Marks

Q.2

Cell Group
Consolidated Statement of Financial Position
As at June 30, 2012

	Rs. in million	Marks
Non-Current Assets		
Property Plant and Equipment [10,000+4,000+270 (w2)]	14,270.00	0.5+0.5
Goodwill (w1)	751.00	0.25
	15,021.00	
Investment in Associate (w6)	1,080.00	0.25
Inventory [550+250-15 (w5)]	785.00	0.5+0.5
Accounts receivable (450+150)	600.00	0.5
Cash and Bank (200+100)	300.00	0.5
	1,685.00	0.5
	17,786.00	0.5
Equity		
Share Capital @ 10 each	4,400.00	0.25
Share Premium	1,500.00	0.25
Consolidated Reserve (w3)	4,274.00	0.25
	10,174.00	0.5
Non-Controlling Interest (w4)	2,062.00	0.25
Long-term Liabilities	2,500.00	0.25
Differed consideration	2,000.00	0.25
Current Liabilities [800+250]	1,050.00	0.5
	17,786.00	0.5

W-1:

Calculation of Goodwill	**Gel Ltd.**	
Cost of investment		
Shares (60 x 13.5)	810.00	0.25+0.5
Cash paid	338.00	0.5
Deferred Consideration (2,000 x $1/1.10)^2$	1,653.00	0.25+0.5
Total Consideration	2,801.00	0.5
Add FV of NCI	1,800.00	0.5
	4,601.00	

			Marks
Less Entity acquired			
Share Capital	1,000		0.5
Retained Earnings	2,300		0.5
Fair Value Adjustment (450 + 100)	550		0.5
		3,850.00	
Total Goodwill		**751.00**	0.5

Alternatively:

Calculation of Goodwill			
Cost of investment			
Shares (60 x 13.5)		810.00	0.25+0.5
Cash paid		338.00	0.5
Deferred Consideration (2,000 x 1/1.10)^2		1,653.00	0.25+0.5
Total Consideration		2,801.00	
Less net assets acquired:			
Share Capital	1,000		0.5
Retained Earnings	2,300		0.5
Fair Value Adjustment (450 + 100)	550		0.5
	3,850.00		
60% of 3,850		2,310	
Parent share of goodwill		**491.00**	
FV of NCI at acquisition		1,800.00	0.5
NCI share of net assets (40% of 3,850)		1,540	0.5
NCI share of goodwill		**260**	
Total goodwill (491 + 260)		**751**	0.5

W-2:

Fair Value Movement

	At Acquisition	Movement	As at June 12	
PPE	450	(180)	270	
Inventory	100	(100)	-	
	550	**(280)**	**270**	
Marking Plan	0.5 +	0.5 +	0.5 =	1.5

Marks

W-3:
Consolidated retained earnings

	Cell Limited	Gel Limited	Marks
Per Question / at date of Control	4,150.00	3,250.00	
Fair Value Adjustment (w2)		(280.00)	0.5
Unrealized Profit (w5)		(15.00)	0.5
Reserve at acquisition		(2,300.00)	
		655.00	0.5
Share of increase in retained earning of associate (w7)	220.00		0.5
Gain on investment in individual Account (3,250 – 2,801)	(449.00)		0.5+0.5
Impairment of associate	(40.00)		0.5
Group Share of Post-Acquisition reserves			1.0
Gel Limited (60% of 655.00)	393.00		0.5
	4,274,00		

W-4:
Calculation of Non-Controlling Interest

FV of NCI at acquisition	1,800.00	0.5
Share of Post-acquisition retained earnings [40% of (3250-280-15-2300)] or [655 (w3) x 0.4]	262.00	0.5+0.5
Total NCI	**2,062.00**	0.5

Alternatively:

Share of Net assets at reporting date (4250 x 0.4)	1,700	0.5
Share of goodwill (W-1)	260	0.25
Share of unrealized profit [15(W-5) x 0.4)]	(6)	0.5
Fair value adjustment [270(W-2) x 0.40]	108	0.5
	2,062	0.25

W-5:

Un-realized Profit	**Rs. in million**	
Sales of Inventory (unsold)	75.00	
Un-realized profit (75 million x 0.25 / 1.25)	15.00	1.0

