Marks

Q.2 (i)

PK Ltd
Consolidated Income Statement
For the year ended December 31, 2011

	(Rs. '000')	Marks
Sales (85 + 38 – 10)	113,000	2.0
Cost of sales (44.5 + 20 - 10 + 1)	(55,500)	2.5
Gross Profit	57,500	
Operating expenses (9 + 8)	(17,000)	1.5
Profit before tax	40,500	
Income tax expense (10.5 + 2)	(12,500)	1.5
Profit after tax	**28,000**	0.5
Profit attributable to:		
Parent company	26,250	0.5
Non-controlling Interest [25% of (8000 – 1000)]	1,750	1.5
	28,000	

Statement of Changes in Retained Earnings (Extract)

	(Rs. '000')	Marks
Balance at January 1, 2011 (87,000 +17,000 x 0.75)	99,750	0.5
Dividends paid	(6,000)	0.5
Total comprehensive income for the year	26,250	0.5
Balance at December 31, 2011	**120,000**	0.5

(ii)

PK Ltd.
Consolidated Statement of Financial Position
As at December 31, 2011

Non-Current Assets	***(Rs. '000')***	***(Rs. '000')***	Marks
Property Plant and Equipments (125 + 60)		185,000	1.5
Current assets [58.75 + 27 - 1)		84,750	2.0
		269,750	0.5
Equity and Liabilities			
Ordinary shares of Rs.10 each	100,000		0.5
Retained Earnings (WN-4)	120,000	220,000	0.5
Non-Controlling Interest - NCI (WN-3)		17,750	0.5
Current liabilities (17 + 15)		32,000	1.5
Total Equity and Liabilities		**269,750**	0.5

<u>**Working Notes:**</u>	***(Rs. '000')***	
PK Ltd. Share	75%	
SK Ltd. Share	25%	
<u>***Un-realized profit WN-2***</u>		
Sales	10,000	
Cost of goods (10,000/1.25)	8,000	
Profit margin	2,000	
Un-realized profit margin (2,000/2)	**1,000**	1.0

Marks

Non-Controlling Interest - Net Assets WN-3

		Marks
Net Assets of SK Ltd.	72,000	0.5
Less: Unrealized profit	(1,000)	0.5
	71,000	0.5
NCI (25%)	**17,750**	0.5

Consolidated Retained Earnings WN-4	**PK Ltd.**	**SK Ltd.**	
Retained Earnings of PK Ltd.	104,250	22,000	
Less: Unrealized profit		(1,000)	
		21,000	1.0
Share of SK Ltd. (21,000 x 75%)	15,750		0.5
	120,000		1.0

Q.3 (a) (i) Basic Earnings per Share (EPS):

$$\text{Basic Earnings per Share (EPS)} = \frac{10{,}200{,}000}{8{,}500{,}000}$$

$$= \text{Rs.}1.20 \qquad 1.0$$

(ii) 12% Loan:

$$\text{Incremental EPS} = \frac{\text{Incremental earnings}}{\text{Incremental shares}}$$

$$= \frac{(12\% \text{ of Rs.}2{,}500{,}000) \times (1 - 35\%)}{2{,}500{,}000 \times (1/10)}$$

$$= \frac{\text{Rs.}300{,}000 \times 65\%}{250{,}000}$$

$$= \frac{\text{Rs.}195{,}000}{250{,}000}$$

$$= \text{Rs.}0.78 \qquad 2.0$$

15% Loan:

$$\text{Incremental EPS} = \frac{\text{Incremental earnings}}{\text{Incremental shares}}$$

$$= \frac{(15\% \text{ of Rs.}3{,}000{,}000) \times (1 - 35\%)}{3{,}000{,}000 \times (1/16)}$$

$$= \frac{\text{Rs.}450{,}000 \times 65\%}{187{,}500}$$

Marks

$$= \frac{\text{Rs.}292{,}500}{187{,}500}$$

$$= \text{Rs.}1.56$$ 2.0

Since Incremental EPS of 12% loan is Rs.0.78 which is less than Rs.1.20 therefore it is dilutive. 1.0

Since Incremental EPS of 15% loan is Rs.1.56 which is more than Rs.1.20 therefore it is not dilutive. 1.0

(iii) Dilutive EPS

$$= \frac{\text{Rs.}10{,}200{,}000 + \text{Rs.}195{,}000}{8{,}500{,}000 + 250{,}000}$$

$$= \frac{\text{Rs.}10{,}395{,}000}{8{,}750{,}000}$$

$$= \text{Rs.}1.19$$ 2.0

Marks

Q.3 (b)

