The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

15 March 2022
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 Bulan Pakistan Limited (BPL) is planning to commence construction of a warehouse on 1 January 2023 and is expecting to complete it by 30 November 2023. The management wants to ascertain the borrowing costs that can be included in the cost of warehouse. Relevant details in this respect are as follows:

(i) Expected payments related to the construction of the warehouse will be as follows:

Description	Date of payment	Rs. in million
1st bill of contractor	1-Feb-23	40
2nd bill of contractor	1-Apr-23	120
3rd bill of contractor	1-Sep-23	100
Last bill of contractor	1-Dec-23	90
		350

(ii) The project can be financed through the following sources:

- Specific loan of Rs. 350 million at the rate of 16% per annum to be obtained on 1 January 2023. The principal will be payable in 5 equal annual instalments along with interest, from 1 January 2024.
- Withdrawals to be made from existing running finance facilities. These facilities will also be used to finance other needs of BPL. Details of these facilities are as follows:

Name of bank	Limit	Expected average balance for 2023	Interest rates
	------ Rs. in million ------		
Bank A	300	220	13.7%
Bank B	350	280	14.6%

(iii) The surplus funds available from the loan will be invested in a saving account at 10% per annum.
(iv) The construction work is expected to be suspended for the entire month of June 2023 due to usual monsoon rains.

Required:
Calculate the borrowing costs to be capitalised in the cost of warehouse in each of the following independent cases:

(a) if all the payments will be made from the specific loan only. **(04)**
(b) if all the payments will be made from running finance facilities only. **(04)**

Q.2 Following information pertains to Dahl Limited (DL):

Summarised statement of financial position as at 31 December 2021

	2021	2020		2021	2020
	Rs. in million			Rs. in million	
Share capital	11.0	10.0	Property, plant and equipment	18.7	10.6
Retained earnings	32.9	33.8	Working capital other than cash	24.5	17.8
Revaluation surplus	4.0	-	Cash	4.7	15.4
	47.9	**43.8**		**47.9**	**43.8**

Additional information:

(i) Final dividend was paid in respect of year 2020 amounting to Rs. 3.4 million.

(ii) Additions to property, plant and equipment during the year amounted to Rs. 14 million.

(iii) Tax expense for the year amounted to Rs. 2.4 million. Tax payable as at 31 December 2021 amounted to Rs. 1 million (2020: Rs. 0.2 million)

Required:

Prepare DL's statement of cash flows for the year ended 31 December 2021. **(08)**

Q.3 Following is the trial balance of Mahtab Welfare Hospital (MWH) as on 31 December 2021:

	Debit	Credit
	---- Rs. in million ----	
Capital work in progress – hospital building	335	
Cash at bank	60	
Closing inventory – medicines and supplies	14	
Contributions received		281
General fund as at 1 January 2021		332
Medical equipment	320	100
Medicines and supplies used	76	
Other expenditures	19	
Payables		17
Research cost	33	
Restricted fund as at 1 January 2021		180
Salaries	53	
Total	**910**	**910**

Additional information:

(i) The break-up of restricted fund balance is as follows:

Fund	Description	Rs. in million
Hospital building fund	Contributions received for the construction of hospital building.	120
Research fund	As per the resolution of board of trustees, MWH is required to allocate 20% of surplus of each year to the research fund.	60

(ii) Contributions received include Rs. 55 million received for construction of hospital.

(iii) During the year, MWH also received construction materials having fair value of Rs. 65 million for the hospital building which has not been recorded in books.

(iv) MWH has completed the construction of hospital building on 1 April 2021.

(v) Depreciation is to be charged as follows:

Hospital building	5% – straight line
Other fixed assets	10% – reducing balance

Required:
Prepare the following using deferral method:

(a) Statement of income and expenditure for the year ended 31 December 2021 **(04)**
(b) Statement of financial position as at 31 December 2021 **(06)**

Q.4 Both IAS 16 'Property, Plant and Equipment' and IAS 40 'Investment Property' deal with tangible non-current assets of an entity. Discuss any **four** differences between IAS 16 and IAS 40. **(06)**

Q.5 The trial balance of Moon Mart (MM) did not agree as at 31 December 2021 and the shortage of Rs. 215,000 on the debit side was carried to suspense account. The financial statements prepared from the trial balance showed net profit of Rs. 1,431,000.

