

Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting

Model paper

100 marks



Instructions to examinees:

- (i) Answer all **NINE** questions.
- (ii) The overall duration of the exam is 3 hours & 15 minutes, which includes the 15-minute reading time.
- (iii) Answer in **black** pen only.
- (iv) Answer Multiple-Choice Questions in the answer script only.

SECTION A (Ranging from 45 to 55 marks)

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions (MCQs). Each MCQ carries **ONE** mark.

- (i) Under the Conceptual Framework for Financial Reporting, historical cost for an asset and a liability is generally determined as follows:
 - (a) **Asset:** Consideration paid/payable plus transaction costs
Liability: Consideration received minus transaction costs
 - (b) **Asset:** Consideration paid/payable plus transaction costs
Liability: Consideration received
 - (c) **Asset:** Consideration paid/payable
Liability: Consideration received
 - (d) **Asset:** Consideration paid/payable minus transaction costs
Liability: Consideration received plus transaction costs
- (ii) According to the Conceptual Framework for Financial Reporting, the total amount of equity in general purpose financial statements is:
 - (a) aggregate market value of equity claims on the entity
 - (b) carrying amount of all recognized assets less carrying amount of all recognized liabilities
 - (c) aggregate amount raised by selling all assets less amount used to settle all liabilities
 - (d) amount that could be raised by selling the entity as a whole on a going concern
- (iii) According to the Conceptual Framework for Financial Reporting, the historical cost of an asset is updated over time to reflect:
 - (a) its fair value at the reporting date
 - (b) the replacement cost of the asset
 - (c) the present value of future cash flows expected from the asset
 - (d) the cost adjusted for depreciation, amortisation, or impairment
- (iv) Net profit can be calculated by:
 - (a) Closing capital + Drawings – additional investment – Opening capital
 - (b) Closing capital – Drawings + additional investment – Opening capital
 - (c) Closing capital + Drawings + additional investment + Opening capital
 - (d) None of the above

- (v) In preparing the statement of cash flows under the indirect method, which **TWO** of the following items are added as adjustments to profit before tax?
- (a) Finance cost
 - (b) Decrease in allowance for doubtful debts
 - (c) Impairment loss
 - (d) Fair value gain on re-measurement of investment property
- (vi) Under IAS 7 'Statement of Cash Flows', which of the following is **NOT** considered a cash or cash equivalent?
- (a) Treasury bills maturing in 45 days
 - (b) A bank overdraft repayable on demand
 - (c) Investment in ordinary shares of another entity held for short-term trading
 - (d) Prize bonds issued by Government of Pakistan
- (vii) Under IAS 23 "Borrowing Costs", expenditures on a qualifying asset for capitalisation purposes do **NOT** include the effect of:
- (a) expenditures on the asset incurred in prior year
 - (b) progress payments received
 - (c) government grants received in connection with the asset
 - (d) expenditures not yet paid
- (viii) When calculating value in use, which discount rate should be used?
- (a) The entity's weighted average cost of capital
 - (b) The asset-specific pre-tax discount rate reflecting current market conditions
 - (c) The risk-free rate adjusted for inflation
 - (d) The entity's average borrowing cost
- (ix) Which of the following is **NOT** considered government assistance in accordance with IAS 20?
- (a) Forgivable loans by government
 - (b) Subsidized loans by government
 - (c) Government grants
 - (d) Imposition of trading constraints on competitors
- (x) Which of the following statements is/are correct as per IAS 23 "Borrowing Costs"?
- (I) An entity should cease capitalising borrowing costs only when the asset is available for use.
 - (II) The amount of borrowing costs capitalised during a period is always equal to the amount of borrowing costs incurred during that period.
- (a) Both are correct
 - (b) Only I is correct
 - (c) Only II is correct
 - (d) None is correct

QUESTION 2

Following is the trial balance of Sagala Sports Club (SSC) as at 30 June 2024:

	Debit	Credit
	---- Rs. in million ----	
Accrued expenditures		17
Cash at bank	12	
Contribution for pavilion building		20
Depreciation expense	11	
General fund as at 1 July 2023		102
Other expenditures	38	
Fixed assets	96	
Pavilion building	27	
Payments for schools fee	7	
Players' subscription receivable as at 1 July 2023	8	
Players' subscription received during the year		45
Players' subscription received during the year in advance		15
Total	199	199

