**FINANCIAL REPORTING STAGE-5**

**Marks**

**Q.2**

**Eastern Company**
**Consolidated Statement of Cash Flows**
For the year ended December 31, 2011

| | | | |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Profit before tax | 77.300 | | 0.5 |
| Add: Depreciation | 31.800 | | 0.5 |
| Finance cost | 6.200 | | 0.5 |
| Less: Gain on sale of non-current asset (8.300 – 10.500) | (2.200) | | 1.0 |
| | 113.100 | | |
| (increase)/ decrease in inventories (136.000 – 8.600 – 115.000) | (12.400) | | 1.5 |
| (increase)/ decrease in trade receivables (109.520 – 6.200 – 105.200) | 1.880 | | 1.5 |
| (increase)/ decrease in trade payables (143.360 – 7.800 – 131.240) | 4.320 | | 1.5 |
| Cash generated from operation | 106.900 | | |
| Interest paid | (3.520) | | 0.5 |
| Income taxes paid | (25.000) | | 0.5 |
| *Net cash from Operating Activities* | | **78.380** | 1.0 |
| **Cash Flows from Investing Activities** | | | |
| Acquisition of subsidiary net (0.200 – 11.000) | (10.800) | | 1.0 |
| Purchase of property, plant and equipment | (54.200) | | 0.5 |
| Sale of property, plant and equipment | 10.500 | | 0.5 |
| *Net cash used in Investing Activities* | | **(54.500)** | 1.0 |
| **Cash Flows from Financing Activities** | | | |
| Repayment of interest-bearing borrowings (77.8 – 68.4) | (9.400) | | 1.0 |
| Dividend paid | (23.800) | | 0.5 |
| Dividend paid to NCI | (0.800) | | 0.5 |
| | | **(34.000)** | 1.0 |
| Net decrease in cash and cash equivalents | | **(10.120)** | 0.5 |
| Cash and cash equivalents at the beginning | | 15.600 | 0.5 |
| Cash and cash equivalents at December 31, 2011 | | **5.480** | 0.5 |

**Marks**

**Workings:**

Non-controlling interest in Southern Co: 100% - 80% = 20%

**Interest payable**

| | | | | Marks |
|---|---|---|---|---|
| Interest paid | 3.520 | Balance b/d | 5.760 | 1.0+0 |
| Balance c/d | 8.440 | Income statement | 6.200 | 0+0.5 |
| | 11.960 | | 11.960 | |

**Tax payable**

| | | | | Marks |
|---|---|---|---|---|
| Income taxes paid | 25.000 | Balance b/d | 21.800 | 1.0+0 |
| Balance c/d | 21.400 | Subsidiary | 1.000 | 0+0.5 |
| | | Income statement | 23.600 | 0+0.5 |
| | 46.400 | | 46.400 | |

**Property, plant and equipment**

| | | | | Marks |
|---|---|---|---|---|
| Balance b/d | 177.200 | Disposal | 8.300 | 0+0.5 |
| Subsidiary | 18.800 | Depreciation for the year | 31.800 | 0.5+0.5 |
| Addition | 54.200 | Balance c/d | 210.100 | 1.0 + 0 |
| | 250.200 | | 250.200 | |

**Non-controlling interest**

| | | | | Marks |
|---|---|---|---|---|
| | | Balance c/d | 7.680 | |
| Cash / Dividend paid | 0.800 | Income statement | 2.320 | 1+0.5 |
| Balance c/d | 14.200 | Subsidiary (20% of 25.000) | 5.000 | 0+1.0 |
| | 15.000 | | 15.000 | |

