

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**

Marks

Q.2 (i)

**The Country Group**  
**Consolidated Income Statement**  
**for the year ended December 31, 2011**

	Rs. 'million <sup>u</sup>	
Sales revenue (122.250 + 75% x 48.150 – 28.000)	130.363	0.5+0.5+0.5
Cost of sales {84.500 + 75% x 38.300 – 28.000 + 1.250 (W-1) + 0.960 (W-2)}	(87.435)	0.5+0.5+0.5+0.5+0.5
Gross profit	42.928	
Operating expenses (11.350 + 75% x 0.500 + 0.600)	(12.325)	0.5+0.5+0.5
Finance costs (0.15 + 75% x 0.400)	(0.450)	0.5+0.5
Profit before tax	30.153	
Income tax expense (6.750 + 75% x 1.350)	(7.763)	0.5+0.5
Profit for the year	<u>22.390</u>	0.5
Profit attributable to:		
Owners of the parent	21.442	
Minority interest {(7.600 x 0.75) – 0.960} x 20%	0.948	1.0
	<u>22.390</u>	

(ii)

**The Country Group**  
**Consolidated Statement of Financial Position**  
**as at December 31, 2011**

	Rs. 'million <sup>u</sup>	
<b>Assets</b>		
Tangible non-current assets		
{38.640 + 16.000 + 8.400 – 0.960 (W-2)}	60.080	0.5+0.5+0.5+0.5
Goodwill (W-3)	4.760	
	<u>64.840</u>	
<b>Current assets</b>		
{30.000 + 16.000 – 1.250 (W-1)}	44.750	0.5+0.5+0.5
	<u>109.590</u>	
<b>Equity and Liabilities</b>		
Share capital	20.000	
Retained earnings (W-4)	53.142	
	<u>73.142</u>	
NCI (W-5)	5.248	
	<u>78.390</u>	
<b>Non-Current Liabilities</b>		
12% loan notes (6.000 + 4.000)	10.000	0.5+0.5
<b>Current Liabilities</b>		
Current liabilities (14.000 + 7.200)	21.200	0.5+0.5
	<u>109.590</u>	

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks****Workings:**

No. of months since consolidation as fraction of the year	3/4		
No. of months before consolidation as fraction of the year (1 – 3/4)	1/4		
Non-controlling interest (100% – 80%)	20%		

**W-1: Unrealised Profit**

Rate of margin (28.000 – 21.000) / 28.000	25%		
Unrealised profit (25% x 5.000)	<b>Rs.1.250</b>	<b>million</b>	1.0

**W-2: Depreciation for Current Year**

Excess of FV of plant over its book value	Rs.6.400	million	
Excess depreciation chargeable per year (Rs.6.400) / 5	Rs.1.280	million	
Excess depreciation chargeable for the year (Rs.1.280) x 75%	<b>Rs.0.960</b>	<b>million</b>	1.0

**W-3: Goodwill**

Consideration transferred		22.560	
Net assets acquired:			
Share capital	4.000		
Opening retained earnings (16.800 – 7.600)	9.200		
Pre-acquisition profit of current year (1/4 x 7.600)	1.900		
FV adjustment	6.400		
	<u>21.500</u>		
80% of 21.500		(17.200)	
Goodwill at acquisition		<b>5.360</b>	2.0
Impairment		(0.600)	
		<u><b>4.760</b></u>	1.0

**W-4: Retained Earnings**

	<b>Country Limited</b>	<b>City Limited</b>	
At balance sheet date	51.200	16.800	
At acquisition (9.200 + 1.900)	–	(11.100)	
Depreciation on fair value (W-2)		(0.960)	
		<u><b>4.740</b></u>	1.0
Unrealised profit (W-1)	(1.250)		0.5
Group share of City (80% x 4.74)	3.792		0.5
Impairment of goodwill	(0.600)		0.5
	<u><b>53.142</b></u>		1.0

**W-5 Non-Controlling Interest**

Net Assets at balance sheet date		20.800	
FV adjustment		6.400	0.5
Less: Depreciation of FV adjustment (W-2)		(0.960)	0.5
		<u><b>26.240</b></u>	
20% of 26.240		<b>5.248</b>	1.0

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks****Q.3****Asad Limited  
Journal Entries**

