INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall 2012 (February 2013) Examinations

Friday, the 22nd February 2013

ADVANCED FINANCIAL ACCOUNTING AND CORPORATE REPORTING – (AF-501)
SEMESTER – 5

Extra Reading Time:	**15 Minutes**	**Maximum Marks: 90**	**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) **Question Paper must be returned to invigilator before leaving the examination hall.**

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 Below are the summarized statements of financial position of Coffee Co., and Tea Co., (listed companies) as at December 31, 2012:

	Coffee Co. (Rs. '000')	Tea Co. (Rs. '000')
Non-Current Assets		
Property, plant and equipment (PPE)	40,000	9,000
Investment in equity instruments of Tea Co.	8,050	-
	48,050	9,000
Current Assets		
Inventory	8,000	1,500
Accounts receivable	2,000	300
Cash and bank	1,500	200
	11,500	2,000
Total Assets	**59,550**	**11,000**
Equity		
Share capital	10,000	1,000
Reserve	39,550	8,200
	49,550	9,200
Liabilities	10,000	1,800
Total Equity and Liabilities	**59,550**	**11,000**

Coffee Co., acquired shares in Tea Co., in two stages as follows:

Date	No. of shares	Consideration (Note 1) (Rs.)	Reserves at acquisition (Rs.)	Fair value of net assets at acquisition (Rs.)	Fair value per share (Rs.)
01/01/2012	250,000	2,450,000	6,800,000	8,500,000	9.800
30/09/2012	450,000	5,006,250	7,800,000	9,800,000	11.125

Note 1:

Consideration paid is equivalent to fair value of shares acquired at that date. Coffee Co., holds all investments in subsidiaries and associate at fair value through other comprehensive income in its separate financial statements. At December 31, 2012, the fair value of Coffee Co's., 70% holding in Tea Co., was Rs.8,050,000.

Marks

The difference of the fair value of the identifiable assets and liabilities of Tea Co., and their book value relates to the value of land. The land had not been sold till December 31, 2012.

On January 1, 2012, Coffee Co., granted 250 shares to each of its 1,500 employees on condition that they will work for three years for the company. During 2012 only 30 employees had left the company and it is estimated that another 90 employees will leave in two-year time. The fair value of each share option at the grant date was Rs.8. These options have not been accounted for in the financial statements.

Income and expenses are assumed to accrue evenly over the year. Neither company paid dividends during the year and Coffee Co., measures non-controlling interests at the date of acquisition at fair value.

Assume no impairment losses during the year.

Required:

Prepare Consolidated Statement of Financial Position as on December 31, 2012. **20**

Q. 3 Season Limited acquired 65% of Summer Limited for Rs.26 million when the book value of Summer Limited was Rs.34 million on March 1, 2012.

Season Limited also acquired an associate Winter Limited on July 1, 2011 at a cost of Rs.12 million. Season Limited acquired 25% shares out of 2.20 million shares; the total of Winter Limited's equity at the date of acquisition was Rs.40 million.

The companies' statements of profit and loss and other comprehensive income for the year ended June 30, 2012 were:

	Season Limited (Rs. '000')	**Summer Limited (Rs. '000')**	**Winter Limited (Rs. '000')**
Revenue	9,500	7,275	3,460
Cost of sales	(6,500)	(4,230)	(2,020)
Gross profit	**3,000**	**3,045**	**1,440**
Operating expenses	(1,000)	(375)	(196)
Other income	230	–	–
Finance costs	–	(210)	(24)
Profit / (Loss) before tax	**2,230**	**2,460**	**1,220**
Income tax expenses	(300)	(300)	(72)
Profit / (Loss) after tax	**1,930**	**2,160**	**1,148**
Other comprehensive income	130	120	8
Total comprehensive income for the year	**2,060**	**2,280**	**1,156**
Dividend paid during the year	500	–	160

Additional information:

On July 1, 2011, Summer Limited issued Rs.2.10 million 10% loan notes to Season Limited. Interest is payable on January 1 and July 1. Season Limited has accounted for the interest received on January 1, 2012 only. Whereas Summer Limited has accounted for whole year's interest expense.

