INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Summer (May) 2011 Examinations

Wednesday, the 1st June 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) **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 Following are the draft group financial statements relating to Alamgir and Co listed in KSE:

Alamgir Group
Consolidated Statement of Financial Position
as at December 31

	2010 (Rs. ‘000)	2009 (Rs. ‘000)
ASSETS		
Non-Current Assets		
Property, plant and equipment	32,700	27,500
Investment property	8,000	6,000
Goodwill	6,000	6,800
Other intangible assets	8,500	7,200
Investment in associate	5,400	-
Available-for-sale financial assets	11,000	9,000
	71,600	**56,500**
Current Assets		
Inventory	10,500	12,800
Trade receivables	17,560	11,300
Cash and cash equivalents	2,320	1,430
	30,380	**25,530**
Total Assets	**101,980**	**82,030**
LIABILITIES AND EQUITY		
Share capital	29,000	27,500
Retained earnings	19,920	14,760
Other components of equity	4,000	2,000
	52,920	**44,260**
Non-controlling interest	5,500	3,600
	58,420	**47,860**

PTO

Marks

	2010 (Rs. '000)	2009 (Rs. '000)
Non-Current Liabilities		
Long-term borrowings	13,500	9,300
Deferred tax	3,500	4,100
	17,000	**13,400**
Current Liabilities		
Trade payables	23,260	17,770
Current tax payable	3,300	3,000
	26,560	**20,770**
Total Liabilities and Equity	**101,980**	**82,030**

Alamgir Group
Consolidated Statement of Comprehensive Income
for the year ended December 31, 2010

	(Rs. '000)
Revenue	43,200
Cost of sales	(13,170)
Gross profit	**30,030**
Revaluation gain on investment property	2,000
Distribution costs	(5,200)
Administrative expenses (including dep. of Rs.1 million)	(4,500)
Finance costs paid	(6,820)
Gains on sale of property	1,050
Goodwill impairment	(800)
Amortization of intangible assets	(500)
Share of profit of associate	2,000
Profit before tax	**17,260**
Income tax expense	(3,100)
Profit for the year	**14,160**
Other comprehensive income after tax:	
Gain on available for sale financial assets (AFS)	2,000
Total comprehensive income for the year	**16,160**
Profit attributable to:	
Owners of the parent	11,160
Non-controlling interest	3,000
	14,160

The following additional information relates to the financial statements of Alamgir Group:

(a) A property having cost of Rs.5 million and WDV of Rs.3 million was sold.

(b) During the year the company made investment in associate of Rs.4 million.

Required:

Prepare a Consolidated Statement of Cash Flows for the Alamgir Group using the indirect method under IAS-7 *'Statement of Cash Flows'*. **20**

Marks

Q.3 **(a)** 'P' Company bought 80% of the equity share capital of 'S' Company for Rs.350 million on December 31, 2005. At that date 'S' Company's retained earnings' balance was Rs.200 million. The balance sheets of the two companies as at December 31, 2010 are given below:

	'P' Co	'S' Co
	Rs. in million	**Rs. in million**
Non-current assets	375	295
Investment in 'S' Co	350	–
Net current assets	380	315
	1105	**610**
Ordinary shares or Rs.10 each	600	190
Retained earnings	505	420
	1105	**610**

No impairment of goodwill took place since acquisition.

Required:

Prepare the consolidated balance sheet as at December 31, 2010 provided that 'P' Company sold its entire holding in 'S' Company for Rs.750 million on December 31, 2010. **07**

(b) **(i)** Moon Ltd., sold its plant to Sun Ltd., for Rs.25 million during the year ended December 31, 2010. The fair value and carrying value of the plant at the time of sale were Rs.16 million and Rs.10 million respectively. The asset was immediately leased back by Moon Ltd., under 12-year operating lease. Annual lease rentals of Rs. 3 million each were above market rate to compensate for the loss to the buyer / lessor.

(ii) Lessee Ltd., sold a non-current asset having carrying value of Rs.6 million for Rs.11 million on January 01, 2010. The asset was immediately leased back by the Lessee Ltd. The fair value of the asset at that time was Rs.11 million. The asset was leased back under 4-year finance lease with annual payments of Rs.3,853,000 each paid in arrears. Remaining useful life of the asset was four years and the implicit rate of interest is 15%. The plant is depreciated on a straight-line basis.

Required:

How the transactions **(i)** and **(ii)** above will be dealt with in the financial statements as per IAS-17 in the books of seller / lessee for the year ended December 31, 2010? **10**

(c) On January 01, 2011 'A' Company issued 5% loan notes with a nominal value of Rs.1,000,000. Loan notes were issued at a discount of 22.5% and are payable after three years at par on December 31, 2013. Effective rate of interest is 16.16%. Issue costs were Rs.25,000.

Required:

(i) What amount will be recorded in the Statement of Financial Position as financial liability at the time of issue of the notes? **02**

(ii) Calculate finance costs to be charged to income statement for the year ended December 31, 2011 to 2013. **03**

(iii) What would be the amounts of financial liability, which will be shown in the Statement of Financial Position as at December 31, 2011 to 2013? **03**

PTO

Marks

Q.4 (a) ABC Limited has a defined benefit plan for their employees. The present value of the defined benefit obligation and the fair value of the plan assets on January 01, 2010 were Rs.1,000,000 each. Following information is relevant:

	(Rs. '000)			
	2010		**2011**	
Discount rate at start of year	12.0	%	11.0	%
Expected rate of return on plan assets at start of year	14.0	%	13.0	%
Current service cost (Rs.)	140		235	
Benefits paid (Rs.)	155		190	
Contributions received (Rs.)	95		105	
Present value of obligation at 31 December (Rs.)	1,250		1,275	
Fair value of plan assets at 31 December (Rs.)	1,125		1,210	

- All actuarial gains and losses are recognised immediately in profit or loss for the year.
- All transactions are assumed to occur at the year-end.

Required:

(i) Determine the amounts of the actuarial gains or losses for the period. **10**

(ii) Calculate the amounts of liability to be shown in the statement of financial position as at December 31, 2010-11. **02**

(iii) Calculate the amounts of expenses to be charged to the income statement for the years ended December 31, 2010-11 **05**

(b) Following is the extract from the trial balance of the Pak Limited as at December 31, 2010:

	Rs. in million	
	Debit	**Credit**
Sales		125
Operating costs	75	
Finance costs	9	
Deferred tax		21
Corporation tax (under-provision from prior year)	6	

Taxable temporary differences have increased by Rs.20 million during the year. Current income tax at 35% is estimated at Rs.18 million.

Required:

(i) Prepare extract from Income Statement. **04**

(ii) Prepare extract from Statement of Financial Position. **04**

THE END