



Extra Reading Time:	15 Minutes	Maximum Marks: 100	Roll No.:	
Writing Time:	03 Hours			

- (i) Attempt all questions.
- (ii) Write your Roll No. in the space provided above.
- (iii) Answers must be neat, relevant and brief. It is not necessary to maintain the sequence.
- (iv) Use of non-programmable scientific calculators of any model is allowed.
- (v) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (vi) 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.
- (vii) DO NOT write your Name, Reg. No. or Roll No., or any irrelevant information inside the answer script.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

DURING EXTRA READING TIME, WRITING IS STRICTLY PROHIBITED IN THE ANSWER SCRIPT
EXAMINEES ARE ADVISED TO MANAGE SOLUTIONS/ ANSWERS WITHIN PROPOSED TIME

Marks

Question No. 1 **Proposed Time : 35 Min. | Total Marks : 16**

On July 01, 2013, Diamond Limited acquired 80% shares in Gold Limited, a subsidiary company. After three months of acquisition, Diamond Limited purchased an associated company, Silver Limited, in which Diamond Limited acquired 35% ordinary shares.

Extracts from the individual Statements of Profit or Loss of the three companies for the year ended June 30, 2015 are set out below:

**Statement of Profit or Loss
For the year ended June 30, 2015**

	Rs. in million		
	Diamond Ltd.	Gold Ltd.	Silver Ltd.
Revenue	3,000	1,800	1,500
Cost of sales	(1,650)	(1,170)	(1,050)
Gross profit	1,350	630	450
Operating expenses	(900)	(324)	(375)
Interest income	50	-	-
Financial charges	(150)	(36)	(150)
Profit before taxation	350	270	(75)
Income tax	(105)	(81)	(15)
Profit for the year	245	189	(90)

Additional Information:

- On January 01, 2015 Diamond Limited purchased goods from Gold Limited for Rs. 250 million inclusive of profit margin of Rs. 50 million. On June 30, 2015, goods of Rs. 100 million purchased from Gold Limited, were still in inventory of Diamond Limited.
- On March 01, 2015 Silver Limited sold goods costing Rs.150 million to Diamond Limited at 25% markup on cost. On June 30, 2015, the inventories of Diamond Limited included Rs.75 million from Silver Limited.
- At the year ended on June 30, 2015, total impairment losses of Rs. 20 million were to be recognized in the Consolidated Financial Statements of Diamond Limited. The total amount of impairment losses include Rs. 15 million in respect of goodwill arising on the business combination with Gold Limited and Rs. 5 million in respect of the carrying amount of Silver Limited.
- On January 01, 2014 Gold Limited sold a machine for Rs.40 million to Diamond Limited, having carrying value of Rs.30 million. At that date, the remaining estimated useful life of the machine was reassessed as five years. Depreciation on this machine was recorded by Diamond Limited in its cost of sales using straight-line method of depreciation.
- On January 01, 2015 Diamond Limited invested Rs. 100 million in an 11% loan notes from Gold Limited. All interest accruing to June 30, 2015 had been accounted for by both companies.
- It is group's policy to value the non-controlling interest at proportionate shares of the subsidiary's net assets.

Required:

Prepare Consolidated Statement of Profit or Loss for Diamond Group for the year ended June 30, 2015 as per relevant International Financial Reporting Standards (IFRS).

Question No. 2

Proposed Time : 35 Min. | Total Marks : 20

On July 01, 2014, Baasil Ltd., acquired shares in Saim Ltd., for Rs. 54 million. Baasil Ltd., paid consideration of Rs. 4 million in cash and issued 4 million shares to Saim Ltd. Each share of Baasil Ltd., was being traded at Rs. 12.5 at the date of acquisition. Fair value of the non-controlling interest (NCI) was Rs. 4 million at the date of acquisition. The Consolidated Financial Statements of Baasil Ltd., for the year ended June 30, 2015 are given below:

Consolidated Statement of Profit or Loss
For the year ended June 30, 2015

	Rs. in million
Revenue	340
Cost of sales	(216)
Gross profit	124
Marketing and distribution expenses	(16)
Administrative expenses	(19)
Finance charges	(25)
Other income	3
Share of profit from associate	26
Profit before tax	93
Income tax	(31)
Profit for the year	62
Profit for the year attributable to:	
Owners of the parent	57
Non-controlling interests	5
	62

