

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

PROFESSIONAL-II EXAMINATION-SPRING (SUMMER), 2005

Thursday, the 26th May, 2005 **1030**

ADVANCED FINANCIAL ACCOUNTING

Time Allowed—2 Hours 45 Minutes

Maximum Marks—90

- (i) Attempt ALL questions.
- (ii) Answers must be neat, relevant and brief
- (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective presentations, language and use of clear diagram or chart, where appropriate.
- (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of : O Casio fx-82 LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 HA, models 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 paper.

Q.2 A Company Ltd. purchased on 1st October, 2002, 60,000 ordinary shares of B. Company Ltd., which company had a total issued share capital of 75,000 ordinary shares of Rs. 10 each. In the year ended 30th June, 2003, B. Company Ltd. earned a profit of Rs. 200,000, on which tax provision of Rs. 75,000 was made and a final dividend of Re. 1 per share was declared. On 1st January, 2004, A. Company Ltd. had purchased 90,000 shares of Rs. 10 each in C. Company Ltd., which represented 75% of the equity capital. On the same date, it purchased 50,000 10% preference shares of Rs. 10 each in a quoted company.

The Profit and Loss accounts for the year ended 30th June, 2004 for the three companies showed:

	<i>A. Company Ltd.</i>	<i>B. Company Ltd.</i>	<i>C. Company Ltd.</i>
	<i>(Rs.)</i>	<i>(Rs.)</i>	<i>(Rs.)</i>
Trading profit	420,000	240,000	280,000
Dividends receivable	<u>195,000</u>	<u>7,500</u>	<u>—</u>
	615,000	247,500	280,000
Income tax	<u>(180,000)</u>	<u>(100,000)</u>	<u>(124,000)</u>
	435,000	147,500	156,000
Dividends proposed	<u>(300,000)</u>	<u>(100,000)</u>	<u>(120,000)</u>
	135,000	47,500	36,000
Balance of profit & loss b/f	<u>842,500</u>	<u>360,000</u>	<u>245,000</u>
	<u>977,500</u>	<u>407,500</u>	<u>281,000</u>
	=====	=====	=====

The only inter-company transaction during the year was the manufacture of a machine by B. Company Ltd. for A. Company Ltd. The cost of machine was Rs. 60,000 to make and was sold to A Company Ltd. on 30th June, 2004 for Rs. 78,500.

Required :

Prepare the Consolidated Profit and Loss account of A. Company Ltd. and its subsidiary companies for the year ended 30th June, 2004 on the basis of the information given above. (Prepare and present all working notes). 22

- Q. 3(a) Sun Ltd. owns a freehold building. The building is used by the company for its own operations and is therefore not to be treated as an investment property.

On January 1, 2004, the relevant balances and the breakdown between land and building were:

<u>Particulars</u>	<u>Rs.</u>	<u>Rs.</u>
Land		150,000
Building:		
Cost	75,000	
Depreciation (8 years at 2%)	<u>12,000</u>	<u>63,000</u>
Net book value		<u>213,000</u>

The building was revalued on the last day of the year at Rs. 320,000. The valuer allocated the valuation as follows:

<u>Particulars</u>	<u>Rs.</u>
Land	230,000
Building	<u>90,000</u>
	<u>320,000</u>

This revaluation was to be incorporated into the balance sheet at December 31, 2004. The remaining useful life of the building was left unchanged at 41 years.

Required :

Calculate and record in the books of Sun Ltd:

- (i) Surplus arising on revaluation of building as at December 31, 2004; and 5
- (ii) Depreciation charge for the years 2004 and 2005 5
- (b) Define the following terms as laid down in IAS-17 - "Leases": 6
- (i) Gross investment in the lease.
- (ii) Unearned finance income
- (iii) Net investment in the lease

- (c) Define "Related Parties" under the Fourth Schedule to the Companies Ordinance, 1984. 4

- Q. 4(a) The issued, subscribed and paid-up share capital of D. Company Ltd., on 1st January, 2004, comprised:

<u>Particulars</u>	<u>Rs.</u>
400,000 7% cumulative preference shares of Re 1 per share	400,000
4,000,000 ordinary shares of Re 1 per share	4,000,000
	4,400,000

Net profit after tax for the financial year to 31st December, 2004 was Rs. 407,040. On 1st October, 2003 the company had issued 5 Years, Rs. 1,200,000, 6% convertible TFCs, convertible per Rs. 100 of TFCs into ordinary shares of Re 1 per share as follows:

30th September, 2004	120
2005	115
2006	110
2007	108
2008	105

On 30th September, 2004, the company converted Rs. 400,000 of the 6% convertible TFCs at the rate of 120 shares per Rs. 100 TFC into 480,000 ordinary shares of Re 1 per share which ranked for dividend in 2004. Applicable Income tax rate was 35%.

Required :

- Calculate basic and diluted earnings per share for the year, 2004 : 14
- (b) List the components of "Contract Revenue and Contract Costs" under IAS 11—"Construction Contracts". 6
- (c) Define "Off-Balance Sheet Items" as laid down in IAS-30—"Disclosures in the Financial Statement of Banks and Similar Financial Institutions". Also give two examples of Off-Balance Sheet Items. 4
- Q. 5(a) Selected data from annual reports of A. Company Ltd. and B. Company Ltd. for the year ended December 31, 2004 are given below:

	<u>A. Company Ltd.</u>	<u>B. Company Ltd.</u>
	<u>Rs.</u>	<u>Rs.</u>
Balance Sheet Statistics		
At year end:		
Quick assets	2,002	2,774
Current assets	3,604	3,551
Total assets	8,283	15,127
Current liabilities	3,658	3,692
Total liabilities	4,798	11,236
Total share holders' equity	3,485	3,891

	<u>A. Company Ltd.</u>	<u>B. Company Ltd.</u>	<i>Marks</i>
	<u>Rs.</u>	<u>Rs.</u>	
Average throughout the year:			
Accounts Receivable	802	1,110	
Inventory	784	494	
Total Assets	7,867	13,131	
Total share holders' equity	3,415	3,526	
Income Statement Statistics			
Net sales	8,966	15,242	
Cost of goods sold	3,892	7,468	
Interest expense	308	610	
Operating income	1,726	1,783	

Required :

- For the year 2004, compute the following ratios for A Company Ltd. and B. Company Ltd. 12
- (i) Return on assets.
 - (ii) Accounts receivable turnover rate
 - (iii) Inventory turnover rate
 - (iv) Quick ratio
 - (v) Debt/Equity ratio
 - (vi) Interest coverage (times).
- (b) Both A Company Ltd. and B. Company Ltd. are highly successful companies with excellent credit ratings. Based on your analysis in part(a) above indicate which of these companies you believe provides the greatest degree of safety for its long-term creditors. Give your recommendations. 6
- (c) List the categories of "Financial Assets" as stated in IAS 39—"Financial Instruments: Recognition and Measurement". 6

THE END