The Institute of Chartered Accountants of Pakistan

# Advanced Accounting and Financial Reporting

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| Final Examination | 5 June 2012 |
| Summer 2012 | 100 marks - 3 hours |
| Module E | Additional reading time - 15 minutes |

Q.1 The following summarised statements of financial position pertain to Bee Limited and its investee companies as at 31 December 2011:

| | Bee Limited | Cee Limited | Tee Limited |
|---|---|---|---|
| | -------------Rs. in million------------ | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 75,600 | 2,800 | 800 |
| Investment in Cee Limited – at cost | 3,900 | - | - |
| Investment in Tee Limited – at cost | 300 | - | - |
| | | | |
| **Current assets** | | | |
| Stock in trade | 24,100 | 1,700 | 700 |
| Trade and other receivables | 16,400 | 2,900 | 820 |
| Cash and bank | 800 | 700 | - |
| | **121,100** | **8,100** | **2,320** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Ordinary share capital (Rs.10 each) | 44,300 | 2,800 | 1,000 |
| Retained earnings | 15,800 | 1,200 | 900 |
| | | | |
| **Long term loan** | 36,400 | - | - |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 24,600 | 4,100 | 300 |
| Bank overdraft | - | - | 120 |
| | **121,100** | **8,100** | **2,320** |

The following information is also available:

(i) Bee holds 252 million shares of Cee which were acquired in 2005 when the retained earnings of Cee stood at Rs. 350 million. At the date of acquisition, the fair values of Cee's net assets were the same as their carrying amounts with the exception of a legal claim having a fair value of Rs. 7 million which had been disclosed in the financial statements as a contingent liability. The claim was settled on 30 November 2011, for the same amount.

(ii) Bee acquired 80% share capital of Tee several years ago for Rs. 1,200 million when Tee's retained earnings stood at Rs. 100 million. On 1 October 2011, Bee sold 75% of its holding in Tee for Rs. 2,000 million. On the date of disposal, the fair value of remaining holding was Rs. 650 million.

(iii) During the year, Cee sold goods to Bee at cost plus 25%. The amount invoiced during the year amounted to Rs. 32 million. 40% of these goods were held by Bee at year end. Bee has paid Rs. 20 million against the invoiced amount, upto 31 December 2011.

(iv) At year end, an impairment review indicated that 10% of Cee's goodwill is required to be written off.

(v) During the year ended 31 December 2011, Cee and Tee earned profits after tax of Rs. 250 million and Rs. 200 million respectively. It may be assumed that the profits had accrued evenly throughout the year.

(vi) Bee follows a policy of valuing the non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable net assets.

**Required**
Prepare the consolidated statement of financial position of Bee Limited as at 31 December 2011 in accordance with the requirements of International Financial Reporting Standards. ***(24 marks)***
***Note:***
- ***Ignore tax and comparative figures.***
- ***Notes to the consolidated statement of financial position are not required.***
- ***Show workings wherever necessary.***

Q.2 Dee General Insurance Limited is a listed company. The following information relates to the year ended 31 December 2011:

| | **Direct and facultative** | | | | **Treaty** |
|---|---|---|---|---|---|
| | **Fire and property damage** | **Marine, aviation and transport** | **Motor** | **Miscellan-eous** | **Proport-ional** |
| | ---------------------------**Rs. in million**--------------------------- | | | | |
| **Commissions:** | | | | | |
| Paid / payable | 321.41 | 126.87 | 215.00 | 90.94 | 0.30 |
| Deferred: opening | 148.79 | 11.31 | 128.50 | 38.59 | - |
| Deferred: closing | 160.43 | 5.68 | 114.23 | 35.17 | - |
| Receipts from reinsurers | 270.44 | 5.70 | 12.72 | 82.40 | - |
| | | | | | |
| **Net premium earned** | 907.75 | 768.70 | 2,745.64 | 948.48 | 0.70 |

During the year, management expenses (other than commission) amounted to Rs. 978 million. These expenses are allocated on the basis of net premium earned.

**Required:**
Prepare a statement of expenses for inclusion in the financial statements for the year ended 31 December 2011. ***(Ignore comparative figures)*** ***(10 marks)***

Q.3 The following information relates to Que Limited (QL) for the year ended 31 December 2011:

(i) Issued share capital on 1 January 2011 consisted of 80 million ordinary shares of Rs. 10 each.
(ii) Profit after tax amounted to Rs. 130 million. It includes a loss after tax from a discontinued operation, amounting to Rs. 40 million.
(iii) On 30 September 2011, QL issued 20% right shares at a price of Rs. 11 per share. The market value of the shares immediately before the right issue was Rs. 12.50 per share.
(iv) There are 25,000 share options in existence. Each option allows the holder to acquire 120 shares at a strike price of Rs. 10 per share. The options have already vested and will expire on 30 June 2013. The average market price of ordinary shares in 2011 was Rs. 12 per share.
(v) QL had issued debentures in 2008 which are convertible into 6 million ordinary shares. The debentures shall be redeemed on 31 December 2012. The conversion option is exercisable during the last six months prior to redemption. The interest on debentures for the year 2011 amounted to Rs. 11 million.
(vi) Preference shares issued in 2009 are convertible (at the option of the preference shareholders) into 4 million ordinary shares on 31 December 2013. The dividend paid on preference shares during 2011 amounted to Rs. 5.75 million.
(vii) The company is subject to income tax at the rate of 35%.

