

**FINANCIAL ACCOUNTING – SEMESTER-3**

Marks

**Question No.2**

**Al-Marjan Group**  
**Consolidated Statement of Financial Position**  
**as on June 30, 2015**

	Rs. '000'		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment (75,000 + 11,000)	86,000	0.5	
Goodwill (w-1)	3,250	0.5	
	89,250		
<b>Current assets</b>			
Inventory [(8,000 + 1,100 – 288 (URP))]	8,812	0.5	
Accounts receivable (2,000 + 1,200 – 768 (intra group) (w-4))	2,432	0.1	
Cash and Bank (3,000 + 200)	3,200	0.1	
	14,444		
<b>Total assets</b>	<b>103,694</b>		
<b>Equity and liabilities</b>			
Share capital	40,000	0.5	
Retained earnings (w-3)	45,866	0.5	
	85,866		
Non-controlling interest (w-2)	1,096	0.5	
Non-current liabilities	8,000	0.5	
<b>Current liabilities</b>			
Current and accrued liabilities (7,000 + 2,500 – 768)	8,732	0.5	
<b>Total equity and liabilities</b>	<b>103,694</b>		
<b>(w-1) Goodwill</b>			
Investment	12,000	0.25	
NCI at fair value (500 x 10% x 20)	1,000	0.1	
	13,000		
<b>Less: Fair value of net assets at acquisition</b>			
Share capital	5,000	0.25	
Retained earnings	4,750	0.25	
	9,750	0.5	
<b>Goodwill on acquisition</b>	<b>3,250</b>	0.1	
<b>(w-2) Non-controlling interest</b>			
NCI at fair value (500 x 10% x 20)	1,000	0.75	
Post acquisition profit (6,000 – 4,750 – 288) x 10%	96	0.1	
	1,096	0.1	
<b>(w-3) Consolidated retained earnings</b>			
As per statement of financial position	45,000	6,000	0.5
Less Pre-acquisition		(4,750)	0.25
		1,250	0.25
Adjustment of URP		(288)	0.25
Group share in Al-Burhan	866		0.5
	<b>45,866</b>	<b>962</b>	<b>0.1</b>

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**FINANCIAL ACCOUNTING – SEMESTER-3**

		<b>Marks</b>
<b>(w-4) Intercompany transaction:</b>		
Al-Burhan sold to Al-Marjan	1,920	0.5
Returned Goods	384	0.5
Net Sales to Al-Marjan	1,536	
Total Credit	1,536	0.25
Settlement	768	0.25
Remaining balance at year end	768	0.25
Goods in books of Al-Marjan	768	
Cost of Goods	480	0.5
Unrealized Profit	288	0.1

**Question No.3****(a)****Lease Amortization Schedule**

Date	Liability	Advance + Rental	Interest	Principal	Liability	
1/1/2015	1,500,000	522,635			977,365	0.5
7/1/2015	977,365	222,635	43,981	178,654	798,710	0.1
1/1/2016	798,710	222,635	35,942	186,693	612,017	0.1
7/1/2016	612,017	222,635	27,541	195,095	416,922	0.1
1/1/2017	416,922	222,635	18,762	203,874	213,048	0.1
7/1/2017	213,048	222,635	9,587	213,048	- 0 -	0.5

**(b)**

<b>(i)</b>	<b>Landed cost of goods:</b>	<b>Amount</b>	
	Invoice amount	200,000	0.5
	Import duty and other taxes	65,000	0.5
	Transportation charges	12,000	0.5
	Labour charges	5,000	0.5
	<b>Total landed cost</b>	<b>282,000</b>	0.1
<b>(ii)</b>	Total cost of goods	282,000	0.5
	Net realizable value of goods	275,000	0.5
	IAS-2 requires the inventory should be stated at lower of cost or net realizable value. So NRV is lower of cost hence inventory should be stated at NRV i.e. Rs.275,000.		0.1

**(c) (i)**

The company should recognize the impairment losses as follows:

- |   |   |
|---|---|
| (i) Any assets that are apparently damaged or destroyed. Therefore, the loss of Rs.1 million against inventory destroyed by fire will be allocated first. | 1 |
| (ii) Then goodwill of Rs.2 million should be written down to zero.  | 1 |
| (iii) The remaining impairment loss shall be allocated to the tangible non-current assets.  | 1 |

**FINANCIAL ACCOUNTING – SEMESTER-3****Marks**

After allocation of the impairment loss, the assets of the cash generating unit will show the following position:

	Rupees in million			
	Carrying value before impairment	Impairment loss	Carrying value after impairment	
Property, plant and equipment	26	(2)	24	0.75
Goodwill	2	(2)	-	0.75
Patent rights	1	(1)	-	0.75
Inventory	12	(1)	11	0.75
<b>Total</b>	<b>41</b>	<b>(6)</b>	<b>35</b>	

(ii) The impairment loss should be accounted for as follows:

Friends Company Ltd. General Journal				
Date	Description	Ref	Debit	Credit
December 31, 2015	Revaluation surplus account		1	-
	Profit or loss account		5	
	Property, plant and equipment			2
	Goodwill			2
	Patent rights			1
	Inventory			1
	(To record impairment losses)			

