



June 03, 2003

ADVANCED FINANCIAL ACCOUNTING
PE-1 Paper 1
(MARKS 100)
(3 hours)

- Q.1 Following balances were extracted from the trial balance of Pension fund of AB Limited as on June 30, 2001.

	Rupees
Investment in Defence saving certificates	100,000
Accrued interest on Defence saving certificates	50,000
Investment in quoted TFC's	200,000
Accrued interest on TFC	10,000
Investment in Marketable securities	90,000
Amount due from AB Limited	10,000
Amount payable to retired members	50,000
Amount payable to stock brokers on purchase of TFC's	50,000
Dividend receivable	20,000
Dividend income	20,000
Interest income	60,000
Cash and bank balances	20,000

- 1) As on June 30, 2001 market value of TFC's was Rs. 190,000 and of marketable securities was 110,000.
- 2) During the year contribution by the employees and employer was Rs. 50,000 each.
- 3) During the year payment made to retired members was Rs. 70,000 out of which Rs. 15,000 was on account of amount payable at the beginning of the year.
- 4) The actuarial present value of accumulated plan benefits as on June 30, 2001 was vested Rs. 310,000 and non-vested Rs.120,000.
- 5) Plan assets at the beginning of the year were Rs.325,000.

Required: Prepare

- I. A statement that shows:
 - a) The net assets available for benefits.
 - b) The actuarial present value of promised retirement benefits
 - c) The resulting excess or deficit.
- II. Statement of changes in net assets available for benefits

(15)

- Q.2 PK Limited determines impairment in one of its plant on June 30, 2000. The carrying value of the plant on June 30, 2000 was Rs. 800,000 based on its original cost Rs. 1,000,000 less depreciation for the two years at the rate of 10% per year calculated on straight-line method. At that date plant's recoverable amount was determined at Rs. 640,000 and consequently impairment of Rs. 160,000 was recorded. The impairment amount was added to accumulated depreciation. On June 30, 2001 the carrying value of plant was determine at Rs. 740,000. Calculate the recovery of impairment amount as on June 30, 2001.

(05)

- Q.3 PLD Limited obtains equipment having expected useful life of 3 years on lease from Prime leasing. The equipment shall revert back to prime leasing on expiration of the lease period. Following are lease terms:

Lease period	: 3 years
Lease rentals	: Rs. 53,000 per annum
Lease payment	: at the end of each year

The fair market value of equipment is Rs. 135,000. The incremental borrowing rate of PLD Limited is 10%. The present value of lease obligation is 131,804.

Required:

Explain whether the above lease is a operating or finance lease giving brief reasons for your answer.

Record the journal entries in the books of PLD Limited during the term of lease assuming lease started on the first day of the year. Ignore entries relating to depreciation.

(10)

- Q.4 MM Limited is trading company dealing mainly in sale of electrical appliances. MM Limited has 40% equity in a Joint venture company by the name of MP Limited which is involved in marketing of gas appliances. Following is the profit and loss account and balance sheet of both the companies.

PROFIT AND LOSS ACCOUNT

	MM LTD. MP LTD.	
	RUPEES	RUPEES
Sales	10,000,000	5,000,000
Cost of sales	8,000,000	3,600,000
Gross profit	2,000,000	1,400,000
Selling and Administrative expenses	500,000	325,000
Financial expenses	150,000	75,000
	650,000	400,000
	1,350,000	1,000,000
Other income	116,000	10,000
Profit before tax	1,466,000	1,010,000
Provision for tax	586,400	405,000
Profit after tax	879,600	605,000
Unappropriated profit b/f	150,000	120,000
	1,029,600	725,000
Interim dividend paid (@50%)	400,000	200,000
Unappropriated profit c/f	629,600	525,000

