

FINANCIAL REPORTING – STAGE-5

Marks

Q.2

Alamgir Group
Statement of Cash flows for the year ended 31 December 2010

Rs. in 000

Cash flows from operating activities:

Profit before tax	17,260.00	0.25
Adjustments;		
Depreciation on fixed Assets	1,000.00	0.25
Amortisation of intangible assets	500.00	0.25
Gain on sale of PPE	(1,050.00)	0.25
Profit on investment property (8,000 - 6,000)	(2,000.00)	1.0
Associates profit	(2,000.00)	0.25
Impairment of goodwill (6,800 - 6,000)	800.00	1.0
Finance costs	6,820.00	0.25
Increase in trade receivables (17,560 - 11,300)	(6,260.00)	1.0
Decrease in inventories (12,800 -10,500)	2,300.00	1.0
Increase in trade payables(23,260 -17,770)	5,490.00	1.0
	5,600.00	

Cash generated from operations

	22,860.00	
Finance costs paid	(6,820.00)	0.25
Income taxes paid	(3,400.00)	0.25
Cash flow from operating activities	12,640.00	0.25

Cash flows from investing activities:

Investment in associate	(4,000.00)	0.25
Purchase of PPE	(9,200.00)	0.25
Proceeds from sale of PPE (3000 + 1050)	4,050.00	1.0
Purchase of Intangible assets	(1,800.00)	0.25
Dividend received from associate	600.00	0.25
Cash flow from investing activities	(10,350.00)	0.25

Cash flows from financing activities:

Issuance of long-term borrowings(13,500 - 9,300)	4,200.00	1.0
Issuance of Share (29,000 - 27,500)	1,500.00	1.0
Non-controlling interest dividend	(1,100.00)	0.25
Dividends paid	(6,000.00)	0.25
	(1,400.00)	0.25
Net increase in cash and cash equivalents	890.00	0.25
Cash and cash equivalents at beginning of period	1,430.00	
Cash and cash equivalents at end of period	2,320.00	

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	Rs in 000	Marks
Working 1:		
Property, Plant and Equipment		
Closing Balance	32,700.00	
Sale WDV	3,000.00	0.5
Current depreciation	1,000.00	0.5
Less Opening Balance	<u>(27,500.00)</u>	
Addition during the year	<u>9,200.00</u>	0.5
Working 2:		
Sale of Property plant and Equipment		
WDV of PPE	3,000.00	
Gain on Sale of PPE	1,050.00	
Cash flow from sale of PPE	<u>4,050.00</u>	1.0
Working 3:		
Income Taxes		
Opening Balance Current tax	3,000.00	
Opening Balance Deferred Tax	4,100.00	
Taxation for the year	3,100.00	0.5
Closing Balance Current tax	<u>(3,300.00)</u>	
Closing Balance Deferred Tax	<u>(3,500.00)</u>	
Taxes paid	<u>3,400.00</u>	0.5
Working 4:		
Investment in Associate		
Investment in Associate (BF)	4,000.00	
Profit share from Investment	2,000.00	0.5
Less Closing Balance	<u>(5,400.00)</u>	
Dividend Received	<u>(600.00)</u>	0.5
Working 5:		
Intangible Assets		
Closing Balances	8,500.00	
Amortization	500.00	0.5
Opening Balances	<u>(7,200.00)</u>	
Purchase of Intangible Assets	<u>1,800.00</u>	0.5
Working 6:		
Non Controlling Interest		
Opening Balance	3,600.00	
Share of Profit	3,000.00	0.5
Closing Balance	<u>(5,500.00)</u>	
Dividend Paid	<u>1,100.00</u>	0.5
Working 7:		
Dividend Paid		
Retained Earnings Opening Balance	14,760.00	
Profit for the year	11,160.00	0.5
Retained Earnings Ending Balance	<u>(19,920.00)</u>	
Dividend Paid	<u>6,000.00</u>	0.5

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Q.3 (a) Complete disposal at year end**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2010**

	Rs. in million	
Non-current assets	375	1.0
Net current assets (380 + 750)	1,130	1.5
	1,505	0.5
Equity		
Rs.1 ordinary shares	600	1.0
Retained earnings (W2)	905	0.5
	1,505	0.5

Working:

Note: Goodwill

Cost of investment
Cost acquired 80% x (200 + 190)

Rs.in million

350

312

38**2- Retained earnings carried forward**

"P" company per question

505

0.5

Profit on disposal (750-350)

400

1.0

905

0.5

(b) (i)

