The Institute of Chartered Accountants of Pakista

Financial Accounting and Reporting-II

Certificate in Accounting and Finance
Model Paper

100 marks – 3 hours

Q.1 Following is the summarized trial balance of Shams Pakistan Limited (SPL), a listed company, for the year ended 30 June 2013:

	Rs. in million	
	Debit	**Credit**
Land and buildings - at cost	2,600	-
Plants – at cost	2,104	-
Trade receivables	702	-
Stock in trade at 30 June 2013	758	-
Cash and bank	354	-
Cost of sales	1,784	-
Selling expenses	220	-
Administrative expenses	250	-
Financial charges	210	-
Accumulated depreciation as on 1 July 2012 – Buildings	-	400
Accumulated depreciation as on 1 July 2012 – Plants	-	670
Ordinary shares of Rs. 10 each fully paid	-	1,200
Retained earnings as at 1 July 2012	-	510
12% Long term loan	-	1,600
Provision for gratuity	-	8
Deferred tax on 1 July 2012	-	22
Trade payables	-	544
Right subscription received	-	420
Revenue	-	3,608
	8,982	**8,982**

Additional Information

(i) The land and buildings were acquired on 1 July 2008. The cost of land was Rs. 600 million. On 1 July 2012 a professional valuer firm valued the buildings at Rs. 1,840 million with no change in the value of land. The estimated life at acquisition was 20 years and the remaining life has not changed as a result of the valuation. 60% of depreciation on buildings is allocated to manufacturing, 25% to selling and 15% to administration.

(ii) Plants are depreciated at 20% per annum using the reducing balance method.

(iii) On 30 September 2012 SPL made a bonus issue of one share for every six held. The issue has not been recorded in the books of account.

(iv) Right shares were issued on 1 March 2013 at Rs. 12 per share.

(v) The interest on long term loan is payable on the first day of July and January. No accrual has been made for the interest payable on 1 July 2013.

(vi) SPL operates an unfunded gratuity scheme for all its eligible employees. The provision required as on 30 June 2013 is estimated at Rs. 23 million. Rs. 3 million were paid during the year and debited to the provision for gratuity account. Cost of gratuity is allocated to production, selling and administration expenses in the ratio of 60% : 20% : 20%.

(vii) The tax charge for the current year after making all related adjustments is estimated at Rs. 37 million. The timing differences related to taxation are estimated to increase by Rs. 80 million, over the last year. The applicable income tax rate is 35%.

Required:
In accordance with the requirements of Companies Ordinance, 1984 and International Financial Reporting Standards, prepare the following:

(a) Statement of financial position as of 30 June 2013. **(14)**
(b) Income statement for the year ended 30 June 2013. **(06)**
(Comparative figures and notes to the financial statements are not required)

Q.2 The draft statements of financial position of Sun Rise Limited (SRL), and its subsidiary Moon Light Limited (MLL) as of 30 June 2013 are as follows:

	SRL	**MLL**
	Rs. in million	
Assets		
Property, plant and equipment	700	200
Investment in MLL	128	-
Current assets	350	150
	1,178	**350**
Equity and Liabilities		
Share capital (Ordinary shares of Rs. 100 each)	300	100
Retained earnings	546	80
	846	**180**
Non-current liabilities	150	40
Current liabilities	182	130
	1,178	**350**

550,000 shares of MLL were acquired by SRL on 1 January 2012 for Rs. 128 million.

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

(i) On 1 January 2012 the fair value of MLL'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) MLL's retained earnings on 1 January 2012 amounted to Rs. 60 million.
(iii) During May 2013 MLL sold goods costing Rs. 25 million to SRL at a price of Rs 30 million. 25% of these goods were included in SRL's closing inventory and 50% of the amount was payable by SRL, as of 30 June 2013.
(iv) SRL follows a policy of valuing non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable assets.

Required:
Prepare a consolidated statement of financial position for Sun Rise Limited as of 30 June 2013 in accordance with International Financial Reporting Standards. **(15)**

Q.3 Briefly explain any **three** types of threats which a chartered accountant may encounter during the course of his employment while complying with the fundamental principles of ethical behaviour. Your answer should be supported by one example of each threat. **(05)**

Q.4 As part of annual routine, Saleem & Company is testing the value of its assets to ascertain the impairment (if any). Following information is available in respect of the assets:

Assets	WDV	Value in use	Forced sale value	Fair value
	-----------------Rupees in thousands-----------------			
A	3,200	3,100	2,400	2,500
B	1,500	1,200	1,225	1,400
C	1,700	1,500	1,900	2,000

Every asset is sold through public tender, which costs around Rs. 50,000. Assets A and C are required to be dismantled at the time of sales and the cost of dismantling is Rs. 100 thousand and Rs. 200 thousand respectively. Sale agreements of the assets are prepared by the company's legal advisor whose annual fee is Rs. 365 thousand. It takes about 4 days to draft a sale agreement.