Additional information:

- A contribution of Rs. 20 million for the pavilion was received last year. The pavilion was completed this year at a cost of Rs. 30 million and has been depreciated by Rs. 3 million.
- Players' subscription of Rs. 16 million were outstanding as at 30 June 2024. Of this amount, Rs. 3 million should be written off as it was also outstanding on 1 July 2023.
- During the year, some players started paying subscriptions in advance for the whole year, receiving a 20% discount. 40% of these subscriptions should be considered as advances as at 30 June 2024.
- Due to a significant balance in the general fund, SSC's board of trustees has decided to establish a fund with Rs. 24 million to contribute to the school fees of promising children from the town. Parents can apply for a grant up to Rs. 50,000.

Required:

Prepare the following using deferral method:

- Statement of income and expenditure for the year ended 30 June 2024 **(05 marks)**
- Statement of financial position as at 30 June 2024 **(05 marks)**

QUESTION 3

As the Finance Manager at Dior Limited (DL), you have recently welcomed Fatima for a three-month internship. You assigned her the task of developing a deeper understanding of the statement of cash flows by studying DL's and other companies' recent financial statements. She has now presented the following queries for clarification:

- The loss on the disposal of a machine has been added in cash flows from operating activities, even though its cash effect is already reflected in investing activities.
- Interest payable is component of working capital, yet change in interest payable is not reflected in the changes in working capital.
- Repairs and maintenance on the office building are related to property, plant and equipment and should be categorized under investing activities. However, they do not appear in the cash flow statement at all.

Required:

Briefly respond to the queries raised by Fatima.

(06 marks)

QUESTION 4

The following information pertains to four similar machines acquired by Cotton Limited (CL) on 1 January 2022 at a total cost of Rs. 1,000 million:

- (i) CL applies the revaluation model for the subsequent measurement of its machines, using the net replacement method. CL transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.
- (ii) The revalued amounts of the machines as at 1 January 2023 and 2024 were determined as Rs. 810 million and Rs. 896 million respectively.
- (iii) CL depreciates its machines on the straight-line method over their estimated useful life of 10 years. There was no change in the useful life of the machines on the revaluation dates.
- (iv) On 31 August 2024, one machine was sold for Rs. 210 million.

Required:

Prepare the journal entries in the books of CL for the year ended 31 December 2024.

(10 marks)

(Show all necessary workings. Narrations are not required)

QUESTION 5

The following information pertains to the properties of Nylon Limited (NL):

- (i) NL owns four properties that were acquired in previous years (2023 and earlier). The fair values of these properties at different dates are as follows:

	1 January 2024	31 May 2024	31 December 2024
	----- Rs. in million -----		
Property A	740	715	760
Property B	810	790	750
Property C	450	510	480

- (ii) Property A was acquired for its investment potential.
- (iii) On 31 May 2024, NL obtained possession of property C from tenants and shifted its head office from property B to property C. Property B was rented out immediately. The carrying value of property B was Rs. 650 million as on 31 May 2024.
- (iv) NL applies the fair value model for the subsequent measurement of all investment properties.
- (v) NL charges depreciation on depreciable assets at 10% per annum using the straight-line method. 50% of the value of property A and property B relates to the land element.

Required:

Prepare a note on 'Investment property' to be included in NL's financial statements for the year ended 31 December 2024. *(Comparative figures are not required)*

(06 marks)

QUESTION 6

Gulab-jamun Limited (GL) is engaged in the cultivation and sale of mangoes. The following information is available:

- (i) In 2019, GL planted 5,000 mango trees, expecting them to mature and start producing mangoes in five years. The initial cost of the plantation (including land preparation, labour, irrigation and fertilizers) amounted to Rs. 20 million. Further up-keep costs, covering irrigation, fertilisation, pruning and spraying, of Rs. 24 million were incurred from 2019 to 2023. The trees matured and started producing fruit on 1 July 2024.

During 2024, GL incurred monthly expenditure of Rs. 1 million on the up-keep of the trees. The trees have an estimated useful life of 10 years, with no residual value.

The fair value of the mango trees was Rs. 56 million on 1 January 2024 and Rs. 70 million on 31 December 2024.

