THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Professional Examinations Summer 2002

June 03, 2002

ADVANCED FINANCIAL ACCOUNTING **(MARKS 100)**
PE-1 (PAPER-1) **(3 hours)**

Q.1 Jay Limited has identified the impairment of its plant due to low acceptance of product. The plant consist of four machines having following carrying value as on June 30, 2000:

Machine	Cost Rupees	Accumulated depreciation Rupees
A	100,000	30,000
B	80,000	24,000
C	50,000	15,000
D	70,000	21,000

The plant is depreciated over its estimated useful life of 10 years using straight-line method of depreciation. The plant is also having goodwill value of Rs. 60,000 in the books of Jay Limited as on June 30, 2000. The value in use determined by the company on June 30, 2000 was Rs. 147,000 using discount rate of 10%. Mr. Kay has offered to buy the plant at Rs. 152,000. In case of disposal of plant Jay Limited has to incur dismantling cost of Rs. 18,000.

Required:

a. Calculate the impairment loss as on June 30, 2000. **(02)**
b. Work out how the impairment loss shall be allocated to above assets, briefly describing how it has been allocated. **(03)**
c. Prepare notes to the accounts for above impairment meeting disclosure requirement under IAS 36. **(03)**
d. Calculate the depreciation of assets for the year ended June 30, 2001. **(02)**

Q.2 Following information have been extracted from the books of PK Limited:

a) Profit after tax for the year ended June 30, 19X2 Rs. 2,000,000

b) Number of ordinary shares on July 1, 19X1 2,000,000

c) Bonus shares issued on January 1, 19X2 250,000

d) Number of shares issued for cash on February 1, 19X2 250,000

e) Shares issued at par to lenders on exercise of right of conversion by them on April 1, 19X2 100,000

f) Own shares acquired by the company on April 1, 19X2 300,000.

g) 8% non cumulative preference shares as on June 30, 19X2 500,000

h) 6% cumulative preference shares as on June 30, 19X2 500,000

i) During the year company paid dividend of Rs. 60,000 to the cumulative preference share holder and an amount of Rs. 60,000 was payable to them on June 30, 19X2 on account of dividend for the last two years.

j) Non-cumulative preference shareholders have right to convert their each share into one ordinary share.

k) Lender having outstanding balance of Rs. 1,000,000 on June 30, 19X2 has a right to convert the loan into ordinary shares at par.

l) The loans from lenders carry interest @12% per annum.

m) Tax rate applicable to company is 40%.

n) The ordinary and preference shares of company are of Rs. 10 each.

Required: calculate the basic and diluted earning per share

(10)

Q.3 M Limited has issued Term finance certificates of Rs.100 million repayable after ten years. These TFCs carry markup rate of 8% per annum. As at June 30, 2001 the remaining life of TFCs is five years. Due to increase in markup rates the TFCs are presently trading at 90% of their face value. Using a bank as intermediary, M Limited decides to restructure its TFCs. It buys back the existing bonds at market value and issue Rs. 100 million TFCs at par. A fee of Rs. 1 million is paid to bank by M Limited for arranging the deal. You are required to explain how the above restructuring shall be dealt with in the accounts of M Limited in the light of IAS 39 Financial Instruments: Recognition and Measurement clearly mentioning whether it is restructuring or extinguishments of existing TFCs and accounting treatment of gain or loss on restructuring/extinguishments.

a) If M Limited issues Rs. 100 million new TFCs at par to the same counterparties carrying markup @ 11%. The present value of these replacement TFCs discounted using original markup rate of 8% is Rs. 112 million.

b) If M Limited issues Rs. 100 million new TFCs at par to the same counterparties carrying markup @ 10%. The present value of these replacement TFCs discounted using original markup rate of 8% is Rs. 108 million.

The present value of the existing TFCs discounted using original markup rate of 8% is Rs. 100 million.

(10)

Q.4 In terms of IAS 32 Financial Instruments: Disclosure and Presentation, clas following into financial assets, financial liabilities or otherwise. Give brief re for your answer.

i. Inventory of finished goods
ii. Plant and equipment
iii. Amount payable on acquisition of plant and machinery
iv. Leased assets
v. Payment obligation under finance lease
vi. Prepaid expenses
vii. Deferred expenses
viii. Interest receivable but not yet due
ix. Income tax payable
x. Sales tax payable **(06)**

Q.5 Following information relates to BE Limited

	2001 Rs.	2000 Rs.
Net (loss)/profit for the year after taxation	(8,000,000)	6,500,000
Share capital		
Ordinary shares	1,200,000	1,000,000
10%Cumulative preference shares	500,000	500,000

i. All the shares of the company are of Rs. 10 each.
ii. Company declared cash dividend of 30% and bonus shares of 20% in the year 2000. The bonus shares were issued to the shareholders on January 1, 2001.
iii. Company issued 20,000 ordinary shares for cash on January 1, 2000.
iv. The financial year of the company ends on June 30.

Required: You are required to calculate basic earning per share for the year 2001 and 2000. **(05)**

Q.6 PT Limited operates defined benefit funded pension scheme for the permanent employees. Following are figures relating to the scheme as on June 30, 19XX.

Liability at the beginning of the year	1,835
Present value of defined benefit obligation	139,464
Past services cost to be recognised in later periods	977
Unrecognised actuarial gain	13,918
Fair value of plan assets	152,896

During the year company charged an amount of Rs. 6,255 to the profit and loss account in respect of employees' pension scheme. The company made contribution of Rs. 8,581 to the pension fund during the year.

