

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**

Marks

Q.2

**Peace Co. Ltd.**  
**Cash Flow Statement**  
**For the year ending June 30, 2010**

	Rs.	Rs.	
<b>Cash flows from Operating Activities:</b>			
Profit before taxation	355,000		0.5
Add: Depreciation (WN-1)	147,000		0.5
Less: Interest income on loan (WN-4)	(15,000)		0.5
Less: Gain on sale of equipment (WN-5)	(2,000)		0.5
Operating profit before working capital changes	485,000		
<b>Changes in working capital</b>			
Decrease in debtors	55,000		1.0
Increase in inventory	(135,000)		1.0
Increase in trade creditors	60,000		1.0
Cash generated from operations	465,000		
Less: Income tax paid (WN-2)	(55,000)		0.5
Cash flows from operating activities		410,000	
<b>Cash flows from Investing Activities:</b>			
Loan to TLC Co.	(400,000)		0.5
Loan repayments received	50,000		0.5
Interest on loan received (WN-4)	15,000		0.5
Sale proceeds of equipment	50,000		0.5
Cash used in investing activities		(285,000)	
<b>Cash flows from Financing Activities:</b>			
Payment of Dividends (50,000+75,000-25,000)	(100,000)		0.5
Net cash used in financing activities		(100,000)	
Net cash flow during the year		25,000	
Opening balance of cash and cash equivalents		620,000	
Closing balance of cash and cash equivalents		645,000	

**Working Notes****WN-1 - Depreciation for the year**

Ending Balance		1,165,000	
Add: Depreciation on assets disposed off		22,000	1.0
Less: Opening Balance		(1,040,000)	
Depreciation for the year		147,000	1.0

**WN-2 - Payment of Tax**

Opening balance - Provision for Taxation		50,000	
Add: Provision for the year		30,000	1.0
		80,000	
Less: Ending Balance		(25,000)	
Tax paid during the year		55,000	1.0

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**WN-3 - Property, Plant & Equipments**

Opening balance	2,067,000	
Less: Ending balance	(2,412,000)	
	<u>(345,000)</u>	
Less: Disposal of equipment	(70,000)	1.0
PPE acquired on lease	<u><b>415,000</b></u>	1.0

**WN-4 - Interest Income on Loan**

Loan amount	400,000	
Interest (400,000 x 7.5% / 2)	<u><b>15,000</b></u>	0.5

**WN-5 - Gain on sale of equipment**

Sale proceeds	50,000	
Book value of equipments	48,000	
	<u><b>2,000</b></u>	0.5

**WN-6 - Retained Earnings**

Opening balance	2,175,000	
Add: Net profit after tax	325,000	
Less: Dividend declared	(75,000)	
Ending balance	<u><b>2,425,000</b></u>	

Q.3

**Power Plus Ltd.**  
**Consolidated Statement of Financial Position**  
**As of December 31, 2010**

<b>Non-Current Assets</b>	<b>(Rs. In million)</b>	
Property, Plant and Equipment [385+205 + (WN-1) 45]	635	0.75
Goodwill (WN-2)	3	0.25
Investment in associate (WN-3)	135	0.25
	<u><b>773</b></u>	
<b>Current Assets</b>		
Inventories [142 + 92 - (WN-6) 2]	232	0.75
Trade Receivables (135 + 99)	234	0.50
Cash and Cash Equivalents (45 + 29)	74	0.50
	<u><b>540</b></u>	
<b>Total Assets</b>	<u><b>1,313</b></u>	

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<b>Equity</b>	<b>(Rs. In million)</b>	
Share Capital	210	0.25
Share Premium	80	0.25
Retained Earnings (WN-4)	712	0.25
	<u>1,002</u>	
Non-Controlling Interest - NCI (WN-5)	164	0.25
	<u>1,166</u>	
<b>Current Liabilities</b>		
Trade Payables (87 + 60)	147	0.5
<b>Total Equity and Liabilities</b>	<b><u>1,313</u></b>	

**Working Notes (Rupees in million):****Adjustment for Revaluation of Assets - (WN-1)****(Rs. In million)**

	<b>Excess of FV over BV</b>	<b>Adjustments</b>	<b>Balance</b>	
Property, Plant & Equipment	50	(5)	45	
Inventories	(20)	20	-	
	<u>30</u>	<u>15</u>	<u>45</u>	0.5+0.5+0.5

**Goodwill - Super Plus Ltd. - WN-2****(Rs. In million)**

Consideration paid		141	0.25
Share capital	100		0.25
Share premium	75		0.25
Pre-acquisition profits	25		0.25
Adjustment for Revaluation of Assets	30		0.25
	<u>230</u>		
Group share (230 x 60%)		(138)	0.25
Goodwill arising on consolidation		<u>3</u>	0.5