- (ii) During the year ended 31 December 2024, the mango trees produced 400,000 kg of mangoes. The market price at the point of harvest was Rs. 90 per kg, and the cost to sell (harvesting and packaging) was Rs. 5 per kg.

By year-end, GL had sold 75% of the harvested mangoes at an average price of Rs. 95 per kg. The remaining 25% was unsold and held in cold storage, with a net realisable value of Rs. 102 per kg.

- (iii) On 1 March 2024, GL received a government grant of Rs. 6 million to support the development of cold a storage facility for storing harvested mangoes. The grant is non-refundable, provided the facility remains in agricultural use for at least five years.

The facility has an estimated useful life of 10 years, and GL intends to use it for the full life. The total cost of the facility was Rs. 15 million, and it became available for use on 1 May 2024.

GL applies the cost model for property, plant and equipment and uses straight-line method of depreciation. Government grants accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' are presented as deferred income.

Required:

In accordance with IFRSs, prepare the relevant extracts from GL's statement of profit or loss and other comprehensive income for the year ended 31 December 2024 and statement of financial position as at that date. *(Comparative figures are not required)*

(08 marks)

SECTION B (Ranging from 45 to 55 marks)

QUESTION 7

Following is the summarised trial balance of Eagles Limited (EL) as at 30 June 2015:

	Debit Rs. in '000		Credit Rs. in '000
Plant	2,500	Accumulated depreciation at 1 July 2014:	
Equipment	700	▪ Plant	1,000
Stock as on 1 July 2014	1,500	▪ Equipment	270
Trade debtors	1,300	Provision for obsolete stock at 1 July 2014	45
Cash and bank	1,759	Provision for bad debts at 1 July 2014	48
Purchases	6,987	Capital	2,500
Salaries & wages	843	Accumulated profits	960
Warehouse rent	740	Trade creditors	1,545
Repair and maintenance	500	Revenue	10,706
Utilities expenses	400	Other income	425
Insurance expenses	300	Accruals at 1 July 2014:	
Bad debt written off	30	▪ Repairs & maintenance	45
Obsolete inventory written off	40	▪ Utilities expenses	55
	17,599		17,599

Additional Information:

- (i) The sales return of Rs. 390,000 has not been recorded yet. The goods returned have been received but not included in physical count of inventory at year-end. EL sells such goods at a mark-up of 30% on cost.
- (ii) Other income includes proceed from sale of an equipment amounting to Rs. 100,000 received on 31 December 2014. The cost and written down value of the equipment at 1 July 2014 were Rs. 200,000 and Rs. 70,000 respectively.
- (iii) Plant and equipment are depreciated at the rate of 10% and 15% respectively on straight line basis.
- (iv) Cost of stock on 30 June 2015 was Rs. 1,400,000, having net realizable value of Rs. 1,450,000. This does not include inventory given in (i) above.
- (v) The management estimates that:
 - 5% of trade debts would not be recovered.
 - 3% of the stock is obsolete.
- (vi) Current warehouse rent is Rs. 600,000 per annum which was paid in advance on 1 October 2014.
- (vii) Following bills for expenses were received but not entered in books:

	Rs. in '000
Repair and maintenance	56
Utilities expenses	67

- (viii) The company revalued its non-current assets on 31 December 2014. Valuer has suggested following fair values:

	Rs. in '000
Plant	1,650
Equipment	175

- (ix) The tax charge for the current year after making all related adjustments is estimated at Rs. 200,000.
- (x) No entry has been made in respect of disposal, revaluation and depreciation of fixed assets.
(*Transfer for incremental depreciation is to be ignored*)

Required:

Prepare statement of financial position as at 30 June 2015 and statement of comprehensive income for the year ended 30 June 2015. **(19 marks)**

QUESTION 8

The following information is available for preparing the statement of changes in equity for Velvet Limited (VL) for the year ended 31 December 2024:

- (i) Share capital and reserves as at 1 January 2023:

	Rs. in million
Share capital (Rs. 100 each)	1,000
Share premium	250
Retained earnings	600

