INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Winter (November) 2011 Examinations

Wednesday, the 23rd November 2011

ADVANCED FINANCIAL ACCOUNTING & ANALYSIS – (S-401)

STAGE – 4

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 after finishing/ writing the exam.**

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 Peace Company Limited uses the indirect method to prepare its statement of cash flows. The accountant of the company has prepared comparative Statement of Financial Position as of June 30, 2010 and 2009 as follows:

Share capital and reserves	**2010**	**2009**
Authorized Capital:	**Rs.**	**Rs.**
100,000 ordinary shares of Rs. 10 each	1,000,000	1,000,000
Issued, subscribed and paid up capital	450,000	450,000
Retained earnings	2,425,000	2,175,000
	2,875,000	2,625,000
Non-current liabilities		
Finance lease obligation	355,000	-
Current Liabilities		
Trade payable	660,000	600,000
Current portion of liability against leased assets	60,000	
Dividends payable	75,000	100,000
Provision for taxation	25,000	50,000
	820,000	750,000
Total Liabilities and Equity	**4,050,000**	**3,375,000**
Non-current assets		
Property, plant and equipments (PPE)	2,412,000	2,067,000
Accumulated depreciation – PPE	(1,165,000)	(1,040,000)
	1,247,000	1,027,000
Loan receivable	350,000	-
Current Assets		
Inventory	995,000	860,000
Trade receivables	813,000	868,000
Cash and bank balances	645,000	620,000
	2,453,000	2,348,000
Total Assets	**4,050,000**	**3,375,000**

PTO

Additional Information: **Marks**

(i) On July 2, 2009, Peace Company Limited sold equipment costing Rs.70,000, with a carrying amount of Rs.48,000, for Rs.50,000 cash.

(ii) On January 1, 2010, the Peace Company Limited extended a loan of Rs.400,000 to 'T' Company Limited. 'T' Company Limited made the first bi-annual principal repayment of Rs.50,000, plus interest at 7.5%, on June 30, 2010.

(iii) On June 30, 2010, Peach Company Limited entered into a Finance Lease agreement for an office building. The present value of the annual rental payments is Rs.415,000 which equals the fair value of the building. Peace Company Limited made the first instalment payment of Rs.60,000 when due on July 2, 2010.

(iv) Profit before tax for the year ended June 30, 2010 was Rs.355,000 while the tax for the year was provided for Rs.30,000.

(v) Peace Company Limited declared dividend of Rs.75,000 for the year ended June 30, 2010.

Required:

Prepare Statement of Cash Flows for the year ended June 30, 2010 as per the requirements of IAS-7 using 'Indirect Method'. **15**

Q. 3 Power Plus Ltd., acquired 60% shares of Super Plus Ltd., and 25% shares of Advance Plus Ltd., on December 31, 2009. Their Statements of Financial Position as of December 31, 2010 were as under:

(Rupees in million)

	Power Plus Ltd.	Super Plus Ltd.	Advance Plus Ltd.
Non-Current Assets			
Property, plant and equipment	385	205	330
Investments	236	-	-
	621	**205**	**330**
Current Assets			
Inventories	142	92	155
Trade receivables	135	99	76
Cash and cash equivalents	45	29	24
	322	**220**	**255**
Total Assets	**943**	**425**	**585**
Liabilities and Equity			
Share capital	210	100	85
Share premium	80	75	140
Retained earnings	566	190	290
	856	**365**	**515**
Current Liabilities			
Trade payables	87	60	70
Total Liabilities and Equity	**943**	**425**	**585**

Additional Information:

(i) The investments of Power Plus Ltd., comprise investment in Super Plus Ltd., for Rs.141 million and in Advance Plus Ltd., Rs.95 million.

(ii) The pre-acquisition retained earnings balances were as follows:

Super Plus Ltd. - Rs. 25 million

Advance Plus Ltd. - Rs.130 million

(iii) At the time of acquisition fair value of property, plant and equipment of Super Plus Ltd., was greater than its book value by Rs.50 million. If Super Plus Ltd., had revalued its property, plant and equipment on December 31, 2009 , an additional depreciation of Rs.5 million would have been charged to income statement for the year ended December 31, 2010.

(iv) The book value of inventory of Super Plus Ltd., was in excess of its fair value by Rs.20 million at acquisition date. The inventory was sold during the year.

Marks

(v) During the year, Power Plus Ltd., sold goods to Super Plus Ltd., for Rs.21 million, which originally cost Power Plus Ltd., Rs.15 million. 1/3rd of the goods were still unsold as of December 31, 2010.

(vi) Share capital and share premium accounts remained unchanged since acquisition.