BALANCE SHEET

	MM LIMITED		MP LIMITED	
	2001	2000	2000	2001
Share capital	800,000	800,000	400,000	400,000
Unappropriated profit	629,600	150,000	525,000	120,000
	1,429,600	950,000	925,000	520,000
Current liabilities				
Running finance	700,000	650,000	350,000	250,000
Loan from MM Limited	-	-	150,000	180,000
Trade creditors	210,000	200,000	170,000	210,000
Accrued expenses	40,000	22,000	30,000	40,000
Provision for taxation (net of advance tax)	450,000	350,000	320,000	450,000
	1,400,000	1,222,000	1,020,000	1,130,000
	2,829,600	2,172,000	1,945,000	1,650,000
Fixed Assets	1,249,600	662,000	1,345,000	1,155,000
Investment in MP Limited	160,000	160,000	-	-
Current assets				
Inventories	800,000	750,000	310,000	280,000
Trade debtors	300,000	320,000	240,000	180,000
Loan to Joint venture	150,000	180,000	-	-
Prepaid expenses	25,000	20,000	15,000	10,000
Cash and bank balances	145,000	80,000	35,000	25,000
	1,420,000	1,350,000	600,000	495,000
	2,829,600	2,172,000	1,945,000	1,650,000

Financial charges of MP Limited include markup of Rs. 36,000 paid to MM Limited on loans obtained from them.

Depreciation charged during the year was Rs. 100,000 by MM Limited and Rs. 125,000 by MP Limited. There was no disposal of fixed assets by both the companies.

Financial expenses charged to profit and loss account were paid during the year and no amount was outstanding either at beginning or end of the year.

Other income of MP Limited represent markup received on bank deposits.

Required:

Consolidated cash flow statement. MM Limited report its interest in MP Limited using benchmark treatment given in IAS 31, 'Financial Reporting of Interest in Joint Ventures'.

Q.5 Following information relates to DT Limited:

- (i) As per income tax return for the year ended June 30, 2000 carried forward tax loss was Rs. 1,500,000.
- (ii) Accounting written down value of fixed assets as on June 30, 2000 Rs. 120,000,000. This include following
 - (a) Leased Assets having cost of Rs. 50,000,000 and written down value of Rs. 20,000,000 million.
 - (b) Three vehicles whose purchased value was Rs. 1,000,000 each but was restricted to Rs. 750,000 each in income tax return due to tax laws. These vehicles were purchased in the year 1997-98. The company depreciates the vehicle @ 20% on straight-line method charging full depreciation in the year of purchase.
- (iii) Payment so far made by the company for leased assets was Rs. 55,000,000 out of which Rs. 17,000,000 has been charged to markup on lease finance.
- (iv) Tax written down value of fixed assets is Rs.70,000,000.
- (v) Unrealized gain on investment as on June 30, 2000 was Rs. 25,000,000 out of which amount of Rs. 7,000,000 representing unrealized gain on available for sale investment which was credited directly to equity.
- (vi) During the year company's contribution towards recognized provident fund was Rs. 3,000,000.
- (vii) Investment in an associated company shows a balance of Rs. 1,500,000 representing Rs. 1,000,000 cost and Rs. 500,000 undistributed retained earning as on June 30, 2000. There is no agreement requiring that the profits of the associated company will not be distributed in the foreseeable future. The company does not intend to sale the investment in foreseeable future.
- (viii) Company incurred deferred expenditure of Rs. 3,000,000 during the year out of which an amount of Rs. 600,000 was amortized during the year.
- (ix) All the incomes of the company are taxable @35% except dividend income, which is taxable at 5%.

Required : Calculate the deferred tax liability of the company.

(10)

Q.6 PC Limited is preparing interim financial report for the first quarter ended September 30, 2001. Following facts were noted before the finalisation of accounts for the quarter:

- (i) Company incurred relocation cost of Rs. 5 million during the quarter.
- (ii) The company routinely experience higher sales due to holiday's and vacation period during the first quarter. The company achieved nearly 35% of its annual sales during the quarter
- (iii) Company has planned to incur maintenance cost of 20 million during the next quarter. There is no legal or constructive obligation on the company to incur the maintenance cost.
- (iv) The lease terms of one of the outlet of the company provide for contingent payment @2% of the sales value based on the condition that if the company achieve annual sales level of Rs. 70 million at that outlet. During the quarter company's sales from that outlet were Rs. 35 million, however, company is expected to achieve annual sales level of Rs. 100 million during the current financial year.
- (v) Company's budget includes employees training cost of Rs. 5 million but no cost was incurred in this respect in the first quarter. Out of above amount Rs. 3 million is expected to be incurred in second quarter and rest in third quarter.

Required :

Explain how each of the above matter shall be dealt with in the accounts for the first quarter ended September 30, 2001

(10)

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)**

- Q.8 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.9 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)**

(THE END)