# INSTITUTE OF CORPORATE SECRETARIES OF PAKISTAN
# C.I.S. EXAMINATION JULY 2011
# FINANCIAL ACCOUNTING AND REPORTING

**Time allowed: 3 hours** **Max. Marks 100**

**Note: Attempt all questions and submit all workings**

| Q.No | Description | Marks |
|---|---|---|
| **Q-1** | Select the most appropriate answer of the following statements: | (10) |

a). Of the following situations, which would be considered the most favourable for the shareholders:

(i). The company stops paying dividends on its cumulative preference shares; the price – earnings ratio of ordinary shares is low
(ii). Equity ratio is high; return on assets exceeds the cost of borrowing
(iii). Equity ratio is low; return on assets exceeds the cost of borrowing.

b). The statement of cash flow is designed to assist users in assessing each of the following except:

(i). The ability of a company to remain solvent (ii). The major source of cash receipts during the period (iii). The company's profitability.

c.). When a job cost system in use, under applied overhead:

(i). Represent the cost of manufacturing overhead that relates to unfinished jobs
(ii). Is indicated by a credit balance remaining at year – end in the manufacturing overhead account
(iii). Is closed out at the year – end into the cost of goods sold account if the amount is not material.

(d). Which of the following is a common fixed cost to the sales department in department store:

(i). Salaries of sales department managers
(ii). Cost of goods sold
(iii). Salaries of store security department.

(e). An unfavourable volume variance indicates that:

(i). Total fixed over head exceeded budgeted amounts
(ii). Variable over head per unit exceeded budgeted amounts
(iii). The actual production for the period was less than the normal volume used in establishing the standard unit cost.

**Q-2** Motisin & Co. Ltd provides the following information about its one product:
Unit sales price – Rs 28 and its variable cost – Rs 7.
Fixed costs per year – Rs 240,000.

**Required:** (a). Contribution margin ratio. (15)
(b). Sales volume in rupees required to break even.
(c.) Sales volume in rupees required to earn annual income of Rs 450,000.
(d). Margin of safety sales volume if annual sales of 40,000 units.
(e). Operating income if 40,000 units sold annually.

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**Q.No** **Description** **Marks**

**Q-3** Akbar Ltd purchased 80% of shares in Bilal Ltd. on June 30, 2009. The balance sheet of both companies as at June 30, 2010 were as follows:

| | | Akbar Ltd. (Rs' 000) | Bilal Ltd. (Rs'000) |
|---|---|---|---|
| Fixed assets | | 2,550 | 1,800 |
| Investment in Bilal | | 1,600 | -- |
| Current Assets | | | |
| Stock-in-trade | | 220 | 200 |
| Trade debtors | | 230 | 200 |
| Cash & bank balance | | 150 | 100 |
| Less Current liabilities | | (450) | (300) |
| Less long term finance | | (500) | (100) |
| | Total | 3,800 | 1,900 |
| Share capital paid up | | 2,500 | 1,000 |
| General reserve | | 800 | 600 |
| Un-assropriated profit | | 500 | 300 |
| | Total | **3,800** | **1,900** |

The following were the balances when shares of Bilal Ltd were taken by Akbar Ltd.

| | |
|---|---|
| General Reserve | Rs 500 thousand |
| Un-assropriate Profit | Rs 200 thousand |

**Required:** Prepare a consolidated balance sheet as at June 30, 2010 along with notes. (18)

**Q-4** Cosmic Co. Ltd has 20,000 units of a defective product on hand which costs Rs 123,500 to manufacture the company can either sell this product as scrap for Rs 4.18 per unit or it can sell the production Rs 10 per unit by re-working the unit and correcting the defects at a cost Rs 119,200. What should the company do? Prepare a schedule in support of your recommendation.

**Required:** Advice the Company for suitable action by submitting supporting schedule for recommendation. (12)

**Q-5** Which accounting ratio will be useful in indicating the following symptoms?

(a). Law capacity utilization
(b). Inability to pay interest
(c.) Liquidity crisis
(d). Inefficient collection of debtors
(e). Borrowing for short-term and investing in long term assets. (10)

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**Q.No** **Description** **Marks**

**Q-6** Define any four of the following terms of Accounting as per International Financial Reporting Standards.

(a). Initial Cost of Property, Plant & Equipment (IAS-16)
(b). Events After Balance Sheet Date (IAS-10
(c.) Residual Value – Guarantee & Un-guaranteed (IAS-17)
(d). Cost Method of Accounting for Investment (IAS-27)
(e). Geographical Segment (IAS-17)
(f). Temporary Differences (IAS-12). (20)

**Q-7** Salam construction Co. Ltd provided the following information for a contract completed in June 30, 2010

| | 2008<br>Rs'000 | 2009<br>Rs'000 | 2010<br>Rs'000 |
|---|---|---|---|
| Contract price | 54,000 | 54,000 | 54,000 |
| Progressive billing to date | 9,000 | 3,000 | 51,000 |
| Collection to date | 6,600 | 24,000 | 48,000 |
| Cost to date | 18,000 | 27,000 | 36,000 |
| Estimated further Cost | 30,000 | 9,000 | -- |

**Required:**

(a). Compute the profit to be recognized in each of three years on the basis of stage of completion (09)

(b). Set out details to be reported on the balance sheet at the end of each year as accounts receivable and due from customers on account of contract work as required by the International Financial Reporting Standards. (06)