The Institute of Chartered Accountants of Pakistan

Advanced Accounting and Financial Reporting

Final Examinations
Summer 2011 – Module E

Reading time – 15 minutes

June 7, 2011
100 marks – 3 hours

Q.1 The draft statements of financial position of Oceana Global Limited (OGL), and its subsidiary Rivera Global Limited (RGL) as of March 31, 2011 are as follows:

	OGL	RGL
	Rs. in million	
Assets		
Property, plant and equipment	700	200
Intangible assets	4	-
Investment in RGL (opening balance)	23	-
Investment in RGL (acquired during the year)	108	-
Current assets	350	150
	1,185	**350**
Equity and Liabilities		
Share capital (Ordinary shares of Rs. 100 each)	300	100
Retained earnings	550	80
Fair value reserve	3	-
	853	**180**
Non-current liabilities	150	40
Current liabilities	182	130
	1,185	**350**

The details of OGL's investments in RGL are as under:

Acquisition date	Face value of shares acquired	Purchase consideration
	Rs. in million	
July 1, 2009	10	20
October 1, 2010	45	108

Other information relevant to the preparation of the consolidated financial statements is as under:

(i) On October 1, 2010 the fair value of RGL's assets was equal to their carrying value except for non-depreciable land which had a fair value of Rs. 35 million as against the carrying value of Rs. 10 million.

(ii) On October 1, 2010 the fair value of RGL's shares that were acquired by OGL on July 1, 2009 amounted to Rs. 28 million.

(iii) RGL's retained earnings on October 1, 2010 amounted to Rs. 60 million.

(iv) Intangible assets represent amount paid to a consultant for rendering professional services for the acquisition of 45% equity in RGL.

(v) During February 2011 RGL sold goods costing Rs. 25 million to OGL at a price of Rs 30 million. 25% of these goods were included in OGL's closing inventory and 50% of the amount was payable by OGL, as of March 31, 2011.

(vi) OGL follows a policy of valuing non-controlling interest at its fair value. The fair value of non-controlling interest in RGL, on the acquisition date, amounted to Rs. 70 million.

Required:
Prepare a consolidated statement of financial position for Oceana Global Limited as of March 31, 2011 in accordance with International Financial Reporting Standards. ***(16 marks)***

Q.2 Following are the extracts from draft statement of comprehensive income of Kahkashan Limited (KL) for the year ended March 31, 2011:

	Rs. in million
Net sales	800
Cost of sales	(640)
Selling and distribution expenses	(32)
Administrative expenses	(15)
Finance costs	(10)
Other operating income	13
Profit before tax	**116**

The following issues need to be resolved, to finalize the accounts:

(i) On April 1, 2010 the company had issued 0.5 million 12% Term Finance Certificates (TFCs) of Rs. 100 each. The principal amount of Rs. 50 million is included in non-current liabilities. Interest is payable annually in arrears. On the date of issue, the prevailing interest rate for similar debts without conversion option was 14% per annum. TFCs would mature on March 31, 2014 but are convertible into eight ordinary shares of Rs. 10 each, at the option of the certificate holders, at any time prior to maturity. Interest was paid on March 31, 2011 and charged to finance cost.

(ii) KL entered into a sale and leaseback arrangement on October 1, 2010 for one of its plants having remaining useful life of 5 years with a nil residual value. Relevant information is as under:

	Rs. in million
Carrying value of the plant as of October 1, 2010	43
Selling price	53
Installments payable semi-annually, in advance, for a period of 5 years	7

Income of Rs. 10 million has been recognized on disposal of the plant and is included in other operating income. Interest rate implicit in the lease is 13.597%.

(iii) On April 1, 2010 KL acquired 25% holding in SL Limited by purchasing 50,000 ordinary shares for Rs 6 million. In March 2011 a dividend of Rs. 20 per share was received by KL and credited to other operating income. SL's profit and other comprehensive income, net of tax, for the year ended March 31, 2011 was Rs. 10 million and Rs. 2 million respectively.

(iv) On April 1, 2006 KL had acquired a plant at a cost of Rs. 30 million. The useful life of the plant was estimated at 15 years and it is being depreciated under the straight line method. On October 1, 2010 the plant suffered physical damage but is still working. A valuation was carried out to determine the impairment loss. The following information is available from the valuer's report received on April 5, 2011:

Value in use	Rs. 16 million
Selling price, net of costs to sell	Rs. 12 million
Estimated remaining useful life as of October 1, 2010	5 years

Depreciation for the year ended March 31, 2011 has been accounted for without considering the impact of the valuer's report.

(v) Tax assessment for the accounting year ended March 31, 2010 was finalized in February 2011 in which liabilities outstanding for more than three years amounting to Rs. 6 million were added to income. 30% of these liabilities have already been paid during the year ended March 31, 2011. Tax effect of these transactions has not been accounted for.

