INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (Summer) 2010 Examinations

Monday, the 24th May 2010

FINANCIAL REPORTING- (S-501)
STAGE – 5

Time Allowed – 2 Hours 45 Minutes **Maximum Marks – 65**

(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.

Marks

Q.2 The consolidated income statement and consolidated statement of changes in equity of Perfect Ideal Group for the year ended December 31, 2009 and the consolidated statement of financial position of the group at the beginning and end of the year 2009, are given below:

(i) Consolidated Income statement - for the year ended December 31, 2009:

	Rs. ‘000
Operating profit	20,000
Interest expense	(1,400)
Exceptional Item (note i)	700
Profit before tax	19,300
Net income tax expense	(6,500)
Profit after tax	12,800
Non-controlling interest	(1,000)
Group Profit for the year	11,800

(ii) Consolidated Statement of Changes in Equity - for the year ended December 31, 2009:

Balance as of January 1, 2009	49,500
Profit for the period	11,800
Dividends paid	(3,000)
Balance as of December 31, 2009	58,300

Consolidated Statement of Financial Position as of December 31

	2009		2008	
Non-current assets:	Rs.’000		Rs.’000	
Property, plant and equipment		51,350		50,000
Current assets:				
Inventories	25,000		23,000	
Trade receivables	21,000		19,000	
Cash and bank	6,000	52,000	2,000	44,000
Total assets		**103,350**		**94,000**
Equity and liabilities:				
Share capital (Rs.10 each)		20,000		20,000
Retained earnings		38,300		29,500
		58,300		49,500
Non-controlling Interest		5,050		5,750

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	2009 Rs.'000		2008 Rs.'000		Marks
Non-current liabilities:					
Long-term loans		9,500		12,500	
Current liabilities:					
Trade payables	18,500		16,250		
Provision for taxation	6,000		5,000		
Bank overdraft	6,000	30,500	5,000	26,250	
Total equity and liabilities		**103,350**		**94,000**	

Additional information:

(i) On June 30, 2009 Perfect Ideal Group disposed of its investment in Fine Ltd., a subsidiary in which it had a shareholding of 80%. The proceeds of the disposal were Rs.5.5 million. Details of the disposal were as follows:

Net assets at the date of disposal:	Rs.'000
Property, plant and equipment	4,000
Inventories	2,000
Receivables	2,500
Trade payables	(1,500)
Tax	(300)
Bank overdraft	(200)
Long-term loans	(500)
	6,000

(ii) Perfect Ideal Group acquired this investment on June 30, 2004 for Rs.1.9 million when the net assets of Fine Ltd., were Rs.2 million. Goodwill was found to be impaired several years ago and was fully written off before the start of the current financial year.

(iii) Depreciation charged during the period in the consolidated income statement amounted to Rs.10.1 million. There were no disposals of property, plant and equipment by the group other than those effectively made upon the disposal of investment in Fine Ltd.

Required:

Prepare a Consolidated Statement of Cash Flows using the indirect method for Perfect Ideal Group in accordance with IAS 7 Statement of Cash Flows for the year ended December 31, 2009. — 20

Q. 3 Cactus Limited is a public company incorporated in Pakistan, which is involved in the manufacturing and sales of pesticides. The accountant is trying to prepare the financial statements for the year ended December 31, 2009. He has requested your help in this regard. He has provided you the following list of account balances for the year ended December 31, 2009:

	Rs. '000	Rs. '000
Sales		378,200
Cost of sales	175,450	
Distribution costs	32,500	
Administrative expenses	45,000	
Minimum lease payments	25,000	
Dividend paid	12,000	
Property at cost	200,000	
Plant and equipment at cost	184,300	
Capital work-in-progress	72,000	
Provision for depreciation - Plant and equipment (1.1.2009)		34,800
Profit on disposal of non-current assets		16,000
Trade debts	55,000	
Inventory - year end	28,240	
Cash and bank	25,660	
Deferred income		20,000
Trade payables		29,400
Provision for taxation		2,200
Issued share capital (Rs. 10 each)		180,000
Long-term loans (see note f)		115,000
Retained earnings (1.1.2009)		79,550
	855,150	855,150

Marks

The following notes were relevant:

(a) The minimum lease payment of Rs.25 million was paid on January 1, 2009. It is the first of five annual installments in advance for the lease of a liquid filling machine required in the packaging section, which is estimated to have a cash purchase price of Rs.100 million. As per advice sought from the statutory auditors of the company, this is a finance lease and with the implicit interest rate in the lease of 10% per annum. The asset is to be depreciated over the lease term.