- (ii) In February 2023, VL issued 60% right shares at Rs. 220 per share, although the prevailing market price of VL's share was Rs. 290. Transaction costs of Rs. 24 million were also incurred.
- (iii) In April 2023, VL's board of directors recommended a final dividend of Rs. 20 per share for 2022; however, shareholders only approved Rs. 16 per share.
- (iv) A bonus issue of 20% was made in April 2024 as the final dividend for 2023. The allocation was made from retained earnings.
- (v) In December 2024, VL declared an interim cash dividend of 10%, which was paid in January 2025.
- (vi) VL reported a profit of Rs. 450 million for 2023 while profit as per the draft financial statements for 2024 amounted to Rs. 550 million.
- (vii) The following changes have not been incorporated in VL's draft financial statements:

- VL has decided to change the method of inventory valuation from 'first-in, first-out' (FIFO) to the weighted average method, in order to align with competitors' financial statements. The value of inventory under each method has been determined as follows:

	FIFO	Weighted Average
	----- Rs. in million -----	
As at 31 December 2021	225	210
As at 31 December 2022	270	240
As at 31 December 2023	310	350
As at 31 December 2024	395	380

- VL has decided to change its previous practice of recognizing all borrowing costs as an expense when incurred. Going forward, borrowing costs related to qualifying assets will be included in the cost of those assets. Previously, VL did not capitalize any borrowing cost on a building constructed between 1 April 2022 and 30 September 2023. The building has a useful life of 10 years and is being depreciated using straight-line method. The relevant details are as follows:

	2022	2023
	--- Rs. in million ---	
Total borrowing cost incurred	130	150
Borrowing cost directly attributable to that building	50	72
Investment income from surplus funds of specific loan	2	-

- VL has revised its internal guidelines for assessing slow-moving and obsolete inventory. Under the previous approach, items that remained unsold for more than six months were considered for provisioning. Under the revised approach, items unsold for more than four months will be subject to provision. The provisions under both approaches are as follows:

Years	2021	2022	2023	2024
	----- Rs. in million -----			
Old approach	15	20	16	22
New approach	18	26	21	25

Required:

Prepare VL's statement of changes in equity (with comparatives figures) for the year ended 31 December 2024. (A column for the total is not required) (16 marks)

QUESTION 9

The following information pertains to the intangible assets of Hadero Limited (HL):

- (i) On 1 May 2022, HL acquired an eight year license at a cost of Rs. 174 million. HL plans to use the license for six years. Licenses are traded in an active market. As on 31 December 2022, the fair value of a new license valid for eight years is Rs. 192 million, while older licenses sell at a fair value of new license value less Rs. 2 million for each month the license has already been used.
- (ii) On 1 July 2022, HL acquired operation management software at a cost of Rs. 410 million. HL also incurred a cost of Rs. 20 million for consulting charges to select and evaluate the appropriate software in alignment with HL's needs.

HL expects that indefinite life can be achieved if HL incurs future expenditures to enhance its performance standards by integrating 'artificial intelligence' into this software. Without such expenditures, the software is projected to become technologically obsolete in five years.

After the acquisition of the new software, the existing software would henceforth serve limited purposes. The existing software was acquired for Rs. 240 million, and as on 31 December 2021, Rs. 126 million had been amortized, based on a useful life of ten years.

On 31 December 2022, HL has estimated the value in use of the existing software to be Rs. 58 million. This valuation has been computed using cash flows projected over the revised remaining useful life of two years.

- (iii) On 1 August 2021, HL commenced the development of a new product. Up till the launch date of 1 October 2022, the following directly attributable costs were incurred:

	Rs. in million
Staff salary	150
Equipment (having useful life of five years)	420
Consumables	160
Consultant fee	320
	1,050

The recognition criteria for capitalization of internally generated intangible assets was met on 1 February 2022. All costs have been incurred evenly during the period except the equipment which was purchased specifically for this product development on 1 September 2021. The useful life of the developed product is estimated at eight years.

- (iv) HL uses the revaluation model for the subsequent measurement of its intangible assets, wherever possible, and accounts for revaluation using the net replacement value method. Depreciation and amortisation are charged using the straight line basis.

Required:

Prepare the notes on 'Intangible assets' for inclusion in HL's financial statements for the year ended 31 December 2022, in accordance with the requirements of IFRSs. **(15 marks)**

(THE END)