**Investment in Advance Plus Ltd. (Associate) - WN-3:****(Rs. In million)**

Investment at cost		95	
Share of post-acquisition retained earnings [(290-130) x 25%]		40	0.5
		<u>135</u>	0.5

**Consolidated Retained Earnings - (WN-4)****(Rs. In million)**

	<b>Power Plus Ltd.</b>	<b>Super Plus Ltd.</b>	<b>Advance Plus Ltd.</b>	
As of June 30, 2010	566	190	290	
Less: Retained earnings pre-acquisition		(25)	(130)	0.5+0.5
Less: Un-realized profit against unsold goods	(2)			0.5
Add: Adjustment for Revaluation of Assets		15		0.5
Share of post-acquisition profits		180	160	
Super Plus Ltd (180 x 60%)	108			0.5
Advance Plus Ltd. (160 x 25%)	40			0.5
Consolidated retained earnings	<u>712</u>			0.5

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**

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**Non-Controlling Interest - NCI - (WN-5)***(Rs. In million)*

Net assets:		
Share capital	100	0.25
Share premium	75	0.25
Retained earnings	190	0.25
Add: Adjustment for Revaluation of Assets	45	0.25
	410	0.5
NCI = (410 x 40%)	164	0.5

**Unrealized profit on unsold goods (WN-6)**

21 - 15 = 6 / 3 = Rs. 2 million 0.5

**Q.4 (a)** Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

- (i) The entity has transferred to the buyer the significant risks and rewards of ownership of the goods; 1.0
- (ii) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; 1.0
- (iii) The amount of revenue can be measured reliably; 1.0
- (iv) It is probable that the economic benefits associated with the transaction will flow to the entity; 1.0
- (v) The costs incurred or to be incurred in respect of the transaction can be measured reliably. 1.0

**(b) (i) Calculation for the Purchase Consideration:**

	<i>(in Rupees)</i>			
	Alto Ltd.	Belta Ltd.	Total	
<b><u>Assets taken over:</u></b>				
Property, plant and equipment:	60,000	27,000	87,000	0.50
Inventory	7,500	3,800	11,300	0.50
Trade receivables	6,000	4,000	10,000	0.50
Cash and bank balances	1,500	500	2,000	0.50
Total assets	75,000	35,300	110,300	
<b><u>Liabilities taken over:</u></b>				
8% Debentures	8,000	-	8,000	0.25
Trade and other payables	6,500	4,000	10,500	0.25
Total liabilities	14,500	4,000	18,500	
Net assets	60,500	31,300	91,800	0.5
Add: Goodwill	5,000	3,000	8,000	0.5
Purchase consideration	65,500	34,300	99,800	0.5

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(ii)

**Zee Ltd  
General Journal***(in Rupees)*

Date	Description	Ref	Debit	Credit	
1-Jan-10	Business Purchase A/c		99,800		0.5
	Alto Ltd.			65,500	0.5
	Belta Ltd.			34,300	0.5
	<i>To record acquisition of business of Alto Ltd. &amp; Belta Ltd. as per agreement</i>				
1-Jan-10	Goodwill		8,000		0.5
	Property, plant and equipment:		87,000		0.5
	Inventory		11,300		0.5
	Trade receivables		10,000		0.5
	Cash and bank balances		2,000		0.5
	12% Debentures			8,000	0.5
	Trade and other payables			10,500	0.5
	Business Purchase A/c			99,800	0.5
	<i>To record taking over of assets &amp; liabilities of Alto Ltd and Belta Ltd.</i>				
1-Jan-10	Alto Ltd.		65,500		0.5
	Belta Ltd.		34,300		0.5
	Ordinary Share capital			99,800	0.5
	<i>To record issuance of shares to the shareholders of Alto Ltd. &amp; Belta Ltd. being payment of purchase consideration</i>				

(iii)

**Zee Ltd.  
Statement of Financial Position  
As of January 1, 2010**

	Rs.	
<b>Share capital and reserves</b>		
Authorized capital:		
200,000 ordinary shares of Rs. 10 each	2,000,000	
Issued, subscribed and paid up capital (9,980 shares of Rs.10 each)	99,800	0.5
<b>Non-current liabilities</b>		
12% Debentures	8,000	0.5
<b>Current Liabilities</b>	10,500	0.5
<b>Total Liabilities and Equity</b>	<b>118,300</b>	
<b>Non-current assets</b>		
Goodwill	8,000	0.5
Property, plant and equipment:	87,000	0.5

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<b>Current Assets</b>	<b>Rs.</b>	
Inventory	11,300	0.5
Trade receivables	10,000	0.5
Cash and bank balances	2,000	0.5
	23,300	
<b>Total Assets</b>	<b>118,300</b>	

