THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

**Professional Examinations Winter 2003**

**December 02, 2003**

**FINANCIAL REPORTING** **(MARKS 100)**
**PE-1** **(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**[illegible] |
|---|---|---|---|
| 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. Du[illegible]e 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 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)**

Q.5 Platinum Ltd., Gold Ltd. and Silver Ltd. are associated undertakings with Platinum Ltd. having 80% and 60% shares of equity in Gold Ltd. and Silver Ltd. respectively as of June 30, 2003. Gold Ltd. holds balance 40% shares in Silver Ltd. as of that day. The investment in Silver Ltd. was made on October 1, 2002 at Rs. 15 for an ordinary share of Rs.10 each by both the companies. An extract of major general ledger balances of all the three companies as of June 30, 2003 is as follows:

| | **Platinum** | **Gold** | **Silver** |
|---|---|---|---|
| | Rupees | Rupees | Rupees |
| Ordinary share capital of Rs.10 each | 20,000,000 | 10,000,000 | 5,000,000 |
| Sales | 125,000,000 | 90,000,000 | 60,000,000 |
| Cost of goods sold | 85,000,000 | 60,000,000 | 35,000,000 |
| Admin & Marketing expenses | 20,000,000 | 15,000,000 | 10,000,000 |
| Dividend income | ? | ? | - |
| Taxation | 7,410,000 | 4,800,000 | 4,500,000 |
| Dividend - paid (30.9.2002) | 4,000,000 | 2,000,000 | 1,000,000 |
| proposed | 4,000,000 | 2,000,000 | 2,500,000 |

**Required:**

From the above information:
(a) Workout the dividend income of Platinum Ltd and Gold Ltd for the year ended June 30, 2003. **(03)**
(b) Prepare an abstract of Minority Interest, showing share of Minority Interest in share capital and profit after tax. **(03)**
(c) Prepare a consolidated Profit & Loss Account of Platinum Group for the year ended June 30, 2003. **(09)**

Q.6 The consolidated financial data of Progressive Bank Limited and its subs ture Bank Ltd in which it has 60% equity for the year ended December 31, 2002 s:

| | 2002 | |
|---|---|---|
| | (Rupees in ‘00 | |
| Operating fixed assets | 2,030,000 | 380,00 |
| Investments | 6,285,000 | 4,275,000 |
| Other assets | 1,800,000 | 2,200,000 |
| Cash and balances with treasury banks | 7,850,000 | 7,060,000 |
| with other banks | 300,000 | 1,125,000 |
| Lending to financial institution | 3,000,000 | 2,340,000 |
| Loan Financing | 21,825,000 | 24,120,000 |
| Deferred tax asset | 260,000 | 500,000 |
| Deposits and other accounts | 24,390,000 | 31,650,000 |
| Bills payable | 275,000 | 100,000 |
| Borrowings from financial institutions | 6,650,000 | 4,700,000 |
| Other liabilities (including tax & dividend payable) | 1,475,000 | 1,500,000 |
| Share capital | 2,650,000 | 2,650,000 |
| Reserves | 1,450,000 | 1,300,000 |
| Unappropriated profit | 100,000 | 50,000 |
| Minority Interest | ? | ? |
| Mark-up/return earned | 3,503,000 | 4,950,000 |
| Mark-up/return expense | 1,165,000 | 3,860,000 |
| Provision against non-performing loans | 210,000 | 180,000 |
| Fee, commission and brokerage income | 205,000 | 348,000 |
| Dividend income | 360,000 | 410,000 |
| Other income | 5,000 | 3,000 |
| Administrative expenses | 1,570,000 | 490,000 |
| Other charges | 3,000 | 1,000 |
| Taxation | 610,000 | 410,000 |

Additional information (Rs. in ‘000’)

(a) Transfer to consolidated reserves Rs.150,000 (2001 : Rs. 150,000).
(b) Final dividend @ 10% (2001 : 20%) by Progressive Bank Limited. No dividend in arrears of prior year.
(c) Depreciation charge for the year Rs.800,000.
(d) Gain on sale of fixed assets Rs.5,000 against WDV of Rs.50,000.
(e) There were no sub-ordinated loans or liabilities against finance leases.
(f) Deferred tax charge for the year 2001 was Rs.160,000.
(g) The profit after tax of Venture Bank Limited for the year ended December 31, 2002 and 2001 was Rs.125,000 and Rs.100,000 respectively.
(h) Tax provided for in the previous year was fully paid during the year ended December 31, 2002.
(i) The whole of dividend income was received during the year.

**Required:**

Prepare consolidated Cash Flow Statement of Progressive Bank Limited for the year ended December 31, 2002 in accordance with the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and International Accounting Standards. No comparatives required for the consolidated cash flow statement. **(15)**

Q.7 What are the matters that are to be covered in the Statement of Compliance with the Code of Corporate Governance to be issued by a public listed company. **(12)**