

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS · STAGE-4**

Marks

Q.2

**X Company Ltd.**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended December 31, 2010**

	<b>(Rs. 000)</b>	
Sales (78 + 42 - 5)	115,000	1.5
Cost of sales (33 + 24 - 5 + 0.5)	(52,500)	2.0
Gross profit (45 + 18 - 0.5)	62,500	0.5
Gen. and administrative expenses (11 + 6)	(17,000)	1.0
Selling and distribution expenses (3 + 2)	(5,000)	1.0
Profit before taxation	40,500	0.5
Taxation (9 + 3)	(12,000)	1.0
Profit after taxation	28,500	0.5
Minority Interest [25% (7,000 - 500)]	(1,625)	0.5
Group profit for the year	26,875	0.5
Retained earnings b/f [88 + (16 - 5 x 75%)]	96,250	0.5
Retained earnings c/f	<b>123,125</b>	0.5

**Working Notes (Rs. 000)****(Rs. 000)****(Rs. 000)****Un-realized profit of unsold goods (WN-1)**

Rs. 5000 x 25 / 125 = Rs.1000 / 2 = Rs.500 1.0

**Minority Interest (WN-2)**

Profit after taxation	7,000	0.5
Less: Un-realized profit	(500)	0.5
	6,500	0.5
Rs. 6,500 x 25%)	1,625	0.5

**Retained Earnings (b/f) (WN-3)****X Company****Y Company**

Retained Earnings b/f	88,000	16,000	
Less: Pre-acquisition profits		(5,000)	0.5
Post acquisition profits		11,000	0.5
Group share of Y Company profits (Rs.11,000 x 75%)	8,250		0.5
Group Retained Earnings c/d	96,250		0.5

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Q.3

**Pakistan Printing Limited**  
**Statement of Cash Flows**  
**For the year ending December 31, 2010**

	(Rs.'000')	(Rs.'000')	
<b>Cash flows from Operating Activities:</b>			
Net profit before taxation (52 + 28)	80,000		1.0
Add: Depreciation (WN-1)	26,000		0.5
Add: Financial charges	8,700		0.5
Add: Loss on sale of securities (45 – 36)	9,000		1.0
Add: Loss on sale of equipment (12 – 8)	4,000		1.0
<b>Operating profit before working capital changes</b>	<b>127,700</b>		0.5
<b>Changes in working capital</b>			
Increase in debtors	(17,000)		1.0
Increase in inventory	(5,000)		1.0
Increase in prepaid expenses	(5,000)		1.0
Increase in trade creditors	11,000		1.0
<b>Cash generated from operations</b>	<b>111,700</b>		
Financial charges paid	(8,700)		0.5
Less: Income tax paid (WN-2)	(21,000)		0.5
<b>Cash flows from operating activities</b>		<b>82,000</b>	0.5
<b>Cash flows from Investing Activities:</b>			
Equipment purchased (WN-3)	(180,000)		0.5
Sale of equipment	8,000		0.5
Sale of securities	36,000		0.5
<b>Cash used in investing activities</b>		<b>(136,000)</b>	0.5
<b>Cash flows from Financing Activities:</b>			
Bonds Issued	72,500		0.5
Payment of Dividends	(10,000)		0.5
<b>Net cash used in financing activities</b>		<b>62,500</b>	0.5
Net cash flow during the year		8,500	0.5
Opening balance of cash and cash equivalents		9,000	
<b>Closing balance of cash and cash equivalents</b>		<b>17,500</b>	

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS · STAGE-4****Marks****Working Notes****WN-1 - Depreciation for the year**

	(Rs.'000')	
Opening Balance	40,000	0.5
Less: Depr. On assets disposed off	(46,000)	0.5
Add: Depreciation for the year	<b>26,000</b>	0.5
Ending Balance	<b>20,000</b>	0.5

**WN-2 - Payment of Tax**

Opening balance - Provision for Taxation	5,000	0.5
Add: Provision for the year	28,000	0.5
	33,000	
Less: Ending Balance	(12,000)	0.5
Tax paid during the year	<b>21,000</b>	0.5

**WN-3 - Equipment Account**

Opening balance	215,000	0.5
Less: Ending balance	(337,000)	0.5
	(122,000)	
Less: Disposal of equipment	(58,000)	0.5
Equipments purchased	<b>180,000</b>	0.5

