ICMA Pakistan

SPRING 2013 EXAMINATION
Friday, the 30th August 2013
ADVANCED FINANCIAL ACCOUNTING AND CORPORATE REPORTING – (AF-501)
SEMESTER-5

Extra Reading Time: **15 Minutes**		**Maximum Marks: 90**	**Roll No.:**
Writing Time: **02 Hours 45 Minutes**			

(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.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Answer Script will be provided after lapse of 15 minutes Extra Reading Time (9:30 a.m. or 2:30 p.m. [PST] as the case may be).

Marks

Q. 2 Cell Limited is a listed company incorporated in 2004 and engaged in the manufacturing and supplying of health care products for the local market. On July 1, 2010, Cell Limited acquired 60% shares in Gel Limited. In July 2010, Cell also acquired 40% shares in Well Limited. The draft statements of financial position of the above-mentioned companies are as follows:

Statements of Financial Position
as at June 30, 2012

	Cell Limited	Gel Limited	Well Limited
		(Rs. in million)	
Non-Current Assets			
Property, plant and equipment	10,000	4,000	2,400
Investments:			
Shares in Gel Limited	3,250	-	-
Shares in Well Limited	900	-	-
	14,150	4,000	2,400
Current Assets			
Inventories	550	250	250
Accounts receivable	450	150	200
Cash and Bank	200	100	150
	1,200	500	600
	15,350	**4,500**	**3,000**
Equity			
Ordinary share capital @ Rs.10 each	4,400	1,000	1,200
Share premium	1,500	-	-
Retained earnings	4,150	3,250	1,300
	10,050	4,250	2,500
Long-term Liabilities			
Long-term loan	2,500	-	100
Deferred consideration	2,000	-	-
	4,500	-	100
Current Liabilities			
Current Liabilities	800	250	400
	15,350	**4,500**	**3,000**

Marks

Following information is related to the above three companies:

(i) The consideration paid by Cell Limited to acquire Gel Limited**:**

- The transfer of 60 million shares in Cell Limited with a nominal value of Rs.10.00 each and a market value on the date of acquisition of Rs.13.50 each.
- Rs.338 million of cash paid on July 1, 2010 and
- Rs.2000 million of cash, payable on July 1, 2012 (a discount rate of 10% has been used to value the liability in the financial statements of Cell Limited).

The investment was classified as fair value through other comprehensive income. The gain earned to date is included in retained earnings of Cell Limited.

(ii) On July 1, 2010, Gel Limited had retained earnings of Rs. 2,300 million. It is group policy to value non-controlling interest at fair value at the date of acquisition. The fair value of non-controlling interest on July 1, 2010 was Rs.1,800 million

(iii) On July 1, 2010, the fair value of the net assets acquired was the same as the book value with the following exceptions:

- The fair value of property, plant and equipment was Rs.450 million higher than the book value. These assets were assessed to have a minimum useful life of 5 year from the date of acquisition.
- The fair value of inventories was estimated to be Rs.100 million higher than the book value. All of these inventories were sold by June 30, 2012.

(iv) On July 1, 2010, Cell Limited also acquired shares in Well Limited for Rs.900 million when the retained earnings of Well Limited were Rs.750 million.

(v) Gel Limited sold goods to Cell Limited in the year for Rs.300 million. Goods with sales value of Rs.75 million remain in Cell Limited's inventories at June 30, 2012. Gel Limited makes 25% mark-up on sales to Cell Limited.

(vi) Up to June 30, 2012, the investment in Well Limited has been impaired by Rs.40 million of which the current year loss was Rs.10 million.

Required:

Prepare Consolidated Statement of Financial Position as at June 30, 2012. **25**

Q. 3 Following statements of profit or loss relate to Pink Company and Red Company, for the year ended June 30, 2012:

	Rs. in million	
	Pink Co.	**Red Co.**
Revenue	1,200	800
Cost of sales	(700)	(500)
Gross profit	**500**	**300**
Operating expenses	(150)	(100)
Other income	25	-
Finance costs	(20)	(15)
Profit / (Loss) before tax	**355**	**185**
Income tax expense	(105)	(30)
Profit / (Loss) after tax	**250**	**155**
Retained earnings b/f	150	125
Dividend	(25)	(30)
	375	**250**

Following additional information is available relating to Pink Group:

(i) On July 1, 2007, Pink Company acquired 80% shares of Red Company for Rs.125 million when the fair value of Red Company's net assets was Rs.140 million. Red Company has share capital of Rs.80 million. At that date, the fair value of non-controlling interest was Rs.35 million.

Marks

(ii) Red Company paid cash dividend in September 2011, for the year ended June 30, 2011.