(b) On January 1, 2009, Cactus acquired a new warehouse in Multan to cater to the requirements of main cotton growing areas, at a cost of Rs.200 million. For the purpose of calculating depreciation only, the warehouse has been separated into the following elements:

Separate asset	**Cost**	**Life**
	Rs.'000	Years
Land	80,000	freehold
Cooling System (HVAC)	20,000	10
Building	100,000	50

The depreciation is to be calculated on a straight-line basis. The purchased warehouse had replaced a smaller one that was sold on the same date for Rs.88 million. It had cost of Rs.75 million and a carrying value of Rs.72 million at the date of sale.

The plant and machinery is depreciated at 10% on straight-line basis.

(c) Sales figure includes sales of Rs.13 million worth of insecticides made to a large farmer in Sindh on 'sale or return' basis. The product is very innovative and the company expects that if it can attract large farmers' segment, it will be easier to market it across the country. The expiry date for the return of these goods is February 28, 2010. Cactus Ltd., has earned a margin of 25% on these sales.

(d) The company received a grant from the Government of Pakistan on January 1, 2007 by virtue of introduction of an advanced equipment for filling small sachets. The grant received was equal to 50% of the cost of the machinery purchased which is included in plant and machinery. The machinery whose useful life is 10 years, was purchased at a price of Rs.50 million on January 1, 2007 after obtaining necessary Government approvals. The company is following the requirements of International Accounting Standards in respect of accounting for Government grant.

(e) A provision of income tax for the year ended December 31, 2009 of Rs.15 million is required. The opening provision comprises the excess amount provided for the prior year.

(f) The company has following loans in place at the beginning and end of the year:

	Rs. in million	
	1.1.2009	31.12.2009
• 10% loan from Allied Bank of Pakistan repayable in 2011	80	80
• 9.5% loan from National Bank of Pakistan repayable in 2012	35	35

The above loans were utilized by the company to fund the expansion of its formulation plant in Karachi, which is currently under progress. The expenditure on plant were drawn on January 1, 2009 (Rs.30 million) and on October 1, 2009 (Rs.20 million). The financial charges on above loans have not been recorded for 2009.

Required:

Prepare the Income Statement for the year ended December 31, 2009 and the Statement of Financial Position of Cactus Limited as of December 31, 2009 in accordance with International Financial Reporting Standards. 25

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Marks

Q. 4 **(a)** As per IAS 19, how should the net cumulative unrecognised actuarial gains and losses at the end of the previous period be treated? 05

(b) Suppose you are the management accountant of U & S Publishing (Pvt.) Ltd. The company has granted 200 options on its Rs.10 ordinary shares to each of its 250 employees on July 1, 2006. The options are conditional upon the employees being employed by the company until June 30, 2009.

Following information is relevant:

- You estimate that the fair value of each option was Rs.40 on July 1, 2006.
- In 2006-07, 25 employees left and another 25 employees were expected to leave in 2007-08 and 2008-09.
- In 2007-08, 18 employees left and another 12 employees were expected to leave in 2008-09.
- In 2008-09, 15 employees left.

Required:

How will the scheme be accounted for in the financial statements for the years ended June 30, 2007, 2008 and 2009? 06

(c) Rich Limited made a 12% loan of Rs.500,000 to Poor Limited on January 1, 2005. Loan is payable after six years. The coupon and effective rate of interest are the same and interest is received at the end of each year. On January 1, 2010, Rich Limited discovered that Poor Limited was facing financial problems. It was estimated that Poor Limited would be able to pay only Rs.336,000 instead of Rs.560,000 at the end of 2010.

Required:

(i) How above situation will be accounted for in the financial statements of Rich Limited on January 1, 2010.
(ii) What amount will be recognised as interest income for the year ended December 31, 2010. 05

(d) Millat Company purchased a non-current asset, costing Rs.500,000, on January 1, 2008. It has a useful life of 5 years with no residual value. On December 31, 2009, the tax base of the asset was Rs.250,000 and it was re-valued to Rs.400,000. Tax rate is 35%. Company uses straight-line method of charging depreciation.

Required:

What are the deferred tax implications of the above facts as per IAS 12? 04

THE END