INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Winter (November) 2011 Examinations

Saturday, the 26th November 2011

FINANCIAL REPORTING- (S-501)
STAGE – 5

Extra Reading Time:	**15 Minutes**	**Maximum Marks: 70**	**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) **Appearing in Project and Presentation parts of the paper is mandatory.**
(ix) **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 Statements of Financial Position of three companies as at June 30, 2011 are given below:

	Amounts in Rupees		
ASSETS	**"X" Co.**	**"Y" Co.**	**"Z" Co.**
Non-current assets:			
Property, plant and equipment	870,450	740,250	40,000
Investments at cost:			
225,000 shares in "Y" Co.	320,000		
40,000 shares in "Z" Co.		68,600	
	1,190,450	**808,850**	**40,000**
Current assets			
Inventory	140,000	61,500	75,000
Accounts receivables	100,000	98,000	5,000
Cash	120,000	49,500	20,000
	360,000	**209,000**	**100,000**
Total Assets	**1,550,450**	**1,017,850**	**140,000**
LIABILITIES AND EQUITY			
Equity			
Ordinary shares of Rs.1 each	400,000	300,000	50,000
Retained earnings	259,200	187,600	(5,000)
	659,200	487,600	45,000
Non-Current Liability	450,450	350,250	25,000
	1,109,650	**837,850**	**70,000**
Current liabilities			
Accounts payable	320,800	159,000	70,000
Taxation	120,000	21,000	-
	440,800	**180,000**	**70,000**
Total liabilities and equity	**1,550,450**	**1,017,850**	**140,000**

PTO

Marks

Additional Information:

(i) "X" Co., acquired shares in "Y" Co., on July 01, 2005 when the retained earnings of "Y" Co., were Rs.120,000.

(ii) "Y" Co., acquired shares in "Z" Co., on July 01, 2006 when the retained earnings of "Z" Co., were showing a debit balance of Rs.7,500.

(iii) During the year "X" Co., sold goods amounting to Rs.20,000 to "Y" Co., earning a profit of Rs.8,000. 25% of these goods remained unsold at the balance sheet date.

(iv) "Y" Co., also sold goods to "Z" Co., earning 25% mark-up on cost. 75% of these goods remained unsold at the balance sheet date. These goods cost Rs.60,000 to "Y" Co.

(v) It is the policy of "X" Co., to value the non-controlling interests (NCI) at acquisition at fair value.

(vi) Fair value of the NCI in "Y" Co., at acquisition was Rs.108,000.

(vii) Fair value of 40% NCI in "Z" Co., at acquisition was Rs.35,000.

Required:

Prepare Consolidated Statement of Financial Position as at June 30, 2011. **25**

Q. 3 Following Financial Statements relate to Rising Star Limited:

	Rs. in million	
EQUITY AND LIABILITIES	**2011**	**2010**
Share Capital and Reserves		
Authorized capital:		
30 million ordinary shares of Rs. 10 each	**300.000**	**300.000**
Issued, subscribed and paid up capital	271.200	194.000
Share premium	3.300	1.860
Revenue reserves	149.304	74.580
	423.804	**270.440**
Non-Current Liabilities		
Redeemable capital	155.227	185.232
Liabilities against assets subject to finance lease	-	8.971
Deferred taxation	46.422	42.910
	201.649	**237.113**
Current Liabilities		
Trade and other payables	155.730	246.530
Interest and mark-up accrued	16.350	19.400
Bank overdraft	38.000	-
Current portion of liabilities against assets subject to finance lease	3.544	7.310
Current tax payable	40.250	35.500
	253.874	**308.740**
	879.327	**816.293**
ASSETS		
Non-Current Assets		
Property, plant and equipment	535.889	491.117
Intangible assets	6.080	4.660
Long-term investments	12.667	61.042
Total	**554.636**	**556.819**

Marks

	Rs. in million	
	2011	**2010**
Current Assets		
Inventory	198.790	149.028
Trade debts	38.900	29.500
Short-term investment	19.250	34.300
Accrued income on long-term investments	8.350	9.260
Prepayments and other receivables	11.446	5.262
Cash and bank balances	47.955	32.124
	324.691	**259.474**
	879.327	**816.293**

INCOME STATEMENT

For the year ended June 30, 2011

Sales	841.015
Cost of sales	(512.850)
Gross profit	328.165
Investment income	12.112
	340.277
Distribution and selling expenses	(50.166)
Administrative expenses	(99.555)
Other operating expenses	(14.346)
Operating profit before finance costs	176.210
Finance costs	(51.251)
Net profit before tax	124.959
Taxation	(50.235)
Profit after tax	74.724

Additional Information:

(i) Depreciation charged to income for the year was Rs.35.450 million.

(ii) During the year assets, having book value of Rs.15.555 million were sold for Rs.11.495 million.

(iii) An amortization of Rs. 1.125 million has been charged to income for the year.

(iv) Short-term investments meet the criteria of 'cash equivalents' as per IAS-7.

Required:

Prepare Statement of Cash Flows (using Indirect Method) for the year ended June 30, 2011 as per the requirements of International Accounting Standard-7 "Statement of Cash Flows". **20**

Q. 4 **(a)** What disclosures are required to be made by the lessee for finance leases as per IAS 17 Leases? **06**

Marks

(b) Following information is relevant to a defined benefit pension plan of Alfalah Company for the year 2010:

Plan Assets:	**Rs. (Million)**
Balance at January 01, 2010	600
Expected return on plan assets	61
Contribution received	49
Benefits paid	(40)
Actuarial gain (balancing figure)	15
	685
Plan Liabilities:	
Balance at January 01, 2010	640
Interest cost	52
Current service cost	21
Benefits paid	(40)
Actuarial loss (balancing figure)	42
	715

Additional Information:

- Unrecognized actuarial gains at January 01, 2010 : Rs.80 million
- Average remaining service lives of employees : 8 years

Required: **11**

Calculate:

(i) Pension expense to be recognised in profit or loss for the year ended December 31, 2010.

(ii) Net liabilities to be shown in the Statement of Financial Position as at December 31, 2010.

(c) Ammar Company issued two debt instruments on January 01, 2011 with nominal value of Rs.25,000 each and redeemable in three years on January 01, 2014. Effective rate of interest is 15%.

- Debt 1 has coupon rate of 1%. It was issued at par and is to be redeemed at a premium of Rs.12,154.
- Debt 2 has also a coupon rate of 1%. It was issued at discount of Rs.7,991 and is to be redeemed at par.

Required:

(i) At what amounts will they be recorded initially? **02**

(ii) What amounts of interest will be charged to the income statement for the three years in respect of each financial liability? **03**

(iii) What amount will be recognised in the statement of financial position at the end of year 2011 to 2013 in respect of each financial liability? **03**

THE END