(vi) Applicable tax rate for business income and dividend income is 35% and 10% respectively. The amount of tax depreciation is the same as accounting depreciation, except for any difference arising out of information provided in Para (iv).

Required:
Prepare a statement of comprehensive income for the year ended March 31, 2011 in accordance with International Financial Reporting Standards. ***(25 marks)***

Q.3 Waste Management Limited (WML) had installed a plant in 2005 for generation of electricity from garbage collected by the civic agencies. WML had signed an agreement with the government for allotment of a plot of land, free of cost, for 10 years. However, WML has agreed to restore the site, at the end of the agreement.

Other relevant information is as under:

(i) Initial cost of the plant was Rs. 80 million. It is estimated that the site restoration cost would amount to Rs. 10 million.
(ii) It is the policy of the company to measure its plant and machinery using the revaluation model.
(iii) When the plant commenced its operations i.e. on April 1, 2005 the prevailing market based discount rate was 10%.
(iv) On March 31, 2007 the plant was revalued at Rs. 70 million including site restoration cost.
(v) On March 31, 2009 prevailing market based discount rate had increased to 12%.
(vi) On March 31, 2011 estimate of site restoration cost was revised to Rs. 14 million.
(vii) Useful life of the plant is 10 years and WML follows straight line method of depreciation.
(viii) Appropriate adjustments have been recorded in the prior years i.e. up to March 31, 2010.

Required:
Prepare accounting entries for the year ended March 31, 2011 based on the above information, in accordance with International Financial Reporting Standards**. (Ignore taxation.**) ***(17 marks)***

Q.4 Extracts from statement of comprehensive income of Rahat Limited (RL) for the year ended March 31, 2011 are as under:

	2011	**2010**
	Rs. in '000	
Profit after taxation	150,000	110,000
Exchange gain on foreign operations, net of tax	10,000	8,000
Total comprehensive income	**160,000**	**118,000**

Following further information is available:

(i) As of April 1, 2010 share capital of the company consisted of:
   - 5 million ordinary shares of Rs. 10 each.
   - 0.2 million convertible 15% cumulative preference shares of Rs. 100 each.

(ii) Each preference share is convertible into 7 ordinary shares at the option of the shareholders. 10,000 preference shares were converted into ordinary shares on July 1, 2010.

(iii) On September 10, 2010 a right issue of one million ordinary shares had been announced at an exercise price of Rs. 12 per share. By October 1, 2010 which was the last date to exercise the right, all the shares had been subscribed and paid. The market price of an ordinary share on September 10 and October 1, 2010 was Rs. 15.50 and Rs. 15 respectively.

(iv) On April 30, 2011 the Board of Directors had declared a final cash dividend of 20% (2010:18%) for the year ended March 31, 2011.

(v) There was no movement in share capital during the previous year.

Required:
Prepare a note related to earnings per share, for inclusion in the company's financial statements for the year ended March 31, 2011 in accordance with International Financial Reporting Standards. Show comparative figures. ***(16 marks)***

Q.5 Galaxy Textiles Limited (GTL) operates a funded gratuity scheme for all its employees. Contributions to the scheme are made on the basis of annual actuarial valuation. The following relevant information has been extracted from the actuarial report pertaining to the year ended March 31, 2011.

	Rs. in million
Present value of defined benefit obligations as of:	
▪ April 1, 2010	133
▪ March 31, 2011	166
Fair value of plan assets as of:	
▪ April 1, 2010	114
▪ March 31, 2011	120
Net cumulative unrecognized losses as of April 1, 2010	19
Benefits paid by the plan to the employees	6
Current service cost	15
Interest cost	16
Expected return on plan assets	14

Actuarial gains and losses are recognized using the corridor method, over the expected average remaining working lives of the employees. As of March 31, 2011 the expected average remaining working lives of the employees was 18 years.

Required:
Prepare a note on retirement benefits for presentation in the financial statements for the year ended March 31, 2011 in accordance with International Financial Reporting Standards. ***(14 marks)***

Q.6 Following information has been extracted from the records of A-One Asset Management Fund Limited for the year ended March 31, 2011.

	Rs. in million
Net assets at the beginning of the year (900 million units)	27,000
100 million units issued during the year	3,500
95 million units redeemed during the year	3,277
Investments classified as 'available for sale'	
▪ Fair value at year end	1,800
▪ Carrying value at year end	1,200
▪ Net unrealized appreciation in fair value of investments at the beginning of the year	480
Investments classified as 'at fair value through profit or loss - held for trading'	
▪ Fair value at year end	2,500
▪ Carrying value at year end	2,200
Element of income and capital gains included in prices of units issued/redeemed and transferred to income statement	173
Capital gains	400
Other net income for the year	3,000

Final distribution for the year ended March 31, 2011 of Rs. 5.00 per unit (2010: Rs. 4.00 per unit) was announced on April 16, 2011.

Required:
Prepare a statement of movement in unit holders' fund for the year ended March 31, 2011.
(12 marks)

(THE END)