During review, following matters were noted:

(i) A return outward of Rs. 18,000 was posted to the debit of return inward account in general ledger.
(ii) A sales invoice of Rs. 42,000 was posted twice in sales ledger.
(iii) Balance of accumulated depreciation of equipment was brought forward as Rs. 641,000 instead of Rs. 461,000 on 1 January 2021.
(iv) Following entries in cash book were not posted to general ledger:
   - Receipt of annual rent for the period ending 31 March 2022 amounting to Rs. 336,000.
   - Payment of Rs. 220,000 for equipment purchased on 1 May 2021.
   - Cash purchases of Rs. 50,000.

Additional information:

(i) After passing all the adjustments, the remaining amount of suspense account is to be considered as loss from embezzlement.
(ii) MM uses periodic inventory method. Control accounts are not maintained for trade receivables and payables. Equipment are depreciated at 15% using reducing balance method.

Required:
(a) Prepare suspense account. **(04)**
(b) Compute the corrected net profit. **(04)**

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

(i) A plant has a carrying amount of Rs. 3.3 million as at 31 December 2021. Its fair value is Rs. 2.4 million and costs of disposal are estimated at Rs. 0.1 million. Cash flows from the plant for the next 4 years are estimated at Rs. 0.7 million per annum. It will be disposed of at the end of the 4^{th} year for Rs. 0.6 million. Applicable discount rate is 10% per annum.

What is the approximate impairment loss on the plant to be recognized in the financial statements for the year ended 31 December 2021?

(a) Rs. 1 million (b) Rs. 2.6 million
(c) Rs. 0.7 million (d) Rs. 1.1 million **(02)**

(ii) The forgivable loan from government is accounted for as _______________ if there is no reasonable assurance that the entity will meet the terms for forgiveness of loan.

(a) a liability (b) an income
(c) a government assistance (d) a government grant **(01)**

(iii) Which of the following statements is/are correct?

(I) Cash flows information cannot be manipulated easily, as compared to profit or loss because it is not affected by different accounting policies.

(II) Cash flows information can be manipulated easily, as compared to profit or loss because it is affected by different accounting estimates.

(a) Only (I) is correct	(b) Only (II) is correct		
(c) Both are correct	(d) None is correct		**(01)**

(iv) On 1 January 2019, a company purchased an asset for Rs. 5 million against which it received the government grant of Rs. 0.5 million. The company deducted the grant from the cost of asset. It is the policy of the company to depreciate such assets using straight line method over ten years. On 1 January 2021, the government grant became repayable due to non-fulfilment of conditions. Repayment of grant will result in increasing:

(a) carrying value by Rs. 0.5 million	(b) carrying value by Rs. 0.4 million	
(c) expense by Rs. 0.4 million	(d) expense by Rs. 0.5 million	**(02)**

(v) As per IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', presenting the whole grant as other income in the statement of comprehensive income or deducting it from a related expense, is the correct treatment of:

(a) grant related to income
(b) forgivable loan expected to be received in next year
(c) government assistance in the form of free technical advice
(d) grant related to assets **(01)**

(vi) Which of the following statements is/are correct?

(I) The Conceptual Framework is not an IFRS and nothing in the Conceptual Framework overrides any specific IFRS.

(II) One of the purpose of Conceptual Framework is to assist IASB to develop IFRSs that are based on consistent concepts.

(a) Only (I) is correct	(b) Only (II) is correct	
(c) Both are correct	(d) None is correct	**(01)**

(vii) Which of the following may be presented in both statement of comprehensive income and statement of cash flows?

(a) Purchase of non-current assets	(b) Issuance of shares	
(c) Repayment of loan	(d) Depreciation	**(01)**

(viii) Which **TWO** of the following are internal sources of assessing whether there is an indication of impairment?

