THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examination Summer 2003

June 03, 2003

ADVANCED ACCOUNTING & FINANCIAL REPORTING (MARKS 100)
Module 'E' Paper E-15 (3 hours)

Q.1 Following is the Balance Sheet and an extract from the Profit and Loss account of A Limited for the year ended June 30, 2002.

BALANCE SHEET

	2002 Rupees	2001 Rupees
Share capital	2,565,000	2,565,000
Capital reserve	160,000	160,000
Revenue reserves	6,144,100	5,837,800
	8,869,100	8,562,800
Long term loans	744,200	1,304,700
Deferred taxation	299,000	474,000
Current liabilities		
Current maturity of long terms loans	536,100	545,000
Short term finance	1,650,000	0
Creditor, accrued and other liabilities	2,359,800	1,320,300
Taxation [net of advance tax]	511,900	509,900
Proposed dividend	513,000	1,026,000
	5,570,800	**3,401,200**
	15,483,100	**13,742,700**
Fixed assets	2,307,500	3,072,800
Capital work in progress	12,200	5,000
Long term Investment	3,406,300	3,211,800
Long term loans and advances	34,000	27,100
Long term deposit, prepayments and deferred costs	161,500	159,200
Current Assets		
Stores and spares	1,242,700	1,144,900
Stock in trade	68,000	140,800
Trade debts	769,100	704,900
Loans, advances, deposits, Prepayments and other receivables	990,000	520,000
Short term investments	4,825,000	3,485,400
Cash and bank balances	1,666,800	1,270,800
	9,561,600	**7,266,800**
	15,483,100	**13,742,700**

EXTRACTS FROM PROFIT AND LOSS ACCOUNT

	Rupees	
Profit before financial charges and other income	3,757,100	
Financial charges	333,100	
	3,424,000	
Other Income	1,089,600	
Other charges	(323,700)	
Net profit before tax	4,189,900	
Provision for taxation	1,546,000	
Profit after tax	2,643,900	
Unappropriated profit b/f	337,800	
	2,981,700	
Appropriation		
Transfer to general reserve		700,000
Interim dividend		1,539,000
Final dividend		513,000
	2,752,000	
	229,700	

During the year loss of Rs.285,600 arising from valuation of investment in associated undertaking at fair market value was debited directly to revenue reserve account.

Short-term finance is in the nature of overdraft and is payable on demand.

Creditors, accrued and other liabilities include following:

	2002	2001
Accrued markup on loans	57,200	63,000
Unclaimed dividend	550,600	52,900

Depreciation for the year was Rs.889,600. During the year assets having book value of Rs.3,900 were sold for Rs.10,300

Other income include exchange gain on foreign currency investments of Rs.134,600, exchange gain on foreign currency deposits with bank Rs.3,000, income on loans and investments including markup charged to associated undertaking Rs.924,200.

During the year provision of Rs.41,000 was made for slow moving and obsolete spares for the first time in the history of the company.

Loan advances deposits and prepayments include following:

	2002	2001
Due from associated undertakings	702,400	212,700
Accrued income on investment and bank deposits	206,600	196,100

Short term investment include Pak rupees Bonds purchased 15 days prior to year end with following maturities

	2002	**2001**
Maturing on July 15	250,000	200,000
Maturing on September 30	200,000	300,000
Maturing on October 31	200,000	100,000

Financial charges include exchange gain of Rs.23,300 on long terms loans obtained by the company.

Deferred cost amortized during the year was Rs.68,500

Required:

Prepare Cash Flow Statement providing all the information/notes required under IAS 7 **(20)**

Q. 2 a) F Limited has branches in many countries. Whilst preparing the annual accounts for the year ended June 30, 2002 the accountant of the company observed the following:

I. UK branch has an inventory as on June 30, 2002 valued at Pound Sterling 1,000,000. The exchange rate of one pound sterling on the date of purchase of inventory was Rs. 90 and on June 30, 2002 was Rs. 80. The net realizable value of inventory as on June 30,2002 was pound sterling 1,100,000.

