THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations Winter 2007

December 04, 2007

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

Q.1 Ghalib Limited manufactures three products X, Y and Z. The management of the company considers plants relating to each product as a separate Cash-Generating Unit (CGU). The company has three Corporate Assets viz. a building, PABX system and a computer network. On June 30, 2007, the assets were valued as under:

	Carrying Amount* Rupees	Recoverable Amount Rupees
Cash-Generating Units excluding Corporate Assets		
Plant 1 – for Product X	2,500,000	1,200,000
Plant 2 – for Product Y	5,000,000	7,000,000
Plant 3 – for Product Z	10,000,000	6,400,000
	17,500,000	14,600,000
Corporate Assets		
Building	2,800,000	
PABX system	1,400,000	
Computer network	2,100,000	
	6,300,000	
	23,800,000	

* **Before impairment**

Based on a study carried out by the company which involved consideration of various factors, the management was able to determine that the building and the PABX system can be allocated to plant 1,2 and 3 in the ratio of 2 : 3 : 5. However, the management was unable to determine a reasonable and consistent basis for allocating the cost of computer network.

Required:
Calculate the carrying amount of each CGU and Corporate Asset for reporting on the balance sheet as at June 30, 2007 in accordance with IAS-36 'Impairment of Assets'. **(18)**

Q.2 Taqi Limited has obtained a fleet of Trucks and Busses under a three years lease contract from Faraz Leasing Company Limited. Total cost of assets is Rs. 75 million and the expected economic life is considered to be 15 years. Lease rentals of Rs. 12 million per annum shall be paid at the end of each year. The market rate of return is 10%.

It has been agreed that Taqi Limited will return the assets at the end of the lease term. According to the terms of the contract, Taqi Limited is required to deposit cash equivalent to 20% of the total cost of the fleet before taking delivery of assets. The deposit does not carry any return and will be refunded in full at the end of the lease term.

Required:
(a) Comment on the accounting treatment of the above arrangement, from the lessee's point of view.
(b) Prepare accounting entries in the books of the lessee at the inception of lease and at the end of each year. **(14)**

Q.3 Following is the consolidated balance sheet of Iqbal Limited as at June 30, 2007:

	2007	2006
	Rupees in million	
ASSETS		
Non-Current Assets		
Tangible fixed assets	2,142	1,927
Goodwill	343	305
	2,485	2,232
Current Assets		
Cash and bank	808	700
Investments	982	560
Trade receivables	1,128	1,168
Inventory	1,850	1,715
	4,768	4,143
TOTAL ASSETS	**7,253**	**6,375**
EQUITY AND LIABILITIES		
Equity		
Ordinary shares of Rs. 10 each	505	450
8% preference shares of Rs. 10 each	600	600
Share premium	55	-
Revaluation reserves	140	-
Accumulated profits	2,670	2,480
	3,970	3,530
Minority Interest	238	200
	4,208	3,730
Liability against assets subject to finance lease	300	420
Deferred tax	75	55
Current Liabilities		
Running finance	940	900
Trade payables	950	720
Income tax payable	600	450
Dividends payable	180	100
	2,670	2,170
TOTAL EQUITY AND LIABILITIES	**7,253**	**6,375**

Following further information has been extracted from the records:

(i) Iqbal Limited has two subsidiaries i.e. Faiz Limited and Badar Limited.

(ii) The factory buildings of Faiz Limited and Badar Limited were revalued during the year and the surplus arising on the revaluation was credited to a revaluation reserve account.

(iii) Certain plant and machineries belonging to Faiz Limited, acquired under finance lease arrangement, were capitalized at Rs. 50 million.

(iv) On September 30, 2006, equipment costing Rs. 55 million carried in the books of Iqbal Limited at Rs. 35 million as at June 30, 2006 was completely destroyed by fire. Insurance proceed of Rs. 40 million was received on November 17, 2006. There were no other disposal of tangible fixed assets in any of the three companies.

(v) Total depreciation in the consolidated profit and loss account amounted to Rs. 314 million which included depreciation on leased assets amounting to Rs. 38 million.

(vi) 80% of the paid-up capital of Faiz Limited was acquired during the year for Rs. 110 million. The payment was made by issuing 5.5 million ordinary shares of Rs. 10 each at 100% premium. The net assets of Faiz Limited at the date of acquisition were as follows:

	Rs. in million
Tangible fixed assets	60
Inventories	20
Trade receivables	25
Cash	10
Trade payables	(25)
	90

(vii) Provision made during the year, for current and deferred tax amounted to Rs. 200 million and Rs. 20 million respectively.

(viii) Profit allocated to minority shareholders amounted to Rs. 35 million.

