The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

12 March 2024
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 Gemini Club (GC) prepared its complete financial statements for 2023; however, the excel sheet containing statement of income and expenditure was inadvertently deleted. The following comparative balance sheet, along with the receipts and payments account, is available:

Balance sheet as on 31 December 2023

Funds and liabilities	Rs. in '000		Assets	Rs. in '000	
	2023	**2022**		**2023**	**2022**
General fund:			Fixed assets - net	1,403	1,300
Opening balance	1,766	1,586	Members' subscription	270	158
Excess of income over expenditure	62	180	Miscellaneous supplies	13	10
	1,828	1766	Tuck-shop rent	41	37
Tennis court fund	260	200	Advance salaries	18	15
			Bank	450	530
Liabilities:					
Members' subscription	20	25			
Salaries	52	41			
Utilities	25	18			
Annual sports event	10	-			
	2,195	**2,050**		**2,195**	**2,050**

Receipts and payments account for the year ended 31 December 2023

Receipts	Rs. in '000	Payments	Rs. in '000
Opening balance	530	Salaries	560
Members' subscription received	790	Fixed assets	92
Tennis court fund	60	Annual sports event	180
Contribution for annual sports event	49	Miscellaneous supplies	132
Entrance fee - annual sports event	86	Utilities	214
Tuck-shop rent	248	Repair and maintenance	40
Scrap sale	15	Construction of tennis court	110
		Closing balance	450
	1,778		**1,778**

Required:
Prepare GC's statement of income and expenditure for the year ended 31 December 2023.
(Comparative figures are not required) **(09)**

Q.2 The accountant of Midjourney Enterprises (ME) prepared the draft statement of profit or loss for the year ended 31 December 2023, which showed gross profit and net profit of Rs. 1,360,000 and Rs. 590,000 respectively. The following errors were found on a detailed review of the draft financial statements:

(i) Purchase returns of Rs. 20,000 were recorded as sales returns of Rs. 2,000.
(ii) Free samples of goods costing Rs. 30,000 were distributed to potential customers, but were mistakenly recorded as credit sales at a mark-up of 30% on cost.
(iii) Proceeds from the disposal of office equipment on 31 December 2023, amounting to Rs. 382,000, were credited to sales. The equipment had cost and carrying amount on 31 December 2023 of Rs. 500,000 and Rs. 320,000 respectively. ME depreciates office equipment at 20%.
(iv) Transportation outward, amounting to Rs. 240,000, was recorded as transportation inward. This also resulted in overstatement of closing inventory by Rs. 36,000.
(v) While recording impairment for an item of property, plant and equipment, its value in use of Rs. 1,200,000 was ignored. The item had a carrying value (before impairment) of Rs. 1,800,000 and fair value less costs of disposal of Rs. 1,000,000.

ME uses periodic inventory system for recording its inventory.

Required:
Compute the corrected gross profit and net profit of ME for the year 2023. **(08)**

Q.3 The following information pertains to Dall-E Limited (DL) for the year ended 31 December 2023:

Sales during the year (25% mark up on cost)	Rs. 100 million
Average current assets	Rs. 49 million
Average quick assets	Rs. 21 million
Receivables turnover	7 times
Payables turnover	9 times
Credit period usually allowed to customers	30 days
Credit period usually allowed by suppliers	60 days

Required:
(a) Compute operating cycle days of DL for 2023. ***(Assume 365 days a year)*** **(04)**
(b) Suggest one potential action for each component of the operating cycle to assist DL in decreasing its operating cycle days. **(03)**

Q.4 You are the finance manager of Paradox Limited (PL). The financial statements of PL for the year ended 31 December 2023 are under preparation. In the beginning of 2023, PL adopted the revaluation model for the subsequent measurement of property, plant and equipment. A new CEO has recently joined PL. He has pointed out the following non-compliances of IFRSs after reviewing the draft financial statements of PL:

(i) IAS 16 does not allow selective revaluation, so all classes of property, plant and equipment should have been revalued.
(ii) The adoption of the revaluation model has been accounted for as a 'Change in estimate' (i.e. prospectively) though it is a 'Change in accounting policy'.
(iii) IAS 16 requires that incremental depreciation must be transferred from revaluation surplus to retained earnings but the transfer has not been made in the draft financial statements.
(iv) Some vehicles have been given on rent by PL; these should have been included in investment property, but instead, they are included in property, plant and equipment.

Required:
Briefly respond to the non-compliances pointed out by the CEO. **(08)**

Q.5 On 1 January 2023, Textio Limited (TL) commenced construction of its factory building. Below is the breakdown of the payments made to the contractor:

Date of payments	Rs. in million
1 February 2023	200
1 April 2023	350
1 September 2023	180
1 February 2024	160
	890

These payments were financed through the following sources:

Date	Descriptions	Rs. in million
1 January 2023	17% long term loan	250
1 March 2023	Right shares (Expected annual dividend is 24%)	300
1 August 2023	19% short term loan (Payable in June 2024)	340
		890

Additional information:

(i) Surplus funds available from both the loans and right shares were invested in a savings account earning interest at a rate of 10% per annum.

