



December 05, 2001

**FINANCIAL REPORTING**

**(MARKS 100)**

**PE-1 (PAPER-3)**

**(3 HOURS)**

- Q.1 a) Define minority interest? **(02)**  
 b) What is goodwill and negative goodwill arising on acquisition? **(03)**  
 c) How the negative goodwill arising out as a result of business combination be accounted for? **(05)**

Q.2(a) The Managing Director of your company has requested that the treatment of exchange loss arising as a result of conversion of long-term foreign currency loan should be explained to him. Please explain the treatment as per International Accounting Standard and the Companies Ordinance, 1984. **(08)**

(b) What are the characteristics of a Hyperinflationary economy? **(06)**

Q.3 Your chief accountant has provided you the condensed profit and loss account and the balance sheet for the current and prior periods along with certain information as under:

| CAPITAL AND LIABILITIES           | Un-audited<br>as at<br>31 Mar 01 | Un-audited<br>as at<br>31 Mar 00 | Audited<br>as at<br>30 Sep 00 | Audited<br>as at<br>30 Sep 99 |
|-----------------------------------|----------------------------------|----------------------------------|-------------------------------|-------------------------------|
|                                   | Rupees in millions               |                                  |                               |                               |
| Paid up capital (par value Rs.10) | 182                              | 152                              | 152                           | 138                           |
| Reserves                          | 295                              | 304                              | 306                           | 298                           |
|                                   | 477                              | 456                              | 458                           | 436                           |
| Long term loan                    | 302                              | 310                              | 298                           | 131                           |
| Current portion of long term loan | 73                               | 40                               | 57                            | 29                            |
| Short-term finance                | 898                              | 1,126                            | 674                           | 494                           |
| Creditors                         | 475                              | 168                              | 143                           | 119                           |
| Dividend                          | 16                               | 18                               | 16                            | 27                            |
| Tax payable                       | 220                              | 167                              | 189                           | 156                           |
|                                   | <u>1,682</u>                     | <u>1,519</u>                     | <u>1,079</u>                  | <u>825</u>                    |
|                                   | <u>2,461</u>                     | <u>2,285</u>                     | <u>1,835</u>                  | <u>1,392</u>                  |
| <b>PROPERTY AND ASSETS</b>        |                                  |                                  |                               |                               |
| Operating fixed assets            | 523                              | 539                              | 550                           | 562                           |
| Capital work in progress          | 99                               | 55                               | 99                            | 16                            |
|                                   | <u>622</u>                       | <u>594</u>                       | <u>649</u>                    | <u>578</u>                    |
| Long term investment              | 130                              | 130                              | 130                           | -                             |
| Inventory                         | 1,181                            | 1,014                            | 419                           | 335                           |
| Trade debts                       | 21                               | 134                              | 14                            | 13                            |
| Advances                          | 490                              | 411                              | 612                           | 449                           |
| Cash and bank                     | 17                               | 2                                | 11                            | 17                            |
|                                   | <u>1,709</u>                     | <u>1,561</u>                     | <u>1,056</u>                  | <u>814</u>                    |
|                                   | <u>2,461</u>                     | <u>2,285</u>                     | <u>1,835</u>                  | <u>1,392</u>                  |

(2)