**WN-4 - Retained Earnings**

Opening balance	20,000
Add: Profit for the year	52,000
Less: Dividend paid	(10,000)
Ending balance	<b>62,000</b>

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS · STAGE-4****Marks****Q.4 (a) (i)****(a) Accounts Receivable Collection Period**

$$\frac{\text{Trade Receivables} \times 365}{\text{Credit Sales}} = \frac{1,945 \times 365}{19,500} = 36.4 \text{ Days} \quad 0.5+0.5+0.5$$

**(b) Dividend Yield**

$$\frac{\text{Dividend per share}}{\text{Market price per share}} = \frac{1.19}{12.50} = 9.50\% \quad 0.5+0.5+0.5$$

**(c) Gearing Ratio**

$$\frac{\text{Interest bearing debt}}{\text{Interest bearing debt} + \text{Shareholders' equity}} = \frac{5,850}{23,275} = 25.13\% \quad 0.5+0.5+0.5$$

**(d) Interest Cover**

$$\frac{\text{Profit before interest}}{\text{Interest}} = \frac{4,350}{695} = 7.0 \text{ Times} \quad 0.5+0.5+0.5$$

**(Note: Half mark each for formula, working and final answer.)****(ii)****PRIDE POWER LTD.  
Income Statement**

	<b>2010 (Rs. 000)</b>	<b>Percentage of Total Revenue</b>	
Sales	19,500	100%	0.5
Less: Cost of goods sold	11,550	59%	0.5
Selling & distribution expenses	1,600	8%	0.5
Advertisement	1,500	8%	0.5
Less: Financial charges	695	4%	0.5
Tax provision	1,180	6%	0.5
Total expenses	16,525	85%	0.5
Profit after tax	<b>2,975</b>	<b>15%</b>	0.5

- (b) (i) Equity Method** 1.0
- (ii) Consolidation Method** 1.0
- (iii) Fair Value Method** 1.0
- (iv) Consolidation Method** 1.0
- (v) Equity Method** 1.0

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- Q.5 (a) (i) Current Tax:** 1.0  
Current tax is the amount of income taxes actually paid or payable / (refundable) to / from the tax authorities in respect of the taxable profit (tax loss) of the entity for a period.
- (ii) Deferred Tax Liabilities:** 2.0  
Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- (iii) Deferred Tax Assets:** 0.5  
Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
- (a) deductible temporary differences; 0.5
  - (b) the carry forward of unused tax losses; and 0.5
  - (c) the carry forward of unused tax credits. 0.5
- (b) (i)** (Annual instalment) x (number of years in lease period) = 80,000 x 5 = Rs.400,000 1.0

(ii)

**Bridge Ltd.**  
**General Journal**

Date	Description	Ref	Debit	Credit	
1-Jan-10	Machine Account (0.5 mark) Liability against leased assets (0.5 mark) <i>(Being acquisition of machine on finance lease)</i>		313,100	313,100	} 0.5
1-Jan-10	Liability against leased assets (0.5 mark) Bank Account (0.5 mark) <i>(Being payment of 1st lease instalment in advance)</i>		80,000	80,000	} 0.5
31-Dec-10	Financial charges on leased assets (0.5 mark) Accrued Financial Charges (0.5 mark) <i>(Being accrual of financial charges on leased asset for the period ended on Dec. 31, 2010)</i>		32,634	32,634	} 0.5
31-Dec-10	Depreciation (0.5 mark) Accumulated depreciation (0.5 mark) <i>(Being depreciation charge for the leased asset for the year ended December 31, 2010)</i>		62,620	62,620	} 0.5

(iii)

**Bridge Ltd.**  
**Statement of Comprehensive Income (Extract)**  
**for the year ended December 31, 2010**

<u>Operating Expenses:</u>	(Rupees)	
Financial charges on leased assets (313,100 - 80,000) x 14%	32,634	1.0
Depreciation (313,100 / 5)	62,620	1.0

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS · STAGE-4**

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**Bridge Ltd.**  
**Statement of Financial Position (Extract)**  
**As of December 31, 2010**

<u>Non-current Assets</u>	<b>(Rupees)</b>	
Property, Plant and Machinery (Rs.313,100 - Rs.62,620)	250,480	1.0
<u>Non-current Liabilities</u>		
Liability against leased assets (Rs.233,100 - Rs.47,366)	185,734	1.0
<u>Current Liabilities</u>		
Current portion of Liability against leased assets (Rs.80,000 - Rs.32,634)	47,366	0.5
Accrued interest on leased assets	32,634	0.5
	80,000	