Marks

W-6:

Investment in Associate

Cost	900.00	0.5
Share of increase in retained earnings (w7)	220.00	0.5
Impairment Loss	(40.00)	0.5
	1,080.00	0.5

* **W-7:**

Share of increase in retained earnings (1300-750) x 40%	220.00	0.5+0.5

Q. 3 (a)

Pink Group
Statement of Profit or Loss
For the year ended June 30, 2012

		Rs. in million	
Revenue (1200+800x9/12–20)		1,780.00	0.5+0.75
Cost of Sales (700+500x9/12–20)		(1,055.00)	0.5+0.75
Gross Profit		725.00	
Operating expenses (150+100x9/12)		(225.00)	0.25+0.5
Other Income (25-(30x80%))		1.00	0.25+0.5
Income from Associate (155x40%x3/12)		15.50	0.25+0.5
Gain on disposal	W4	24.00	0.25
Finance Cost (20+15x9/12)		(31.25)	0.25+0.5
Profit before taxation		509.25	
Income tax (105+30x9/12)		(127.50)	0.25+0.5
Profit for the year		**381.75**	0.25
Attributable to:			
Equity holders of parent (b/f)		358.50	
Non-controlling interest (155x9/12*20%)		23.25	0.25+0.5
		381.75	

(b) <u>Group retained earnings on June 30, 2012 :</u>

Opening balance of Pink Company	150.00	0.5
Group share of Red Company's post-acquisition retained earnings (80% x (205-140))	52.00	0.5+0.5
Group income	358.50	0.5
Dividend	(25.00)	0.5
	535.50	0.5

Marks

W-1: Net Assets of Red Company:

	At disposal	b/f		
Share capital	80.00	80.00		
Retained earnings	125.00	125.00		
Profit for the year (155x9/12)	116.25			
Dividend	(30.00)			
	291.25	**205.00**		
Marking Plan	2.0	+ 1.0	=	3.0

W-2: Goodwill

		Marks
Cost to Pink	125.00	0.5
FV of NCI at acquisition	35.00	0.5
	160.00	
FV of Net assets at acquisition	(140.00)	0.5
Goodwill	**20.00**	0.5

W-3: NCI at disposal

		Marks
FV of NCI at acquisition of Red Company	35.00	0.25
NCI share of post-acquisition retained earnings (291.25-140)x20%	30.25	0.25+.5
	65.25	0.5

W-4: Profit on disposal

			Marks
Proceeds		150.00	0.5
FV of retained interest		120.00	0.5
		270.00	
Net assets prior to disposal (w1)	291.25		0.5
Unimpaired goodwill	20.00		0.5
	311.25		
NCI at disposal (w3)	(65.25)		0.5
		(246.00)	
Profit on date of disposal		**24.00**	0.5

Marks

Q. 4 (a) Functional Currency:

Functional currency is the currency of the primary economic environment in which the entity operates. 1.0

Factors in Determining Functional Currency:

The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) The currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and 1.0

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. 1.0

(b) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled). 2.0

(b) The debt instrument of subsidiary is held for trading and will therefore be carried at fair value through profit and loss in its financial statements.

Under IAS 21, all exchange differences resulting from translation including exchange differences that arise on financial instruments carried at fair value through profit or loss and investments in equity instruments, are recognised in other comprehensive income (items that may subsequently be reclassified to profit or loss) until the subsidiary is disposed of.
On June 30, 2012 there will be a gain in the financial statement of subsidiary of Dh 1 million (Dh 6- Dh 5) and in accordance with IFRS 9, this will be credited to profit or loss and other comprehensive income of the subsidiary.

