The Institute of Taxation of Pakistan

CTA – Skills Level

January 2022 Attempt

TAX ACCOUNTING AND FINANCIAL REPORTING

Part I

Each question carries 2 marks. (This part consists of 15 questions)

Tick and fill in the gap with correct answer on the same sheet and return the same sheet as answer script.

Q. No. 1 Haider Limited's statement of financial position shows ordinary share capital of Rs.150 million and share premium of Rs.50 million at the beginning of a financial year. If the ordinary share capital is Rs.250 million and share premium is Rs. 120 million at the end of the financial year, how much did the ordinary share with share premium issue raise?

a) Rs. 100 million
b) Rs.170 million
c) Rs.160 million
d) Rs.150 million

Q. No. 2 Gujrat Limited's opening retained earning balance was Rs.150 million. It made profit after tax for the year ended 31 March 2020 of Rs.30 million. During that year, an ordinary dividend of Rs.50 paisa per share was paid on 40 million ordinary shares. What was the retained profit for the year ended 31 March 2020?

Rs. ___________160 million

Q. No. 3 IAS 2 relates to all inventories except:

a) Construction contracts
b) Financial instruments
c) Biological assets
d) All of the above

Q. No. 4 What are inventories measured at?

a) Lower of cost and fair value
b) Lower of cost and net realizable value
c) Lower of cost and market value
d) Lower of cost and present value

Q. No. 5 An apartment is revalued upwards by Rs. 1 million. It was acquired 5 years ago for Rs. 5 million Its useful life remains same as 10 years.

What is the revised depreciation charge for the year after revaluation?

a) Rs.500,000
b) Rs.700,000
c) Rs.600,000
d) Rs.800,000

Q. No. 6 An entity purchased a property 15 years ago at a cost of Rs.100,000 and have been depreciating it at a rate of 2% per annum, on the straight-line basis. The entity has had the property professionally revalued at Rs.500,000.

What is the revaluation surplus that will be recorded in the financial statements in respect of this property?

a) Rs.400,000
b) Rs.530,000
c) Rs.500,000
d) Rs 430,000

Q. No. 7 An entity has a policy of revaluing its PPE. An asset cost Rs 5million on 1 January 2020 and has a useful life of five years and is depreciated on a straight-line basis to a zero residual value. The fair value of the asset at 31 December 2020 was Rs 3.8million. The fall in value will be accounted for as follows?

a) Depreciation Rs.1m and fall in value of Rs.200,000 both to the reserves
b) Depreciation Rs.1m to the income statement and fall in value of Rs.200,000 ignored until there is a revaluation surplus
c) Depreciation Rs.1m to income statement and fall in value of Rs.200,000 to the reserves
d) Depreciation Rs.1m and fall in value of Rs.200,000 both to the income statement

Q. No. 8 If liquidation of carrying amounts will make future tax payments larger or smaller, IAS 12 generally requires an undertaking to record a:

a) Deferred tax liability (or deferred tax asset)
b) Provision
c) Contingent liability
d) none of these

Q. No. 9 On a statement of financial position all of the following should be classified as current liabilities except

a) Advance from customer for services to be performed
b) Salaries payable for work performed during the previous month
c) Deferred income tax for differences based on depreciation methods
d) Accounts payable for inventory items to be shipped in consignment

Q. No. 10 Proceeds on disposal of property, plant and equipment are classified as:

a) Financing activities
b) Operating activities
c) Investing activities
d) all of the above

Q. No. 11 Amplifier Limited had sales of Rs.120 million during the year. Trade and other receivables increased from Rs.12 million to Rs.16 million, an increase of Rs. 4 million. What amount of cash was received from customers during the year?

a) Rs.124 million
b) Rs. 120 million
c) Rs.116 million
d) None of the above

Q. No. 12 Zameer Ansari is a car dealer. Cars are sold both on cash and finance lease basis. He has been selling a car at the following terms:

Fair value	Rs. 5,000,000
Annual lease rental in arrears	Rs. 1,646,199
Market rate	12% per annum
Lease term	4 years

What would be the effect on sales revenue and finance income if annual lease rental is increased to Rs. 1.8 million and all other terms remain the same?

a) Increase in sales revenue and increase in finance income
b) Decrease in sales revenue and increase in finance income
c) No change in sales revenue and increase in finance income
d) Increase in sales revenue and no change in finance income

Q. No. 13 Goods are sold at a markup of 25%. How much is the margin rate?

a) 20%
b) 33.33%
c) 25%
d) 50%

Q. No. 14 Which of the following should be included in acid test or quick ratio?

a) Finished goods inventory
b) long-term loans
c) raw materials and consumables
d) Accounts payable

Q. No. 15 Salik has net current liabilities in its statement of financial position. He has decided to pay off accounts payables using surplus cash.

What will be the effect of the above transaction on the current ratio?

a) Decrease
b) Increase
c) No effect
d) The ratio could either increase or decrease

Part II

Each question carries 4 marks (This part consists of 5 questions)

Q. No. 1 What is the importance of calculating liquidity ratios while analysing financial statements of a furniture manufacturing company? Describe the impact of adverse acid test ratio.