**Required:**
Prepare extracts from the financial statements of Que Limited for the year ended 31 December 2011 showing all necessary disclosures related to earnings per share. ***(Ignore comparative figures)***
***(17 marks)***

Q.4 Zee Power Limited (ZPL) has been facing short term liquidity issues during the financial year ended on 31 December 2011. As a result, the following transactions were undertaken:

(i) On 27 December 2011, ZPL sold its investment in listed Term Finance Certificates (TFCs) to Vee Investment Company Limited with an agreement to buy them back in 10 days. Relevant details are as follows:

| | **Rupees** |
|---|---|
| Sale price | 10,150,000 |
| Buy back price | 10,183,337 |
| Value in ZPL's books as on 27 December 2011 | 10,144,332 |
| Market price as on 31 December 2011 | 10,163,125 |

ZPL intends to hold these TFCs till maturity.

(ii) On 1 January 2009, ZPL had obtained a bank loan of Rs. 100 million at 10% per annum. The interest was payable annually on 31 December and principal amount was repayable in five equal annual installments commencing from 31 December 2009. On 1 January 2011, the bank agreed to facilitate ZPL as follows:

- Balance amount of the principal would be paid at the end of the loan's term i.e. on 31 December 2013.
- With effect from 1 January 2011, interest would be paid at the rate of 10.5% per annum.

The market rate for similar debt is 10%.

(iii) On 1 July 2011, ZPL sold its plant and machinery to Kay Leasing Limited, a related party, for Rs. 90 million and leased it back for five years at semi-annual rentals amounting to Rs. 9.66 million, payable in arrears on June 30 and December 31. The carrying amount of plant and machinery on the date of sale was Rs. 80 million and its fair value was Rs. 60 million.

The lease qualifies as an operating lease and the rentals are based on fair market rate.

**Required:**
Prepare journal entries to record the above transactions in the books of Zee Power Limited.
***(18 marks)***

Q.5 (a) Specify the criteria for identification of operating segments, in accordance with the International Financial Reporting Standards. ***(03 marks)***

(b) Jay Limited is an integrated manufacturing company with five operating segments. Following information pertains to the year ended 31 March 2012:

| **Operating segments** | **Internal revenue** | **External revenue** | **Total revenue** | **Profit / (loss)** | **Assets** | **Liabilities** |
|---|---|---|---|---|---|---|
| | -----------------------**Rs. in million**----------------------- | | | | | |
| A | 38 | 705 | 743 | 194 | 200 | 130 |
| B | - | 82 | 82 | (22) | 44 | 40 |
| C | - | 300 | 300 | 81 | 206 | 125 |
| D | 35 | - | 35 | 10 | 75 | 60 |
| E | 38 | 90 | 128 | (63) | 50 | 25 |
| **Total** | **111** | **1,177** | **1,288** | **200** | **575** | **380** |

**Required:**
In respect of each operating segment explain whether it is a reportable segment. ***(09 marks)***

Q.6 Gee Investment Company Limited (GICL) acquires properties and develops them for diversified purposes, i.e. resale, leasing and its own use. GICL applies the fair value model for investment properties and cost model for property, plant and equipment.

The details of the buildings owned are as follows:

| Property | Date of acquisition | Useful life (years) | Cost | Residual value | Fair value as on 31 December | |
|---|---|---|---|---|---|---|
| | | | | | 2011 | 2010 |
| | | | -------------------Rs. in million----------------- | | | |
| A | 1 August 2006 | 20 | 130 | 14 | 100 | 150 |
| B | 1 January 2009 | 15 | 240 | 24 | 240 | 210 |
| C | 1 July 2009 | 10 | 160 | 20 | 150 | 120 |
| D | 1 July 2008 | 10 | 10 | 1 | Not available | |
| E | 1 August 2011 | 20 | 48 | 4 | 51 | - |

The following information is also available:

**Property A** GICL had been trying to sell this property for the last two years. However, due to weak market, the directors finally decided to lease it with effect from 1 October 2011 when its fair value was Rs. 120 million.

**Property B** The possession of this property was acquired from the tenants on 30 June 2010 when the company shifted its head office from Property C to Property B. The fair value on the above date was Rs. 195 million.

**Property C** When the head office was shifted from this property, it was leased to a subsidiary at market rate. On the date of lease, the fair value was equal to its carrying amount.

**Property D** This property is situated outside the main city and its fair value cannot be determined. It was rented to a government organization soon after the acquisition.

**Property E** This property is an office building comprising of three floors. After acquisition, two floors were rented out. On 1 November 2011, GICL established a branch office on the third floor.

Details of costs incurred on acquisition are as follows:

| | Rs. in million |
|---|---|
| Purchase price | 42.50 |
| Agent's commission | 0.50 |
| Registration fees and taxes | 2.00 |
| Administrative costs allocated | 3.00 |
| | **48.00** |

**Required:**

(a) Prepare a note on investment property, for inclusion in GICL's separate financial statements for the year ended 31 December 2011. ***(Ignore comparative figures)*** ***(16 marks)***

(b) Explain how Property C would be accounted for in the consolidated financial statements for the year ended 31 December 2011. ***(03 marks)***

**(THE END)**