Q.5 (a) (i)

	2010	2011	2012	
<b>Financial Reporting Income</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	
Revenues	180,000	180,000	180,000	
Expenses	95,000	95,000	95,000	
Pre-tax financial income	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>	1.0+0.5+0.5
<b>Tax Reporting Income</b>				
Revenues	135,000	210,000	195,000	
Expenses	95,000	95,000	95,000	
Taxable income	<b>40,000</b>	<b>115,000</b>	<b>100,000</b>	1.0+1.0+1.0
Income Tax Rate	35%	35%	35%	

(ii)

Total Tax expense	29,750	29,750	29,750	0.5+0.25+0.25
Current tax expense (Income Tax Payable)	14,000	40,250	35,000	0.5+0.5+0.5
<b>Deferred Tax Liability</b>	<b>15,750</b>	<b>(10,500)</b>	<b>(5,250)</b>	0.5+0.5+0.5

(iii)

**ZM Ltd.**  
**General Journal** **(in Rupees)**

Date	Description	Ref	Debit	Credit	
31-Dec-10	Tax expense		29,750		0.5
	Deferred Tax Liability			15,750	0.5
	Tax Payable (Current Tax Expense)			14,000	0.5
	<i>To record current and deferred tax liability for the year 2010</i>				
31-Dec-11	Tax expense		29,750		0.5
	Deferred Tax Liability		10,500		0.5
	Tax Payable (Current Tax Expense)			40,250	0.5
	<i>To record current tax and adjustment of deferred tax liability for the year 2011</i>				
31-Dec-12	Tax expense		29,750		0.5
	Deferred Tax Liability		5,250		0.5
	Tax Payable (Current Tax Expense)			35,000	0.5
	<i>To record current tax and adjustment of deferred tax liability for the year 2012</i>				

**For Narration** 0.5

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS****Marks****(b) (i) Contract Revenue:**

Contract revenue shall comprise:

- |   |     |
|---|-----|
| (a) the initial amount of revenue agreed in the contract; and               | 1.0 |
| (b) variations in contract work, claims and incentive payments:             | 1.0 |
| (i) to the extent that it is probable that they will result in revenue; and | 0.5 |
| (ii) they are capable of being reliably measured.                           | 0.5 |

**(ii) Contract Costs:**

Contract costs shall comprise:

- |   |     |
|---|-----|
| (a) costs that relate directly to the specific contract;  | 1.0 |
| (b) costs that are attributable to contract activity in general and can be allocated to the contract; and | 1.0 |
| (c) such other costs as are specifically chargeable to the customer under the terms of the contract.      | 1.0 |

**Q.6 (a) (i) Guaranteed Residual:**

Guaranteed residual value is:

- |   |     |
|---|-----|
| (a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and | 1.0 |
| (b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.              | 1.0 |

**(ii) Unguaranteed Residual:**

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

2.0

**(iii) Initial Direct Costs:**

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

1.0

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(b) (i)

**Anchor Ltd. Limited  
General Journal**

Date	Description	Ref	Debit	Credit	
1-Jan-09	Investment - Available for sale securities		300,000		1.0
	Bank Account			300,000	1.0
	<i>To record purchase of bonds.</i>				
31-Dec-09	Unrealized Holding Gain or Loss - Equity		7,000		1.0
	Securities Fair Value Adjustment (Available for sale)			7,000	1.0
	<i>To record fair value adjustment of investment based on market price as of Dec-31-2009</i>				
1-Jan-10	Bank Account		115,000		1.0
	Investment - Available for sale securities			100,000	1.0
	Gain on sale of securities			15,000	1.0
	<i>To record sale of investment of PKR 104,000 (at cost) of Shaheen Ltd. for Rs.115,000</i>				
31-Dec-10	Securities Fair Value Adjustment (Available for sale)		2,000		1.0
	Unrealized Gain or Loss - Equity			2,000	1.0
	<i>To record fair value adjustment of investment based on market price as of Dec-31-2010</i>				

(ii)

**Anchor Ltd.  
Statement of Comprehensive Income (Extract)  
As of December 31, 2010****Other Income**

Interest income	xxx	
Gain on sale of securities (115,000 - 100,000)	15,000	1.0
		1.0

**Anchor Ltd.  
Statement of Financial Position (Extract)  
As of December 31, 2010****Non-current Assets**

Investment - Available-for-sale securities , at fair value	195,000	1.0
(200,000 - 5,000)		1.0

**Current Assets**

Interest Receivable	xxx	
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**Shareholder's Equity**

Accumulated other comprehensive loss	(5,000)	1.0
(200,000 - 195,000)		1.0

**THE END**