II. US branch has an inventory as on June 30, 2002 valued at US $ 1,000,000. The exchange rate of one US dollar on the date of purchase of inventory was Rs. 60 and on June 30, 2002 was Rs.65. The net realizable value of inventory as on June 30,2002 was US $ 950,000. The branch has recorded the inventory at net realizable value in its financial statements.

You are required to explain how the above positions shall be reflected in the financial statements of the branch and the financial statements of F Limited. **(06)**

b) Financial statements of LBS Limited showing following financial instruments:

I. Investment in Term Finance Certificates quoted on stock exchanges carrying markup @ 17% per annum payable semiannually.

II. Long terms loans obtained from a financial institution carrying markup @ 2% above the State Bank of Pakistan's discount rate.

III. Foreign currency long-term loans provided by the company to one of its associated concern carrying interest @ 2% above London Inter Bank Market Rate. (LIBOR)

You are required to classify the above financial instrument into following financial risks as required under IAS 32 (Financial Instrument: Disclosure and Presentation)

1. Exposed to interest rate price risk
2. Exposed to interest rate cash flow risk
3. Exposed to currency risk **(06)**

Q.3 Foreign investment Ltd., has "Investment Held for Trading" in 1,000 shares of Y Ltd. which was purchased at Rs.20. The fair value of shares on Jan 01, 2002 was Rs.30 and on Dec 31, 2002 was Rs.35. The shares were indicated at cost in the accounts for the year ending Dec 31, 2001. The shares were sold at Rs.32 on March 27, 2003.

Show the working in the books for the year ending Dec 31, 2002 and on disposal in accordance with IAS 39. Explain the term "Held for Trading" and describe the disclosure in the financial statements for the year ending Dec 31, 2002. **(10)**

Q.4 Foreign Investment Ltd., owns a building which is given on rent. The historical cost in the financial statement for the year ending December 31, 2000 is included in the fixed assets at Rs.30 million. The fair value of the plaza on Jan 01, 2001 was Rs.300 million and on December 31, 2001 Rs.302 million

Show the working by adopting fair value model under IAS 40. Indicate how these transactions would be disclosed in the financial statements for the year ending Dec 31, 2001. **(10)**

Q.5 Southern Ltd has recently decided to introduce a Non-Contributory Defined Benefit Pension Scheme to cover all of its full-time employees. A separate pension fund has now been set up.

The following information has been obtained from various sources including the results of actuarial calculations.

(i) on the recommendations of the actuary, the company intends to make payments to trustees in respect of regular pension costs. Payments to be made on December 31, 2000 and 2001 amount to Rs 350,000 and Rs 410,000 respectively.

(ii) in addition, the company agrees to make four annual payments of Rs 200,000 each year (payments to be made on December 31, 2000, 2001, 2002 and 2003 respectively). These payments relate to retroactive changes in benefits (past service costs) as no pension scheme previously existed.

You ascertain that the expected average remaining service lives of employees in the scheme is ten years.

Required:

(a) State the main assumptions required in order to determine an appropriate charge to profit and loss account under a Defined Benefit Scheme. **(05)**

(b) Explain and justify the treatment in respect of the past service costs referred to in (ii) above. **(04)**

(c) Provide the relevant extracts from the balance sheets for 2000 and 2001. **(04)**

Q.6 It was agreed that, with effect from 1 January 2001, Nexus Ltd would acquire the whole of the net assets of Forte Ltd and the fixed assets, stocks and goodwill of Motiwala & Palkiwala, a partnership, by the issue of ordinary shares of Rs 10 each fully paid at their then market value of Rs 12.50 per share.

In computing the number of shares to be issued for each business:

(a) The fixed assets were to be taken at the value placed on them by an independent valuer.

(b) Stocks were to be taken at book value subject to a deduction of Rs. 2,000 from the stocks of Motiwala & Palkiwala for obsolete stock.

(c) In the case of Forte Ltd, debtors, creditors and balance at bank were to be taken at book value less Rs 3,000 in respect of a bad debts.

