

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2009 Examinations

Wednesday, the 25th November 2009

**FINANCIAL REPORTING- (S-501)
STAGE – 5**

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 65

- (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.

Q.2

Following are the financial statements of Umar Steel Products Limited:

Marks

Statement of Financial Position as at June 30, 2009

	2009	2008
	(Rs. 000)	(Rs. 000)
Share capital and reserves		
Authorized capital:		
20,000,000 ordinary shares of Rs. 10 each	200,000	200,000
Issued, subscribed and paid up capital	171,200	164,000
Share premium	2,295	855
Revenue reserves	60,070	74,580
	<u>233,565</u>	<u>239,435</u>
Non-current liabilities		
Redeemable capital	125,222	150,222
Liabilities against assets subject to finance leases	-	7,970
Deferred taxation	66,422	32,900
Current Liabilities		
Trade and other payables	175,980	282,030
Interest and mark-up accrued	14,150	18,340
Bank overdraft	121,000	0
Current portion of redeemable capital	25,000	25,000
Current portion of liabilities against assets subject to finance leases	5,544	6,319
	<u>341,674</u>	<u>331,689</u>
Total Liabilities and Equity	<u>766,883</u>	<u>762,216</u>
Non-current assets		
Property, plant and equipment	430,650	458,120
Intangible assets	4,830	3,105
Long term investments	14,500	38,540
Current Assets		
Stores and spares	32,690	28,630
Inventory	106,080	80,408
Trade receivables	98,920	69,490
Current portion of long term investments	1,500	2,500
Investments	18,750	33,200
Accrued income on long term investments	6,150	8,200
Prepayments and other receivables	9,224	5,262
Taxation - net	16,285	10,200
Cash and bank balances	27,304	24,561
	<u>316,903</u>	<u>262,451</u>
Total Assets	<u>766,883</u>	<u>762,216</u>

PTO

Income Statement
for the year ended June 30, 2009

	(Rs. 000)
Sales	835,460
Cost of sales	(409,913)
Gross profit	425,547
Investment income	108,110
	533,657
Distribution and selling expenses	(48,160)
Administrative expenses	(102,894)
Other operating expenses	(15,500)
Operating profit	367,103
Other income	1,555
Operating profit before finance costs	368,658
Finance costs	(245,469)
Net profit before tax	123,189
Taxation	(137,699)
Loss after tax	(14,510)

Additional Information:

Depreciation charged to income for the year was Rs.39.35 million. During the year, assets having book value of Rs.10.662 million were sold for Rs.9.4 million.

Intangible assets include ERP software purchased by the company four years ago. Amortization of Rs.1.1 million is included in administrative expenses.

Trade and other payables include the following:

	Rs. '000'	
	2009	2008
Due to associated undertakings	18,200	23,200
Unclaimed dividend	35,200	39,280

Other income comprises insurance claim received during the year. Short term investments meet the criteria of cash equivalents as per IAS-7.

Required:

Prepare statement of cash flows (indirect method) for the year ended June 30, 2009 as per the requirements of IAS-7 Statement of Cash Flows.

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- Q. 3** The draft statements of financial position of "A" Company Limited, "B" Company Limited and "C" Company Limited as at June 30, 2009 are as follows:

	"A" LTD.	"B" LTD.	"C" LTD.
	(Rs. 000)	(Rs. 000)	(Rs. 000)
ASSETS			
Non-current assets:			
Property, plant & equipment	90,000	60,000	60,000
Long-term deposits	7,000	2,000	3,000
Investment in "B" Ltd.	150,000	-	-
Investment in "C" Ltd.	65,000	70,000	-
	312,000	132,000	63,000
Current assets:			
Trade receivables	40,000	50,000	40,000
Inventory	5,000	3,000	2,000
Advance & other receivables	15,000	2,000	3,000
Short-term investments	5,000	3,000	5,000
Cash & cash equivalents	3,000	10,000	2,000
	68,000	68,000	52,000
Total Assets	380,000	200,000	115,000

LIABILITIES AND EQUITY

EQUITY	(Rs. 000)	(Rs. 000)	(Rs. 000)
Ordinary shares of Rs.10 each	200,000	50,000	50,000
Share premium	50,000	12,000	5,000
Retained earnings	45,000	68,000	25,000
	<u>295,000</u>	<u>130,000</u>	<u>80,000</u>
LIABILITIES			
Non-current liabilities:			
Long-term loans	25,000	10,000	-
Current liabilities:			
Accounts payable, accrued & other liabilities	50,000	55,000	32,000
Short-term loans	10,000	5,000	3,000
	<u>60,000</u>	<u>60,000</u>	<u>35,000</u>
Total liabilities and equity	<u>380,000</u>	<u>200,000</u>	<u>115,000</u>

Additional Data:

- (a) "A" Limited acquired 70% of the shares in "B" Limited on July 1, 2007.
- (b) "A" Limited acquired 30% shares of "C" Limited on July 1, 2008.
- (c) "B" Limited acquired 60% shares of "C" Limited on July 1, 2008.
- (d) Revenue reserve of "B" Limited on July 1, 2007 was Rs.12 million and there was no share premium account.
- (e) Revenue reserve of "C" Limited on July 1, 2008 was Rs.22 million and share premium was Rs.5 million.
- (f) Advance & other receivables of "A" Limited include receivable of Rs.2 million from "B" Limited included in accounts payable of "B" Limited.
- (g) Advance & other receivables of "C" Limited include receivable of Rs.1.5 million from "A" Limited included in accounts payable of "A" Limited.
- (h) On June 28, 2009, "A" Limited dispatched goods to "B" Limited at invoice price of Rs.2 million including 20% profit on selling price for "A" Limited. "A" Limited recorded the transaction on June 28, 2009 and recorded "B" Limited as accounts receivable by Rs.2 million and made corresponding entries in sales and inventory. However, the goods were received by "B" Limited on July 02, 2009 and "B" Limited recorded the transaction then.
- (i) During the year "C" Limited sold goods to "A" Limited amounting to Rs.4 million including 10% profits on selling price to "C" Limited. On June 30, 2009, goods at invoice price of Rs.1.5 million were still lying in the inventory of "A" Limited.
- (j) During the year the directors of "A" Limited introduced a defined benefit pension scheme for the employees of "A" Limited and contributed cash of Rs.5 million. The following details relate to the scheme as at June 30, 2009:

	Rs."000"
Present value of obligation	6,500
Fair value of plan assets	6,000
Current service cost	5,500
Interest cost-scheme liabilities	1,000
Expected return on pension scheme assets	500

The only entry in the financial statements made to date is in respect of the cash contribution which has been included in "A" Limited's accounts receivable.

Required:

Prepare consolidated statement of financial position as at June 30, 2009.

- Q. 4 (a)** The details of investment extracted from the books of Finance Limited for the year ended June 30, 2009 show the following:

	Date of Purchase	Qty	Cost (Rs.000)	Market Price (Rs.000)	Date of Maturity
Shares in Alpha Limited	1-Oct-2008	18,000	441	576	N/A
Shares in Beta Limited	1-Nov-2008	24,500	1,960	1,911	N/A
14% Debentures in Gamma Ltd (face value - Rs.5,000)	1-Jul-2008	1,800	9,090	9,360	30-Jun-2011
16% Debentures in Theta Ltd (face value - Rs.5,000)	1-Jan-2009	650	3,185	N/A	31-Dec-2011

The company is aware of the fact that it needs to apply International Accounting Standard 39 on the above investments. However, due to inadequate knowledge of the requirements of the Standard, the accountant has approached you for an advice.

He informs you that the investment made in the shares of Alpha Limited was with the intention of making short-term gain in expectation of upward momentum in stock market activity, whereas the shares in Beta Limited are high dividend-yielding and the company intends to hold it for the long-term.

The debentures in Gamma Limited were also acquired with the intention of short-term profit making. However, the company later changed its intention and now wishes to hold it till maturity. The debentures in Theta Limited are acquired with a firm intention to hold these till maturity. Both these debentures are to be redeemed at their face values. The coupon payments are made on yearly basis on June 30 and December 31. The original effective rate of interest on debentures of Gamma Limited is 13.58% while on debentures of Theta Limited is 16.91%.

Required:

- (i) Advise the accountant about the classification of above investments in the books of the company in accordance with the IAS-39 along with reasons. 04
- (ii) State the amount at which each of the above investments will be carried in the 'statement of financial position' as at June 30, 2009 (definitions of various categories of financial assets as per IAS-39 are not required). Also calculate the impact to be reflected in the 'statement of comprehensive income' or 'statement of changes in equity' for the year ended June 30, 2009. 06

- (b)** Sabih Textile Limited owns a number of properties. An independent surveyor has assessed their market values given here under:

Property	Cost	Valuation	Valuation
	July 1, 2007	June 30, 2008	June 30, 2009
	Rs.	Rs.	Rs.
A	57,000	72,000	101,000
B	99,000	107,000	86,000
C	136,500	119,000	153,500
	292,500	298,000	340,500

All the properties had an estimated life of 50 years when they were acquired. They are all let on short leases under commercial terms, however property C is let to a group company of Sabih Textile Limited. The group policy (applied by all members of the group) is to adopt the fair value model given in IAS-40 for investment properties and to treat owner-occupied properties according to cost model mentioned in IAS-16.

Required:

Prepare extracts of the group income statement and statement of financial position of Sabih Textile Limited in respect of the above mentioned properties for the years to June 30, 2008 and 2009.

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THE END