Consolidated Statement of Financial Position
As at June 30, 2015

	Rs. in million	
	2015	2014
Assets		
Non-current assets		
Property, plant and equipment	378	270
Goodwill	4	-
Investment in associate	70	60
	452	330
Current assets		
Inventories	240	210
Trade receivables	170	160
Cash and bank account	70	10
	480	380
Total assets	932	710
Equity and Liabilities		
Equity attributable to owners of the parent		
Share capital (Rs. 10 each)	240	125
Share premium	20	-
Retained earnings	132	93
	392	218
Non-controlling interests	6	-
Total equity	398	218
Non-current liabilities		
Long term loan	310	350
Current liabilities		
Trade payables	190	115
Income tax payable	34	27
	224	142
Total liabilities	534	492
Total equity and liabilities	932	710

Additional Information:

- The fair value of the net assets of Saim Ltd., as at July 01, 2014 were as follows:

	Rs. in million
Property, plant and equipment	30
Inventories	38
Trade receivables	22
Cash and bank account	01
Trade payables	(39)
Net assets	52

- Depreciation for the year was Rs. 36 million which was charged to cost of sales. A plant costing Rs. 15 million was sold for Rs. 18 million during the year.
- Finance charges for the year are pertaining to long-term loan using applicable effective interest rate. The loan was obtained on July 01, 2014 at 6% coupon rate. Interest is payable on June 30th of each year.
- An impairment review conducted on June 30, 2015 and all necessary adjustments were made to write down the goodwill.

Required:

Prepare Consolidated Statement of Cash Flows for the year ended June 30, 2015 in accordance with IAS 7 – Statement of Cash Flows using indirect method.

20

Question No. 3**Proposed Time : 30 Min. | Total Marks : 16**

ABC Ltd., is a public limited company, listed on Pakistan Stock Exchange. The company is dealing in trading of household electronic items. Due to cutthroat competition, ABC Ltd., is facing the competitors producing low quality products and offering the same products to the customers at lower price. Resultantly, ABC Ltd., is losing its market share.

ABC Ltd., has released its half-yearly results as at June 30, 2015, showing decrease in net profits and the company did not announce any interim cash dividend to its shareholders. Eventually, the price of its shares decreased significantly. The share price was Rs. 52 per share as on December 31, 2014 which reduced to Rs. 39 per share as on December 31, 2015.

Summarized comparative Financial Statements of the company for the year ended December 31, 2014 and 2015 are given below:

**Statement of Financial Position
As at December 31, 2015**

	Rs. in million	
	2015	2014
Assets		
Non-current assets		
Property, plant and equipment	234	145
*Investment	25	35
	<u>259</u>	<u>180</u>
Current assets		
Inventories	51	66
Trade receivables	71	80
Cash	4	21
	<u>126</u>	<u>167</u>
Total assets	385	347

	Rs. in million	
	2015	2014
Equity and Liabilities		
Equity		
Share capital (Rs. 10 per share)	80	80
Share premium	70	70
Retained earnings	117	87
Total equity	267	237
Non-current liabilities		
Long-term loan	52	45
Current liabilities		
Trade payables	48	65
Bank overdraft	18	–
	66	65
Total liabilities	118	110
Total equity and liabilities	385	347

Statement of Profit or Loss
For the year ended December 31, 2015

	Rs. in million	
	2015	2014
Revenue	730	690
Cost of sales	(529)	(486)
Gross profit	201	204
*Operating expenses	(149)	(149)
Profit before interest and tax (PBIT)	52	55
Finance costs	(5)	(3)
Profit before tax	47	52
Income tax expense	(17)	(19)
Profit for the year	30	33

(*The downward change in the investment account is due to impairment losses which have been charged to operating expenses).

Saif Group of Companies, an investor, is interested to invest in ABC Ltd. Suppose you have been appointed by Saif Group of Companies as its Financial Consultant. The company has asked you to review ABC Ltd's Financial Statements and recommend for investment in ABC Ltd., keeping in view the decreasing price of ABC Ltd's shares.

Required:

- (a) Being a Financial Consultant of Saif Group of Companies, calculate the following ratios for interpreting the Financial Statement of ABC Ltd.:- 10
- Profitability and return ratios
 - Liquidity ratios
 - Efficiency ratios
 - Investor's ratios
- (b) Draft a report for Saif Group of Companies by analysing the ratios calculated above and recommend the management whether or not the ABC Ltd., should be considered for potential investment. 06

Question No. 4**Proposed Time : 45 Min. | Total Marks : 25**

- (a) Fareed Still Mills, a public limited company, is engaged in manufacturing and distribution of steel sheets and rods. The company has introduced a defined benefit pension plan for its employees. The scheme of the benefit plan calls for life-time monthly pension payment to its employees from the date of retirement.

