The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

Model paper
3 hours – 100 marks
Additional reading time – 15 minutes

Financial Accounting and Reporting-I

Instructions to examinees:
(i) Answer all **NINE** questions.
(ii) Answer in **black** pen only.
(iii) Multiple Choice Questions must be answered in answer script only.

Section A

Q.1 On 1 January 2018, Zahidi Limited (ZL) had acquired a building at cost of Rs. 200 million and had rented it out on the same day for three years. On 31 December 2020, the tenant vacated the building and ZL decided to transfer its head office to such building.

The finance manager was considering the reporting implications of change in use of the building. He came to know that the building has erroneously been reported as property, plant and equipment since inception and was being depreciated on straight line basis over 20 years. The fair value of the building has increased by 10% in each year since acquisition.

ZL follows cost model for property, plant and equipment and fair value model for investment property.

Required:
Prepare "Correction of error note" for inclusion in ZL's financial statements for the year 31 December 2020 in accordance with IFRSs. ***(Show comparative figures)*** **(06)**

Q.2 The following information pertains to the financial statements of Home Dynamics Limited (HDL), a listed company, for the year ended 31 December 2016:

(i) Profit after tax for the year:

	Rs. in million
Profit from continuing operations – net of tax	765
Profit from discontinued operations – net of tax	155
Profit after tax	920

(ii) Shareholders' equity as on 1 January 2016 comprised of:

- 10 million ordinary shares of Rs. 10 each, having market value of Rs. 25 each.
- 4 million cumulative preference shares of Rs. 10 each entitled to a cumulative dividend at 10%.

(iii) On 31 March 2016, HDL announced 40% right shares to its ordinary shareholders at Rs. 25 per share. The entitlement date of right shares was 31 May 2016. The market price per share immediately before the announcement date and entitlement date was Rs. 28 and Rs. 32 respectively.
(iv) On 2 August 2016, HDL announced 20% bonus issue. The entitlement date of bonus shares was 31 August 2016.
(v) On 1 February 2017, the board of directors announced 20% cash dividend and 10% bonus issue being the final dividend to the ordinary shareholders and 10% cash dividend for preference shareholders.

Required:
Calculate basic earnings per share for inclusion in HDL's financial statements for the year ended 31 December 2016. Show all relevant calculations. **(10)**

Q.3 Following amounts have been extracted from the financial statements of Lithops Limited:

	2020	**2019**
	----- Rs. in million -----	
Sales	500	450
Cost of sales	378	300
Trade receivables	95	80
Trade payables	72	60
Inventory	93	75
Cash at bank	12	16

All sales and purchases are made on credit.

Required:
(a) Calculate working capital cycle days for 2020. ***(Assume a 360 day year)*** **(04)**
(b) Suggest **four** possible measures that can be taken to reduce working capital cycle days. **(03)**

Q.4 Following information pertains to Factory building of Bunny Ear Limited (BEL):

On 1 March 2019, BEL started construction of the factory building. The construction work was completed on 30 June 2020. Payments related to the construction of the factory were as follows:

Description	**Date of payment**	**Rs. in million**
1st bill of contractor	1-Mar-2019	130
2nd bill of contractor	1-Aug-2019	190
3rd bill of contractor	1-Jan-2020	180
Last bill of contractor	1-Jul-2020	100

The project was financed through:

(i) government grant of Rs. 200 million received on 1 February 2019. Unused funds from government grant were invested in a saving account @ 8% per annum.
(ii) withdrawals from the following running finance facilities obtained from Bank A and Bank B. The relevant details are:

	Bank A	**Bank B**
Obtained on	1 January 2019	1 January 2020
Markup rate	12%	14%
	-------- Rs. in million --------	
Balance on 31 December 2019	250	-
Markup for 2019	22	-
Balance on 31 December 2020	350	200
Average balance during 2020	300	150
Markup for 2020	36	21

Other information:
- All government grants are recorded as deferred income and a part of it is transferred to income each year.
- Useful life of the factory building has been estimated at 25 years.

Required:
Prepare relevant extracts **(including comparative figures)** from BEL's statement of profit or loss for the year ended 31 December 2020 and statement of financial position as on that date. ***(Notes to the financial statements are not required. Borrowing costs are to be calculated on the basis of number of months)*** **(10)**

Q.5 The draft financial statements of Barbary Cement Limited (BCL) for the year ended 31 December 2020 include a plant having a carrying value of Rs. 400 million. Due to technological change, the remaining useful life of the plant has been reduced to 4 years.

