INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Summer (May) 2011 Examinations

Wednesday, the 25th May 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 'X' Limited acquired 75% of the ordinary shares of 'Y' Limited on January 1, 2008. The summarized Income Statements of the two companies for the year ending December 31, 2010 are as follows:

	'X' Limited (Rs. '000)	'Y' Limited (Rs. '000)
Sales	78,000	42,000
Cost of sales	(33,000)	(24,000)
Gross profit	45,000	18,000
General and administrative expenses	(11,000)	(6,000)
Selling and distribution expenses	(3,000)	(2,000)
Profit before taxation	31,000	10,000
Taxation	(9,000)	(3,000)
Profit after taxation	22,000	7,000
Retained earnings b/f	88,000	16,000
Retained earnings c/f	**110,000**	**23,000**

Additional information:

(i) During the year, 'Y' Limited sold goods worth of Rs.5,000,000 to 'X' Limited at cost plus 25% profit. 50% of the goods remained in the inventory of 'X' Limited as of December 31, 2010.
(ii) 'Y' Limited has proposed a dividend of Rs.2,000,000 to its ordinary shareholders on December 31, 2010.
(iii) At the time of acquisition, 'Y' Limited had pre-acquisition profits of Rs.5,000,000.

Required:

Prepare Consolidated Statement of Comprehensive Income of 'X' Limited for the year ended December 31, 2010. **15**

Q. 3 Following are the comparative statements of financial position of Pakistan Printing Limited as of December 31, 2010 and 2009:

Pakistan Printing Limited
Statement of Financial Position
as of December 31

Share Capital and Reserves	**2010 (Rs. '000)**	**2009 (Rs. '000)**
Issued, subscribed and paid up capital	255,000	255,000
Retained earnings	62,000	20,000
	317,000	275,000

PTO

Marks

	2010 (Rs. '000)	2009 (Rs. '000)
Non-Current Liabilities		
Bonds payable	72,500	-
Current Liabilities		
Trade payable	28,000	17,000
Provision for taxation	12,000	5,000
	40,000	22,000
Total Liabilities and Equity	**429,500**	**297,000**
Non-Current Assets		
Equipment	337,000	215,000
Accumulated depreciation – equipment	(20,000)	(40,000)
Long-term investments	10,000	55,000
	327,000	230,000
Current Assets		
Inventory	15,000	10,000
Prepaid expenses	12,000	7,000
Trade receivables	58,000	41,000
Cash and bank balances	17,500	9,000
	102,500	67,000
Total Assets	**429,500**	**297,000**

Additional Information:

(i) Long-term investments comprising 'held-to-maturity' securities carried at a cost of Rs.45 million were sold for Rs.36 million during the year.

(ii) Equipments costing Rs.58 million (carrying value Rs.12 million) were sold for Rs.8 million.

(iii) Financial charges of Rs.8.7 million were paid during the year.

(iv) Net profit after tax for the year ended December 31, 2010 was Rs.52 million.

(v) Provision for taxation for the year was Rs.28 million.

(vi) Dividends of Rs.10 million were declared and paid by the company during the year.

Required:

Prepare Statement of Cash Flows for the year ended December 31, 2010 using indirect method as per the requirements of IAS-7. Necessary workings must be shown. **20**

Q.4 **(a)** Following are the financial statements of Pride Power Limited as of December 31, 2010:

PRIDE POWER LIMITED
Statement of Comprehensive Income
for the year ended December 31, 2010

		(Rs. 000)
Sales revenue		19,500
Less: Cost of goods sold		(11,550)
Gross profit		**7,950**
Operating expenses:		
Selling & distribution expenses	(1,600)	
Administrative expenses	(1,500)	(3,100)
Operating income		**4,850**
Less financial charges:		
Interest paid on bank loan	(110)	
Interest paid to debenture holders	(585)	(695)
Profit before tax		**4,155**
Tax provision		(1,180)
Profit after tax		**2,975**

Marks

PRIDE POWER LIMITED Comparative Statements of Financial Position As of December 31, 2009 & 2010		
	2010 (Rs. '000)	**2009 (Rs. '000)**
Share Capital and Reserves		
Ordinary share capital (800,000 shares of Rs.10 each)	8,000	8,000
General reserve	2,000	1,500
Retained earnings	7,425	5,900
	17,425	15,400
Non-Current Liabilities		
10% debentures (2014)	5,850	5,850
Current Liabilities		
Bank loan	1,200	2,100
Accounts payable	375	365
Tax payable	600	1,250
Dividend payable	950	1,745
	3,125	5,460
Total Liabilities and Equity	**26,400**	**26,710**
Non-Current Assets		
Land and buildings	12,500	12,400
Plant and machinery	10,500	9,050
	23,000	21,450
Current Assets		
Inventory	1,810	2,850
Accounts receivable	1,530	2,360
Cash and bank balances	60	50
	3,400	5,260
Total Assets	**26,400**	**26,710**

Additional information:

- The company declared and paid dividend of Rs.950,000 during the year.
- The shares of Pride Power Limited were trading in the market at Rs.12.5 per share on December 31, 2010.
- All sales are on credit basis and payable within 30 days.