(ii) The construction work was suspended from 1 July to 31 July 2023; however, substantial technical and administrative work was carried during July 2023.

(iii) The construction of the factory building was completed on 30 November 2023, but due to minor modifications, it was not available for use until 31 December 2023.

Required:
Calculate the borrowing costs to be capitalized in the cost of factory building. **(08)**

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

(i) Which **TWO** of the following are correct in accordance with IAS 36?

(a) If impairment indicators are present, the entity shall estimate the recoverable amount of the asset.
(b) While computing impairment loss, the asset's carrying value is compared with the lower of its fair value less costs of disposal and its value in use.
(c) If the recoverable amount is lower than the carrying value, an impairment loss is always charged to the statement of profit or loss.
(d) An impairment loss only arises if the fair value less costs of disposal as well as the value in use are lower than the carrying amount. **(01)**

(ii) Alpha company issued 4 million ordinary shares of Rs. 10 par value for purchasing land having a fair value of Rs. 50 million. How should this transaction be reported by Alpha in its statement of cash flows?

(a) It should be reported as financing cash flows.
(b) It should be reported as investing cash flows.
(c) It should not be presented in the statement of cash flows but it will be presented in the notes to the financial statements.
(d) It should be reported as investing cash flows as well as financing cash flows. **(01)**

(iii) Beta Limited reported a net loss of Rs. 70,000 after charging depreciation expense of Rs. 81,000. If the working capital (other than cash) has increased by Rs. 8,100, then what is the amount of net cash provided (used) by operating activities?

(a) (Rs. 159,100) (b) (Rs. 142,900) (c) Rs. 2,900 (d) Rs. 19,100 **(01)**

(iv) Which of the following is **NOT** included in the Conceptual framework for financial reporting?

(a) Objective of general purpose financial reporting
(b) Structure and content of financial statements
(c) Elements of financial statements
(d) Qualitative characteristics of useful financial information **(01)**

(v) On 1 January 2022, Gamma Limited (GL) purchased a manufacturing plant at a cost Rs. 240 million with a useful life of 5 years. GL uses straight-line method of depreciation. At 31 December 2023, GL determines that there are indications for impairment. The plant's value in use and fair value less costs of disposal are estimated to be Rs. 113 million and Rs. 108 million respectively.

Which of the following should be reported as impairment loss in GL's statement of profit or loss for 2023?

(a) Rs. 31 million (b) Rs. 36 million (c) Rs. 79 million (d) Rs. 84 million **(01)**

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

(I) Relevance and faithful representation are the two fundamental qualities that make accounting information useful for decision making.
(II) Comparability is an enhancing quality that makes accounting information useful for decision-making.

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

(vii) Alpha Enterprises (AE) earned a profit of Rs. 700,000 for the year 2023 based on historical cost accounting principles. AE had opening capital of Rs. 2 million. During 2023, specific price indices and general price indices increased by 12% and 21% respectively.

How much profit should be recorded for 2023 under the physical capital maintenance concept?

(a) Rs. 280,000 (b) Rs. 460,000 (c) Rs. 700,000 (d) Rs. 940,000 **(01)**

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

(I) Interest paid may be classified as an operating cash flow or as an investing cash flow.
(II) Cash flows from operating activities calculated using 'Indirect method' are greater than cash flows from operating activities calculated using 'Direct method'.

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

(ix) On 1 January 2021, Delta Limited (DL) acquired a manufacturing plant at a cost of Rs. 200 million and received a government grant of Rs. 40 million related to the plant. DL recorded the grant as deferred income. The plant is being depreciated on a straight-line basis over five years. The accounting period ends on 31 December each year. On 1 January 2023, the grant was repaid in full on failing to meet the attached conditions. Profit or loss will be debited on the repayment of the grant by:

(a) Nil (b) Rs. 16 million (c) Rs. 24 million (d) Rs. 40 million **(02)**

Section B

Q.7 Financial statements of Bard Limited (BL) for the year ended 31 December 2023 are under preparation. During the review of the draft financial statements of BL, the following matters have been identified:

(i) Statement of changes in equity was not prepared in the draft financial statements. In this respect, the following details have been gathered:

- Share capital and reserves as at 1 January:

	2022	2021
	---- Rs. in million ----	
Ordinary share capital (Rs. 10 each)	2,400	2,400
Share premium	563	563
Retained earnings	1,345	1,153

- BL's profit for the year 2023 (draft), 2022 and 2021 were Rs. 575 million, Rs. 477 million and Rs. 321 million respectively.
- Final dividend for the year ended 31 December 2021 comprised of 15% cash dividend and 10% bonus shares. The bonus issue was made from share premium, and the shares were issued in April 2022 after payment of cash dividend.
- A bonus issue of 25% was made in July 2023 as interim dividend.
- 40 million right shares were issued in October 2023 at Rs. 18 per share. Transaction costs of Rs. 3 million were also incurred.