Following information has been gathered for impairment testing of the plant:

(i) Inflows from sale of product to be manufactured by the plant for the year 2021 are estimated at Rs. 200 million. These inflows are subject to 10% decrease in each subsequent year due to declining demand.
(ii) Outflows from operational cost for 2021 are estimated at Rs. 80 million. These outflow would increase by 5% in each subsequent year despite decline in demand due to inflation and increase in plant's wear and tear.
(iii) BCL's net profit is subject to income tax of 20%.
(iv) Depreciation on plant is calculated using straight line method.
(v) The plant's net disposal proceeds at the end of the useful life is estimated at Rs. 100 million.
(vi) Pre-tax and post-tax discount rates are 12% and 9.6% per annum respectively.
(vii) A technologically advanced plant with similar capacity can be purchased at Rs. 350 million. BCL has received an offer to buy the existing plant for Rs. 250 million. BCL will have to incur shipping cost of Rs. 7 million, to dispatch the existing plant to the purchaser.

Required:
Compute the impairment loss to be recognised as at 31 December 2020. **(07)**

Q.6 Select the most appropriate answer(s) from the options available for each of the following Multiple Choice Questions.

(i) Which of the following concepts measures profit in terms of an increase in the productive capacity of an entity?

(a) Physical capital maintenance
(b) Historical cost accounting
(c) Financial capital maintenance (money terms)
(d) Financial capital maintenance (real terms) **(01)**

(ii) Which of the following should be included in the initial cost of investment property?

(a) Cost incurred on opening ceremony to celebrate completion of property
(b) Operating losses incurred before the property achieves the planned level of occupancy
(c) Abnormal waste of materials incurred in construction of property
(d) Property transfer taxes **(01)**

(iii) An entity purchased an investment property on 1 January 2018 for Rs. 35 million. The property had an estimated useful life of 35 years with no residual value. At 31 December 2020, the property had a fair value of Rs. 42 million. On 1 January 2021, the property was sold for net proceeds of Rs. 40 million. Calculate the profit or loss on disposal under both the cost and fair value models.

	Cost model	**Fair value model**
(a)	Gain of Rs. 2 million	Gain of Rs. 2 million
(b)	Gain of Rs. 8 million	Loss of Rs. 2 million
(c)	Gain of Rs. 7 million	Loss of Rs. 2 million
(d)	Gain of Rs. 8 million	Gain of Rs. 5 million

(02)

(iv) Which **two** of the following factors could cause a company's gross profit percentage on sales to be above the expected level?

(a) Over-statement of closing inventories
(b) Sales were higher than expected
(c) Inclusion of disposal proceeds of non-current assets in sales
(d) Decrease in carriage charges borne by the company on goods sent to customers **(01)**

(v) Which of the following is **NOT** a measurement base for assets as referred in the Conceptual Framework?

(a) Value in use (b) Fulfilment value
(c) Current cost (d) Fair value **(01)**

(vi) In order to survive in the long run, a business must generate positive net cash flow from:

(a) investing activities
(b) operating activities
(c) financing activities
(d) both (a) and (b) **(01)**

(vii) Which of the following would cause negative net cash flow from operating activities?

(a) Decrease in depreciation expense
(b) A substantial investment in fixed assets
(c) A significant increase in credit sales
(d) Repayment of a long-term loan **(01)**

(viii) Which of the following would increase gearing ratio?

(a) Issuance of shares at premium
(b) Issuance of shares at discount
(c) Issuance of bonus shares
(d) Declaration and payment of cash dividend **(01)**

(ix) Which of the following is not considered as transaction with owners with reference to statement of changes in equity?

(a) Issuance of shares at par (b) Issuance of shares at premium
(c) Profit for the year (d) Bonus issue of shares **(01)**

Section B

Q.7 Sputnik Sea Limited (SSL) runs a cruise business across oceans. Following information in respect of one of SSL's cruise ship is available:

(i) SSL bought a cruise ship on 1 March 2018. After completing all the required formalities, the ship was ready to sail on 1 April 2018.

(ii) Details regarding components of the ship are as under:

Component	Cost (Rs. in million)	Useful life	Estimated residual value (Rs. in million)
Engine	840	50,000 hours	40
Body	535	25 years	35
Dry-docking (overhaul)	60	5 years	-

(iii) On 1 May 2019, the ship suffered an accident which damaged its body. Repair work took 2 months and costed Rs. 26 million. The repair work did not change useful life and residual values of the components.