You are required to prepare
(a) Note to the account showing the amount recognised in the balance sheet. **(05)**
(b) Reconciliation of movement of amount recognised in balance sheet. **(05)**

Q.7 Agha Limited acquired 40% equity of Baba Limited at a total cost of Rs. 14,000,000 on June 30, 1999. Baba Limited assets and liabilities on that date were as follows:

	Cost Rs.	Fair value Rs.
Land	5,000,000	4,000,000
Plant and equipments (Net of accumulated Depreciation)	14,000,000	22,000,000
Inventories	8,000,000	9,000,000
Trade debtors	4,000,000	4,000,000
Cash and bank balances	1,000,000	1,000,000
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Total assets	32,000,000	40,000,000
Liabilities	7,000,000	7,000,000
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Net assets (shareholder's equity)	25,000,000	33,000,000
	========	========

The above mentioned inventory was sold by Baba Limited in the year ended June 30, 2000. Plant and machinery has remaining useful life of 10 years and Baba Limited charge depreciation on straight-line method. Agha Limited amortizes goodwill over 20 years. For the year ended June 30, 2000 Baba Limited reported net profit of Rs. 3,000,000 and paid cash dividend of 1,000,000. In the year ended June 30, 2001 Baba Limited reported net profit of Rs. 3,500,000 including gain of Rs. 2,000,000 on sale of above-mentioned land.

Agha Limited also holds 40% equity of Gaba Limited. The investment account of Gaba Limited in the books of Agha Limited was showing balance of Rs. 2,000,000 as on July 1, 1998. Gaba Limited reported following net profit/(loss) for the three years.

Year ended	Profit/(Loss)
June 30, 1999	(10,000,000)
June 30, 2000	2,000,000
June 30, 2001	10,000,000

Required : Assuming Agha Limited record above investment using equity method prepare Journal entries in the books of Agha Limited briefly explaining each entry with proper narration and in case no entry is required the reason thereof should be given. Ignore tax implications. **(15)**

Q.8 Margalla Ltd. a public quoted company, has two subsidiaries. The following information is available for the half year ended 31 December, 2001:

	December 31, 2001 **(Rs. in millions)**
Short term investment	160
Long term investment	197
Raw material consumed	48
Share capital	
Authorized	(150)
Issued, subscribed and fully paid	(128)
Other direct expenses	
Fuel and power	30
Salaries and wages	16

Repair and maintenance	11
Depreciation	21
Communication	3
Reserves	(283)
Fixed assets	134
Sales	(216)
Dividend payable	(68)
Capital work in progress	2
Long term loans	(51)
Stock in trade	24
Current maturity of long term loans	(27)
Deferred taxation	(19)
Long term loan and advances	2
Selling and distribution expenses	22
Short term finance	(88)
Financial charges	12
Other income	(22)
Creditors, accrued and other liabilities	(50)
Current taxation charge	29
Long term deposits, prepayments and Deferred cost	9
Unappropriate profit brought forward	(17)
Cash and bank balances	79
Trade debts	39
Dividend	51
Store and spares	60
Loans, deposits and other receivables	20

Required:

(a) Prepare from the information given above half yearly Balance Sheet and Profit & Loss Account for circulation by Margalla Ltd. for the half year ended December 31, 2001. **(12)**

(b) Indicate what other information is required to be disclosed in half yearly published accounts, for compliance with Interim Finance Reporting IAS-34. **(06)**

Q.9 The following data is available in respect of Shan Ltd:

Balance Sheet	**Rs. in million**
Operating assets	100
Long term investments	50
Short term investments	10
Spares	5
Stocks	15
Debtors	20
Deposits	10
Deferred expenditure	90
Cash in hand	10
	310
Capital – ordinary shares	50

Revenue reserves	50
Unappropriated profit	30
Creditors	10
Proposed dividend	20
Accrued expenses	10
Term finance certificate	100
	310

Profit and Loss Account

Sales	500
Cost of sales	400
	100
Administrative expenses	20
Selling expenses	10
Financial expenses	10
	40
	60
Dividend	20
Taxation	20
	40
Profit for the year	20
Unappropriated profit brought forward	10
Unappropriated profit carried forward	30

Required: From the above data calculate solvency ratios and comment on the capital gearing of the company. **(06)**

Q.10 ST Corporation entered into a business combination with LT Corporation on June 30, 2XXX. The balance sheet information of both the companies as on that date is as follows:

	ST Corporation		LT Corporation	
	Book value	Fair value	Book Value	Fair value
Fixed Assets	5,000,000	8,000,000	3,000,000	2,000,000
Inventories	750,000	650,000	290,000	300,000
Trade Debtors	300,000	280,000	150,000	120,000
Other Current Assets	250,000	250,000	100,000	100,000
	6,300,000		**3,540,000**	
Current Liabilities	800,000	800,000	450,000	450,000
Retained earnings	500,000		590,000	
Share capital	5,000,000		2,500,000	
	6,300,000		**3,540,000**	

The profit and loss account of both the companies for the six months ended June 30, 2XXX and for the year ended December 31, 2XXX are as follows:

	ST Corporation 6 months June 30	ST Corporation for the year Dec 31	LT Corporation 6 months June 30	LT Corporation for the year Dec 31
Sales	100,000	200,000	50,000	100,000
Cost of sales	60,000	120,000	32,500	65,000
Gross profit	40,000	80,000	17,500	35,000
Operating expenses	15,000	30,000	7,500	15,000
Net profit for the year	25,000	50,000	10,000	20,000
Retained earning b/f	475,000	475,000	580,000	580,000
Retained earning c/f	500,000	525,000	590,000	600,000

ST Corporation issued 280,000 shares of Rs. 10 each to the shareholders of LT Corporation as a result of business combination by way of pooling of interest.

Required:

a) Prepare the balance sheet of combined entity immediately after the combination using pooling of interest method.

b) Prepare consolidated profit and loss account for the year ended December 31, 2XXX using pooling of interest method. **(10)**

(THE END)