Accounting

Descriptive Questions *(90 minutes)*

Question 1:

Beta Company is a retail store in food industry. The store is open six(6) days a week and 50 weeks a year. Beta Company is considering whether to open on Sundays too.

Average daily sales Monday-Saturday is IRR 100 m. with gross margin of 70% of sales. Beta Company anticipates its gross margin on Sundays to be 50% and an average sales of 60% more than other days. Sunday sales revenue estimation is based on new customers only.

Beta Company procures its goods exclusively from one unique supplier and if its total purchases exceeds IRR 10,000 m. in a year, it will be entitled to 5% discount on all of its purchases.

Sunday hourly wages will be 1.5 times the weekly rates of IRR 0.2 m. A total of 5 staff are needed for Sundays to work for 6 hours. They may work 4 hours less the normal weekly hours.

Supervisor's annual salary is IRR 800 m. If the supervisor works on Sundays too, he/she would not be paid for but would be entitled to 1% of Sunday sales as a bonus.

Required:

Considering the above information, decide whether to open the store on Sundays. (Shaw your calculations)

Question 2:

Alpha Company leased equipment with expected useful life of 4 years under a 3 year irrevocable agreement at the beginning of year $x1$. Annual rent of IRR 50,000 plus IRR 1,000 insurance is to be paid beginning as of the end of year $x1$ by lessee. Lessee guarantees to the lessor the residual value of the equipment to be IRR 10,000 by the end of year $x3$. Lessor is willing to sell the equipment to the lessee at the end of the lease, at the end of year $x3$, for IRR 5,000.

Regardless of guaranteeing the residual value of IRR 10,000, lessee's estimated residual value as at the end of year $x3$ is IRR 1,000. Lessee's depreciation method for similar assets is straight line.

Fair value of the asset at the beginning of year $x1$ is IRR 131,860. Hypothetical rate of interest for the lessee is 11% and the lessor's implicit rate of interest is 10% of which the lessee is aware.

PVIFA 3, 11% = 2.444	PVIFA 3, 10% = 2.478
PVIF 3, 11% = 0.731	PVIF 3, 10% = 0.751

Required:

Calculate balance of outstanding liability of capital lease as at the end of year $x2$ and annual depreciation expense.

Question 3:

Alpha Company produces only one type product and sells all of its production.

Following information relating to standard costs and other budgetary information are available:

Budgeted sales price	IRR 70,000 per unit
Direct materials standard cost (5 Kilos per unit at IRR 2,000/Kilo)	IRR 10,000
Budgeted cost of sales	IRR 2,300,000
Budgeted monthly profit	IRR 6,900,000

Actual data is as follows:

Sales revenue	IRR 15,200,000
Direct materials costs	IRR 2,400,000
Direct materials price variance	IRR 800,000 unfavourable
Direct materials usage variance	IRR 400,000 unfavourable

Required:

a. Actual production variance.
b. Actual direct materials consumption.
c. Sales price variance.
d. Profit volume variance.

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Question 4:

ABC Co. owns 80% of XYZ Co. share capital and XYZ Co. owns 30% of ABC Co. share capital. Assume the two companies are associated and use equity method of accounting for their investments.

Following information relating to the above companies are available:

	ABC Co.	XYZ Co.
	IRR bn.	IRR bn.
Net profit (excluding associate company's share)	60	110
Net Assets	600	1,100

ABC Co. issued shares are 100,000 and XYZ Co. has 40,000 issued shares. Moreover, no dividends is distributed by the two companies.

Required:

a. Calculate each company's profit and net assets by equity method of accounting.
b. Calculate earnings per share of ABC Co. and XYZ Co.

Question 5:

Arak Company owns 80% of Babol Company share capital. Babol company start up date is the beginning of year $x1$. Following information regarding the two companies are as under:

	Arak Co.	**Babol Co.**
	IRR m.	IRR m.
Sales to Babol Co	100	-
Sales to others	400	300
Total Sales	500	300
Less: Cost of sales:		
Purchases from Arak Co.	-	80
Purchases from others	350	190
	350	270
Gross profit	150	30
Less: Depreciation expense	40	10
Sundry expenses	60	15
	100	25
Operating profit	50	5
Gain on sale of equipment	-	12
Net profit before tax	50	17

Following information is available:

- Arak Co. terms of sales to Babol Co. is as sales to others.
- Arak Co. sold IRR 36 m. equipment to Babol Co. and would be depreciated by straight line method over 4 years.

Required:

a. Adjusting entries for inter- company sales.

b. Depreciation expense for the year $x1$ to be reported in consolidated financial statements.

c. Adjustment to minority interest due to inter- company transactions.

Question 6:

Payedar Company acquired all of Bico Company share capital at the beginning of year $x4$. Net assets of Bico Company as at that date is as follows:

	US$000
Property, Plant and Equipment	155
Less: Accumulated Depreciation	(30)
	125
Cash	10
Stocks	20
Debtors	10
Total Assets	165
Less: Creditors	15
Net Assets	150

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Bico Company trial balance as at the end of year $x4$ is as follows:

	Debit (US$000)	Credit (US$000)
Capital	-	100
Retained Earnings	-	50
Creditors	-	42
Sales	-	90
Accumulated Depreciation	-	45
Property, Plant and Equipment	155	-
Debtors	40	-
Stocks	45	-
Cash	12	-
Cost of Sales	30	-
Depreciation Expense	15	-
Sundry Expenses	30	-
	327	327

Additional information are as follows:

- Expenses incurred over the year and ending stocks are procured during the last month of the year.
- The subsidiary company's functional currency is US Dollar.
- Exchange rate of US$ to IRR:

At the beginning of the year	IRR 33,000
At the end of the year	IRR 34,600
Average for the last month of the year	IRR 34,500
Average for the year	IRR 33,500

Required:

a. Subsidiary Company's balance sheet and profit and loss account in IRRials.

b. Verification of exchange difference.