INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

New Fall (E) 2011, April 2012 Examinations

Friday, the 20th April 2012

FINANCIAL REPORTING – (S-501)

STAGE – 5

Extra Reading Time: **15 Minutes**	**Maximum Marks: 70**	**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) **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 Following are the extracts from the consolidated financial statements of Eastern Group for the year ended December 31, 2011:

Eastern Group

Income Statement

for the year ended December 31, 2011

	Rs. 'million'
Turnover	344.900
Cost of sales	(239.900)
Gross profit	**105.000**
Operating expenses	(23.700)
Operating profit	**81.300**
Finance cost	(6.200)
Profit before disposal of property, plant & equipment	**75.100**
Gain on sale (note 2)	2.200
Profit before tax	**77.300**
Tax	(23.600)
Profit for the period	**53.700**
Attributable to:	
Non-controlling interest	2.320
Owners of the parent	51.380
	53.700

PTO

Eastern Group
Statement of Financial Position with Comparatives
as at December 31, 2011

	2011 Rs. 'million'	2010 Rs. 'million'
ASSETS		
Non-current Assets		
Property, plant and equipment	210.100	177.200
Intangible assets	25.640	16.640
	235.740	**193.840**
Current Assets		
Inventories	136.000	115.000
Trade receivables	109.520	105.200
Cash	5.480	15.600
	251.000	**235.800**
	486.740	**429.640**
EQUITY AND LIABILITIES		
Equity		
Share capital	90.000	72.000
Share premium	40.000	40.000
Retained earnings	100.940	73.360
	230.940	**185.360**
Non-controlling interest	14.200	7.680
Non-current Liabilities		
Interest bearing borrowings	68.400	77.800
Current Liabilities		
Trade payable	143.360	131.240
Interest payable	8.440	5.760
Tax payable	21.400	21.800
	173.200	**158.800**
	486.740	**429.640**

Notes:

(1) Eastern Company acquired 90% share capital of Northern Company in 2003 and 80% share capital of Southern Company on July 1, 2011. Eastern Company issued 18 million of its ordinary shares of Re.1 each and paid Rs.11 million in cash as consideration for this transaction. When Eastern Company acquired shares in Southern Company the net assets of the latter had the following fair values:

	Rs. 'million'
Property, plant and equipment	18.800
Inventories	8.600
Trade receivables	6.200
Cash	0.200
Trade payables	(7.800)
Tax	(1.000)
	25.000

Marks

(2) During the year ended December 31, 2011, Eastern Company disposed of an item of property, plant and equipment for Rs. 10.500 million that had a carrying value of Rs. 8.300 million at the date of disposal. The depreciation for the current year amounted to Rs. 31.800 million.

(3) Dividends paid during the year amounted to Rs.23.8 million.

Required:

Prepare Consolidated Statement of Cash Flows of the Eastern Group for the year ended December 31, 2011 in accordance with IAS-7 Statement of Cash Flows using indirect method. **25**

Q. 3 Following trial balance pertains to Progressive Limited for the year ended December 31, 2011:

	Rs. 'million'	Rs. 'million'
Sales revenue		99,610
Cost of sales	56,260	
Distribution costs	5,175	
Administrative expenses	4,000	
Lease rentals	3,150	
Dividend paid	3,500	
Plant and equipment – at cost	45,200	
Depreciation January 01, 2011		8,700
Investment properties at January 01, 2011	50,000	
Trade accounts receivable	12,750	
Inventories December 31, 2011	7,060	
Cash and bank	9,765	
Deferred tax liability		4,250
Trade accounts payable		10,350
Taxation over provision in year to December 31, 2010		550
Equity shares of Re.1 each		37,500
Loan note: January 01, 2011		11,000
Retained earnings January 01, 2011		24,900
	196,860	**196,860**

Additional Information:

(i) An item of plant and equipment was obtained on finance lease on January 01, 2011. First of the four (4) annual instalments of Rs.3,150 million was paid on December 31, 2011. As per the lease agreement second and third instalments of Rs.3,150 million each are to be payable on December 31, 2012 and 2013 respectively. The remaining instalment of Rs.3,172 million will be paid on December 31, 2014. The cash price of the non-current asset at the time of commencement of the lease was Rs.10,000 million. The implicit rate of interest in the lease is 10% and the asset is to be depreciated on straight-line basis with no residual value. Only journal entry that has been made regarding the above transaction was in relation to the payment of the lease rental on December 31, 2011. For own property, plant and equipment reducing balance method of depreciation is being used at the rate of 20%.

Marks

(ii) Taxable profit for the year ended to December 31, 2011 is Rs.30,000 million. Taxable temporary differences have increased to Rs.14,200 million at the end of December 31, 2011. Tax rate is 35%.

(iii) For investment properties, the company uses fair value model of IAS 40. At December 31, 2011, the fair value of the investment property was Rs.62,500 million.

(iv) Progressive Limited issued loan notes on January 01, 2010 amounting to Rs.10,000 million which would be paid on December 31, 2013. These loan notes carry no interest but would be redeemed at a premium of Rs.4,641 million. The effective finance cost involved in the loan notes is 10%.

(v) Included in the closing inventories were a number of defective items at a cost of Rs.135 million that were sold for Rs.105 million shortly after the year-end.

Required:

Prepare the following financial statements of Progressive Limited:

(a) Income Statement for the year ended December 31, 2011. **12**

(b) Statement of Financial Position as at December 31, 2011. **13**

Q. 4 **(a)** IAS-38 describes the general disclosures that an entity shall make for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets. What are these disclosures? **10**

(b) Pak Electronics manufactures electronic items, which has a major domestic market share. However, during the last few years due to entrance of two new companies manufacturing similar items there has been a cutthroat competition. In order to maintain its market share the directors of the company have come up with a new scheme to motivate its sales team. According to this scheme, each member of the sales team consisting of 50 persons has been offered 25,000 shares options on January 01, 2012. In order to avail benefits of the scheme each employee was required to meet his/her annual sales targets as well as to remain with the company for the next three (03) years. Pak Electronics prepares its financial statements on December 31. At the grant date the value of each share option was Rs.5. Assume that following events relating to the scheme will take place during the next three (03) years:

In 2012:

- Three (03) sales persons leave the company and another five (05) are expected to leave during the next two (02) years.

In 2013:

- Three (03) sales persons leave the company and another four (04) are expected to leave during the next one (01) year.

In 2014:

- Two (02) sales persons leave the company.

Required:

Show the effects of the above scheme in the Income Statement and Statement of Financial Position of the company for the three (03) years. **10**

THE END