.

IFRS-15 states that the amount of payment that the entity is entitled to corresponds to the amount of performance completed to date (i.e., goods and/or services transferred), which approximates to the costs incurred in satisfying the performance obligation plus a reasonable profit margin. In this case the contract is certified as 50% complete, measuring progress under the output method.

At December 31, 2021 the entity will recognize revenue of Rs. 750,000 and cost of sales of Rs. 600,000, leaving profit of Rs. 150,000. The contract asset will be the costs to date plus the profit, that is Rs. 750,000. No receivable amount will be classified as nothing has yet been invoiced.

Total Marks 08

Q.5. In order to determine the amount and timing of the revenue to be recognized, Danial needs to identify the contract with the customer and to identify the performance obligations for Danial contained in the contract.

In this case, the contract, and the performance obligation, is to supply the items to the customer. Danial then needs to determine the transaction price. Where the contract gives the customer a right of return, then the transaction price contains a variable element. Since the variable element can be reliably measured, then it is considered in measuring the transaction price. This means that the transaction price is Rs. 950,000 (200 x Rs.5,000 x 95%). The transaction price needs to be allocated to the separate performance obligations in the contract.

Where there is only one performance obligation, this is a straightforward matter. Danial then needs to recognize the revenue as the performance obligation is satisfied. Since the performance obligation is to supply the items to the customer, then the revenue is recognized in full on 1 March 2005 when the items are delivered. The revenue recognized on this date is Rs. 950,000.

On 1 March 2005, Rs. 1 million (200 x Rs. 5,000) will be recognized as a trade receivable. Rs. 50,000 (Rs. 1 million – Rs. 950,000) will be recognized as a refund liability. This will be a current liability. The total cost of the goods sold is Rs. 600,000 (200 x Rs. 3,000). This amount will be removed from inventory on 1 March 2005. Only Rs. 570,000 (200 x Rs. 3,000 x 95%) of the above amount will be recognized in cost of sales.

The other Rs. 30,000 (Rs. 600,000 – Rs. 570,000) will be shown as a right of return asset under current assets. The return of the six items during March 2005 does not affect the initial recognition of revenue or cost of sales since the original estimate of the total returns is still considered valid.

The sales value of the goods returned of Rs. 30,000 (6 x Rs. 5,000) will be credited to trade receivables and debited to the refund liability. This means that the closing balance of trade receivables will be Rs. 970,000 (Rs. 1 million – Rs. 30,000) and the closing refund liability will be Rs. 20,000 (Rs. 50,000 – Rs. 30,000).

The inventory value of the goods returned of Rs. 18,000 (6 x Rs. 3,000) will be debited to inventory and credited to the right of return asset (principle). The closing balance of the right of return asset will be Rs. 12,000 (Rs. 30,000 – Rs. 18,000).

Total Marks 08

Q.6. a

Aziz Limited		
Income Statement for the year ended 30 June 2022		
	Rs.	**Rs.**
Revenue		526,000
Cost of Goods Sold:		
Inventory at 1 July 2014	37,500	
Purchases	342,000	
Inventory at 30 June 2015	(29,400)	(350,100)
Gross Profit		**175,900**
Less: Expenses		
Selling and distribution expenses	37,510	
Depreciation on warehouse buildings	12,000	
Depreciation on motor vehicles	17,500	
Depreciation on office equipment	2,350	
Administrative expenses	36,130	
Bad debts	200	
Increase in provision for doubtful debts	116	(105,806)
Profit from operations		**70,094**
Finance costs		(1,250)
Profit for the year		**68,844**

Q.6. b

Aziz Limited		
Statement of financial Position As at 30 June 2022		
Non-Current Assets	**Rs.**	**Rs.**

Warehouse buildings (300,000-24,000)	276,000	
Motor vehicles (70,000-300,000)	40,000	
Office equipment (25,000-3,850)	21,150	**337,150**
Current Assets		
Inventory	29,400	
Accounts & Other Receivables	4,579	
Cash and cash equivalents	27,200	**61,179**
Total Assets		**398,329**
Equity and Liabilities		
Equity:		
Ordinary share capital	140,000	
General Reserve	50,000	
Retained earnings	176,434	**366,434**
Non-Current Liabilities		
5% Debentures		**25,000**
Current Liabilities		
Accounts & Other Payables		**6,895**
Total Equity & Liabilities		**398,329**

Total Marks 30

Q.7. Under the principles of IAS-24 "Related Party Disclosures: – your brother's firm is a related party of Niaz Limited. This is because the firm is controlled by the close family member (your brother) of a member of the key management personnel of Niaz Limited (yourself).

IAS-24 requires that the existence of all related party relationships be disclosed together with details of any transactions and outstanding balances.

IAS-24 regards related party relationships as material by their nature so the fact that the transaction is financially insignificant and ordinary to Omega is not relevant in terms of requiring the disclosure.

Total Marks 08

Q.8.
1. No amount shall be recognized in the financial statements in respect of the dividend announced. However, the same shall be disclosed in notes to the financial statements.
2. The company should not prepare the financial statements on a going concern basis. It must also disclose the fact that the financial statements have not been prepared on going concern basis.
3. It is an adjusting event. The loss of the fraud shall be recognized, and disclosure of litigations shall be made.
4. It is a non-adjusting event. There shall be no impact on financial statements.

Total Marks 08

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