| PROFIT AND LOSS ACCOUNT                     | Un-audited<br>for the<br>6 months<br>period<br>ended<br><u>31 Mar 01</u> | Un-audited<br>for the<br>6 months<br>period<br>ended<br><u>31 Mar 00</u> | Audited<br>for the<br>year<br>ended<br><u>30 Sep 00</u> | Audited<br>for the<br>year<br>ended<br><u>30 Sep 99</u> |
|---|--|--|---|---|
|   | Rupees in millions   |  |   |   |
| Sales-net                                   | 954  | 879  | 1,782   | 1,545   |
| Cost of sales                               | 802  | 747  | 1,505   | 1,259   |
|   | <u>152</u>   | <u>132</u>   | <u>277</u>  | <u>286</u>  |
| Operating expenses                          | 27   | 26   | 49  | 76  |
| Financial charges                           | 79   | 81   | 161   | 129   |
| WPPF and WWF                                | 1  | 2  | 2   | 3   |
|   | <u>107</u>   | <u>109</u>   | <u>212</u>  | <u>208</u>  |
| Operating profit                            | 45   | 23   | 65  | 78  |
| Other income                                | 5  | 8  | 5   | 8   |
| Profit before taxation                      | <u>50</u>  | <u>31</u>  | <u>70</u>   | <u>86</u>   |
| Taxation                                    | 31   | 11   | 33  | 47  |
| Profit after taxation                       | <u>19</u>  | <u>20</u>  | <u>37</u>   | <u>39</u>   |
| Un-appropriated profit b/f                  | 86   | 94   | 94  | 99  |
|   | <u>105</u>   | <u>114</u>   | <u>131</u>  | <u>138</u>  |
| Transfer to capital reserve for bonus issue | -  | -  | 30  | 14  |
| Dividend cash                               | -  | -  | 15  | 30  |
|   | <u>-</u>   | <u>-</u>   | <u>45</u>   | <u>44</u>   |
| Un-appropriated profit c/f                  | <u>105</u>   | <u>114</u>   | <u>86</u>   | <u>94</u>   |
| Additional Information                      |  |  |   |   |
| Depreciation                                | 30   | 40   | 78  | 85  |
| Financial charges payable                   | 18   | 25   | 35  | 20  |
| Advance income tax                          | 240  | 180  | 210   | 170   |
| Revenue reserve                             | 190  | 190  | 190   | 190   |

**Required:**

Being the General Manager Finance of a listed company, you are required to prepare half-yearly accounts as required under the local statute. Ignore Directors' report and notes. (15)

Q.4 The extracts of the balance sheet and profit and loss account of the holding company and subsidiary company are as follows:

|   | 31 Dec.00  | 31 Dec.99 | 31 Dec.98 |
|---|------------|-----------|-----------|
|   | Rs. in 000 |           |           |
| <b>Holding Company Limited</b>                                |            |           |           |
| 2,827,730 shares of Rs.10 each in A Subsidiary Limited (cost) | 15,738     | 15,738    |           |
| 2,900,000 shares of Rs.10 each in B Subsidiary Limited (cost) | 50,750     | 50,750    |           |
| 1,291,271 shares of Rs.10 each in C Subsidiary Limited (cost) | 53,897     | 53,897    |           |
| Dividend from A Subsidiary Limited                            | 4,242      | -         |           |
| Dividend from B Subsidiary Limited                            | -          | 8,700     |           |
| Other income (including dividend)                             | 10,289     | 22,005    |           |
| Loss after taxation but before dividend and share of profit   | (54,412)   | (14,284)  |           |
| Un-appropriated profit opening                                | 29,654     | 21,933    |           |

(3)

|  | 31 Dec.00  | 31 Dec.99 | 31 Dec.98 |
|--|------------|-----------|-----------|
|  | Rs. in 000 |           |           |
| <b>Subsidiary Limited</b>              |            |           |           |
| Share Capital                          |            |           |           |
| A Subsidiary Limited                   | 776,849    | 776,849   | 776,849   |
| B Subsidiary Limited                   | 82,598     | 82,598    | 82,598    |
| C Subsidiary Limited                   | 65,547     | 65,547    | 65,547    |
| Profit/(Losses)                        |            |           |           |
| A Subsidiary Limited                   | 73,453     | 39,124    | (7,994)   |
| B Subsidiary Limited                   | 11,760     | 31,190    | 22,865    |
| C Subsidiary Limited                   | (116,107)  | (83,645)  | (230,924) |
| Surplus on Revaluation on Fixed Assets |            |           |           |
| A Subsidiary Limited                   | 51,565     | 52,321    | 54,832    |
| C Subsidiary Limited                   | 443,000    | 443,000   | 443,000   |

The Holding Company Limited has, up to 31 December 1999, accounted for investments under the Cost method. The directors wish to change the accounting policy to Equity method from the current year. The books for the current year are still open whilst the previous balances are closed and reported. All the investments were made on 01 January 1998. Ignore taxation.