(d) Goodwill was to be valued at two years' purchase of the average profits of the last three years subject only to the following adjustments:

In the case of Forte Ltd:

(i) The directors' remuneration charged in each year was to be reduced by Rs 5000.

(ii) The depreciation charged in each year on 'other fixed assets' was to be substituted with depreciation on those assets calculated at 10% of cost on a straight line basis.

In the case of Motiwala & Palkiwala:

(i) Notional salaries of Rs 10,000 pa, in total, are to be charged for the partners.

(ii) Rs 4,000, being an exceptional items of expense, was to be added back to the profits in the year to 31 December 2000.

The summarized balance sheets of the three businesses at 31 December 2000 were:

	Nexus Ltd Rs	**Forte Ltd** Rs	**Motiwala & Palkiwala Rs**
Freehold premises at cost	100,000	36,000	24,000
Other fixed assets at costs less depreciation	316,000	74,000	40,000
Stocks at cost	270,000	36,000	22,000
Debtors	246,000	86,000	42,000
Balance at bank	42,000	24,000	11,000
	974,000	256,000	139,000

Ordinary shares of Rs 10 each, fully paid	600,000	100,000	
Capital account:			
Motiwala			61,000
Palkiwala			22,000
Profit and loss account	244,000	52,000	
Creditors	130,000	104,000	56,000
	974,000	256,000	139,000

You ascertain:

		Nexus Ltd Rs	Forte Ltd Rs	Motiwala & Palkiwala Rs
(a)	The depreciation deducted from the cost of other fixed assets at 31 December 2000	124,000	50,000	20,000
(b)	The independent valuations at 31 Dec. 2000 were:			
	Freehold premises		120,000	50,000
	Other fixed assets		66,000	42,000
(c)	The profits for the last three years ending on:			
	31 Dec. 1998		18,000	18,000
	31 Dec. 1999		24,212	13,000
	31 Dec. 2000		26,200	19,000
	after charging depreciation amounting to (for the years ending):			
	31 Dec. 1998		10,500	
	31 Dec. 1999		8,916	
	31 Dec. 2000		9,072	
(d)	The other fixed assets at 31 Dec. 2000 at cost were:			
	before 31 Dec. 1997		104,000	
	purchased 1 Jan. 1999		20,000	

(e) Forte Ltd has disposed of 'other fixed assets' on 1 Jan. 2000 which had cost Rs 16,000 on 1 Jan. 1997.

Required:

(a) a statement showing the number of shares to be issued by Nexus Ltd to pay for the acquisition; and

(b) the balance sheet, as far as the required information is available, of Nexus Ltd on 1 Jan. 2001 after giving effect to the issue of shares for the acquisitions. **(21)**

Q.7 Kamal Associates won first contract of the financial year on April 1, 2001 for destruction of a group of ten buildings of similar size and technical specification for a price of Rs 2 million. The work was to be completed within six months of an award of the contract failing that a penalty of 6% per annum of the contract price would be paid to the customer for the delay.

Following information was available as at June 30, 2001; the date on which Kamal Associates close their financial year. On that date five buildings were demolished.

Site labour Rs 200,000; site supervision Rs 150,000; material used Rs 250,000; depreciation on plant used at site Rs 100,000; general and administration costs Rs 50,000; research and development costs Rs 25,000; selling costs Rs 25,000: Other construction overheads Rs 200,000.

The management of Kamal Associates compared above information with budgeted cost of the contract and was satisfied with performance except that it would require four months to complete the rest of the contract. Due to delay in completion and inflation, cost over run would be as follows:

Increase in wages of site labour by 10%. Escalation in material cost by 20%. Other construction overhead would increase by 20%. Research and development cost to go down by Rs 5,000.

Subsequent to June 30, 2001 Kamal Associates was notified of a claim of Rs 50,000 from third party for damage done to a building next to the one demolished by Kamal Associates. Kamal Associates accepted the claim.

Required:

Prepare contract account clearly indicating profit earned or loss incurred as at the close of financial year on June 30, 2001 in accordance with IAS 11 (revised 1993) Construction Contracts. **(14)**

(THE END)