**Question No.4**

**Tehraz Company  
Statement of Cash flows  
for the year ended June 30, 2015**

	Rs. '000'	
<b>Cash flows from operating activities</b>		
Profit before taxation	11,630	0.5
<b>Adjustments for:</b>		
Depreciation	1,800	0.5
Gain on Sales of non-current asset	(800)	0.5
Gain on fair value of investment property	(300)	0.5
Amortization of intangible assets	900	0.5
Assets written off	800	0.5
Interest expense	700	0.5
	3,100	
<b>Working capital changes</b>		
Trade receivables	500	0.5
Inventory	(1,500)	0.5
Trade payables	(100)	0.5
	(1,100)	
Cash generated from operations	13,630	0.5
Interest paid	(600)	0.5
Income taxes paid	(630)	0.5
Net cash from operating activities	12,400	

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**FINANCIAL ACCOUNTING – SEMESTER-3****Marks****Cash flows from investing activities**

Purchase of property, plant and equipment	(13,200)	0.5
Proceeds from sales of PPE	<u>2,000</u>	0.5
Net cash used in investing activities	(11,200)	

**Cash flows from financing activities**

Payment of long-term loan	(1,000)	0.5
Payment of finance lease	(700)	0.5
Dividend paid	<u>(1,000)</u>	0.5
Net cash used in financing activities	(2,700)	
<b>Net decrease in cash and cash equivalents</b>	<b>1,500</b>	<b>0.5</b>
<b>Cash and cash equivalents at beg of period</b>	<b>2,000</b>	<b>0.5</b>
<b>Cash and cash equivalents at end of period</b>	<b><u>500</u></b>	<b>01</b>

**All rupees in thousand**

<b>Property, plant and equipment</b>				
Opening Bal	39,000	Disposal	1,500	
Revaluation	800			0.5
Finance lease	1,000			0.5
Purchases	10,500	Depreciation	1,800	01 + 0.5
Investment property	2,500			0.5
	53,800	Ending Bal	50,500	
			53,800	
<b>Disposal</b>				
Bank	2,000	Assets	1,500	0.5 + 0.5
Revaluation	300	Gain	800	0.5 + 0.5
	<u>2,300</u>		<u>2,300</u>	
<b>Intangible assets</b>				
Opening Bal	8,000	Write off	800	0.5
Purchase	1,200	Amortization	900	0.5 + 0.5
	9,200	Ending Bal	7,500	
			9,200	
<b>Investment property</b>				
Opening Bal	6,000	TT PPE	2,500	0.5
Purchase	1,500			0.5
P & L	300			0.5
	7,800	Ending Bal	5,300	
			7,800	

**FINANCIAL ACCOUNTING – SEMESTER-3****Marks**

<b>Revaluation surplus</b>				
Sold	300	Opening Bal	2,000	0.5 + 0.5
		Revaluation	800	
Closing Bal	2,500			
	2,800		2,800	
<b>Interest payable</b>				
Payment	600	Opening Bal	750	0.5
Ending Bal	850		700	0.5
	1,450		1,450	
<b>Taxation</b>				
Tax Paid	630	Opening Bal	350	0.5
		Tax	800	0.5
Ending Bal	520			
	1,150		1,150	
<b>Finance lease</b>				
Payment	700	Opening Bal	1,500	0.5
		Purchases	1,000	0.5
Ending Bal	1,800			
	2,500		2,500	
<b>Retained earnings</b>				
Dividend	1,250	Opening Bal	24,350	0.5
Tax	800	Profit	12,330	0.5 + 0.25
Financial charges	700			0.25
Ending Bal	33,930			
	36,680		36,680	
Profit before tax and interest			12,330	
Financial Charges			700	
Profit before tax			11,630	0.5

**FINANCIAL ACCOUNTING – SEMESTER-3****Marks****Question No.5****(a) (i) Historical cost**

Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

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**(ii) Current cost**

Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

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**(b) (i)**

	Rs.	
Franchise license fee:		
License fee	5,000,000	0.5
Lawyer's fee	150,000	0.5
Documentation charges	50,000	0.5
	<b>5,200,000</b>	<b>0.5</b>
Annual amortization cost (5,200,000 / 10)	520,000	0.5
Market value of the franchise license	3,000,000	0.5
Less: franchise license carrying cost as of December 31, 2015		
Franchise license cost	5,200,000	
Amortization during 2011 to 2015 (520,000 x 5)	<u>(2,600,000)</u>	<u>2,600,000</u>
Revaluation surplus	<b>400,000</b>	<b>0.5</b>

**(ii)****Abrar Company Ltd.  
General Journal**

Date	Description	Ref	Debit	Credit	
1-Jan-11	Intangible asset - Franchise license cost		5,200,000		01
	Bank			5,200,000	01
	(To record franchise license cost)				
31-Dec-15	Accumulated amortization - franchise cost		2,600,000		01
	Intangible asset - Franchise license cost			2,600,000	01
	(To record amortization cost for the year 2015)				
31-Dec-15	Intangible asset - Franchise license cost		400,000		01
	Revaluation surplus			400,000	01
	(To record revaluation of franchise license cost)				

**(c)**

Property, plant and equipment	100,000,000			
Cash		100,000,000		01
Cash	3,000,000			
Profit and loss		3,000,000		1.5
Cash	10,000,000			
Deferred income/ Property, plant and equipment		10,000,000		1.5

**THE END**