THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations Winter 2003

December 02, 2003

ADVANCED ACCOUNTING & FINANCIAL REPORTING **(MARKS 100)**
Module E **(3 hours)**

Q.1 The balance sheets of the three Companies as at 30 June 2003, reflect the following figures:

	Company A	Company B	Company C
Number of Shares issued	*25,000*	*10,000*	*15,000*
(All in Rupees)			
Share Capital	250,000	100,000	150,000
Reserves	530,262	497,852	218,788
Long term loans	352,663	225,432	229,555
Liabilities against Finance lease	285,656	142,587	272,657
Current Liabilities			
Creditors	295,124	289,587	248,751
Accrued Markup	38,473	44,589	49,442
Other Liabilities	65,258	59,564	71,546
	1,817,436	**1,359,611**	**1,240,739**
Operating assets	796,257	595,857	485,565
Capital Work in progress	199,362	174,567	185,544
Long Term Investment	185,500	45,525	65,210
Current Assets			
Debtors	225,403	129,658	150,457
Advances, Deposits & Prepayments	264,587	274,457	196,222
Other Receivables	146,327	139,547	157,741
	1,817,436	**1,359,611**	**1,240,739**

Pattern of Share holding – Company "B" (as at 30th June 2003)

	Shares	**%**
Directors	7,500	75%
Financial Institutions	1,050	10.5%
Companies	400	4%
Foreign Individuals	550	5.5%
Others	500	5%
	10,000	**100%**

	Company A	Company B	Company C
Average Market Price:			
2001	41.56	71.56	33.92
2002	38.92	69.23	45.62
2003	33.92	76.45	29.12

	Company A	Company B	C
Net Profit:			
2001	19,326	14,547	12,777
2002	22,455	16,172	14,555
2003	25,478	16,389	15,741
Expected Profit Growth rate:	15% p.a	12% p.a.	10% p.a.
Value of Fixed Assets as per independent valuers.	Rs.1,004,325	Rs. 990,278	Rs. 823,125

The management of the group is planning for amalgamation of two of its companies “A” and “C” into Company “B”. Companies “A” and “C” will be dissolved. It is estimated that the net profit will grow at the abovementioned rates for a further period of three years.

The management had carried out the revaluation of Fixed assets of the company through Independent valuers during the year 2003, however, the surplus on revaluation was not booked in the financial statements.

Required:

On the basis of (i) Net Assets Value (NAV) method, and (ii) Earnings/yield basis, calculate:
(a) Goodwill arising on acquisition
(b) Revised pattern of Shareholding of Company B. **(20)**

Q.2

	(Rupees in ‘000)
Present value of funded obligation: 01 Jan 2003	1000
Un-recognized actuarial gains: 01 Jan 2003	160
Actuarial gain to be recognized	6
Discount rate	12%
Current service cost	250
Benefits paid	120
Fair value of plan assets : 31 Dec 2003	1050
Present value of obligation : 31 Dec 2003	1122

Required:

(a) Calculate unrecognized actuarial gains / losses as at 31 Dec 2003. **(10)**

(b) State what type of information is required in order to calculate a defined benefit liability in accordance with IAS-19. **(05)**

Q.3 XYZ Company Ltd. has produced the following Net profit figures.

	(Rupees in Million)
20X6	1.1
20X7	1.5
20X8	1.8

On 01 Jan 20X7, the number of shares outstanding was 500,000 shares. During company announced a rights issue with the following details:

- Rights: 1 new share for each 5 shares outstanding
- Exercise Price: Rs. 5
- Last date to exercise rights is 01 March 20X7.

The market value of one share in XYZ Co., immediately prior to exercise on 01 March 20X7 is Rs. 11.

Required:
Calculate EPS for the years 20X6, 20X7, and 20X8. **(10)**

Q. 4
(a) A lessee enters a leasing arrangement on 31 December 20X3 for a piece of equipment costing Rs.47,460. The lease requires the payment of an annual rental of Rs. 13,610 payable in advance. The primary period of the lease is four years. After the end of primary period, the lessee has the right to extend the lease indefinitely on payment of a nominal annual rental. The lessee believes that the equipment will last for four years and will have no scrap value at the end of that period. The lessee depreciates assets of this type using the straight line basis. Both the lessor and the lessee have accounting periods ending on 31 December.

(i) Calculate the IRR of the lease.
(ii) Prepare the note of "Debtors" as it would appear in the accounts of the lessor. **(10)**

(b) State the disclosure requirements for Lessees in case of operating leases in accordance with IAS – 17. **(05)**

Q. 5
(a) What do you understand by the term related party transaction. **(01)**

State the related party disclosure relating to:
(i) Related party relationship where control exists. **(02)**
(ii) When there has been a transaction between related parties **(02)**
(iii) Items of similar nature **(02)**

(b) How are the effects of 'extra ordinary items', 'fundamental errors' and 'changes in accounting policies' reflected on the profit or loss of an entity in pursuance of IAS-8. **(10)**

(c) Explain the difference between Open Ended and Closed Ended Mutual Funds. **(05)**

Q. 6 The Board of Directors of Kids Limited decided to dispose off, one of their segment "Boss". On 10th May 2002, when the assets and liabilities of "Boss" were Rs. 5,250,000 and Rs. 750,000 respectively, the approval and announcement of disposal was made. The net recoverable amount of the assets was determined as Rs. 4,250,000.

On March 31, 2003, when the carrying amount of net assets was Rs. 3,500,000 Kids Limited signed a legally binding contract to sell "Boss". The sale is expected to be completed by July 31, 2003. The recoverable amount of the net assets as on March 31, 2003 was Rs. 3,000,000. The process requires incurrence of additional cost of Rs. 1,500,000 payable by July 31, 2003. The operations of "Boss" continued throughout 2002 – 2003.

Other data of Kids Limited includes:

	2002 – 2003	2001 – 2002
	Rs.	Rs.
Revenue	7,000,000	7,000,000
Operating expenses	4,500,000	4,600,000
Interest expenses	1,250,000	750,000

Boss's financial data included in the above was

	2002 – 2003	2001 – 2002
	Rs.	Rs.
Revenue	2,000,000	2,500,000
Operating expenses	1,500,000	1,350,000
Interest expenses	250,000	250,000

The corporate tax rate is 35%.

Required:

The income statement for Kids Limited for the year ended June 30, 2003 and 2002, in the light of IAS 35 - Discontinuing Operations. **(08)**

Q.7 With respect to a commercial bank, duly incorporated as a public limited company, engaged in promoting Islamic banking products like 'modarabas', 'ijaras' and also investment banking, draft following accounting policies after taking into account relevant requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, the directives issued by the State Bank of Pakistan and the International Accounting Standards:

(a) Revenue recognition. **(02)**
(b) Financing. **(02)**
(c) Investments. **(04)**
(d) Sales and Purchase agreements. **(02)**

(THE END)