Following transactions related to the employee benefits scheme occurred during the year ended June 30, 2015:

	Rs. in million
Contributions paid	125
Payments made to employees	84
Current service cost	39

On January 01, 2015 the management reached to an agreement with the employees to make an amendment in the terms of the benefit plan by which the pension liability would be reduced. The impact of this reduction was calculated to be Rs. 63 million as on June 30, 2015.

	Rs. in million
Present value of the plan obligation:	
As on July 01, 2014	473
As on June 30, 2015	462
Fair value of the plan assets:	
As on July 01, 2014	546
As on June 30, 2015	674
Benchmark discount rate used	8% per annum

Required:

Prepare Extract of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income for the year ended June 30, 2015 along with relevant notes as required by the IAS 19 – Employee Benefits.

11

- (b) In November 2015 Maria & Company decided to sell one of its offices and move the office staff at factory premises located in industrial area. The price of the office was fixed at Rs. 40 million by the management but the surveyor valued the office at Rs. 35 million based on its market price. Moreover, the company would continue to use the office until the office area is constructed in factory premises, which is expected to be complete in June 2016.

Required:

- (i) Whether or not the office will be classified as 'held for sales' in the Statement of Financial Position for the year ended December 31, 2015? Substantiate the answer with reasons.
- (ii) Briefly describe what you understand by 'sale to be highly probable', one of the criteria for assets to be classified as non-current assets 'held for sale, in the light of ' IFRS 5 –Non Current Assets held for Sale and Discontinued Operation.

02

04

- (c) Shahid & Company is planning to dispose of a group of net assets that form a disposal group. The net assets as on December 31, 2015 were as under:

	Rs. in million
	Carrying Value
Goodwill	20
Property, plant and equipment	25
Inventory	18
Financial assets	20
Financial liabilities	(22)
	61

Additional Information:

- Financial assets are measured at fair value on December 31, 2015 and profit of Rs. 3 million related to financial assets has already been recognised in equity.
- As per applicable IFRS, the re-measurement values of property, plant and equipment would be stated at Rs. 22 million and inventory at Rs. 16 million.
- The fair value less cost to sell of disposal group is Rs. 34 million.

Required:

- (i) Calculate impairment of each asset of disposal group of Shahid & Company. **05**
- (ii) Show how the disposal group of Shahid & Company will be accounted for in the Statement of Financial Position as at December 31, 2015. **03**

Question No. 5**Proposed Time : 35 Min. | Total Marks : 23**

- (a) Rising Sun (Pvt.) Ltd., is a manufacturing company, having workforce of 300 employees with an annual turnover of Rs. 500 million. The Chief Executive Officer (CEO) of the company was going through the draft annual accounts prepared by the Accountant of the company. The accounts were prepared in accordance with all applicable International Accounting Standards. However, the CEO pointed out that he had come across with an article in a business magazine regarding accounting standards for small and medium enterprises, which has recently been introduced, by which financial reporting has been simplified. Since the company is not a large scale company, hence the CEO wants you to look into the requirements of applying the IFRS.

Required:

- (i) Briefly discuss the scope of IFRS for Small and Medium-sized Entities (SMEs). How does such standard facilitate financial reporting by SMEs? **07**
- (ii) Since SME standards do not cover all possible transactions and events, there are certain alternatives available to deal with such transactions. Discuss how items not dealt with by SME standard should be treated. **05**
- (b) The Board of Directors of MM Pharma is planning to expand its production facility. In order to buy machinery for its Compression Department, the company signed a contract to buy machines for € 7,500,000 on October 01, 2015 for which amount would have to be paid on March 31, 2016.
- At the same date October 01, 2015, MM Pharma also entered into 6 months forward contract to buy € 7,500,000 on March 31, 2016 at PKR 113 per Euro to hedge foreign exchange risk.
- Spot and forward exchange rates at the following dates were as follows:

Date	PKR per Euro (€)		
	October 1, 2015	December 31, 2015	March 31, 2016
Spot Rate	112.00	115.00	120.00
Forward Rate (For Delivery on March 31, 2016)	113.00	115.70	120.00

The company's financial year ended on December 31, 2015.

Required:

- (i) Prepare all necessary accounting entries relating to above transactions on October 01, 2015, December 31, 2015 and March 31, 2016 in accordance with relevant IFRS assuming that all conditions for hedge accounting were met. (Show all necessary calculations) **09**
- (ii) On the basis of above calculations, elaborate whether or not the above hedge was effective as per relevant IFRS. **02**

THE END