



Professional Examinations Winter 2003

December 02, 2003

FINANCIAL REPORTING
PE-1

(MARKS 100)
(3 hours)

Q.1 The balance sheets of the three Companies as at 30 June 2003, reflect the following figures:

	Company A	Company B	Company C
<i>Number of Shares issued</i> <i>(All in Rupees)</i>	25,000	10,000	15,000
Share Capital	250,000	100,000	150,000
Reserves	530,262	497,852	218,788
Long term loans	352,663	225,432	229,555
Liabilities against Finance lease	285,656	142,587	272,657
Current Liabilities			
Creditors	295,124	289,587	248,751
Accrued Markup	38,473	44,589	49,442
Other Liabilities	65,258	59,564	71,546
	1,817,436	1,359,611	1,240,739
Operating assets	796,257	595,857	485,565
Capital Work in progress	199,362	174,567	185,544
Long Term Investment	185,500	45,525	65,210
Current Assets			
Debtors	225,403	129,658	150,457
Advances, Deposits & Prepayments	264,587	274,457	196,222
Other Receivables	146,327	139,547	157,741
	1,817,436	1,359,611	1,240,739

Pattern of Share holding – Company “B” (as at 30th June 2003)

	Shares	%
Directors	7,500	75%
Financial Institutions	1,050	10.5%
Companies	400	4%
Foreign Individuals	550	5.5%
Others	500	5%
	10,000	100%

	Company A	Company B	Company C
Average Market Price:			
2001	41.56	71.56	33.92
2002	38.92	69.23	45.62
2003	33.92	76.45	29.12

(2)

	Company A	Company B	Company C
Net Profit:			
2001	19,326	14,547	12,777
2002	22,455	16,172	14,555
2003	25,478	16,389	15,741
Expected Profit Growth rate:	15% p.a	12% p.a.	10% p.a.
Value of Fixed Assets as per independent valuers.	Rs.1,004,325	Rs. 990,278	Rs. 823,125

The management of the group is planning for amalgamation of two of its companies "A" and "C" into Company "B". Companies "A" and "C" will be dissolved. It is estimated that the net profit will grow at the abovementioned rates for a further period of three years.

The management had carried out the revaluation of Fixed assets of the company through Independent valuers during the year 2003, however, the surplus on revaluation was not booked in the financial statements.

Required:

On the basis of (i) Net Assets Value (NAV) method, and (ii) Earnings/yield basis, calculate:

- (a) Goodwill arising on acquisition
(b) Revised pattern of Shareholding of Company B. (20)

Q.2

	<i>(Rupees in '000)</i>
Present value of funded obligation: 01 Jan 2003	1000
Un-recognized actuarial gains: 01 Jan 2003	160
Actuarial gain to be recognized	6
Discount rate	12%
Current service cost	250
Benefits paid	120
Fair value of plan assets : 31 Dec 2003	1050
Present value of obligation : 31 Dec 2003	1122

Required:

- (a) Calculate unrecognized actuarial gains / losses as at 31 Dec 2003. (10)
(b) State what type of information is required in order to calculate a defined benefit liability in accordance with IAS-19. (05)

Q.3 XYZ Company Ltd. has produced the following Net profit figures.

	<i>(Rupees in Million)</i>
20X6	1.1
20X7	1.5
20X8	1.8

On 01 Jan 20X7, the number of shares outstanding was 500,000 shares. During 20X7 the company announced a rights issue with the following details:

- Rights: 1 new share for each 5 shares outstanding
- Exercise Price: Rs. 5
- Last date to exercise rights is 01 March 20X7.

The market value of one share in XYZ Co., immediately prior to exercise on 01 March 20X7 is Rs. 11.