Required:

(i) Calculate the following financial ratios as of December 31, 2010: **06**

- Accounts Receivable Collection Period
- Dividend Yield
- Gearing Ratio
- Interest Coverage ratio

(ii) Prepare Common-Size Analysis (Vertical Analysis) from the income statement for the year ended December 31, 2010. **04**

(b) (i) Golden Star Limited has purchased 8,000 shares of White Star Limited out of its total outstanding ordinary shares of 20,000. Golden Star Limited is assumed to have significant influence over the affairs of White Star Limited.

(ii) 'X' Limited a banking company has acquired 25% interest in 'Y' Limited which is engaged in managing the mutual funds. By virtue of an agreement, 'X' Limited shall have control over the affairs of 'Y' Limited.

(iii) Faisal Limited has purchased 15,000 shares of Kashif Limited @ Rs.10 per share, being 15% of total outstanding shares, which are classified as available-for-sale securities.

(iv) 'A' Limited has acquired 55% share in 'B' Limited for an investment of Rs.2,500,000.

(v) Zahid Limited has acquired 20% interest in Abid Limited. Zahid Limited is entitled to exercise significant influence.

PTO

Marks

Required:

Identify which one of the following three valuation methods is to be used to record the above-mentioned investment transactions? **05**

- Consolidation Method
- Equity Method
- Fair Value Method

Q. 5 (a) Define following terms as per IAS-12:

(i) Current Tax **01**

(ii) Deferred Tax Liabilities **02**

(iii) Deferred Tax Assets **02**

(b) On January 1, 2010, Bridge Limited (the lessee) entered into a lease agreement with Path Leasing Company (Lessor) to acquire a machine on lease for a period of 5 years. The lease agreement states that the Bridge Limited will pay equal instalments of Rs.80,000 on January 1, in advance each year. The market price of the machine at that date was Rs.320,000 and the present value of minimum lease payments amounted to Rs.313,100 at the implicit interest rate of 14%. The machine's useful life is estimated to be 5 years. Bridge Limited depreciates its plant and machinery using the straight-line method.

Required:

(i) Compute minimum lease payments. **01**

(ii) Prepare journal entries in the books of Lessee for the year ended December 31, 2010. **06**

(iii) Prepare extracts of Statement of Comprehensive Income and Statement of Financial Position as of December 31, 2010. **05**

(iv) Prepare journal entries in the books of Path Limited (Lessor) on January 1, 2010. **03**

Q.6 (a) Oasis Construction Company has been awarded a contract to build a flyover at a price of Rs.900 million. The estimated cost of the flyover is Rs.750 million. The contract is to start in July 2011, and the flyover is to be completed in 2013. Following data is provided:

	(Rs. in million)		
	2011	**2012**	**2013**
Costs incurred to date (December 31)	180	525	750
Estimated costs to complete (December 31)	570	225	-
Progress billings during the year	180	430	290
Collections made during the year	162	392	346

Required:

Calculate the following for the years 2011, 2012 and 2013:

(i) The percentage of completion. **03**

(ii) Revenue and gross profit to be recognized. **07**

(b) 'A' Limited acquired ordinary shares (less than 20% shares in each company) of the following companies on July 1, 2009 as detailed below:

Sr. No.	Company Name	Price per share	No. of shares
1.	Kings Limited	Rs.15	20,000
2.	Queen Limited	Rs. 100	5,000
3.	Prince Limited	Rs.50	9,000

- On December 31, 2009, Kings Limited declared and paid a cash dividend of Re.0.80 per share.
- On January 31, 2010, 'A' Limited sold 3,000 shares of Queen Limited for Rs.106/- per share
- On June 30, 2010, Kings Limited reported net income of Rs.122,000 for the year.
- At June 30, 2010, the market price of the shares was:

Kings Limited	Queen Limited	Prince Limited
Rs.14	Rs.103	Rs.45

All the above mentioned securities are classified as available-for-sale.

Required:

Prepare necessary journal entries in the books of 'A' Limited. **10**

THE END