(iv)

**Path Ltd.**  
**General Journal**

Date	Description	Ref	Debit	Credit	
1-Jan-10	Lease Receivable (0.5 mark)		313,100		} 0.5
	Plant and Machinery Account (0.5 mark)			313,100	
	<i>(To record machine leased to Bridge Ltd.)</i>				
1-Jan-10	Bank Account (0.5 mark)		80,000		} 0.5
	Lease Receivable (0.5 mark)			80,000	
	<i>(Being receipt of 1st lease instalment in advance from Bridge Ltd.)</i>				

**Working:**

		<u>Rs.</u>
01.01.10	Minimum lease payments	313,100
01.01.10	Less: Payment	(80,000)
01.01.10	Balance	233,100
31.12.10	Add interest (233100 x 0.14)	32,634
31.12.10	Balance	265,734
01.01.11	Less: Payment	80,000
01.01.11	Balance	185,734

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**Q.6 (a) (i) Stage of Completion:**

	2011	2012	2013	
	(Rs. 'million')			
Costs incurred to date	180	525	750	
Total estimated costs	750	750	750	
Stage completion	<b>24%</b>	<b>70%</b>	<b>100%</b>	1.0+1.0+1.0

**(ii)****Revenues to be recognized:**

2011	Rs.900 x 24%	<b>216</b>	0.5
2012	Rs.900 x 70%	630	0.5
	Less: Revenue recognized in 2011	216	0.5
	<b>Revenue in 2012</b>	<b>414</b>	0.5
2012	Rs.900 x 100%	900	0.5
	Less: Revenue recognized in 2011 and 2012	630	0.5
	<b>Revenue in 2013</b>	<b>270</b>	0.5

**Gross profit to be recognized:**

2011	Rs.150 x 24%	<b>36</b>	0.5
2012	Rs.150 x 70%	105	0.5
	Less: Gross profit recognized in 2011	36	0.5
	<b>Gross profit in 2012</b>	<b>69</b>	0.5
2012	Rs.150 x 100%	150	0.5
	Less: Gross profit recognized in 2011 and 2012	105	0.5
	<b>Gross profit in 2013</b>	<b>45</b>	0.5

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(b)

**Star Limited  
General Journal**

Date	Description	Debit	Credit	
1-Jul-09	Investment - Available for sale Securities (0.5 mark)	1,250,000		} 0.5
	Bank Account (0.5 mark) (To record purchase of shares portfolio)		1,250,000	
31-Dec-09	Bank Account (0.80 x 20,000) (0.5 mark)	16,000		} 0.5
	Dividend Income (0.5 mark) (To record receipt of cash dividend from Kings Ltd. at Re.0.80 per share)		16,000	
31-Jan-10	Bank Account (0.5 mark)	318,000		0.5
	Investment - Available for sale Securities (0.5 mark)		300,000	0.5
	Gain on sale of shares (0.5 mark) (To record sale of 3,000 shares of Queens Ltd. at Rs.106/- per share)		18,000	0.5
30-Jun-10	Unrealized Gain or Loss - Equity (0.5 mark)	59,000		} 0.5
	Securities Fair Value Adjustment (Available for sale) (0.5 mark) (To record fair value adjustment of shares portfolio based on the market price as of June-30-2010)		59,000	

**Working Notes****WN-1**

Company Name	No. of Shares	Cost Price	Portfolio at Cost	
Kings Ltd.	20,000	15	300,000	
Queen Ltd.	5,000	100	500,000	
Prince Ltd.	9,000	50	450,000	
<b>Total value of securities purchased</b>			<b>1,250,000</b>	1.0

**WN-2**

Company Name	No. of Shares	Cost Price	Share price as of 30-6-10	Portfolio at			
				Cost	Fair Value	Difference	
Kings Ltd.	20,000	15	14	300,000	280,000	(20,000)	0.5
Queen Ltd.	2,000	100	103	200,000	206,000	6,000	0.5
Prince Ltd.	9,000	50	45	450,000	405,000	(45,000)	0.5
<b>Total value of securities</b>				<b>950,000</b>	<b>891,000</b>	<b>(59,000)</b>	

**THE END**