INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall (Winter) 2009 Examinations

Wednesday, the 18th November 2009

ADVANCED FINANCIAL ACCOUNTING & ANALYSIS- (S-401)
STAGE – 4

Time Allowed – 2 Hours 45 Minutes **Maximum Marks – 90**

(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 on 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.

Marks

Q.2 Assume you work as an accountant responsible for the Sun Group consolidation. The 'Income Statements' of Sun Limited, Moon Limited and Star Limited for the year ended December 31, 2008 are given below:

Income statements
For the year ended December 31, 2008

	Sun Ltd. Rs.000	Moon Ltd. Rs.000	Star Ltd. Rs.000
Revenue	135,000	65,000	115,000
Cost of sales	(55,000)	(39,000)	(79,000)
Gross profit	80,000	26,000	36,000
Operating expenses	(25,000)	(16,000)	(17,500)
Investment income	4,200	0	0
Financial charges	(3,800)	(2,200)	(1,900)
Profit before taxation	55,400	7,800	16,600
Taxation	(14,100)	(2,100)	(7,400)
Profit after taxation	**41,300**	**5,700**	**9,200**

Sun Limited supplies a component, which is used by both Moon Limited and Star Limited. Because of the close relationship among the three companies, the component is supplied at a mark-up of only 10% on cost. Details of inter-company sales of the product for the year to December 31, 2008 are as follows:

	(Rs.000)
• To Moon Limited	9,000
• To Star Limited	5,000

Details of the inventories of the component supplied by Sun Limited, which are included in the books of Moon Limited and Star Limited at the end of the year are:

	(Rs.000)
• Moon Limited	2,200
• Star Limited	1,100

PTO

Marks

Sun Limited holds 75% of the issued share capital of Moon Limited and 40% of the issued share capital of Star Limited. Both Sun Limited and Moon Limited recognize investment income on accruals basis. The income statement of Sun Limited shows investment income as being the cash dividends receivable. On the date of acquisition, the shareholders' equity of Moon Limited and Star Limited stood at Rs.8 million and Rs.7 million respectively.

Your assistant is responsible for preparing the draft consolidated financial statements for your review. He is aware how Moon Limited will be dealt with as a 75% subsidiary but he is unsure of the way of dealing with Star Limited.

Required:

Prepare a consolidated income statement of Sun Limited for the year ended December 31, 2008 as per the relevant IAS/IFRS. 15

Q. 3 With the approval of the Court and consent of the related parties, the management of Sheikh Brothers Limited (SBL) has agreed upon a scheme of reconstruction as on December 31, 2008.

Statement of Financial Position
As at December 31, 2008

	Rs.
Non-current assets:	
Property, plant and equipment	13,492,000
Current assets:	
Inventory	6,233,420
Accounts receivable	1,520,850
Other assets	975,500
	8,729,770
Total assets	**22,221,770**
Issued, subscribed and paid-up capital (700,000 ordinary shares of Rs.10 each)	7,000,000
Preference shares (100,000 10% redeemable preference shares of Rs.10 each)	1,000,000
Accumulated loss	(5,629,880)
Non-current liabilities:	
12% Debentures – secured (Face value – Rs.5,000 each)	10,000,000
Current Liabilities:	
Accounts payable and accrued expenses	8,810,650
Other liabilities	1,041,000
	9,851,650
Total liabilities and equity	**22,221,770**

The main points of the reconstruction scheme are:

(i) All the existing ordinary shares of the company to be reduced to Rs.5 each.
(ii) Inventory at the year end to be written down to Rs.5,500,000.
(iii) Provision to be made against doubtful debts amounting to Rs.200,000.
(iv) One of the accounts payable of the company to whom the company owes Rs.4,250,000 has decided to forego 45% of his claim. The balance claim is to be adjusted by issue of ordinary shares of Rs.5 each.
(v) Fixed assets are to be written down on account of impairment by 10%.
(vi) Debenture holders agree to surrender their debentures to the company and forego 20% of their claim. The balance claim is to be replaced by issue of 14% debentures of Rs.5,000 each.
(vii) All the preference shares are to be reduced to Rs.5 each. Dividend to be increased to 12%.

Marks

Required:

(a) Pass journal entries of above transactions. 09

(b) Prepare Reconstruction Account. 04

(c) Prepare Statement of Financial Position to show the effect of the above transactions. 07

Q. 4 Falcon Limited went into voluntary liquidation on July 1, 2009. The following balances were extracted from its books on the date:

Assets	Rs.	Liabilities	Rs.
Buildings	150,000	Capital:	500,000
Plant & machinery	210,000	50,000 **ordinary shares of Rs.10 each**	
Inventory	95,000	Debentures	200,000
Accounts receivable	75,000	(secured by a floating charge)	
Less: Provision	(10,000)	Bank overdraft	30,000
Investment	100,000	Accounts payable	40,000
Cash in hand	10,000		
Profit and Loss account	140,000		
	770,000		**770,000**

Plant & machinery and buildings are valued at Rs.150,000 and Rs.120,000 respectively. On realization, losses of Rs.15,000 are expected on inventory. Accounts receivable will realize Rs.70,000. Investment is expected to realize 90%. Bank overdraft is secured against buildings. Preferential payables for taxes and wages are Rs.6,000 and miscellaneous expenses outstanding are Rs.2,000.

Required:

Prepare statement of affairs to be submitted to the meeting of creditors. 15

Q. 5 (a) As per IAS-12, define the following terms:

(i) Temporary differences. 01

(ii) Taxable temporary differences. 02

(iii) Deductible temporary differences. 02

(b) Ammar Company is a construction company that prepares its financial statements to March 31, each year. During the year ended March 31, 2009, the company commenced two construction contracts that are expected to be completed in the accounting period ended March 31, 2010. The position of each contract at March 31, 2009 was as follows:

Contract	**1**	**2**
	(Rs. 000)	**(Rs. 000)**
Agreed contract price	5,500	1,200
Estimated total cost of contract at commencement	4,000	900
Estimated total cost at March 31, 2009	4,000	1,250
Certified value of work completed at March 31, 2009	3,300	840
Contract billings invoiced and received at March 31, 2009	3,000	880
Contract costs incurred to March 31, 2009	3,900	720

PTO

Marks

The certified value of the work completed at March 31, 2009 is considered to be equal to the revenue earned in the year ended March 31, 2009. The percentage of completion is calculated as the value of the work completed to the agreed contract price.

Required:

Calculate the amounts which should appear in the income statement and statement of financial position of Ammar Company at March 31, 2009 in respect of the above contracts as per IAS-11. 15

Q. 6 (a) Define the following terms in accordance with IAS-32:

- Financial instrument 01
- Financial asset 02
- Financial liability 02

(b) On January 1, 2009, Maxco Limited increased the operating capacity of its plant. Due to lack of liquid funds, they were unable to buy the required plant, which had a cost of Rs.350,000. On the recommendation of the finance director, Maxco Limited entered into an agreement to lease the plant from the manufacturer. The lease required four annual payments in advance of Rs.100,000, each commencing on January 1, 2009. The plant would have a useful life of four years and would be scrapped at the end of this period.

Required:

Prepare extracts of Maxco Limited’s income statement for the year ended June 30, 2009 and statement of financial position as at June 30, 2009 in respect of the rental agreement assuming that:

(i) It is an operating lease. 04

(ii) It is a finance lease (use an implicit interest rate of 10% per annum). 11

THE END