Required:
Compute impairment (if any) on each asset. **(07)**

Q.5 Ahmed Technologies Limited (ATL) manufactures five hi-tech products, each on a different plant. It is in the process of preparing its financial statements for the year ended 30 June 2013. As the CFO of the company, the following matters are under your consideration:

(i) Inventory carried at Rs. 25 million on 30 June 2013 was sold for Rs. 15 million after it had been damaged in a flood, in July 2013.
(ii) On 5 July 2013 one of ATL's corporate customers declared bankruptcy. The liquidator announced on 25 August 2013 that 20% of the debt would be paid on liquidation.
(iii) A new product introduced by a competitor on 1 August 2013 had caused a significant decline in the market demand of one of ATL's major products. As a result, ATL is considering a reduction in price and a cut in production.
(iv) On 18 August 2013 the government announced a retrospective increase in the tax rate applicable to the company.
(v) The directors of ATL declared a dividend of Rs. 3 per share on 28 August 2013.

Required:
State how the above events should be treated in ATL's financial statements for the year ended 30 June 2013. You may assume that all the above events are material to the company. **(10)**

Q.6 On 1 July 2012, International Builder Limited (IBL) started construction of its new factory. The construction work was completed on 31 May 2013. The payments made to the contractor were as follows:

Date of payment	Rs. in million
1-Jul-12	100
1-Oct-12	310
15-Jun-13	90

The construction work was financed through the following sources:

Date	Description	Rs. in million
1-Jul-12	12% Redeemable preference shares	150
1-Oct-12	14% TFCs for four years	300
1-Jan-13	Issue of right shares (estimated return is 22%)	50

The following additional information is also available:
(i) The preference shares would be redeemed on 30 June 2017.
(ii) Surplus funds were invested in a savings scheme @ 9% per annum.
(iii) Due to delay in supply of construction material, the construction work was suspended from 1 December 2012 to 31 December 2012.

Required:
Calculate the amount of borrowing costs that may be capitalized during the year ended 30 June 2013 in accordance with the requirements of International Financial Reporting Standards. ***(Assume that calculations of borrowing costs are based on number of months)*** **(10)**

Q.7 Sarah Sugar Mills Limited is facing severe financial difficulties. To improve the cash flows, the management has decided to sell and lease back three power generators of the company under three different sale and lease back arrangements which were signed on 15 August 2013. The company has assessed that all the leases shall qualify as finance leases.

The related information as on 15 August 2013 is given below:

	Cost	**Book Value**	**Fair Value**	**Value in Use**	**Amount of Financing**
	------------------Rupees in thousands------------------				
Generator A	10,000	7,500	6,000	6,500	6,000
Generator B	12,000	6,000	4,000	5,000	6,000
Generator C	10,000	7,000	10,000	12,000	8,000

Required:
Prepare the accounting entries that should be recorded by the company on 15 August 2013 in respect of the above transactions. **(13)**
Note: Ignore tax and deferred tax implications, if any.

Q.8 Zaid Chemicals (Pvt.) Limited is engaged in the business of manufacture and sale of different type of chemicals. The following transactions have not yet been incorporated in the financial statements for the year ended 30 June 2013:

(a) On 15 June 2013, one of its tankers carrying chemicals fell into a canal, thus polluting the water. The company has never faced such a situation before. The company has neither any legal obligation to clean the canal nor does it have any published environmental policy. In a meeting held on 26 July 2013 the Board of Directors decided to clean the canal, which is estimated to cost Rs. 5.5 million. **(04)**

(b) During the second week of July 2013, a significant decline in the demand for company's products was observed which also led to a decrease in net realizable value of finished goods. It was estimated that goods costing Rs. 25 million as at 30 June 2013 would only fetch Rs. 23 million. **(02)**

(c) On 21 June 2013, a customer lodged a claim of Rs. 2 million with the company as a consignment dispatched on 1 June 2013 was not according to the agreed specifications. The company's inspection team found that this defect arose because of inferior quality of raw materials supplied by the vendor. On 28 June 2013, the company lodged a claim for damages of Rs. 5.0 million, with its vendor, which include reimbursement of the cost of raw materials. The company anticipates that it will have to pay compensation to its customer and would be able to recover 50% of the amount claimed from the vendor. **(04)**

Required:
Discuss how Zaid Chemicals (Pvt.) Limited would deal with the above situations in its financial statements for the year ended 30 June 2013. Explain your point of view with reference to the guidance contained in the International Financial Reporting Standards.

Q.9 Naseem Manufacturing Limited is engaged in manufacturing of spare parts for motor car assemblers. The audited financial statements for the year ended 30 June 2013 disclosed that the profit and retained earnings were Rs. 21 million and Rs. 89 million respectively. The draft financial statements for the year show a profit of Rs. 15 million. However, following adjustments are required to be made:

(i) The management of the company has decided to change the method for valuation of raw materials from FIFO to weighted average. The value of inventory under each method is as follows:

	FIFO	Weighted Average
	----------Rupees in million----------	
30 June 2011	37.0	35.5
30 June 2012	42.3	44.5
30 June 2013	58.4	54.4

(ii) In 2011-2012, the company purchased a plant for Rs. 100 million. Depreciation on plant was recorded at Rs. 25 million instead of Rs. 10 million. This error was discovered after the publication of financial statements for the year ended 30 June 2012. The error is considered to be material.

Required:
Produce an extract showing the movement in retained earnings, as would appear in the statement of changes in equity for the year ended 30 June 2013. **(10)**

(THE END)