Operating Cycle

Inventory Turnover Period

$$\frac{\text{Closing Inventory x 365}}{\text{Cost of Goods Sold}} = 365 \text{ x } \frac{285}{493} = 211.00 \text{ days}$$ 1

Accounts Receivable Collection Period

$$\frac{\text{Closing Trade Receivable x 365}}{\text{Sales}} = 365 \text{ x } \frac{155}{910} = 62.17 \text{ days}$$ 1

Accounts Payable Payment Period

$$\frac{\text{Closing Trade Payables x 365}}{\text{Purchases}} = 365 \text{ x } \frac{67}{475} = 51.48 \text{ days}$$ 1

Operating Cycle		
Inventory Turnover Period	211	0.75
Add: Accounts Receivable Collection Period	62	0.75
Less: Accounts Payable Payment Period	(51)	0.75
Length of Operating Cycle	**222**	0.75

Q.4 (a) i.

Best-way Leasing Ltd.
General Journal

Date	Description	Ref	Debit	Credit	
1-Jul-11	Bank Account		86,700		0.5
	Lease Rental Revenue			43,350	0.5
	Un-earned Lease Rental Revenue			43,350	0.5
	Being receipt of 1st lease instalment in advance from Sky Scrappers Ltd.				
31-Dec-11	Depreciation Expense - Leased Assets		35,000		0.5
	Accumulated Depreciation - Leased Assets			35,000	0.5
	To record depreciation on Leased Assets for 6 months				
1-Jul-12	Bank Account		86,700		0.5
	Lease Rental Revenue			43,350	0.5
	Un-earned Lease Rental Revenue			43,350	0.5
	Being receipt of 2nd lease instalment in advance from Sky Scrappers Ltd.				
31-Dec-12	Un-earned Lease Rental Revenue		43,350		0.5
	Lease Rental Revenue			43,350	0.5
	To recognize un-earned lease rental income received in advance from Sky Scrappers Ltd.				
31-Dec-12	Depreciation Expense - Leased Assets		70,000		0.5
	Accumulated Depreciation - Leased Assets			70,000	0.5
	To record depreciation on Leased Assets				

Marks

(a) ii.

Best-way Leasing Ltd.
Statement of Comprehensive Income (Extract)
As of December 31, 2011 & 2012

Operating Income:	*(Rupees)*		Marks
	2011	**2012**	
Lease Rental Income	43,350	86,700	1
Operating Expense:			
Depreciation on Leased Assets	35,000	70,000	1

Best-way Leasing Ltd.
Statement of Financial Position (Extract)
As of December 31, 2011 & 2012

	(Rupees)		Marks
Non-current Assets	**2011**	**2012**	
Leased Assets	350,000	350,000	1
Less: Accumulated Depreciation	(35,000)	(105,000)	1
	315,000	**245,000**	1
Current Liability			
Un-earned lease rental income	**43,350**	**43,350**	1

(b) (i)

		Marks
Temporary difference as of July 01, 2010 (Rs.18,000 / 30%)	60,000	1.0
Temporary difference for the year ended June 30, 2011 Rs.80,000 - Rs.30,000)	50,000	1.0
	110,000	
Deferred Tax Liability (25% of 110,000) at June 30, 2011	**27,500**	1.0

(ii)

Deferred Tax charge / (credit) for the year

		Marks
Deferred Tax Liability as of June 30, 2011	27,500	0.5
Less: Deferred Tax Liability as of July 01, 2010	18,000	0.5
Increase in tax charge for the year ended June 30, 2011	**9,500**	1.0

(iii)

4S Ltd. General Journal

Date	**Description**	**Ref**	**Debit**	**Credit**	Marks
30-June-11	Tax expense		9,500		0.5
	Deferred Tax Liability			9,500	0.5
	To record deferred tax liability for the year ended June 30, 2011				

Marks

(iv)

4S Ltd.
Statement of Comprehensive Income (Extract)
As of June 30, 2011

	(Rupees)	
Tax provision	(9,500)	1
Depreciation Expense	30,000	

4S Ltd.
Statement of Financial Position (Extract)
As of June 30, 2011

		(Rupees)	
Non-current Liability			
Deferred Tax Liability		**27,500**	1
Non-current Asset	(200000 – 30,000)	**170,000**	

Q.5 i.