(ix) The details relating to dividend paid by Iqbal Limited for the year are as follows:

	2007	**2006**
Declared on	June 15, 2007	June 15, 2006
Paid on	August 31, 2007	August 31, 2006
Amount	Rs. 180 million	Rs. 100 million

Required:
Prepare the consolidated cash flow statement for the year ended June 30, 2007. Show necessary workings. **(20)**

Q.4 Mr. Hali, a stock investor, wants to invest in ordinary and/or preference shares of Ibrahim Limited, a company listed on all stock exchanges of Pakistan. He has contacted you to study the following financial information of Ibrahim Limited:

Profit and Loss Account for the Year Ended June 30, 2007

	Rs. in million
Profit before tax	2,400
Less: Income tax @ 35%	(840)
Profit after tax	1,560
Less: Preference dividend	(200)
Retained profits attributable to ordinary shareholders	1,360

Balance Sheet as at June 30, 2007

	Rs. in million
ASSETS	
Fixed assets	23,000
Current assets	12,400
	35,400
EQUITY AND LIABILITIES	
1,000,000,000 ordinary shares of Rs. 10 each	10,000
10% preference shares of Rs. 10 each	2,000
	12,000
Accumulated profit	3,400
Total equity	15,400
Long term loans – from commercial banks	9,800
Current liabilities	10,200
	35,400

Additional Information:

(i) At the balance sheet date, the market values of the ordinary and preference shares of Ibrahim Limited were Rs. 15 per share and Rs. 11 per share respectively.

(ii) The board of directors announced 10% cash dividend for the year ended June 30, 2007.

(iii) The pre-tax profits for the next year are forecasted to be 5% higher as compared to the current year.

(iv) The fair value of fixed assets as at June 30, 2007 is estimated at Rs. 26,000 million.

Required:

(a) Analyze the significant financial features which should be considered before any decision is taken by Mr. Hali to invest in Ibrahim Limited's ordinary and / or preference shares.

(b) List any four types of information which may help you in a better analysis. **(15)**

Q.5 Momin Life Insurance Company Ltd. is engaged in individual life insurance business. The company has established a statutory fund i.e. Investment Linked Business Fund, to meet the requirement of the Insurance Ordinance, 2000. The following information is available for the year ended October 31, 2007:

(i) The outstanding Balance of Investment Linked Business Fund as on November 1, 2006 amounted to Rs. 286,780 thousand which represents the following:

	Rs. in '000'
Retained earning on other than participating business	78,719
Policyholders' liabilities	208,061

(ii) The company received dividend amounting to Rs. 52,700 thousand and interest on government securities amounting to Rs. 65,000 thousand.

(iii) Rs. 183,450 thousand was received as premium against which an amount of Rs. 11,500 thousand was paid to re-insurance companies.

(iv) Claims amounting to Rs. 173,500 thousand were paid during the year. The company was able to recover Rs. 17,900 thousand from its re-insurance arrangements.

(v) During the year, the company paid Rs. 54,200 thousand on account of management expenses.

(vi) The company has not incorporated the following adjustments in its record:

	Rs. in 000'
Claims admitted but not paid by the company	9,300
Management expenses due	2,000
Accrued interest	19,300
Premium outstanding	12,000

(vii) The liabilities of policyholders as at October 31, 2007 were Rs. 249,673 thousand.

(viii) The Board of Directors has approved the transfer of Rs. 10,450 thousand to Shareholders' Fund.

Required:

Prepare the revenue account for the year ended October 31, 2007. Ignore the comparative figures. **(15)**

Q.6 Describe how users of financial statements benefit from information relating to discontinuing operations; and briefly explain the main disclosures in respect of discontinuing operations. **(05)**

Q.7 Mohani Fertilizer Company Limited, a listed company, operates a funded gratuity scheme for its employees. Following relevant information has been extracted from the actuarial reports:

	June 30, 2007 Rs. in million	June 30, 2006 Rs. in million
Present value of defined benefit obligations	900	600
Fair value of plan assets	750	570
Current service cost for the year	25	22
Contributions paid during the year	15	14
Benefits paid during the year	17	15
Net cumulative unrecognized gains		90
Expected return on plan assets	8%	8%
Discount rate for plan liabilities	10%	10%

The expected remaining working lives of the employees as at June 30, 2007 were 20 years.

Required:

(a) Compute the amounts which need to be reported in the Balance Sheet and the Profit and Loss Account of Mohani Fertilizer Company Limited for the year ended June 30, 2007.

(b) Prepare the movement schedule of net cumulative unrecognized gains / (losses) for the year ended June 30, 2007. **(13)**

(THE END)