One machine (included in PPE) of Summer Limited on March 1, 2012 was valued at Rs.500,000 (book value is Rs.350,000) and was acquired on July 1, 2011. The machine has a total useful life of ten years. Summer Limited has not adjusted its accounting records to reflect fair values. The company uses straight-line method to depreciate the machine (to be charged to administrative expenses).

The group accounting policy is to measure non-controlling interest (NCI) at its proportionate share of the fair value of subsidiary's net identifiable assets at acquisition.

Marks

On March 31, 2012, Summer Limited sold goods to Season Limited at Rs.300,000. The company made a profit on the goods of 10% on selling price. 2/3 of these goods were held by Season Limited on June 30, 2012.

Impairment test indicated impairment loss of Rs.250,000. The group policy is to recognise impairment losses on goodwill in the cost of sales.

Required:

Prepare Consolidated Statement of Comprehensive Income for the year ended June 30, 2012. **25**

Q. 4 (a) Management of Star Company is worried about excessive turnover of employees. The HR Director has suggested to grant 250 cash share appreciation rights (SARs) to each of its 400 employees subject to condition that the employees continue to work for the entity for three years. The Board approved the proposal from July 1, 2009. The management expects that 20 employees will leave each year. During three years following employees left the company:

Years	No. of Employees
2009-2010	20
2010-2011	24
2011-2012	30

On June 30, 2012, 125 employees exercised their rights. The fair value of the share appreciation rights for the year in which a liability exists are shown below, together with the intrinsic value at the date of exercise:

	Fair value (Rs.)	Intrinsic Value (Rs.)
Jun-10	12.50	11.50
Jun-11	14.00	14.50
Jun-12	16.50	17.00

Required:

Calculate the amount to be presented in the statement of financial position and statement of comprehensive income for three years from 2010 to 2012. **08**

(b) Following data related to AC Company and its subsidiary DC Company for the year ended June 30, 2012:

AC Company:	**(in '000')**
Profit attributable to ordinary share holders of AC Company	Rs. 25,000
Ordinary shares outstanding	10,000
Instruments of DC Company owned by AC Company:	
Ordinary shares outstanding	900
Warrants exercisable to purchase ordinary share of DC Company	300
Convertible preference shares	375
DC Company:	
Profit for the year (after tax)	Rs. 8,000
Ordinary shares outstanding	1,200
Warrants exercisable to purchase ordinary shares of DC Company	600
Convertible preference shares (convertible into 1 equity share)	500

Exercise price is Rs.10

Average market price is Rs. 20

Dividend on preference shares is Re.1 per share

Marks

Required:

Calculate basic earnings per share and diluted earnings per share for the subsidiary and group. Ignore income tax and assume that no inter-company elimination or adjustment is necessary except for dividends. **12**

Q. 5 (a) Honey Company operates a defined benefit plan and following information related to its plan as on June 30, 2012:

	(Rs.)
Fair value of plan assets as on June 30, 2011	6,800,000
Present value of pension liability as on June 30, 2011	6,500,000
Current service cost	750,000
Benefit paid	500,000
Contribution to plan assets	800,000
Re-measurement component in obligation (loss)	100,000
Re-measurement component in assets (gain)	420,000
Present value of pension liability as on June 30, 2012	?
Fair value of plan assets as on June 30, 2012	?

The total present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan is Rs.300,000 as on June 30, 2011 and 2012. The company uses the discount rate of 10%.

Required:

Calculate the amount of asset / liability to be presented in the Statement of Financial Position as on June 30, 2012. **10**

(b) On July 1, 2010, Star Company made a loan to Moon Company of Rs.10 million for 5 years. The coupon rate is same as the effective rate of interest i.e., 9%. On June 30, 2012, it becomes clear that Moon Company is facing financial crisis and it has become evident of impairment. It is estimated that the remaining future cash flows from the loan will only be Rs.7.50 million at the end of the fifth year (inclusive of interest of remaining years). Interest is received at the end of each year and current market interest rate is 10.50%.

Required:

Show the effect of the above transactions on Statement of Financial Position and Statement of Comprehensive Income for the year ended June 30, 2012. **05**

Q. 6 (a) Describe the characteristics of operating segments as prescribed by IFRS 8. **03**

(b) (i) As per the practice statement published by the IASB, what does management commentary mean? **02**

(ii) What information should management commentary include? **05**

THE END