(iv) The average monthly sailing of the ship during the last three years are as under:

Year	Hours
2018	360
2019	480
2020	600

(v) SSL uses revaluation model for subsequent measurement. SSL accounts for revaluation on net replacement value method and transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.

(vi) The revalued amounts of the ship as at 31 December 2019 and 2020 were determined as Rs. 1,400 million and Rs. 1,000 million respectively. Revalued amounts are apportioned between the components on the basis of their book values before the revaluation.

Required:
Prepare necessary journal entries to record the above transaction from the date of acquisition of the ship to the year ended 31 December 2020. **(17)**

Q.8 Following are the extracts from the financial statements of Saguaro Limited (SL) for the year ended 30 June 2021:

Statement of financial position as on 30 June 2021

Assets	2021	2020	Equity & liabilities	2021	2020
	Rs. in million			Rs. in million	
Operating fixed assets	820	848	Share capital (Rs. 10 each)	700	500
Accumulated depreciation	(300)	(262)	Share discount	(40)	-
Capital work in progress	84	-	Retained earnings	220	315
Inventories	274	245	Long-term loans	175	210
Trade receivables	177	204	Trade payables	180	130
Insurance claim	-	31	Accrued expenses	48	43
Advance to supplier	78	60	Current portion of long-term loans	43	40
Cash and bank balances	193	112			
	1,326	**1,238**		**1,326**	**1,238**

Statement of profit or loss for the year ended 30 June 2021

	Rs. in million
Sales	757
Cost of sales	(485)
Gross profit	272
Operating expenses	(310)
Gain on disposal of equipment	17
Loss before interest	**(21)**

Other information:

(i) SL declared a final dividend of 10% on 30 September 2020 which was paid in December 2020.

(ii) 20 million shares were issued in May 2021.

(iii) Insurance claim was related to plant and machinery destroyed in April 2020. The plant had cost and book value of Rs. 63 million and Rs. 42 million respectively.

(iv) During the year, SL disposed of equipment having cost and net book value of Rs. 75 million and Rs. 35 million respectively.

(v) Current portion of long-term loans include accrued interest of Rs. 5 million. (2020: Rs. 1 million)

(vi) Trade payables include an amount of Rs. 14 million payable against capital work in progress.

Required:

Prepare SL's statement of cash flows for the year ended 30 June 2021 using **direct method**. **(16)**

Q.9 You have been assigned the task of preparing the accounts of Cereus Golf Club (CGC) for the year ended 31 December 2020. You have found that the proper books had not been maintained. The management of CGC has given you the following information:

(i) Cash and bank balances at 1 January 2020 amounted to Rs. 0.5 million and Rs. 2 million respectively. However, as on 31 December 2020, there was no cash balance and Rs. 5.8 million in the bank.

(ii) The members are required to pay 3 years' subscription in advance upon admission/renewal. Full year subscription is charged from members joining during the year. Number of subscriptions received are as under:

Year	**No. of memberships**	**3 years' subscription per member**
2018	100	Rs. 60,000
2019	140	Rs. 75,000
2020	160	Rs. 90,000

During 2020, 10 members were awarded membership on special permission but they had not paid the subscription till year-end.

(iii) CGC had received a donation of Rs. 8 million in 2019 to meet the repair and maintenance expenditure of its golf course. Out of total donation, the club has spent Rs. 2.2 million and Rs. 2.8 million in 2019 and 2020 respectively.

(iv) CGC started purchasing golf kits in 2020 for sales as well as for rent purposes. 20% of the purchases were unpaid at year-end. Two third of the golf kit purchases made in 2020 had been added to inventory of golf kits for sale and remaining had been added directly to golf kits for rent.

(v) Cost of closing inventory of golf kits for sale amounted to Rs. 1 million. It was decided to transfer half of these kits into golf kits for rent at 30% of their original cost.

(vi) Some of the receipts and payments during the year were as follows:

	Rupees
Rent of golf kits	650,000
Golf kits purchases	4,800,000
Annual insurance (paid till April 2021)	660,000
Salaries (including Rs. 350,000 for 2019)	5,420,000
Other expenses	2,320,000

(vii) Fixed assets at 1 January 2020 had a book value of Rs. 25 million. All fixed assets are to be depreciated at 15% per annum.

Required:

(a) Prepare income and expenditure account for the year ended 31 December 2020. **(10)**

(b) Prepare statement of financial position as on 31 December 2020. **(07)**

(THE END)