Particulars	Rs. '000 <sup>u</sup>		
	Debit	Credit	
Equity shares capital account of Rs.10 each	25,000		0.5
To ordinary share capital of Rs.100 each		17,500	0.5
To capital reduction account		7,500	0.5
<i>(Being reduction in the value of equity shares)</i>			
Outstanding debentures interest account	1,200		0.5
To capital reduction account		1,200	0.5
<i>(Being outstanding debentures interest foregone by debenture-holders)</i>			
15% debentures account	10,000		0.5
To 18% debentures account		10,000	0.5
<i>(Being conversion of 12% debentures into 14% debentures)</i>			
Bank account	5,000		0.5
To equity share capital account		5,000	0.5
<i>(Being 50,000 equity shares of Rs.100 each issued for cash and subscribed in full)</i>			
Creditors account	2,000		0.5
To equity share capital (Rs.10) account		800	0.5
To 18% debentures		600	0.5
To bank		300	0.5
To capital reduction account		300	0.5
<i>(Being creditors of Rs.2,000,000 paid in cash , equity shares and 18% debentures in full settlement)</i>			
Land and building account	3,000		0.5
To capital reduction account		3,000	0.5
<i>(Being land and building revalued at Rs.200,000)</i>			
Capital reduction account	12,000		0.5
To plant and machinery account		1,000	0.5
To provision for doubtful debt		50	0.5
To goodwill account		350	0.5
To preliminary expenses account		500	0.5
To profit and loss account		10,100	0.5
<i>(Being balance of capital reduction account utilised for writing down of tangible asset and writing off the fictitious assets and accumulated losses)</i>			

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks**

**Asad Limited**  
**Statement of Financial Position as at March 31, 2012**

<b>ASSETS</b>	<b>Rs. '000<sup>u</sup></b>	
<b>Non-Current Assets</b>		
Land and building	18,000	0.5
Plant and machinery	8000	0.5
Furniture and fixture	1700	0.5
<b>Total long term Assets</b>	<b>27,700</b>	0.5
<b>Current Asset</b>		
Inventories	700	0.5
Accounts receivable	600	
Less: Allowance for doubtful debts	(50)	1.0
Cash at bank (250 + 5,000 – 300)	4,950	0.5+0.5+0.5
<b>Total Current Assets</b>	<b>6,200</b>	0.5
<b>Total Assets</b>	<b>33,900</b>	0.25
<b>Equities</b>		
Share capital (25,000 – 7,500 + 800 + 5000)	23,300	0.5+0.5+0.5+0.5
<b>None-Current Liabilities</b>		
18% debentures (10,000 + 600)	10,600	0.5+0.5
	33,900	
<b>Current Liabilities</b>		
Accounts Payable	-	
<b>Total Liabilities and Equity</b>	<b>33,900</b>	0.25

**Working:****Capital Reduction Account**

	<b>Rs. '000<sup>u</sup></b>		<b>Rs. '000<sup>u</sup></b>
Plant and machinery	1,000	Ordinary shares capital	7,500
Provision for doubtful debts	50	Out standing interest	1,200
Goodwill	350	Accounts payable	300
Preliminary expenses	500	Land and buildings	3,000
Profit and loss account	10,100		
	12,000		12,000

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**

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**Q.4 (a) Equity and Liability Components in the Bond:**

	Rs.	
Present value of principle at the end of 4 years term (Rs.25,000,000 x 1/(1.15) <sup>4</sup> )	14,293,750	2.0
Present value of interest payable after 1 year (Rs.2,500,000 x 1/(1.15))	2,173,925	0.5
Present value of interest payable after 2 years (Rs.2,500,000 x 1/(1.15) <sup>2</sup> )	1,890,350	0.5
Present value of interest payable after 3 years (Rs.2,500,000 x 1/(1.15) <sup>3</sup> )	1,643,800	0.5
Present value of interest payable after 4 years (Rs.2,500,000 x 1/(1.15) <sup>4</sup> )	1,429,375	0.5
Present value of principle and interest payable (Liability component)	21,431,200	1.0
Proceeds of bonds	25,000,000	
Liability component	(21,431,200)	
Equity component	3,568,800	2.0
Interest payable at the end of each year (10% of Rs.25,000,000)	2,500,000	1.0

**(b) (i)****Income Statement (Extract)  
For the years ended December 31**

	2011		2012		2013		
	Rs.		Rs.		Rs.		
Finance cost	29,111	W-1	20,728	W-2	11,087	W-3	1.0+1.0+1.0
Depreciation	70,000	W-4	70,000	W-4	70,000	W-4	1.0+0.5+0.5

**(ii)****Statement of Financial Position (Extract)  
As at December 31**

	2011	2012	2013	
	Rs.	Rs.	Rs.	
<b>Non-Current Assets:</b>				
Cost	225,000	225,000	225,000	
Depreciation	70,000	140,000	210,000	
	155,000	85,000	15,000	1.0+1.0+1.0
<b>Current Liabilities:</b>				
Finance lease obligations:	64,272	73,913	—	1.0+1.0
2011: (85,000 – 20,728)				
2012: (85,000 – 11,087)				
<b>Non-Current Liabilities:</b>				
Finance lease obligations:	73,913	—	—	1.0

