Financial Accounting Winter-2023

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Winter Exam-2023

Solutions – Financial Accounting

Q.1. a 10

Partners' Capital Accounts							
	Ali	**Basit**	**Kurban**		**Ali**	**Basit**	**Kurban**
	Rs.	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**
Goodwill **(3)**	60,000	30,000	30,000	Balance b/d **(1)**	38,500	27,600	
Balance c/d **(1)**	58,500	37,600	70,000	Cash **(2)**			100,000
				Goodwill **(3)**	80,000	40,000	
	118,500	**67,600**	**100,000**		**118,500**	**67,600**	**100,000**
				Balance b/d	58,500	37,600	70,000

Q.1. b 10

Partners' Current Accounts							
	Ali	**Basit**	**Kurban**		**Ali**	**Basit**	**Kurban**
	Rs.	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**
Drawings **(1.5)**	70,500	46,900	37,250	Balance b/d **(1)**	4,250	2,975	
Interest on Drawings **(1.5)**	1,230			Salaries **(1.5)**	30,000	30,000	30,000
Balance c/d **(1.5)**	74,921	42,943	52,211	Interest on Capital **(1.5)**	4,680	3,008	5,600
				Profit **(1.5)**	107,721	53,860	53,861
	146,651	**89,843**	**89,461**		**146,651**	**89,843**	**89,461**
				Balance b/d	74,921	42,943	52,211

Total Marks 20

Q.2. a 05

Provision for Doubtful Debts Account			
	Rs.		**Rs.**
		Balance b/d**(0.5)**	1,940
Balance c/d	3,175	Statement of Profit /Loss **(0.5)**	1,235
	3,175		**3,175**
		Balance b/d	3,175

General provision: (2) 48,500 – 2,100 – 900 = 45,500 × 5% = Rs. 2,275
Statement of Profit/Loss: (2) 2,275 + 900 = 3,175 – 1,940 = Rs. 1,235

Q.2. b In the statement of financial position, the new provision is deducted from accounts receivables under current assets while in the income statement, an increase in provision for doubtful debts is shown as an expense while a decrease in provision for doubtful debts is shown as additional income after the gross profit. 03

Total Marks 08

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Solutions – Financial Accounting

Q.3. Hamza is a related party of Zohaib & Co. This is according to IAS 24 Related Party Disclosures, which states that a member of key management personnel is a related party of the reporting entity.

IAS 24 states that a related party transaction should be disclosed if it is material. Based on monetary value the amount of the transaction is not material, based on either the book value or the market value of the car, as it represents less than 1% of total assets and of profit using either measure of value.

However, the materiality should also be judged based on the significance of the transaction to the person involved. The car's market value of Rs.75,000 could be deemed significant to Hamza, especially if he is not going to settle the amount, meaning effectively that he has been given the car for free by the company and, because the transaction is with a member of key management personnel, it is effectively material by nature, regardless of monetary amount. Therefore, disclosure of the transaction in the notes to the financial statements will be necessary to avoid a material misstatement.

(Answers can vary as appropriate)

Total Marks 07

Q.4.

1. The earthquake occurred after the balance sheet date and does not provide evidence of the values relating to the contract at 30 September 2020. The cost of the earthquake should be charged in the accounting period to 30 September 2021 (possibly as an extraordinary item) and, all other estimates remaining the same, should not affect the reported costs and revenues for the other years of the contract.

2. This is both an adjusting and non-adjusting event. The subsidence is almost certain to have occurred before the year end and the fall in value attributable to this of Rs.800,000 (Rs.2 million – Rs.1.2 million) should be charged to the income statement. The carrying value of the building should also be restated at Rs.11.2 million. The fall in price (Rs.1.2 million) due to an unexpected increase in interest rates occurring after the balance sheet date is a non-adjusting event that may require disclosure by a note if it is considered significant/material.

3. As the amount receivable is denominated in a foreign currency its value will change as the exchange rate changes. It may seem as if the information in the post balance sheet period is giving evidence of the value of this asset at the year end, but this is not the case. The exchange rate at the year-end was good evidence of the value of the amount receivable at that date, and the gains or losses related to subsequent movements in exchange rates should be charged to the period when they occur. If the exchange loss is considered material, it should be disclosed as a note of a non-adjusting event.

(Answers can vary as appropriate)

Total Marks 09

Q.5.

1. Kaleem has two performance obligations – to provide the machine and provide the servicing. The total transaction price consists of a fixed element of Rs. 800,000 and a variable element of Rs. 10,000 or Rs. 20,000. The variable element should be included in the transaction price based on the probability of its occurrence therefore a variable element of Rs. 10,000 should be included and the total transaction price will be Rs. 810,000.