(iii) During the year Pink Company sold inventory of Rs.20 million to Red Company, on which Pink Company charged 20% profit on selling price. This inventory was sold to third parties before April 1, 2012.

(iv) Pink Company sold half of its holding in Red Company on April 1, 2012 for Rs.150 million. This disposal has not yet recognized in any way in group statement of financial position. The residual holding has a fair value of Rs.120 million and leaves the Pink Company with significant influence. Goodwill is to be accounted for based upon fair value of non-controlling interest. No goodwill has been impaired.

Required:

(a) Prepare the Group Statement of Profit or Loss for the year ended June 30, 2012. (ignore taxation impact). **16**

(b) Compute the Group Retained Earnings as at June 30, 2012. **04**

Q. 4 (a) Define functional currency and explain the key factors which determine an entity's functional currency. **05**

(b) Aarfeen Limited has a wholly owned subsidiary in Middle East whose functional currency is UAE Dirham (Dhs.) while Aarfeen Limited's functional currency is Pak Rupees. The subsidiary owns a debt instrument classified as held for trading and carried at fair value of Dhs. 5 million as on June 30, 2011. On June 30, 2012 the fair value of the debt instrument increased to Dhs. 6 million. The exchange rates on different dates were as follows:

One UAE Dirham is equivalent to:	
June 30, 2011	Rs.24
June 30, 2012	Rs.26
Average for 2011-2012	Rs.25

Required:

Explain the treatment of above transaction of Aarfeen Limited according to the relevant IFRS. **07**

(c) During the year, FMCG launched a new product in the market and expected normal growth as that of existing products. In order to motivate the sales force to achieve the target for three years, the company granted 225 share options to each member of the sales team of 10 employees. At the grant date, the fair value of each option is Rs.25. The grant was based on the condition that the employees remain in service over the next three years and the team sells 80,000 units of product over the three-year period.

During second year, the company increased the sales target to 120,000 units after positive feedback from customers and widely acceptance of the product in the market.

By the end of third year, only 100,000 units have been sold and the share options do not vest. All employees remained with the company for three years.

Required:

(i) Explain the accounting treatment of the above transaction under IFRS 2. **02**

(ii) Calculate the amounts to be recognized in the financial statements for each of the three years of the scheme. **02**

Marks

Q. 5 M/s Samy is engaged in import, manufacture and supply of wooden sheets for furniture and wooden flooring. Three years ago, the company hired a director for business development having experience of international market. He brought new ideas in wooden furniture and flooring resulting significant increase in growth rate. Below is the summary of annual sales of the company:

Years	Annual Sales (Rs. in million)
2009 – 10	500
2010 – 11	600
2011 – 12	750

In July 2013, the management was expecting similar growth as in the previous years. The budgeted sales and profit for the year 2013 was Rs.950 million and Rs.114 million respectively. Below are statements of profit or loss of the company:

	June 30, 2013	June 30, 2012
	Rs. in million	
Revenue	900.00	750.00
Opening inventory	75.00	100.00
Purchases / manufactured	610.00	446.43
Closing inventory	(130.00)	(75.00)
Cost of sales	(555.00)	(471.43)
Gross profit	**345.00**	**278..57**
Operating expenses	(200.00)	(150.00)
Profit / (Loss) before tax	**145.00**	**128.57**
Income tax expenses	(50.75)	(38.57)
Profit / (Loss) after tax	**94.25**	**90.00**

During the annual review meeting of the company, the directors raised following issues:

(i) Sales increased by Rs.150 million while profit increased by Rs.4.25 million only.

(ii) Closing inventory of last year was only 10% of sales while for the current year it is 14%.

(iii) Actual sales decreased by Rs.50 million as compared to budgeted sales and net profit is decreased by Rs.20 million which is 40% of differential sales, which is too high as compared to actual net profit % of 2012.

Required:

(a) Calculate the relevant ratios (working and formulas are not required). **07**

(b) As Financial controller prepare a report to directors replying the issues highlighted above in (i) to (iii). **08**

Q. 6 **(a)** Bolan Motors Limited is socially responsible company and wants to implement the same practices in other companies of the group. You are required to define corporate social responsibility and discuss how a business interacts with society in several different ways to other companies of the group to become compliant of S.C.R. **06**

(b) Ahad Limited introduced a defined benefit pension scheme in the year to December 31, 2012 and following facts are relevant to the scheme for the year:

	Rs. in million
Cash contribution by the company	560.00
Current service cost	615.00
Interest on obligations	120.00
Interest on plan assets	65.00
Present value of obligation (December 31, 2012)	725.00
Present market value of plan assets (December 31, 2012)	695.00

Required:

Pass a journal entry to record the above transactions. *(Workings are to be shown)* **08**

THE END