**Required:**

You are required to prepare in books of Holding Company Limited:

- Note for Investments to be reported for the current and prior period. (10)
- Relevant portions of the profit and loss accounts for both the years showing the changed figure, if any, and determine the amount of profit or loss for the periods from investments. (08)
- Movement in reserves for the periods. (07)

Q.5 What is meant by the following terms in the context of IAS-37

- Provision
- Liability
- Legal obligation
- Constructive obligation
- Contingent liability (08)

Q.6 Following information is available in respect of Sanwal Limited:

|   | December 31        |           |
|---|--------------------|-----------|
|   | 2001               | 2000      |
|   | Rupees in thousand |           |
| Profit before taxation                        | 24,000 Cr          | 17,000 Cr |
| Taxation                                      | 10,000 Dr          | 7,000 Dr  |
| Extraordinary item (net of tax)               | 6,000 Dr           | 4,000 Dr  |
| Preference dividends                          | 1,000 Dr           | 1,000 Dr  |
| Ordinary dividends                            | 3,000 Dr           | 2,500 Dr  |
| Fundamental error pertaining to the year 2000 | 2,000 Dr           | —         |

**Additional information**

- The fundamental error relates to a transaction affecting trading profit of Sanwal Ltd. The figures of the year 2000 do not include the effect of this transaction.
- On June 30, 2001 a fully subscribed 1 for 4 rights issue was made by Sanwal Limited at Rs 15 per share. The market price of one share before the rights issue was Rs 20.
- The issued ordinary share capital of Sanwal Ltd at January 1, 2001 was 200,000 shares of Rs. 10 each. No changes were made to the issued capital other than the rights issue during the years 2000 and 2001.

**Required:**

- Calculate the following for Sanwal Ltd:
  - the earnings per share for the year ended December 31, 2000
  - the earnings per share for the year ended December 31, 2001
  - the adjusted earnings per share for the year ended December 31, 2000 to be included as a comparative figure in the 2001 financial statements
- List the limitations of earnings per share as a measure of corporate performance (10)

(4)

Q.7 Following is the trial balance of Bachat Bank Limited:

|  | Debit             | Credit            |
|--|-------------------|-------------------|
|  | Rupees            |                   |
| Administrative expenses                                      | 1,043,795         |                   |
| Provisions against non-performing advances                   | 504,855           |                   |
| Reversal of provision for diminution in value of investments |                   | 895               |
| Other income   |                   | 1,905             |
| Other charges  | 2,415             |                   |
| Mark-up / interest and discounted /or return earned          |                   | 5,718,420         |
| Fee, Commissions and brokerage                               |                   | 224,995           |
| Profit from investment activities                            |                   | 1,853,500         |
| Dividend income  |                   | 250,375           |
| Other operating income                                       |                   | 169,465           |
| Cost / return on deposits, borrowings etc.                   | 6,403,105         |                   |
| Bills for collection   |                   | 573,595           |
| Acceptances, endorsements and other obligations              |                   | 5,630,315         |
| Cash   | 1,949,535         |                   |
| Balances with other banks                                    | 3,016,320         |                   |
| Money at call and short notice                               | 2,300,000         |                   |
| Investments  | 31,630,890        |                   |
| Advances - net of provisions                                 | 29,776,200        |                   |
| Deferred taxation  | 90,205            |                   |
| Capital work in progress                                     | 9,655             |                   |
| Other assets   | 5,053,070         |                   |
| Operating fixed assets                                       | 539,320           |                   |
| Provision for staff retirement gratuity                      |                   | 92,810            |
| Bills payable  |                   | 213,075           |
| Borrowings from other banks, agents etc                      |                   | 4,878,780         |
| Other liabilities  |                   | 4,810,015         |
| Liabilities against finances leases                          |                   | 10,740            |
| Share capital  |                   | 2,500,000         |
| Reserve fund and other reserves (before appropriations)      |                   | 1,458,555         |
| Un-appropriated profit at January 1                          |                   | 5,970             |
| Deficit on revaluation of securities (net)                   | 947,495           |                   |
| Bills for collection   | 573,595           |                   |
| Acceptances, endorsements and other obligations              | 5,630,315         |                   |
| Deposits and other accounts                                  |                   | 61,084,620        |
| Taxation current - for the year                              | 12,520            |                   |
| Taxation current - for prior years                           | 27,345            |                   |
| Deferred taxation - credit for the year                      |                   | 32,605            |
| <b>Total</b>   | <b>89,510,635</b> | <b>89,510,635</b> |

Note: A transfer to statutory reserve is to be made in accordance with the requirements of the Banking Companies Ordinance, 1962 and Rs. 100,000 is to be transferred to general reserve.

**Required:**

You are required to prepare the profit and loss account and balance sheet of Bachat Bank Limited as at December 31, 2000. (18)

**(THE END)**