

December 05, 2001

FINANCIAL REPORTING

(MARKS 100)

PE-1 (PAPER-3)

(3 HOURS)

- Q.1 a) Define minority interest? (02)
 b) What is goodwill and negative goodwill arising on acquisition? (03)
 c) How the negative goodwill arising out as a result of business combination be accounted for? (05)

Q.2(a) The Managing Director of your company has requested that the treatment of exchange loss arising as a result of conversion of long-term foreign currency loan should be explained to him. Please explain the treatment as per International Accounting Standard and the Companies Ordinance, 1984. (08)

(b) What are the characteristics of a Hyperinflationary economy? (06)

Q.3 Your chief accountant has provided you the condensed profit and loss account and the balance sheet for the current and prior periods along with certain information as under:

CAPITAL AND LIABILITIES	Un-audited as at 31 Mar 01	Un-audited as at 31 Mar 00	Audited as at 30 Sep 00	Audited as at 30 Sep 99
	Rupees in millions			
Paid up capital (par value Rs.10)	182	152	152	138
Reserves	295	304	306	298
	477	456	458	436
Long term loan	302	310	298	131
Current portion of long term loan	73	40	57	29
Short-term finance	898	1,126	674	494
Creditors	475	168	143	119
Dividend	16	18	16	27
Tax payable	220	167	189	156
	<u>1,682</u>	<u>1,519</u>	<u>1,079</u>	<u>825</u>
	<u>2,461</u>	<u>2,285</u>	<u>1,835</u>	<u>1,392</u>
PROPERTY AND ASSETS				
Operating fixed assets	523	539	550	562
Capital work in progress	99	55	99	16
	<u>622</u>	<u>594</u>	<u>649</u>	<u>578</u>
Long term investment	130	130	130	-
Inventory	1,181	1,014	419	335
Trade debts	21	134	14	13
Advances	490	411	612	449
Cash and bank	17	2	11	17
	<u>1,709</u>	<u>1,561</u>	<u>1,056</u>	<u>814</u>
	<u>2,461</u>	<u>2,285</u>	<u>1,835</u>	<u>1,392</u>

(2)

PROFIT AND LOSS ACCOUNT	Un-audited for the 6 months period ended 31 Mar 01	Un-audited for the 6 months period ended 31 Mar 00	Audited for the year ended 30 Sep 00	Audited for the year ended 30 Sep 99
	Rupees in millions			
Sales-net	954	879	1,782	1,545
Cost of sales	802	747	1,505	1,259
	152	132	277	286
Operating expenses	27	26	49	76
Financial charges	79	81	161	129
WPPF and WWF	1	2	2	3
	107	109	212	208
Operating profit	45	23	65	78
Other income	5	8	5	8
Profit before taxation	50	31	70	86
Taxation	31	11	33	47
Profit after taxation	19	20	37	39
Un-appropriated profit b/f	86	94	94	99
	105	114	131	138
Transfer to capital reserve for bonus issue	-	-	30	14
Dividend cash	-	-	15	30
	-	-	45	44
Un-appropriated profit c/f	105	114	86	94
Additional Information				
Depreciation	30	40	78	85
Financial charges payable	18	25	35	20
Advance income tax	240	180	210	170
Revenue reserve	190	190	190	190

Required:

Being the General Manager Finance of a listed company, you are required to prepare half-yearly accounts as required under the local statute. Ignore Directors' report and notes. (15)

- Q.4 The extracts of the balance sheet and profit and loss account of the holding company and subsidiary company are as follows:

	31 Dec.00	31 Dec.99	31 Dec.98
	Rs. in 000		
Holding Company Limited			
2,827,730 shares of Rs.10 each in A Subsidiary Limited (cost)	15,738	15,738	
2,900,000 shares of Rs.10 each in B Subsidiary Limited (cost)	50,750	50,750	
1,291,271 shares of Rs.10 each in C Subsidiary Limited (cost)	53,897	53,897	
Dividend from A Subsidiary Limited	4,242	-	
Dividend from B Subsidiary Limited	-	8,700	
Other income (including dividend)	10,289	22,005	
Loss after taxation but before dividend and share of profit	(54,417)	(14,784)	

(3)