**Marks**

**Q.3 (a)**

**Progressive Limited**
**Income Statement**
**for the year ended December 31, 2011**

| | | Rs. 'million' | Marks |
|---|---|---|---|
| Sales revenue | | 99,610 | 0.5 |
| Cost of sales | (W-4) | (66,090) | 0.5 |
| Gross profit | | 33,520 | |
| Distribution expenses | | (5,175) | 0.5 |
| Administration expenses | | (4,000) | 0.5 |
| | | 24,345 | |
| Finance cost | (W-3) | (2,100) | 0.5 |
| | | 22,245 | |
| Fair value of gain on investment property (Rs.62,500 – Rs.50,000) | | 12,500 | 1.0 |
| Profit before tax | | 34,745 | |
| Income tax | (W-5) | (10,670) | 0.5 |
| Profit for the period | | 24,075 | 0.5 |
| Less dividend paid | | (3,500) | 0.5 |
| Retained earnings for the period | | 20,575 | |
| Retained earnings b/d | | 24,900 | |
| | | **45,475** | 1.0 |

**(b)**

**Progressive Limited**
**Statement of Financial Position**
**as at December 31, 2011**

| **Assets** | | Rs. 'million' | Marks |
|---|---|---|---|
| *Non-Current Assets* | | | |
| Property, plant and equipment | (W-1) | 36,700 | 0.5 |
| Investment property | | 62,500 | 0.5 |
| | | 99,200 | |
| **Current Assets** | | | |
| Inventory (Rs.7,060 – Rs.135 + Rs.105) | | 7,030 | 1.0 |
| Accounts receivable | | 12,750 | 0.5 |
| Cash | | 9,765 | 0.5 |
| | | 29,545 | |
| | | **128,745** | |
| **Equity and Liabilities** | | | |
| *Equity* | | | |
| Equity shares of | | 37,500 | 0.5 |
| Retained earnings | | 45,475 | 0.5 |
| | | 82,975 | |

| | | | | Marks |
|---|---|---|---|---|
| *Non-Current Liabilities* | | | | |
| Loan notes | | | 12,100 | 0.5 |
| Leasing obligations | | (W-2) | 5,485 | 0.5 |
| Deferred tax liability (14,200 x 0.35) | | | 4,970 | 0.5 |
| | | | 22,555 | |
| *Current Liabilities* | | | | |
| Accounts payable | | | 10,350 | 0.5 |
| Leasing obligations | (7,850 – 5,485) | (W-2) | 2,365 | 0.5 |
| Income tax payable | (30,000 x 0.35) | | 10,500 | 0.5 |
| | | | 23,215 | |
| | | | **128,745** | |

**Working Notes:**

**W-1:**

| | Rs. 'million' | Rs. 'million' | |
|---|---|---|---|
| Property, plant and equipment – at cost per question | | 45,200.00 | |
| Leased asset | | 10,000.00 | |
| | | 55,200.00 | |
| Depreciation on own non-current assets b/d | 8,700.00 | | |
| Add current depreciation (Rs.45,200 – Rs.8,700) x 20% | 7,300.00 | | 1.0 |
| | 16,000.00 | | |
| Depreciation on leased asset (Rs.10,000 x 25%) | 2,500.00 | | 0.5 |
| | | (18,500.00) | |
| | | 36,700.00 | 1.0 |

**W-2:**

| | Rs. 'million' | |
|---|---|---|
| Balance on December 31, 2011 | 10,000.00 | |
| Interest @ 10% on Rs.10,000 for 12 months on December 31, 2011 | 1,000.00 | |
| Instalment paid on December 31, 2011 | (3,150.00) | |
| Balance on December 31, 2011 | **7,850.00** | 1.0 |
| Interest @ 10% on Rs.7,850 for 12 months on December 31, 2012 | 785.00 | |
| Instalment paid on December 31, 2012 | (3,150.00) | |
| Balance on December 31, 2012 | 5,485.00 | 1.0 |
| Interest @ 10% on Rs.5,485 for 12 months on December 31, 2013 | 548.50 | |
| Instalment paid on December 31, 2013 | (3,150.00) | |
| Balance on December 31, 2013 | 2,883.50 | |
| Interest @ 10% on Rs.2,883.5 for 12 months on December 31, 2014 | 288.35 | |
| Instalment paid on December 31, 2014 | (3,171.85) | |
| Balance on December 31, 2014 | | |