   The transaction price should be allocated to the performance obligations based on their stand-alone fair values. In this case, these are Rs. 700,000: Rs. 140,000 or 5:1 therefore Rs. 675,000 (Rs. 810,000 x 5/6) should be allocated to the obligation to supply the machine and Rs. 135,000 (Rs. 810,000 x 1/6) to the obligation to provide two years' servicing of the machine. The obligation to supply the machine is satisfied fully in the year ended 30 September 2020 and so revenue of Rs. 675,000 in respect of this supply should be recognised. Only 1/24 of the obligation to provide the servicing is satisfied in the year ended 30 September 2020 and so revenue of Rs. 5,625 (Rs. 135,000 x 1/24) in respect of this supply should be recognised.

   On 30th September 2020, Kaleem will recognise a receivable of Rs. 810,000 based on the expected transaction price. This will be reported as a current asset. On 30 September 2020, Kaleem will recognise deferred income of Rs. 129,375 (Rs. 810,000 – Rs. 675,000 – Rs. 5,625).

Rs. 67,500 (Rs. 129,375 x 12/23) of this amount will be shown as a current liability. The balance of Rs. 61,875 (Rs. 129,375 – Rs. 67,500) will be non-current.

2. When the customer has a right to return products, the transaction price contains a variable element. Since this can be reliably measured, it is taken account of in measuring the revenue and the total revenue will be Rs. 192,000 (96 x Rs. 2,000).

   Rs. 200,000 (100 x Rs. 2,000) will be recognised as an accounts receivable. Rs. 8,000 (Rs. 200,000 – Rs. 192,000) will be recognised as a refund liability. This will be shown as a current liability. The total cost of the goods sold is Rs. 160,000)

   (100 x Rs. 1,600) of this amount, only Rs. 153,600 (96 x Rs. 1,600) will be shown as a cost of sale. The other Rs. 6,400 (Rs. 160,000 – Rs. 153,600) will be shown as a right of return asset under current assets.

Total Marks 10

Q.6.

Pervaiz Inc **Statement of Cash flows** **For the Year Ended 31 December 2021 (1.5)**	
Cash Flows from Operating Activities: (15)	**Rs. 000**
Profit before tax	64,000
Adjustments for:	
Depreciation of non-current assets	19,000
Loss on disposal	1,000
Finance income	(450)
Finance costs	8,400
Increase in inventory	(14,000)
Increase in Accounts Receivables	(1,200)
Increase in Accounts Payables	14,440
Interest paid	(6,840)
Income tax paid	(10,500)
Net Cash flow from Operating Activities	**73,850**
Cash Flows from Investing Activities: (4.5)	
Purchase of property, plant, and equipment	(69,000)
Acquisition of long-term investment	(4,600)
Proceeds from sale of asset	4,000
Net Cash Used in Investing Activities	**(69,600)**
Cash Flows from Financing Activities: (6)	
Shares issued	70,000
Payment to redeem long term loan	(42,000)
Finance income received	450
Dividends paid	(7,500)
Net Cash flow from Financing Activities	**20,950**
Net Increase in Cash and Cash Equivalents**(3)**	25,200
Cash and Cash Equivalents at Beginning of Period	(13,800)
Cash and Cash Equivalents at End of Period	**11,400**

Total Marks 30

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Q.7. a 04

	FIFO (Rs.) (2)	**AVCO (Rs.) (2)**
Pine	4,600	4,300
Marlboro	3,900	3,750
Milano	1,200	1,200
Revised closing inventory	**9,700**	**9,250**

Q.7. b **FIFO** = 86,300 – 10,200 + 9,700 = 85,800**(2)** 04

AVCO = 86,300 – 10,200 + 9,250 = 85,350 **(2)**

Total Marks 08

Q.8. All the listed items are required to be disclosed in Alocasia Limited's Financial Statements as prepared under IFRS. The only exception is the reimbursement of the travel expenses of the CEO amounting to Rs. 1.2 million as this sum is not compensation, it is not required to be disclosed under IAS-24

Alocasia Limited enters into related party transactions in the normal course of business. The transactions above resulted in balances due from those parties that at December 31, 2020 were:

1	**With the parent company (Fareed Limited). (4)**	
	Sales	Rs. 35 million
	Included in Accounts Receivable (Due from Parent Company)	Rs. 10 million
	Provision for doubtful debts	Rs. 3 million
2	**With an Associate**	
	Sales	Rs. 25 million
	Included in Accounts Receivable (Due from Associate)	Rs. 15 million

For the year ended December 31, 2012 Alocasia Limited made these payments to its CEO, part of the key management personnel:**(4)**

Short Term Benefits (Salary)	Rs. 2 million
Post-Employment Benefits (Retirement Benefit Plan Contribution)	Rs. 1 million
Share Based Payments	Rs. 1 million
Total	**Rs. 4 million**

Total Marks 08

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