- Since it is sale and operating leaseback transaction, the seller / lessee will derecognise the asset. 1.0
- Lease rental of Rs. 3 million will be recognised in the profit or loss. 1.0
- The difference between fair value and carrying value Rs. 6 million (Rs.16 m – Rs.10 m) will be recognised as profit immediately. 1.5
- The difference between sale price and fair value Rs. 9 million (Rs.25 m – Rs.16 m) will be treated as deferred profit and will be amortised over the period of the lease. 1.5

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(b) (ii)

- Asset in the books of lessee will not be derecognised. 1.0
- The asset and lease obligation will be recorded at Rs.11 million each. 1.0
- Excess proceeds of Rs.5 million (Rs.11 m – Rs.6 m) will be deferred and amortised over lease period. 1.0
- Depreciation will be charged on new asset value of Rs.11 million i.e., Rs.2.75 million. 1.0
- Lease payment will be used partly for interest expense and partly for reduction of lease liability. 1.0

(c) (i) Initial recording:

	Rs.	
Nominal value	1,000,000	0.5
Discount (1,000,000 x 0.225)	(225,000)	0.5
Issue costs	(25,000)	0.5
Net Proceeds	750,000	0.5

(ii) Extract of Income Statement:

	2011	2012	2013	
	121,200	132,706	146,094	1.0+1.0+1.0

Working:

Year	Opening	Finance Cost @ 16.16	Cash Paid (5%)	Closing
1	750,000	121,200	(50,000)	821,200
2	821,200	132,706	(50,000)	903,906
3	903,906	146,094	(50,000)	–
			(1,000,000)	

(iii) Extract from Statement of Financial Position:

	2011	2012	2013	
Long-term liability	821,200	–	–	1.0
Current liability	–	903,906	Nil	1.0+1.0

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Q. 4 (a) (i) Liability:

	Rs. in '000'		
	2010	2011	
Present value of obligation, January 01	1,000	1,250	0.25+0.25
Interest cost (at discount rate for each year)	120	137.5	0.5+0.5
Current service cost	140	235	0.25+0.25
Benefits paid	(155)	(190)	0.25+0.25
Actuarial (gain) loss on obligation (balancing figure)	145	(157.5)	1.0+1.0
Present value of obligation, December 31	1,250	1,275	0.25+0.25

Assets:

	Rs. in '000'		
	2010	2011	
Fair value of plan assets, January 01	1,000	1,125	0.25+0.25
Expected return on plan assets (at expected rate for each year)	140	146.25	0.5+0.5
Contribution received	95	105	0.25+0.25
Benefits paid	(155)	(190)	0.25+0.25
Actuarial gain (loss) on plan assets (balancing figure)	45	23.75	1.0+1.0
Fair value of plan assets, December 31	1,125	1,210	0.25+0.25

(ii) Liability to be recognised in Statement of Financial Position:

	Rs. in '000'		
	2010	2011	
Present value of the obligation (31 December)	1,250	1,275	
Fair value of plan assets (31 December)	(1,125)	(1,210)	
Liability recognised in statement of financial position	125	65	1.0+1.0

(iii) Expense charged to Profit or Loss:

	Rs. in '000'		
	2010	2011	
Current service cost	140	235	0.5+0.5
Interest cost	120	137.5	0.5+0.5
Expected return on plan assets	(140)	(146.25)	0.5+0.5
Net actuarial loss (gain) recognised in year {{(145 – 45), (157.5 – 23.75}}	100	(181.25)	0.5+0.5
Expense recognised in the profit or loss	220	45	0.5+0.5

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(b) (i) Income Statement (extract):

	<u>Rs. in million</u>	
Revenue	125	
Operating costs	<u>(75)</u>	
Operating profit	50	0.5
Finance costs	<u>(9)</u>	
Profit before tax	41	0.5
Tax	<u>(31)</u>	
Profit after tax	<u>10</u>	1.0
Tax Note:	<u>Rs. in million</u>	
Income tax	18	
Under-provision in previous year	6	
Deferred tax (20 x 0.35)	<u>7</u>	1.0
Tax Expense	<u>31</u>	1.0

(ii) Statement of Financial Position (extract):

Non-current liabilities:	(Rs. in million)	
Deferred Tax	Rs.28	1.0
Current liabilities:		
Tax Payable	Rs.18	1.0

Deferred Tax Note:

	<u>Rs. in million</u>	
Opening balance	21	
Increase (20 x 35%)	<u>7</u>	1.0
Closing balance	<u>28</u>	1.0

THE END