INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

New Fall (E) 2011, April 2012 Examinations

Wednesday, the 18th April 2012

ADVANCED FINANCIAL ACCOUNTING & ANALYSIS – (S-401)

STAGE – 4

Extra Reading Time:	**15 Minutes**	**Maximum Marks: 90**	**Roll No.:**	
Writing Time:	**02 Hours 45 Minutes**			

(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 Country Limited acquired 80% ordinary shares of City Limited on April 01, 2011 for Rs.22.560 million. Following are the summarised draft financial statements of the two companies as at December 31, 2011:

Income Statements for the year ended December 31, 2011

	Country Limited (Rs. 'million')	City Limited (Rs. 'million')
Sales revenue	122.250	48.150
Cost of sales	(84.500)	(38.300)
Gross profit	**37.750**	**9.850**
Operating expenses	(11.350)	(0.500)
Finance costs	(0.150)	(0.400)
Profit before tax	**26.250**	**8.950**
Income tax expense	(6.750)	(1.350)
Profit for the year	**19.500**	**7.600**

Statements of Financial Position as at December 31, 2011

	Country Limited (Rs. 'million')	City Limited (Rs. 'million')
Assets		
Tangible non-current assets	38.640	16.000
Investments	22.560	-
	61.200	**16.000**
Current assets	30.000	16.000
	91.200	**32.000**
Equity and Liabilities		
Equity		
Ordinary shares of Re.1 each	20.000	4.000
Retained earnings	51.200	16.800
	71.200	**20.800**
Non-Current Liabilities		
12% loan notes	6.000	4.000
Current liabilities	14.000	7.200
	20.000	**11.200**
Total Equity and Liabilities	**91.200**	**32.000**

PTO

Marks

- FV of the plant of the City Limited was greater than the book value by Rs.6.400 million at acquisition. The remaining useful life of the plant at acquisition was 5 years. City Limited uses straight-line method of depreciation for the plant which is charged to the cost of sales. The value of the plant has not been adjusted as a result of the fair value exercise.
- Since acquisition, the Country Limited sold goods to City Limited amounting to Rs.28.000 million that cost Rs.21.000 million to Country Limited. Goods amounting to Rs.5.000 million remained unsold at end of the year.
- The goodwill has impaired by Rs.0.600 million since acquisition and is treated as an operating loss.
- Revenues and profits are assumed to have accrued evenly throughout the year. No dividends were paid either by Country Limited or City Limited during the year.

Required:

Prepare the following:

(i) Consolidated Income Statement for the year ended December 31, 2011. **11**

(ii) Consolidated Statement of Financial Position as at December 31, 2011. **14**

Q.3 The following is the Statement of Financial Position of Asad Limited as at March 31, 2012:

Assets	Rs. '000'	Liabilities	Rs. '000'
Goodwill	350	2,500,000 ordinary shares of Rs.10 each	25,000
Land and buildings	15,000	15% debentures	10,000
Plant and machinery	9,000	Outstanding debentures interest	1,200
Furniture and fixture	1,700	Accounts payable	2,000
Inventory	700		
Accounts receivable	600		
Cash at bank	250		
Preliminary expenses	500		
Profit and loss account	10,100		
	38,200		**38,200**

The following scheme of reconstruction is executed:

(i) Ordinary shares are reduced by Rs.3 per share and then consolidated into shares of Rs.100 each.

(ii) Debenture-holders were offered 18% debentures in place of 15% debentures provided that they forego outstanding interest on 15% debentures. The amount of debentures remains the same.

(iii) Creditors were offered either to accept the ordinary shares of Rs.100 each or 18% debentures in full settlement of their claim or cash equivalent to 50% of their claim. 40% of them opted for the ordinary shares and 30% each for 18% debentures and cash.

(iv) The company issued another 50,000 shares of Rs.100 each. The entire amount was required to be paid along with the applications. The issue was fully subscribed.

(v) Land and buildings are to be revalued to Rs.18 million. On the other hand, the plant and machinery are required to be written down to Rs.8 million. A provision amounting to Rs.50,000 is to be made for doubtful debts.

Required:

Pass journal entries and draft the company's Statement of Financial Position immediately after the reconstruction. **20**

Marks

Q.4 (a) On January 01, 2012, the Panther Company issued 25,000 convertible bonds at par having 4-year term. These bonds have face value of Rs. 1,000 and interest is payable thereon at the rate of 10% per annum. Each bond gives right to the bondholders to convert them into 250 ordinary shares at any time up to maturity. At the time of issue market rate for similar bonds without conversion option was 15%.

Required:

Compute the equity and liability components in the bond. **08**

(b) The following data relates to a finance lease of Falak Limited (the lessee), which commenced on January 01, 2011:

List price of the machine	Rs. 225,000
Payment of deposit on January 01, 2011	Rs. 30,926
Three (3) annual instalments payable on December 31, 2011 to 2013	Rs. 85,000
Implicit interest rate	15%
The leased asset is to be depreciated considering the following:	
Useful life	3 years
Residual value	Rs.15,000
Method to be used	Straight-line

Required:

Prepare extracts of the following as at December 31, 2011 to 2013:

(i) Income Statement. **06**

(ii) Statement of Financial Position. **06**

Q.5 Tiger Limited bought a non-current asset on January 01, 2012. Following information is relevant to the asset:

Cost	Rs.3,500,000
Estimated useful life of the asset	6 years
Method of depreciation	Straight-line
Residual value	Rs.350,000

An accelerated tax depreciation of 40% is allowed on the cost of the asset in the first year and thereafter @ 30% on declining balance method. The rate of tax is 35%.

Required:

Compute the following:

(a) Deferred tax charge / (credit) to the Income Statement for the year ended December 31, 2014. **05**

(b) Deferred tax balance in the Statement of Financial Position as at December 31, 2014. **05**

Q.6 Following information relates to a fixed price contract:

	Rs. 'million'
Initial amount of revenue agreed	605.000
Initial estimate of the cost of the contract at January 01, 2009	550.000
Estimate of total costs at the end of 2009	555.500
Cost incurred at the end of 2009 (including materials for future use)	173.260
Materials at the site for use in future at the end of 2009 at cost	6.610

PTO

Marks

During 2010 a variation was agreed in the contract which resulted in the following:

	Rs. 'million'
Increase in contract revenue	13.750
Additional costs	8.250
Cost incurred at the end of 2010	394.625
Estimate of total costs at the end of 2010	563.750
Cost incurred at the end of 2011 (555.500 + 8.250)	563.750

Required:

Compute the following:

(a) the stage of completion for the years from 2009 to 2011 using the proportion that contract costs incurred for the work to date bear to the latest estimated total contract costs. **06**

(b) the revenues, costs and profits that will be recognized in each year. **09**

THE END

n	Present Value Table	
	10%	**15%**
1	0.90909	0.86957
2	0.82645	0.75614
3	0.75131	0.65752
4	0.68301	0.57175

Cumulative Present Value Table	
10%	**15%**
0.90909	0.86957
1.73554	1.62571
2.48685	2.28322
3.16986	2.85498