	31 Dec.00	31 Dec.98	1998
	Rs. in 000		
Subsidiary Limited			
Share Capital			
A Subsidiary Limited	776,849	776,849	
B Subsidiary Limited	82,598	82,598	82,598
C Subsidiary Limited	65,547	65,547	65,547
Profit/(Losses)			
A Subsidiary Limited	73,453	39,124	(7,994)
B Subsidiary Limited	11,760	31,190	22,865
C Subsidiary Limited	(116,107)	(83,645)	(230,924)
Surplus on Revaluation on Fixed Assets			
A Subsidiary Limited	51,565	52,321	54,832
C Subsidiary Limited	443,000	443,000	443,000

The Holding Company Limited has, up to 31 December 1999, accounted for investments under the Cost method. The directors wish to change the accounting policy to Equity method from the current year. The books for the current year are still open whilst the previous balances are closed and reported. All the investments were made on 01 January 1998. Ignore taxation.

Required:

You are required to prepare in books of Holding Company Limited:

- Note for Investments to be reported for the current and prior period. (10)
- Relevant portions of the profit and loss accounts for both the years showing the changed figure, if any, and determine the amount of profit or loss for the periods from investments. (08)
- Movement in reserves for the periods. (07)

Q.5 What is meant by the following terms in the context of IAS-37

- Provision
- Liability
- Legal obligation
- Constructive obligation
- Contingent liability (08)

Q.6 Following information is available in respect of Sanwal Limited:

	December 31	
	2001	2000
	Rupees in thousand	
Profit before taxation	24,000 Cr	17,000 Cr
Taxation	10,000 Dr	7,000 Dr
Extraordinary item (net of tax)	6,000 Dr	4,000 Dr
Preference dividends	1,000 Dr	1,000 Dr
Ordinary dividends	3,000 Dr	2,500 Dr
Fundamental error pertaining to the year 2000	2,000 Dr	—

Additional information

- The fundamental error relates to a transaction affecting trading profit of Sanwal Ltd. The figures of the year 2000 do not include the effect of this transaction.
- On June 30, 2001 a fully subscribed 1 for 4 rights issue was made by Sanwal Limited at Rs 15 per share. The market price of one share before the rights issue was Rs 20.
- The issued ordinary share capital of Sanwal Ltd at January 1, 2001 was 200,000 shares of Rs. 10 each. No changes were made to the issued capital other than the rights issue during the years 2000 and 2001.

Required:

- Calculate the following for Sanwal Ltd:
 - the earnings per share for the year ended December 31, 2000
 - the earnings per share for the year ended December 31, 2001
 - the adjusted earnings per share for the year ended December 31, 2000 to be included as a comparative figure in the 2001 financial statements

(4)

Q.7 Following is the trial balance of Bachat Bank Limited:

	Debit	Rupees
Administrative expenses	1,043,795	
Provisions against non-performing advances	504,855	
Reversal of provision for diminution in value of investments		895
Other income		1,905
Other charges	2,415	
Mark-up / interest and discounted /or return earned		5,718,420
Fee, Commissions and brokerage		224,995
Profit from investment activities		1,853,500
Dividend income		250,375
Other operating income		169,465
Cost / return on deposits, borrowings etc.	6,403,105	
Bills for collection		573,595
Acceptances, endorsements and other obligations		5,630,315
Cash	1,949,535	
Balances with other banks	3,016,320	
Money at call and short notice	2,300,000	
Investments	31,630,890	
Advances - net of provisions	29,776,200	
Deferred taxation	90,205	
Capital work in progress	9,655	
Other assets	5,053,070	
Operating fixed assets	539,320	
Provision for staff retirement gratuity		92,810
Bills payable		213,075
Borrowings from other banks, agents etc		4,878,780
Other liabilities		4,810,015
Liabilities against finances leases		10,740
Share capital		2,500,000
Reserve fund and other reserves (before appropriations)		1,458,555
Un-appropriated profit at January 1		5,970
Deficit on revaluation of securities (net)	947,495	
Bills for collection	573,595	
Acceptances, endorsements and other obligations	5,630,315	
Deposits and other accounts		61,084,620
Taxation current - for the year	12,520	
Taxation current - for prior years	27,345	
Deferred taxation - credit for the year		32,605
Total	89,510,635	89,510,635

Note: A transfer to statutory reserve is to be made in accordance with the requirements of the Banking Companies Ordinance, 1962 and Rs. 100,000 is to be transferred to general reserve.

Required:

You are required to prepare the profit and loss account and balance sheet of Bachat Bank Limited as at December 31, 2000. (18)

(THE END)