(ii) On 1 January 2020, BL had received a government grant of Rs. 600 million to acquire a manufacturing plant. However, the grant was treated as income on receipt.

The manufacturing plant was acquired at a total cost of Rs. 1,000 million on 1 January 2020. It was estimated to have a useful life of 8 years and residual value of Rs. 100 million.

(iii) BL had decided to adopt the revaluation model from 1 January 2023 for subsequent measurement of land and buildings included in property, plant and equipment. However, this change has not been accounted for in the draft financial statements.

The following information pertains to BL's property, plant and equipment:

Assets	WDV as on 1 January 2023	Revalued amounts as on 1 January 2023	Remaining useful life as on 1 January 2023
	-------- Rs. in million ----		Years
Land	1,000	1,250	-
Office building	750	1,200	9
Factory building	1,000	550	5

On 1 November 2023, BL sold 40% of its land.

Depreciation on buildings has been recorded using straight line method. BL transfers the maximum possible revaluation surplus to retained earnings.

Required:
Prepare BL's statement of changes in equity along with comparative figures for the year ended 31 December 2023. ***(The column of total is not required)*** **(20)**

Q.8 Following information pertains to properties of Synthesia Limited (SL):

(i) SL obtained possession of property A from tenants on 30 April 2023 when SL shifted its head office from property B to property A. Property B was rented out immediately. On 30 April 2023, the fair value of property A was Rs. 740 million, while the fair value of property B was determined as equal to its carrying amount.

The details of properties A and B are as follows:

Property	Date of purchase	Cost	Fair value as on 31 December	
			2023	2022
		---------- Rs. in million ----------		
A	1 January 2021	750	750	720
B	1 July 2021	500	480	440

60% of costs and fair values of both properties refer to the land element.

(ii) On 1 February 2023, SL started construction of property C with a view to earn rentals in the future. The construction was completed on 30 September 2023 at a total cost of Rs. 430 million. This included Rs. 7 million and Rs. 12 million for professional fees for legal services and abnormal wastage of material during construction respectively.

Operating losses of Rs. 10 million were also incurred before the property was rented out on 1 December 2023.

Fair value of property C was determined as Rs. 380 million, Rs. 390 million and Rs. 395 million as at 30 September 2023, 1 December 2023 and 31 December 2023 respectively.

Other information:

(i) Fair value model is used for subsequent measurement of all investment properties.
(ii) Cost model is used for subsequent measurement of all property, plant and equipment.
(iii) Depreciation is charged using the reducing balance method at a rate of 10%.
(iv) Rental revenue received during 2023 and accrued at 31 December 2023 are Rs. 45 million and Rs. 6 million respectively.
(v) Repair and maintenance expenses related to investment property amounted to Rs. 25 million.
(vi) All fair values are determined by Alpha Brothers, an independent firm of valuers.

Required:

(a) Prepare the note on 'Investment property' to be included in SL's financial statements for the year ended 31 December 2023. **(11)**
- ***Show each property in a separate column.***
- ***Columns for total and comparative are not required.***

(b) Assuming that SL follows cost model for investment properties, prepare journal entry to record transfer of property A on 30 April 2023. **(02)**

Q.9 Following information relating to ChatGPT Limited (CL) has been gathered for the purpose of calculating earnings per share:

(i) Profit after tax for the years ended 31 December 2022 and 2023 amounted to Rs. 308 million and Rs. 280 million respectively.

(ii) 25 million ordinary shares, each with a par value of Rs. 10, were outstanding as at 1 January 2022.

(iii) On 1 April 2022, 2 million convertible bonds with a par value of Rs. 100 each were issued. The bonds carry interest at a rate of 18% per annum, payable on 31 March each year. Every 2 bonds are convertible into 3 ordinary shares after 5 years.

(iv) On 1 January 2023, 6 million 16% cumulative irredeemable preference shares, each with a par value of Rs. 50, were issued. Every preference share is convertible into 2 ordinary shares after four years.

(v) On 1 May 2023, CL announced 40% right issue to its ordinary shareholders at Rs. 45 per share. The entitlement date for the right issue was 1 June 2023. The market price per share immediately before the announcement date and entitlement date was Rs. 65 and Rs. 80 respectively.

(vi) On 1 September 2023, CL issued 20% bonus shares to its ordinary shareholders.

(vii) The applicable tax rate is 30%.

Required:
Compute CL's basic and diluted earnings per share to be disclosed in CL's financial statements for the year ended:

(a) 31 December 2022 **(04)**
(b) 31 December 2023 along with comparative figures **(13)**

(THE END)