

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN**



**Spring (August) 2012 Examinations**

Wednesday, the 29th August 2012

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS – (S-401)**

**STAGE – 4**

**Extra Reading Time: 15 Minutes**

**Writing Time: 02 Hours 45 Minutes**

**Maximum Marks: 90**

**Roll No.:**

- (i) Attempt ALL questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

**Answer Script will be provided after lapse of 15 minutes Extra Reading Time (9:30 a.m or 2:30 p.m [PST] as the case may be).**

**Marks**

**Q. 2** PK Limited acquired 75% shares of SK Limited on January 1, 2009 on SK Limited's incorporation. The summarized financial statements of the two companies for the year ended December 31, 2011 are as follows:

**Income Statement  
For the year ended December 31, 2011**

	<b>PK Limited</b>	<b>SK Limited</b>
	<b>(Rs. '000')</b>	
Sales	85,000	38,000
Cost of sales	(44,500)	(20,000)
Gross profit	40,500	18,000
Other income - Dividend from SK Limited	2,250	-
Operating expenses	(9,000)	(8,000)
Profit before tax	33,750	10,000
Income tax expense	(10,500)	(2,000)
Profit after tax	<b>23,250</b>	<b>8,000</b>
Dividends paid	6,000	3,000
<b>Movement in retained earnings:</b>		
Retained earnings balance b/f	87,000	17,000
Profit retained	17,250	5,000
Retained earnings balance c/f	<b>104,250</b>	<b>22,000</b>

**Statements of Financial Position  
As at December 31, 2011**

	<b>PK Limited</b>	<b>SK Limited</b>
	<b>(Rs. '000')</b>	
<b>Non-Current Assets</b>		
Property, plant and equipments	125,000	60,000
Investments	37,500	-
	<b>162,500</b>	<b>60,000</b>
Current assets	58,750	27,000
<b>Total Assets</b>	<b>221,250</b>	<b>87,000</b>

PTO

	PK Limited	SK Limited
Equity	(Rs. '000')	
Ordinary shares of Rs.10 each	100,000	50,000
Retained earnings	104,250	22,000
	<b>204,250</b>	<b>72,000</b>
Current liabilities	17,000	15,000
<b>Total Equity and Liabilities</b>	<b>221,250</b>	<b>87,000</b>

**Additional Information:**

- During the year SK Limited recorded sales to PK Limited for Rs.10,000,000. SK Limited applies mark-up of 25% over cost. One half of the goods remained unsold and appeared in PK Limited inventory as at December 31, 2011.
- PK Limited and SK Limited paid dividends of Rs.6,000,000 and Rs.3,000,000 respectively to their shareholders on December 31, 2011.

**Required:**

- (i) Prepare the Consolidated Income Statement and Statement of Changes in Retained Earnings for the year ended December 31, 2011. 12
- (ii) Prepare Consolidated Statement of Financial Position as of December 31, 2011. 13

- Q. 3 (a)** Silk Company had 8,500,000 ordinary shares on January 01, 2011 and during 2011 it did not issue any ordinary shares. In addition to these shares, Silk Company also had the following convertible loans in issue in 2011:

	Rs.
(i) 12% loan which is convertible in 4 years' time at the rate of one (1) share per Rs.10 of the loan	2,500,000
(ii) 15% loan which is convertible in 2 years' time at the rate of one (1) share per Rs.16 of the loan	3,000,000

Following is also relevant:

Total earnings in 2011	Rs.10,200,000
Income tax rate applicable	35%

**Required:**

- (i) Compute Basic Earnings per Share (EPS). 01
- (ii) Determine whether both loans or one of them is dilutive. 06
- (iii) Compute diluted EPS. 02

- (b) Following is the Income Statement of M. Y. Limited for the year ended June 30, 2011:

**M.Y. LIMITED**  
**Income Statement**  
**for the year ended June 30, 2011**

	Rs. '000'	Rs. '000'
Sales		910
Less: Cost of sales		
Opening inventory	303	
Add: Purchases	475	
Less: Closing inventory	(285)	(493)
Gross profit		<b>417</b>
<b>Operating Expenses</b>		
Selling & distribution expenses	88	
Other expenses	121	(209)
Operating income		<b>208</b>
Interest expense		(29)
Profit before taxation		<b>179</b>
Taxation		(36)
Profit after tax		<b>143</b>

**Additional Information:**

	<u>Rs. '000'</u>
Closing balance – Accounts Receivable	155
Closing balance – Accounts Payable	67

**Required:**

Calculate Operating Cycle from the above data.