(vii) There is no impairment of goodwill since acquisition.

Required:

Prepare the Consolidated Statement of Financial Position of Power Plus Ltd., as of December 31, 2010. **15**

Q. 4 (a) State the conditions to be satisfied to recognize revenues from sale of goods, as described in the IAS-18. **05**

(b) Following are the Statements of Financial Position of Alto Ltd., and Belta Ltd., as of December 31, 2009:

	Alto Ltd.	**Belta Ltd.**
Share capital and reserves		
Share capital	50,000	30,000
Reserves	17,000	-
Retained earnings	3,000	-
	70,000	30,000
Non-current liabilities		
8% Debentures	10,000	-
Current Liabilities		
Trade and other payables	6,500	4,000
Total Liabilities and Equity	**86,500**	**34,000**
Non-current assets		
Property, plant and equipment	70,000	25,000
Current Assets		
Inventory	8,000	4,000
Trade receivables	7,000	5,000
Less: Provision for doubtful debts	-	(500)
Cash and bank balances	1,500	500
	16,500	9,000
Total Assets	**86,500**	**34,000**

Additional Information:

- Alto Ltd., and Belta Ltd., agree to amalgamate and form a new company Zee Ltd., with an authorized capital of Rs.2,000,000 equivalent to 200,000 shares of Rs.10 each.
- Zee Ltd., takes over the assets and liabilities of both the companies on January 1, 2010.
- Debenture holders of Alto Ltd., to receive Rs.8,000 by issuing 12% debentures in Zee Ltd.
- The assets of both the companies are to be re-valued as follows:

	Alto Ltd.	**Belta Ltd.**
– Property plant and equipments	60,000	27,000
– Inventory	7,500	3,800
– Trade receivables	6,000	4,000

- Both the companies to receive goodwill; Alto Ltd., Rs.5,000 and Belta Ltd., Rs.3,000.
- The purchase consideration is to be paid by Zee Ltd., by issuing fully paid ordinary shares of Rs.10/- each.

PTO

Required: **Marks**

(i)	Calculate purchase consideration to be paid to Alto Ltd., and Belta Ltd.	**04**
(ii)	Give necessary Journal entries in the books of Zee Ltd.	**07**
(iii)	Prepare Statement of Financial Position of Zee Ltd., as of January 1, 2010	**04**

Q.5 (a)

- ZM Ltd., has reported revenues of Rs.180,000 and expenses of Rs.95,000 for the year ended December 31, 2010.
- ZM Ltd., has forecast that it will generate the same level of revenues and incur the same level of expenses in the years 2011 and 2012.
- ZM Ltd., has trade receivables balance amounting to Rs.45,000 as of December 31, 2010 which it expects to collect, Rs.30,000 in the year 2011 and Rs.15,000 in the year 2012. There are no other temporary or permanent differences in the current or subsequent two periods.
- ZM Ltd., pays tax @ 35% on all its incomes.

Required:

(i)	Calculate Financial Reporting Income and Tax Reporting Income for the years from 2010 to 2012.	**05**
(ii)	Calculate total tax expense, current tax expense and deferred tax liability for the years from 2010 to 2012.	**04**
(iii)	Give necessary Journal entries for taxation in the books of ZM Ltd., for each year.	**05**

(b) As per IAS 11 Construction Contracts what shall be the composition of the following?

(i)	Contract revenue	**03**
(ii)	Contract costs	**03**

Q. 6 (a) Explain the following terms as per IAS 17 Leases:

(i)	Guaranteed residual value	**02**
(ii)	Un-guaranteed residual value	**02**
(iii)	Initial direct costs	**01**

(b) On January 1, 2009, Anchor Ltd., had purchased Rs.100,000, 10%, five-year bonds of Shaheen Ltd., and Rs.200,000, 12%, seven-year bonds of Beacon Ltd. Bonds were purchased at face value and will be encashed at the same value. Interest is payable on January 1 each year. The bonds were being traded in the market as mentioned below:

Bonds	**Dec-31-2009**	**Dec-31-2010**
	Rs.	**Rs.**
Shaheen Ltd. 10%	107,000	110,000
Beacon Ltd. 12%	186,000	195,000

On January 1, 2010 Anchor Ltd., had sold the bonds of Shaheen Ltd., for Rs.115,000. The company has classified the bonds as available-for-sale securities.

Required:

(i)	Prepare Journal entries to record the investment, fair value adjustments and sale of bonds, for the years ended December 31, 2009 and 2010.	**09**
(ii)	Prepare extracts of Statement of Financial Position and Statement of Comprehensive Income as of December 31, 2010.	**06**

THE END