**W-3: Finance Cost:**

| | | Rs. 'million' | |
|---|---|---|---|
| Interest on loan note (Rs.11,000 x 10% | (W-7) | 1.100 | |
| Finance lease (Rs.10,000 x 10%) | | 1,000 | |
| | | 2,100 | 1.0 |

| | | | | Marks |
|---|---|---|---|---|
| **W-4:** | **Cost of Sales:** | | **Rs. 'million'** | |
| | Per question | | 56,260 | |
| | Current depreciation (Rs.7,300 + Rs.2,500) | (W-1) | 9,800 | 1.0 |
| | Impairment in inventory (Rs.135 – Rs.105) | | 30 | 1.0 |
| | | | 66,090 | 0.5 |
| **W-5:** | **Tax Charge to Income Statement:** | | **Rs. 'million'** | |
| | Tax on taxable income for the year (Rs.30,000 x 35%) | | 10,500 | |
| | Overprovision of previous year | | (550) | |
| | Deferred tax expense | (W-6) | 720 | |
| | | | 10,670 | 2.0 |
| **W-6:** | **Deferred Tax Note:** | | **Rs. 'million'** | |
| | Deferred tax to Statement of Financial Position (Rs.14,200 x 35%) | | 4,970 | |
| | Less balance b/d | | (4,250) | |
| | Transfer from Income Statement | | 720 | 1.0 |
| **W-7:** | **Loan Notes:** | | **Rs. 'million'** | |
| | January 01, 2010 – Proceeds | | 10,000 | |
| | December 31, 2010 – Interest (Rs.10,000 x 10%) | | 1,000 | |
| | December 31, 2010 – Balance | | 11,000 | |
| | December 31, 2011 – Interest (Rs.11,000 x 10%) | | 1,100 | |
| | December 31, 2011 – Balance | | 12,100 | 1.0 |

| | | Marks |
|---|---|---|
| **Q.4 (a)** | An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets: | 0.5 |
| | (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used; | 1.0 |
| | (b) the amortization methods used for intangible assets with finite useful lives; | 0.5 |
| | (c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period; | 1.0 |
| | (d) the line item(s) of the statement of comprehensive income in which any amortization of intangible assets is included; | 0.5 |
| | (e) a reconciliation of the carrying amount at the beginning and end of the period showing: | 0.5 |
| | (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations; | 1.0 |
| | (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals; | 1.0 |
| | (iii) increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognized or reversed in other comprehensive income in accordance with IAS 36 (if any); | 1.0 |
| | (iv) impairment losses recognized in profit or loss during the period in accordance with IAS 36 (if any); | 0.5 |
| | (v) impairment losses reversed in profit or loss during the period in accordance with IAS 36 (if any); | 0.5 |
| | (vi) any amortization recognized during the period; | 0.5 |
| | (vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and | 1.0 |
| | (viii) other changes in the carrying amount during the period. | 0.5 |

**Marks**

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**Q.4 (b)**

| **Income Statements (Extract)** | **2012** | **2013** | **2014** | |
|---|---|---|---|---|
| Staff costs | 1,750,000 | 1,583,333 | 1,916,667 | 3.0 |
| **Statement of Financial Position (Extract)** | | | | |
| With equity | 1,750,000 | 3,333,333 | 5,250,000 | 3.0 |

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**Working Notes:**

| | | **Expense for the Year** | **Cumulative Expense at Year End** | |
|---|---|---|---|---|
| 2012 | 25,000 x (50 – 8) x 5 x 1/3 | 1,750,000 | 1,750,000 | 0.5+0.5 |
| 2013 | 25,000 x (50 – 10) x 5 x 2/3 | 1,583,333 | 3,333,333 | 0.75+0.75 |
| 2014 | 25,000 x (50 – 8) x 5 x 3/3 | 1,916,667 | 5,250,000 | 0.75+0.75 |

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**THE END**