06

- Q. 4 (a)** On July 1, 2011, Bestway Leasing Limited (Lessor) leases an elevator to Sky Scrapers Limited (Lessee). The terms and conditions of the lease agreement are as follows:

The lease is classified as an Operating Lease.	
Lease term	3 years
Fair value of the elevator	Rs.350,000
Equal instalment	Rs.86,700
Instalment payable each year:	July 1
Estimated life of elevator	5 years
Residual value	Nil
Depreciation method	Straight-line

**Required:**

- (i) Prepare Journal Entries for the year ended December 31, 2011 and December 31, 2012 in the books of Bestway Leasing Limited. **06**
- (ii) Prepare Bestway Leasing Limited extracts of Statement of Comprehensive Income and Statement of Financial Position as of December 31, 2011 and December 31, 2012. **06**
- (b) 4S Limited has purchased a machine for Rs. 200,000 on 1 July, 2010. It has an estimated life of 6 years with an estimated residual value of Rs. 20,000. The company depreciates the machine on straight-line basis. The tax authorities allow 40% capital allowance in the first year and 20% per annum on reducing balance method thereafter. The detail of tax and accounting depreciation for the year ended are as follows:

Year	Tax Depreciation	Accounting Depreciation
30-Jun-11	Rs.80,000	Rs.30,000

Balance in Deferred Tax Liability account as of July 1, 2010 was Rs.18,000. Tax rate for the tax year 2010 was 30% while the tax rate for the tax year 2011 is 25%.

**Required:**

- (i) Calculate Deferred Tax Liability balance as of June 30, 2011. **03**
- (ii) Calculate Deferred Tax charge / (credit) for the year ended June 30, 2011. **02**
- (iii) Give necessary journal entries to adjust the Deferred Tax Liability account as of June 30, 2011. **01**
- (iv) Prepare extracts of Income Statement and Statement of Financial Position for the year to June 30, 2011. **02**

**Q. 5** Rite Company Limited purchased bonds of Might Limited on January 1, 2010. Relevant information is as follows:

Face value of bonds	Rs.100,000
Purchase price	Rs.93,134
Interest rate	12%
Interest yield	14%
Interest payable each year	January 1
Bonds maturity date	January 1,2015

**Required:**

- (i) Prepare schedule of interest revenue and bond discount amortization. **05**
- (ii) Give journal entries in the books of accounts of Rite Company Limited for the years ended December 31, 2010 and December 31, 2011. **05**
- (iii) Prepare extracts from the Income Statement for the year ended December 31, 2010 and December 31, 2011 and Statement of Financial Position as of December 31, 2010 and December 31, 2011 in the books of Rite Company Limited. **05**

**Q. 6 (a)** What are the Prudential Regulations? Briefly explain their purpose and scope. **04**

**(b)** Momin Enterprise has signed a construction contract on January 1, 2010. The contract is required to be completed on December 31, 2012. Details of the contract are as follows:

	<b>Rs. '000'</b>
Agreed contract price	15,000
Estimated total cost of contract (excluding plant)	5,800

The plant was purchased on January 1, 2010 at a cost of Rs.8,000,000 which has an estimated useful life of four years. On completion of the contract after three years, the plant will be transferred to another contract at its book value. The company uses straight-line method for calculating depreciation. Assume no residual value.

The company recognized profit in the profit or loss account for the year ended December 31, 2010 as follows:

	<b>Rs. '000'</b>
Revenue recognized	4,200
Contract cost recognized	(3,304)
Profit recognized	<b>896</b>

Detail of the progress of the contract at December 31, 2011 is as follows:

	<b>Rs. '000'</b>
Contract cost incurred to date (excluding depreciation)	3,670
Work completed and billed to date	9,750
Customer paid total amounts to date	9,265
Percentage of completion of the contract	65%

**Required:**

- (i) Prepare extract from the Income Statement for the year ended December 31, 2011 and Statement of Financial Position as of December 31, 2011. **09**
- (ii) Determine amount due to/ from customers. **02**

**THE END**