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks**

	<b>Rs.</b>	
Original cost	225,000	
Payment of deposit	30,926	
Balance on January 01, 2011	<u>194,074</u>	
Interest @ 15% on Rs.194,074 for 12 months on December 31, 2011	<b>29,111</b>	<b>W-1</b>
Instalment paid on December 31, 2011	<u>(85,000)</u>	
Balance on December 31, 2011	138,185	
Interest @ 15% on Rs.138,185 for 12 months on December 31, 2012	<b>20,728</b>	<b>W-2</b>
Instalment paid on December 31, 2012	<u>(85,000)</u>	
Balance on December 31, 2012	73,913	
Interest @ 15% on Rs.73,913 for 12 months on December 31, 2013	<b>11,087</b>	<b>W-3</b>
Instalment paid on December 31, 2013	<u>(85,000)</u>	
Balance on December 31, 2013	<u>0</u>	

**W-4****Depreciation:**

$$\frac{\text{Cost - Residual Value}}{\text{Useful Life}} = \frac{225,000 - 15,000}{3}$$

$$= \frac{210,000}{3}$$

$$= \text{Rs.70,000}$$

1.0

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks****Q.5 (a) Deferred tax charge/(credit) to the Income Statement:**

Deferred tax charge/(credit) to the Income Statement for the year ended December 31, 2014 will be obtained in the following manner:

	<b>Rs.</b>	
Closing balance of deferred tax liability	313,600	
Opening balance of deferred tax liability	343,000	
Deferred tax charge/(credit) to the Income Statement for the year	<u>(29,400)</u>	2.0

**(b) Deferred tax balance in the Statement of Financial Position**

Deferred tax balance in the Statement of Financial Position at December 31, 2014 will be **Rs.313,600**. 2.0

	<b>Carrying Value Rs.</b>	<b>Tax Base Rs.</b>	<b>Difference Rs.</b>	<b>Tax @ 35% Rs.</b>	
Cost	3,500,000	3,500,000			
Depreciation for the year	(525,000)	(1,400,000)			
C.V at December 31, 2012	2,975,000	2,100,000	875,000	306,250	1.0
Depreciation for the year	(525,000)	(630,000)			
C.V at December 31, 2013	2,450,500	1,470,000	980,000	343,000	1.0
Depreciation for the year	(525,000)	(441,000)			
C.V at December 31, 2014	1,925,000	1,029,000	896,000	313,600	1.0

**Working:**

		<b>Rs.</b>	
<b>W-1</b>	Depreciation(3,500,000 – 350,000) / 6	525,000	0.5
<b>W-2</b>	40% of Rs.3,500,000	1400,000	0.5
<b>W-3</b>	30% of (Rs.3,500,000 – Rs.1,400,000)	630,000	1.0
<b>W-4</b>	30% of (Rs.3,500,000 – Rs.2,030,000)	441,000	1.0

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**

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**Q.6 (a) Stage of Completion for the 2009 to 2011:**

	2009 Rs. 'million <sup>b</sup>	2010 Rs. 'million <sup>b</sup>	2011 Rs. 'million <sup>b</sup>	
Initial amount of revenue agreed	605.000	605.000	605.000	
Variation in the contract	0.000	13.750	13.750	
Total contract revenue	<u>605.000</u>	<u>618.750</u>	<u>618.750</u>	0.0+1.0+0.5
Contract costs incurred to date	173.260	394.625	563.750	
Less costs relating to next period	(6.610)	0.000	0.000	
	<u>166.650</u>	<u>394.625</u>	<u>563.750</u>	1.0+0.0+0.0

**Total Estimated Contract Costs:**

2009	555.500		
2010 (555.500 + 8.250)		<b>563.750</b>	1.0
2011			563.750

**Stage of Completion using the following formula:**

Contract costs incurred to date	166.650	394.625	563.750	
Total estimated contract costs	<u>555.500</u>	<u>563.750</u>	<u>563.750</u>	
	=	=	=	
	<b>30.0%</b>	<b>70.0%</b>	<b>100%</b>	1.0+1.0+0.5

**(b) Revenues, Costs and Profits:**

		To Date	Recognised in the Prior Year	Recognised in the Current Year	
2009	Revenue (30% of 605.000)	181.500	0	<b>181.500</b>	1.0
	Costs (30% of 555.500)	(166.650)	0	<b>(166.650)</b>	1.0
	Profits	<u>14.850</u>	<u>0</u>	<u>14.850</u>	1.0
2010	Revenue (70% of 618.750)	433.125	181.500	<b>251.625</b>	1.0
	Costs (70% of 563.750)	(394.625)	(166.650)	<b>(227.975)</b>	1.0
	Profits	<u>38.500</u>	<u>14.850</u>	<u>23.650</u>	1.0
2011	Revenue (100% of 618.750)	618.750	433.125	<b>185.625</b>	1.0
	Costs (100% of 563.750)	563.750	394.625	<b>169.125</b>	1.0
	Profits	<u>55.000</u>	<u>38.500</u>	<u>16.500</u>	1.0

**THE END**