Q. No. 2 Does IAS 16 allow an entity to change depreciation method from straight line to reducing balance method? If yes, what are the reasonable grounds of making change in deprecation method and how such change will be incorporated in the Statement of Profit or Loss for the year of change and in the subsequent years.

Q. No. 3 What is the basic rule of measuring value of inventories as per IAS 2? Briefly describe different methods of calculating cost of inventories that are interchangeable and that are separately identifiable?

Q. No. 4 Which balances are included in the cash and cash equivalent as per IAS 7 'Statement of Cash Flows'? What should be the characteristics of 'short-term investments' if those are not considered as cash equivalent.

Q. No. 5 Give two reasons each for deductible temporary difference and taxable temporary difference. Pass accounting entries in case of reversal of both types of temporary differences.

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PART III

Each question carries 10 marks. (This Part consists of 5 questions)

Q. No. 1

Fresh Company has a financial year ending on 31 December each year.
At 31 December 2020 it had a liability for income tax of Rs. 77,000.
The tax on profits for the year to 31 December 2021 was Rs. 114,000.
The tax charge for the year to 31 December 2020 was over-estimated by Rs. 6,000.
During the year to 31 December 2021, the company made payments of Rs. 123,000 in income tax.

Required: Prepare ledger accounts for Income tax expense and provision for income tax. Also show relevant extracts from the statement of profit or loss for the year 31 December 2021 and statement of financial position as on that date.

Q. No. 2

Following information has been extracted from the financial statements of Shopper & Co. for the year ended 30 June 2021.

	Rs.
Sales	1,280,000
Cost of sales	(400,000)
Gross profit	880,000
Wages and salaries	(290,000)
Other expenses (including depreciation Rs. 25,000)	(350,000)
Profit before interest and tax	240,000
Interest charges	(50,000)
Profit before tax	190,000
Tax on profit	(40,000)
Profit after tax	**150,000**

Extracts from the Statement of Financial Position	**June 2020 Rs.**	**June 2021 Rs.**
Inventories	118,000	124000
Trade Receivables	233,000	219,000
Trade Payables	102,000	125,000
Accrued Wages and Salaries	8,000	5,000
Accrued Interest Charges	30,000	45,000
Tax Payable	52,000	43,000

Required: Using the above information, prepare cash flows from operating activities section of statement of cash flows for Shopper & Co. for the year ending on 30th June 2021 by using direct method.

Q. No. 3

Ali Jahangir Sanitary (AJS) uses the revaluation model for subsequent measurement of its property, plant and equipment and has a policy of revaluing its assets on an annual basis.
The following information pertains to AJS building:

i. Building was purchased on 01 Jan 2019 for Rs. 200million with expected useful life of 10 years.
ii. AJS depreciates buildings on the straight-line basis over their useful life.
iii. The results of revaluations carried out during the last two years by Standard Valuation Service, an independent firm of values, are as follows:
 1 January 2020 – Rs. 280 million **and** 1 January 2021 – Rs. 170 million

Required: Pass journal entries relating to the above transactions including revaluations for the year ended December 31, 2019, 2020, and 2021

Q. No. 4

a) Sample Co made sales of Rs. 270,000 during the month of October. The sales amount is inclusive of sales tax @ 20%. Sample Co. also made purchases of Rs. 100,000 (exclusive of sales tax @ 20%). Sales tax amount at the end of September was nil.
Calculate the amount of sales tax (payable/refund) at the end of October.

b) Sample Co. owed Rs. 23,778 under the head of sales tax on 1st December. During the month of December Sample Co. entered in following transactions:
- Sales Rs. 800,000 exclusive of sales tax @ 20%
- Purchase Rs. 590,790 inclusive of sales tax @ 20%
- During the month of December Sample Co. did not pay any amount to the Sales Tax department.

How much did Sample Co. owe under the head Sales Tax on 31st December.

c) During the month ended 31st March, Sample Co. had taxable sales, net of sales tax, of Rs. 90,000 and taxable purchases, net of sales tax, of Rs. 72,000.
How much sales tax was due, if the sales tax rate was 20%?

Q. No. 5

Calculate Following Ratios and interpret your results in general.

1. Current Ratio
2. Acid Test Ratio
3. Capital Gearing Ratio
4. Capital Employed Turnover Ratio
5. Gross Profit Markup Ratio

Use following information to calculate above ratios:

Cost of goods sold	Rs. 500,000
Sales (80% on Credit)	Rs. 666,666
Debtors collection period	4 weeks
Creditors payment period	5 weeks
Cash operating cycle	2 weeks
Purchases (90% on Credit)	Rs. 480,000
Inventory	Opening Rs. 38,846 & Closing Rs. 18,846
Current liabilities	Creditors = 2/3 : Others = 1/3
Current assets	Cash & Cash equivalents = 1/5 : Inventories & Debtors = 4/5
Capital Employed	Non current asset = ¾ : Working capital = ¼
Capital Employed	Owners equity = 3/5 : Long term debts = 2/5