



**Pakistan Institute of
Public Finance Accountants**

Model Solutions

Financial Accounting

Summer Exam-2024

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Solutions – Financial Accounting

Q.1.

a

Capital Accounts							
	Dawood	Ehtisham	Karim		Dawood	Ehtisham	Karim
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Goodwill	18,400	11,040	7,360	Balance b/d	94,300	68,300	
Balances c/d	102,650	73,310	40,640	Fixtures & Fittings			9,500
				Bank			38,500
				Goodwill	23,000	13,800	
	_____	_____	_____	Revaluation	<u>3,750</u>	<u>2,250</u>	_____
	<u>121,050</u>	<u>84,350</u>	<u>48,000</u>		<u>121,050</u>	<u>84,350</u>	<u>48,000</u>
				Balances b/d	102,650	73,310	40,640

Q.1. Partners: To reward the partners for their investment.

b

Partnership: To encourage further investment in the partnership

Q.1. To discourage partners from taking excess drawings from the partnership which will avoid future cash flow problems

c

Q.2. The two reasons are:

a

1. Technological change/Obsolescence
2. Passage of time

Q.2.

b

Journal Entry to Record Revaluation of Property		
	Dr.	Cr.
Property	350,000	
Provision for depreciation	85,000	
Revaluation reserve		435,000
Provision for depreciation: $2 \times 5\% \times \text{Rs. } 850,000 = \text{Rs. } 85,000$		

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Q.2. Provision for depreciation is:

c

Year 1 Rs. 14,000;
Year 2 (10% × Rs. 126,000), i.e. Rs. 12,600 = Rs. 26,600
Net value at time of sale: Rs. 140,000 – Rs. 26,600 = Rs. 113,400
Net value after sale: 113,400 – 17,010 = Rs. 96,390 × 10% = Rs. 9,639
Depreciation charge: Rs. 9,639

Q.2.

d

Motor Vehicle Disposal Account					
Date	Details	Rs.	Date	Details	Rs.
	Motor Vehicle	40,000		Depreciation	8,000
				Motor Vehicle	27,000
				Income statement	<u>5,000</u>
		<u>40,000</u>			<u>40,000</u>

Q.3. Clearly the fraud committed by the payable's ledger clerk has been ongoing during, and beyond the financial year. Fraud, error and other irregularities that occur prior to the year-end date – but which are only discovered after the year-end – are adjusting items, and therefore the financial statements would require amendment to take account of the fraudulent activity up to the year-end

a

Q.3. A customer ceasing to trade so soon after the reporting period indicates non-recoverability of a receivable at the reporting date and therefore represents an adjusting event under IAS 10, Events After the Reporting Period. Assets should not be carried in the statement of financial position at any more than their recoverable amount and, therefore, an allowance for receivables should be made.

b

- Q.4.**
1. There is a present obligation as a result of past event (litigation in process). There is probable outflow (60% chances) as well. The reliable estimate of Rs. 5,000,000 is also available. Therefore, a provision should be recognized.
 2. The recoverability of the amount is not probable (40% chances only). Therefore, nothing is to be done.
 3. There is no need to recognize provision as chances are not probable (40% only). However, this needs to be disclosed as a contingent liability as it is not remote (40%).
 4. There is nothing need to be done as interest on damages have remote chances (5%) of being paid.

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Q.5.

MAJID & CO.		
Statement of Cash Flows for the Year Ended December 31, 2020		
Cash Flows from Operating Activities	Rs.	Rs.
Net Income		30,000
Depreciation	25,000	
Increase in accounts receivable	(10,000)	
Increase in prepaid insurance	(6,000)	
Increase in accounts payable	11,000	
Decrease in salaries and wages payable	(1,000)	19,000
Net Cash Provided by Operating Activities		49,000
Cash Flows from Investing Activities		
Collection of long-term loan	16,000	
Proceeds from the sale of investments	22,000	
Purchase of equipment	(10,000)	
Net Cash Provided by Investing Activities		28,000
Cash Flows from Financing Activities		
Issuance of common stock	20,000	
Redemption of bonds	(34,000)	
Payment of dividends	(6,000)	
Net Cash Used by Financing Activities		(20,000)
Increase in Cash & Cash Equivalents		57,000
Cash & Cash Equivalents at Beginning of Period		<u>91,000</u>
Cash & Cash Equivalents at End of Period		<u>148,000</u>

Q.6.

1. No revenue is recognized because the customer has the right to rescind the purchase at any time – beyond normal warranty conditions. The cash is recorded on receipt with the credit being recorded as a borrowing.
2. Revenue is recognized on 30 June 2022. This is the date at which the seller has no further performance obligations.
3. Revenue is recognized on 1 May 2022. The right of return is a normal warranty clause and is included in determining the measurement of the revenue

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- Q.7.**
1. Notwithstanding the fact that Nadeem Limited purchases all its raw materials from Saqib Limited and is economically dependent on it, Saqib Limited does not automatically become a related party. Thus, for the purpose of IAS 24, purchases made from Saqib Limited are not considered related party transactions.
 2. The interest-free loan to an entity owned by a director needs to be disclosed as a related party transaction. The fact that it is interest-free may warrant disclosure because it may not be construed as an “arm’s-length transaction” since Nadeem Limited would not normally provide unrelated parties with interest-free loans. Furthermore, the rental expenses paid for hiring a delivery van belonging to an entity owned by a director also would need to be disclosed as a related party transaction since these charges are paid to an entity “controlled” by a key management person.
 3. The lease of the warehouse, although at arm’s length, has been entered into with the wife (a “close member of the family”) of a “director” (a key management person) and thus needs to be disclosed as a related party transaction.
- Q.8.**
1. The active participation of director nominated by Yasin Limited indicates the significant influence over Pasha Limited. No disclosure is required under IAS 24.
 2. Bashir (Pvt) Limited is a related party being a subsidiary. The nature of related party relationship shall be disclosed. Awarding a contract itself is not a transaction but the contractual commitment needs to be disclosed.
 3. Generally, nephews are not considered close family members of a person. However, if Mr. Usman is able to influence his nephews, he shall be considered a related party. If considered related party, the mobilization advance of Rs. 9 million shall be disclosed.
