INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (August) 2012 Examinations

Tuesday, the 4th September 2012

FINANCIAL REPORTING – (S-501)

STAGE – 5

Extra Reading Time: **15 Minutes** **Writing Time:** **02 Hours 45 Minutes**	**Maximum Marks: 70**	**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) **Appearing in Project and Presentation parts of the paper is mandatory.**
(ix) **Question Paper must be returned to invigilator after finishing/ writing the exam.**

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 The draft statements of financial position of three companies as at June 30, 2012 are as follows:

	‘A’ LIMITED	**‘B’ LIMITED**	**‘C’ LIMITED**
ASSETS		**(Rs. in million)**	
Non-current assets			
Property, plant & equipment	1,470	600	290
Investment in ‘B’ Limited	640	–	–
Investment in ‘C’ Limited	160	100	–
	2,270	700	290
Current assets			
Inventory	420	165	31
Trade receivables	270	135	51
Cash & cash equivalents	260	80	78
	950	380	160
Total Assets	**3,220**	**1,080**	**450**
EQUITY AND LIABILITIES			
Ordinary shares of Rs.10 each	1,500	500	200
Share premium	450	100	50
Retained earnings	625	200	60
	2,575	800	310
Non-current liabilities			
Long-term loans	375	120	70
Current liabilities			
Trade payables, accrued & other liabilities	270	160	70
Total Equity and Liabilities	**3,220**	**1,080**	**450**

PTO

Marks

Additional Information:

(i) 'A' Limited acquired 80% of the equity shares in 'B' Limited on July 1, 2009.

(ii) 'A' Limited acquired 40% equity shares of 'C' Limited on July 1, 2010.

(iii) 'B' Limited acquired 25% equity shares of 'C' Limited on July 1, 2010.

(iv) Retained earnings of 'B' Limited on July 1, 2009 were Rs.100 million. At the date of acquisition, the fair value of net current assets of 'B' Limited was higher by Rs.80 million and these net current assets had been realised by June 30, 2012.

There had been no new issue of shares in the group since the current group structure was created. For all members of the group, the non-controlling interest is to be calculated as a proportionate share of the subsidiary's net assets.

(v) Retained earnings of 'C' Limited & 'B' Limited on July 1, 2010 were Rs.50 million and Rs.150 million respectively. The fair values of the net assets of 'C' Limited were the same as their carrying values on July 1, 2010.

(vi) 'B' Limited had purchased a new equipment at the beginning of the current year. The cost before trade discount of this equipment was Rs.50 million. The trade discount of Rs.12 million was recognized in profit or loss. Depreciation is charged on straight-line basis over a six-year period.

Required:

Prepare consolidated Statement of Financial Position of the group as at June 30, 2012 supported by appropriate workings. **25**

Q. 3 The draft statement of financial position as at June 30, 2012 and income statement for the year ended June 30, 2012 of 'A' Limited are as follows:

Statement of Financial Position
as at June 30, 2012

	2012	2011
	Rs. '000	Rs. '000
ASSETS		
Non-current assets		
Property, plant and equipment	2,034	1,436
Intangible assets	240	304
Long-term loans and advances	682	479
	2,956	2,219
Current assets		
Stock in trade	417	589
Accounts receivable	407	385
Advances, deposits and prepayments	878	326
Short-term investments	200	200
Cash and bank balances	100	288
	2,002	1,788
Total Assets	**4,958**	**4,007**

Marks

EQUITY AND LIABILITIES	2012 Rs. '000	2011 Rs. '000
Ordinary shares of Rs.10 each	990	900
Share premium	168	150
Retained earnings	1,546	943
	2,704	1,993
Non-current liabilities		
Long-term loans	1,084	872
Deferred liabilities	13	19
	1,097	891
Current liabilities		
Current portion of long-term loans	82	101
Accounts payable, accrued and other payables	669	597
Bank overdraft	23	43
Provision for taxation	383	382
	1,157	1,123
Total Equity and Liabilities	**4,958**	**4,007**

Income Statement	2012 Rs. '000
Sales	11,213
Cost of sales	(6,900)
Gross profit	**4,313**
Administrative expenses	(2,090)
Selling expenses	(625)
	(2,715)
Operating profit	**1,598**
Interest income	90
Financial charges	(150)
Profit before taxation	**1,538**
Taxation	(340)
Profit after taxation	**1,198**
Profit brought forward	943
Un-appropriated profit	**2,141**

Additional Information:

(i) Accumulated depreciation including current year's depreciation for overall property, plant and equipment was Rs.215,000 as on June 30, 2011 and Rs.395,000 on June 30, 2012.

(ii) Plant and machinery costing Rs.235,000 and having a book value of Rs.143,000 was sold for Rs.157,000 during 2012.

(iii) There was no addition or disposal of intangible assets during the year.

(iv) Advances, deposits and prepayments include interest receivable amounting to Rs.125,000 on June 30, 2011 and Rs.150,000 on June 30, 2012.

(v) Short-term investments are highly liquid with one to two months' maturity.

(vi) The company issued one right share for 10 previously held shares at a premium of 20% of the par value.

PTO

Marks

(vii) Retained earnings in the statement of financial position are after payment of dividend during the year out of un-appropriated profits of the company.

(viii) Accrued liabilities include interest payable of Rs.80,000 and Rs.75,000 as on June 30, 2011 and 2012 respectively.

(ix) Deferred liabilities represent company's liability towards employees' gratuity scheme. On the basis of actuarial valuation, the company has recognized an expense of Rs.130,000 for 2012 included in administrative expenses.

Required:

Prepare Statement of Cash Flows for the year ended June 30, 2012 including reconciliation of cash and cash equivalents in accordance with IAS-7, using indirect method. **25**

Q. 4 Following data pertains to the post employment defined benefit compensation scheme of ABC Company:

Discount rate for each year	14%
Present value of obligation on January 1, 2010	Rs. 1,100,000
Fair value of plan assets on January 1, 2010	Rs. 1,000,000

	(In Rupees)	
Other relevant information:	**2010**	**2011**
Current service cost	170,000	130,000
Benefits paid out	120,000	280,000
Contributions paid by the entity	110,000	120,000
Present value of obligation at year end	1,400,000	1,650,000
Fair value of plan assets at year end	1,525,000	1,850,000

On December 31, 2011 a division of company was sold resulting in large number of employees of that division opting to transfer their accumulated pension entitlement to their new employer's plan. The actuary has calculated reduction in ABC Company's defined benefit liability by Rs.50,000 and plan assets with a fair value of Rs.45,000 were transferred to the new employer's plan. The year end valuations given here-in above were carried out before this transfer was recorded. Assume all transactions to occur at the year end.

Required:

Compute the amounts:

(i) of liabilities / assets to be shown in the statement of financial position for the years 2010 and 2011. **03**

(ii) to be recognised in the profit and loss account. **04**

(iii) to be recognised in the other comprehensive income. **13**

THE END