Date	Received	Discount Amortization	Total Interest Revenue	Carrying Amount	
1-Jan-10	-	-	-	93,134	
1-Jan-11	12,000	1,039	13,039	94,173	1.0
1-Jan-12	12,000	1,184	13,184	95,357	1.0
1-Jan-13	12,000	1,350	13,350	96,707	1.0
1-Jan-14	12,000	1,539	13,539	98,246	1.0
1-Jan-15	12,000	1,754	13,754	100,000	1.0

Q.5 ii.

Rite Company Ltd.
General Journal

Date	Description	Ref	Debit	Credit	
1-Jan-10	Debt Investment		93,134		0.5
	Bank Account			93,134	0.5
	To record purchase of Rs.100,000 bonds from Might Co. at a discount of Rs.92,418.				
31-Dec-10	Interest Receivable		12,000		0.5
	Debt Investment		1,039		0.5
	Interest Income			13,039	0.5
	To record interest receivable and discount *amortization*				
1-Jan-11	Bank Account		12,000		0.5
	Interest Receivable			12,000	0.5
	To record receipt of interest on bonds				
31-Dec-11	Interest Receivable		12,000		0.5
	Debt Investment		1,184		0.5
	Interest Income			13,184	0.5
	To record interest receivable and discount *amortization*				

Marks

Q.5 iii.

Rite Company Ltd.
Statement of Comprehensive Income (Extract)
As of December 31, 2010-11

	(Rupees)		Marks
Other Income:	**2010**	**2011**	
Interest income	13,039	13,184	2

Rite Company Ltd.
Statement of Financial Position (Extract)
As of December 31, 2010-11

		Rupees	Marks
Non-current Assets	**2010**	**2011**	
Debt Investments	94,173	95,357	2
Current Assets			
Interest Receivable	12,000	12,000	1

Q.6 (a)

Prudential Regulation:
The prudential regulation is meant to regulate Banks and DFIs and supervision of the conduct of these institutions and set down requirements that limit their risk-taking. 1

Purpose:
Prudential Regulations have been issued by State Bank of Pakistan to put in place a prudent regulatory framework for ensuring safety and soundness of the financial system besides protecting the interests of users of financial services. 1.5

Scope:
Prudential Regulations are applicable to banks and DFIs only. As such, the Non-Bank Finance Companies (NBFCs) are governed separately by the Securities and Exchange Commission of Pakistan under separate set of regulations issued by them. 1.5

Q.6 (b) (i)

Momin Enterprise
Income Statement for the year ended December 31, 2011
(Extract)

	Rs.'000	Marks
Revenue	5,550	0.5
Cost of sales	(4,366)	0.5
Profit	**1,184**	0.5

Momin Enterprise
Statement of Financial Position as at December 31, 2011
(Extract)

		Rs.'000	Marks
Non-current Assets			
Plant		8,000	0.5
Less: Accumulated Depreciation		(4,000)	0.5
		4,000	0.5
Current Assets			
Amounts due from Customer		NIL	0.5
Trade Receivable	(9,750 – 9,265)	485	

Marks

(b) (ii) Amount due from customers.

		Marks
Costs to date	7,670	0.5
Profit to date	2,080	0.5
Less: amounts billed to date	(9,750)	0.5
Amounts due from customers	**NIL**	0.5

Working Notes:

WN-1

			Marks
Contract price		15,000	0.5
Less: Total contract cost:			
Cost to date	3,670		0.5
Further costs to complete	2,130		0.5
Depreciation to date	4,000		0.5
Remaining depreciation	2,000		0.5
		11,800	0.5
Expected profit		3,200	0.5
Profit to date (as of December 31, 2011) (3,200 x 65%)		**2,080**	0.5

WN-2

		Marks
Cost recognized to date (3,670 + 4,000)	7,670	0.5
Less: Cost recognized in year 2010	(3,304)	0.5
Cost recognized in year 2011	**4,366**	0.5

Alternate Solution Q.6(b):

		Marks
Revenue to date (15000 x 0.65)	9,750	1.0
Less: Revenue recognized in 2010	4,200	0.5
Revenue recognized in 2011	5,550	0.5
Total Cost (5,800 + 6,000)	11,800	1.0
Cost to date (11,800 x 0.65)	7,670	1.0
Less: Cost recognized in 2010	3,304	0.5
Cost recognized in 2011	4,366	0.5
Profit recognized in 2011 (5,550 – 4,366)	1,184	0.5

THE END