Required:

Calculate EPS for the years 20X6, 20X7, and 20X8. (10)

Q.4 With respect to a commercial bank, duly incorporated as a public limited company, engaged in promoting Islamic banking products like 'modarabas', 'ijaras' and also investment banking, draft following accounting policies after taking into account relevant requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, the directives issued by the State Bank of Pakistan and the International Accounting Standards:

- (a) Revenue recognition. (02)
- (b) Financing. (02)
- (c) Investments. (04)
- (d) Sales and Purchase agreements. (02)

Q.5 Platinum Ltd., Gold Ltd. and Silver Ltd. are associated undertakings with Platinum Ltd. having 80% and 60% shares of equity in Gold Ltd. and Silver Ltd. respectively as of June 30, 2003. Gold Ltd. holds balance 40% shares in Silver Ltd. as of that day. The investment in Silver Ltd. was made on October 1, 2002 at Rs. 15 for an ordinary share of Rs.10 each by both the companies. An extract of major general ledger balances of all the three companies as of June 30, 2003 is as follows:

	Platinum	Gold	Silver
	Rupees	Rupees	Rupees
Ordinary share capital of Rs.10 each	20,000,000	10,000,000	5,000,000
Sales	125,000,000	90,000,000	60,000,000
Cost of goods sold	85,000,000	60,000,000	35,000,000
Admin & Marketing expenses	20,000,000	15,000,000	10,000,000
Dividend income	?	?	-
Taxation	7,410,000	4,800,000	4,500,000
Dividend - paid (30.9.2002)	4,000,000	2,000,000	1,000,000
proposed	4,000,000	2,000,000	2,500,000

Required:

From the above information:

- (a) Workout the dividend income of Platinum Ltd and Gold Ltd for the year ended June 30, 2003. (03)
- (b) Prepare an abstract of Minority Interest, showing share of Minority Interest in share capital and profit after tax. (03)
- (c) Prepare a consolidated Profit & Loss Account of Platinum Group for the year ended June 30, 2003. (09)
- (d) Calculate consolidated 'Earnings per share' – basic and diluted. (03)

(4)

Q.6 The consolidated financial data of Progressive Bank Limited and its subsidiary, Venture Bank Ltd in which it has 60% equity for the year ended December 31, 2002 is as follows:

	2002	2001
	(Rupees in '000')	
Operating fixed assets	2,030,000	380,000
Investments	6,285,000	4,275,000
Other assets	1,800,000	2,200,000
Cash and balances with treasury banks	7,850,000	7,060,000
with other banks	300,000	1,125,000
Lending to financial institution	3,000,000	2,340,000
Loan Financing	21,825,000	24,120,000
Deferred tax asset	260,000	500,000
Deposits and other accounts	24,390,000	31,650,000
Bills payable	275,000	100,000
Borrowings from financial institutions	6,650,000	4,700,000
Other liabilities (including tax & dividend payable)	1,475,000	1,500,000
Share capital	2,650,000	2,650,000
Reserves	1,450,000	1,300,000
Unappropriated profit	100,000	50,000
Minority Interest	?	?
Mark-up/return earned	3,503,000	4,950,000
Mark-up/return expense	1,165,000	3,860,000
Provision against non-performing loans	210,000	180,000
Fee, commission and brokerage income	205,000	348,000
Dividend income	360,000	410,000
Other income	5,000	3,000
Administrative expenses	1,570,000	490,000
Other charges	3,000	1,000
Taxation	610,000	410,000

Additional information (Rs. in '000')

- (a) Transfer to consolidated reserves Rs.150,000 (2001 : Rs. 150,000).
- (b) Final dividend @ 10% (2001 : 20%) by Progressive Bank Limited. No dividend in arrears of prior year.
- (c) Depreciation charge for the year Rs.800,000.
- (d) Gain on sale of fixed assets Rs.5,000 against WDV of Rs.50,000.
- (e) There were no sub-ordinated loans or liabilities against finance leases.
- (f) Deferred tax charge for the year 2001 was Rs.160,000.
- (g) The profit after tax of Venture Bank Limited for the year ended December 31, 2002 and 2001 was Rs.125,000 and Rs.100,000 respectively.
- (h) Tax provided for in the previous year was fully paid during the year ended December 31, 2002.
- (i) The whole of dividend income was received during the year.

Required:

Prepare consolidated Cash Flow Statement of Progressive Bank Limited for the year ended December 31, 2002 in accordance with the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and International Accounting Standards. No comparatives required for the consolidated cash flow statement. (15)

Q.7 What are the matters that are to be covered in the Statement of Compliance with the Code of Corporate Governance to be issued by a public listed company. (12)

(THE END)