THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

PROFESSIONAL EXAMINATIONS **SUMMER 2001**

June 08, 2001

FINANCIAL REPORTING **(MARKS 100)**
PE-1 (PAPER-3) **(3 HOURS)**

Q.1 Draft profit and loss account for the year ended December 31, 2000 and balance sheet as at December 31, 2000 of Maaz Ltd are set forth below:

Maaz Ltd - Balance Sheet
As at December 31, 2000

	2000	1999
	Rupees in thousand	
Issued, subscribed and paid up share capital	7,500	6,250
Retained earnings	17,500	6,900
	25,000	13,150
Long term loans	7,450	5,200
Liabilities against assets subject to finance lease	4,050	--
Trade creditors (including financial charges payable of Rs.1,150,000 - 1999 : Rs.500,000)	2,400	9,950
Taxation	2,000	5,000
	40,900	33,300
Fixed assets	18,650	9,550
Accumulated depreciation	(7,250)	(5,300)
	11,400	4,250
Long-term investments	12,500	12,500
Stocks	5,000	9,750
Debtors	9,500	6,000
Short term investments	1,850	675
Cash and bank balance	650	125
	40,900	33,300

Maaz Ltd - Profit and Loss account
for the year ended December 31, 2000

	Rupees in thousand
Sales	153,250
Cost of sales	130,000
	23,250
Administrative and selling expenses (including depreciation Rs. 2,250,000)	7,000
	16,250
Financial charges	2,000
	14,250
Investment income	2,500
Profit before taxation	16,750
Taxation	1,500
Profit after taxation	15,250

Following are the additional information:

(i) Financial charges for the year were Rs.2.0 million and amounts aggregating Rs.0.85 million were paid during the year. Financial charges of Rs.0.50 million were also paid during the year which related to the prior period.
(ii) Dividends of Rs.6.0 million were paid during the year.
(iii) Maaz Ltd purchased fixed assets at cost of Rs.9.5 million during the year out of which Rs.4.5 million were acquired against finance lease.
(iv) Rentals of Rs.0.45 million were paid under the finance lease.
(v) Plant and machinery with a cost of Rs. 0.40 million and accumulated depreciation of Rs.0.30 million were disposed off against a sale proceed of Rs.0.10 million.
(vi) Rs.1.25 million were raised from issue of further capital
(vii) Long-term loans of Rs.2.25 million were received during the year.

Required:

(a) Prepare a cash flow statement of Maaz Ltd for the year ended December 31, 2000 using the indirect method; and **(16)**
(b) Show calculations of 'cash flow from operating activities' under the direct method. **(04)**

Q.2 Asif Ltd is a subsidiary of Abid Ltd. Profit and loss accounts of the two companies for the year ended June 30, 2000 are reproduced below:

	Abid Ltd	Asif Ltd
	(Rupees)	
Sales	186,000	54,000
Costs of goods sold		
Opening stocks of finished goods	12,000	4,000
Cost of goods manufactured – note (1)	112,000	40,000
Closing stocks of finished goods	(24,000)	(8,000)
	100,000	36,000
Gross profit	86,000	18,000
Selling and distribution expenses	13,000	--
Administrative expenses	11,000	6,000
	24,000	6,000
	62,000	12,000
Other income	4,000	-
Profit before taxation	66,000	12,000
Taxation	20,000	4,000
Profit after taxation	46,000	8,000
Unappropriated profit brought forward	124,000	28,000
Unapproprited profit carried forward	170,000	36,000

Note (1)

	Abid Ltd	Asif Ltd
Cost of goods manufactured		
Raw materials consumed	Rupees	
Opening stocks	6,000	2,000
Purchases	54,000	17,000
Closing stocks	(12,000)	(3,000)
	48,000	16,000
Labour	32,000	10,000
Overheads	40,000	16,000
	72,000	26,000
	120,000	42,000
Work in process – opening stock	10,000	4,000
Work in process – closing stock	(18,000)	(6,000)
	112,000	40,000

Additional information

(a) Abid Ltd purchase all of its raw material from Asif Ltd. However it does not make any sales to Asif Ltd.
(b) Asif Ltd sells its products at cost plus 50%.
(c) Abid Ltd acquired 80% controlling interest in Asif Ltd on July 1, 1998 for Rs.40,000. As at July 1, 1998 share capital and profit and loss account balance of Asif Ltd were Rs.20,000 and Rs.10,000 respectively.
(d) Goodwill on consolidation is written off over five years on a straight line basis.
(e) Other income of Abid Ltd represents management fee received from Asif Ltd for management services provided.
(f) The work in process of Abid Ltd comprises of 40% raw material at cost. Labour and overhead cost included in work in process of Abid Ltd were Rs.4,000 and Rs.6,000 as at July 1, 1999 and June 30, 2000 respectively.
(g) The profit on inter-company stock is also eliminated against minority interest.

Required:
(a) Show workings for the consolidated cost of goods manufactured;
(b) Prepare working schedule in columnar from, showing adjustments to prepared consolidated profit and loss account for the year ended June 30, 2000; and
(c) Prepare consolidated profit and loss account of the group for the year ended June 30, 2000. **(30)**

Q.3 (a) Describe the information to be disclosed in the accounts of a listed company in respect of transactions with associated undertakings as required by the Fourth Schedule to the Companies Ordinance, 1984. **(02)**

(b) What is meant by E-Commerce? **(03)**

Q.4 (a) Please explain what are the disclosure requirements that a listed company needs to adhere to in respect of Financial instruments. **(04)**

(b) Guide the Chief Financial Officer in preparing the disclosure requirements of a listed company Sher & Company for the year ended December 31, 2000, in respect of :

(i) financial assets and liabilities
(ii) off-balance sheet financial commitment

The following additional data is provided:

	Rs. '000
Dividends	1,000,000
Cash and bank deposits	500,000
Loans to employees – short term	35,000
Long term investments	200
Creditors & Accrued expenses	2,000,000
Other receivables – short term	43,000
Running finance under mark-up arrangements	
-short term	200,000
-long term	1,000,000
Short term liabilities against assets subject to financial lease	2,000
Trade Debts not exceeding one year	250,000
Short term deposits given to supplier	300
Long term deposits given to supplier	9,000
Loans to employees – long term	30,000
Open letters of credit	700,000

(17)

(c) Give suitable disclosure requirements in the financial statements to identify the various risks. Assume credit risk of financial assets does not exceed Rs.300,000 thousand. Also comment on the fair value of assets and liabilities. **(09)**

Q.5 (a) What are the contents of a statutory report? **(04)**

(b) Who shall certify the statutory report? **(01)**

Q.6 What are the two methods of winding up? Describe the key requirements relating to the two methods of winding up. **(10)**

(THE END)