(a) An expected decline in the asset's market value
(b) An increase in interest rates
(c) Evidence that the asset is damaged
(d) Evidence that the entity's performance is worse than expected **(01)**

Section B

Q.7 Qamar Limited (QL) is in the business of consumer goods. Following are the summarized financial statements of QL for 2021:

Statement of financial position as at 31 December 2021

Assets	Rs. in million	Equity and liabilities	Rs. in million
Fixed assets	550	Share capital	600
		Retained earnings	319
Current assets:		Long-term loan	350
Inventory	440	Current liabilities:	
Trade debtors	350	Trade creditors	150
Short term investment	160	Other payables	70
Cash and bank balances	39	Current maturity of loan	50
	1,539		**1,539**

Statement of profit or loss for the year ended 31 December 2021

	Rs. in million
Sales	2,150
Cost of goods sold	(1,900)
Gross profit	**250**
Selling and administrative expenses	(93)
Other income	40
Finance cost	(35)
Net profit	**162**

Extracts from management reports submitted to the board of directors:

(i) Ratios for the year 2020:

Gross profit margin	9.5%	Net profit margin	3.9%
Interest cover	2.4 times	Inventory holding period	90.4 days
Return on non-current assets	16.8%	Debtors turnover	7.3 times
Creditor payment period	55.1 days	Acid test	0.9 times

(ii) Important financial and operating decisions taken during the year 2021:

- QL renewed a large contract with a customer. In the renewed contract, extended credit terms were given to the customer.
- A major supplier agreed to reduce the prices by 10% on the condition of cash purchases only. This reduction helped QL to avoid increase in prices of its products despite increase in prices by competitors.
- Increasing working capital demands were met by making a share issue. A part of the proceeds from the issue were also used to prepay a significant portion of the long term loan.
- QL disposed of its main warehouse in the last month of the year at a gain of Rs. 25 million. The sale proceeds are temporarily invested in a short term investment.

Required:

(a) Compute QL's ratios for 2021 for comparison with 2020. **(06)**

(b) Keeping in view the financial and operating decisions extracted from management reports, provide reasons for variation in the ratios computed in (a) above. **(09)**

Q.8 Chand Limited (CL) was incorporated on 1 January 2020 with an authorized share capital of Rs. 500 million comprising of 50 million shares.

(i) Details of shares issued are as follows:

- On 1 March 2020, CL issued 20 million shares at Rs. 18 each.
- On 1 October 2020, CL issued 15% bonus shares. The market price per share immediately before the announcement of bonus was Rs. 24 per share.
- On 1 September 2021, CL issued 40% right shares at a premium of Rs. 12.5 per share. The market price per share immediately before the entitlement date was Rs. 33 per share.

(ii) Following information has been extracted from CL's draft financial statements:

	2021 Draft	2020 Audited
	--- Rs. in million ---	
Net profit	66	48
Revaluation surplus arising during the year	-	20
Transfer of incremental depreciation	4	-
Final cash dividend	-	10%

(iii) After the preparation of draft financial statements for the year ended 31 December 2021, it was discovered that installation cost of Rs. 12 million relating to a plant capitalized on 1 August 2020 was wrongly expensed out. The plant is subsequently measured using cost model and is being depreciated @ 20% per annum on reducing balance method.

Required:

(a) Prepare CL's statement of changes in equity for the year ended 31 December 2021 along with comparative figures. ***(Column for total is not required)*** **(09)**

(b) Compute CL's basic and diluted earnings per share to be disclosed in the statement of profit or loss for the years ended 31 December 2021 and 2020. **(08)**

Q.9 Following information pertains to property, plant and equipment of Tsuki Limited (TL):

	Office building	Warehouse
Acquisition:		
▪ Date of acquisition	1 July 2017	1 July 2018
▪ Cost **(Rs. in million)**	96	156
▪ Estimated useful life **(in years)**	16	12
Revalued amount:		
▪ 1 January 2019 **(Rs. in million)**	116	138
▪ 1 January 2021 **(Rs. in million)**	80	143
Revised useful life on 1 January 2020 **(in years)**	9	14

Additional information:

(i) TL uses revaluation model for subsequent measurement and accounts for revaluation on net replacement value method.

(ii) TL transfers maximum possible amount from the revaluation surplus to retained earnings on an annual basis.

(iii) The revalued amounts were determined by Sagheer Valuers (Private) Limited, an independent valuation company.

Required:

In accordance with IFRSs, prepare a note on 'Property, plant and equipment' (including comparative information) for inclusion in TL's financial statements for the year ended 31 December 2021. ***(Column for total is not required)*** **(18)**

(THE END)