In consolidated financial statements the carrying values of debt would be calculated using the exchange rates prevailing at June 30, 2011 and 2012, which shows an increase of Rs. 36 million at June 30, 2012 as given below:

	Rs. in million	
Balance on 30 June 2011 (Dh 5 million x 24)	120.00	
Balance on 30 June 2012 (Dh 6 million x 26)	156.00	
Total increase in year	36.00	2.0

Part of the increase in fair value is attributable to a change in the exchange rate and part of it to an increase in fair value as illustrated below:

The average rate for the year of Rs.25 to 1dhs will be used to translate the statement of profit or loss. 1.0

Hence a gain of Rs.25 million [(6-5) x25] is to be taken to profit or loss for the year. 2.0

The remaining part of the total gain in fair value, 11 million (36 – 25) million will be taken to other comprehensive income. 2.0

Marks

Journal entry is:

Debt instrument	36.00	
Profit or loss (1 Dh x 25)		25.00
Equity		11.00

(c) **(i)** IFRS 2 states that when a share option is modified the entity must recognize, as a minimum, the services received, measured at the fair value at the grant date. The employees have not met the modified sales target, but did meet the original target set on grant date. 2.0

This means that the entity must recognized the expense that it would have incurred had the original scheme continued in force.

(ii) The total amount recognized in equity is 56,250 (10 x 225 x 25). The entity recognizes an expense of 18,750 for each of the three years. 2.0

Q. 5 **(a)** **Analysis of Profit and Loss statement**

	June 2013	**June 2012**	Marks
Cost of Sales as % to sales	62%	63%	1.0
GP %	38%	37%	1.0
Operating Expenses %	22%	20%	1.0
Net Profit %	10%	12%	1.0
Effective tax rate	35%	30%	
Growth rate over previous year			
2010-11	20%		0.5
2011-12	25%		0.5
2012-13	20%		0.5
2012-13 (as compare to budget)	-5%		0.5
Inventory in days (365 days)	86	58	1.0
OR			**OR**
Inventory in days (360 days)	84	57	1.0

Bonus Adjustment: 5,000,000 x 14 / 13 = 5,384,615 shares

Bonus element: 5,384,615 – 5,000,000 = 384,615

Marks

(b) To: Director
From: Finance Controller
Date: 22 Sept 2012
With reference to subject mentioned above, I am herewith the summarized report on queries raised by you. 1.0

Sales and Profit

- During the last three years our sales growth rate remained around 20% to 25% and on the other hand our cost increased significantly.
- Our operating expenses increased by 33% (50/150 x 100) over last year and our gross profit ratio also decreased by 1% as compared to last year. \
- Further government has imposed additional tax of 5%.
- Due to above mentioned reason our net profit reduced to 10% as compared to 12% of last year.

2.0

Inventory

- During the year inventory increased by 55 million and holding period from 58 days to 86 days, this is another reason of increase in holding cost of inventory.
- Another reason of holding excess inventory may be to achieve sales target of 950 million, but said target have not been achieved.

2.0

Actual Vs Budget

The budgeted sales and profit for the year were Rs.950 million and Rs.114 million showing expected profit of 12% same as last year, but due to above reasons i.e. increase in cost of sales, operating expenses, tax rate and low achievement ratio resulted decrease in profit as compare to budget. 2.0

I hope the above report would clear the reason of decrease in profit.

Regards

Finance Controller 1.0

Marks

Q. 6 (a) ***Corporate Social Responsibility***

Corporate social responsibility Is the process of communicating the social and environmental effects of organizations' economic actions to particular interest group within the society and to society at large. 1.0

A business interacts with society in the following manner:

- It employs human resources in the form of management and other employees. 1.0

The activities of the business may affect the society as a whole in the following ways:

- It may be the reason for a particular community's existence. 1.0
- It may produce goods that are helpful or harmful for a particular members of society 1.0
- It may damage the environment in ways that harm society as a whole 1.0
- It may undertake charitable works in the community or promote particular values. 1.0

(b)

	Rs. in million	Marks
PV of obligation at opening of year	Nil	0.5
Interest cost	120	0.5
Current service cost	615	0.5
Actuarial (gain)/loss on obligation: balancing figure	(10)	0.5
PV of obligation at end of year	725	0.5
Market value of plan assets at beginning of year	Nil	0.5
Interest on plan assets	65	0.5
Contributions	560	0.5
Return on plan assets: balancing figure	70	0.5
Market value of plan assets at year end	695	0.5

Journal Entry

	Rs. in million		
	Dr.	**Cr.**	
Profit or loss (615+120-65)	670		0.5+0.5
Other comprehensive income(10+70)		80	0.5+0.5
Bank		560	0.5
Liability		30	0.5

THE END