



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF
PAKISTAN (ICPAP)**

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| Stage | Skills | Course Code | S-403 |
| Examination | Summer-2011 | Course Name | Financial and Corporate Reporting |
| Time Allowed | 03 Hours | Maximum Marks | 100 |

NOTES:

1. All questions are to be attempted.
2. Answers are expected to be precise, to the point and well written.
3. Neatness and style will be taken into account in marking the papers.

Question No 1

The Statements of Financial Position of M/s .A. Limited, .B. Limited and .C. Limited as on June 30, 2010 are as follows:

| | (Amount in Rs. .000.) | | |
|-------------------------------------|-----------------------|----------------------|----------------------|
| | A Limited | B Limited | C Limited |
| Non-Current Assets | | | |
| Property, plant and equipment | 35,450 | 4,250 | 6,050 |
| Intangible assets | 5,350 | 3,650 | 1,950 |
| Investments | | | |
| Investment in .B. Limited | 6,600 | | |
| Investment in .C. Limited | | 3,700 | |
| | <u>47,400</u> | <u>11,600</u> | <u>8,000</u> |
| Current Assets | | | |
| Inventory | 2,600 | 1,600 | 2,000 |
| Other current assets | 1,000 | 2,400 | 1,500 |
| | <u>3,600</u> | <u>4,000</u> | <u>3,500</u> |
| Total Assets | <u>51,000</u> | <u>15,600</u> | <u>11,500</u> |
| Equity | | | |
| Share capital (Rs.10 each) | 20,000 | 5,000 | 3,000 |
| Retained earnings | <u>22,000</u> | <u>5,000</u> | <u>4,000</u> |
| | <u>42,000</u> | <u>10,000</u> | <u>7,000</u> |
| Non-Current Liability | | | |
| Long-term loan | 7,500 | 5,000 | 4,000 |
| Current liabilities | <u>1,500</u> | <u>600</u> | <u>500</u> |
| Total Liabilities and Equity | <u>51,000</u> | <u>15,600</u> | <u>11,500</u> |

.A. group carries on business of distribution of FMCG. .A. Limited is a listed company and incorporated under the Companies Ordinance, 1984. Recently .A. Limited has expanded its operation by focusing on diversification strategy and acquired shares in .B. Limited and .C. Limited, which is listed in stock exchange and carries on similar activities.

The following information is available relating to .A. group:

- 'A' Limited acquired 90% shares in .B. Limited on July 1, 2007 when retained earnings of 'B' Limited were Rs.1,500,000.
- 'B' Limited acquired 240,000 shares in .C. Limited on July 1, 2008 when retained earnings of 'C' Limited were Rs.1,200,000.
- During the year .C. Limited made inter-company sales to .B. Limited of Rs.240,000 making a profit of 20% on cost and 25% of these goods are still in stock at June 30, 2010.
- On January 1, 2010, .A. Limited purchased a non-current asset for Rs.160,000 and sold to 'B' Limited for Rs.200,000. .A. Limited and .B. Limited charge depreciation @ 25% using straight-line method.
- Goodwill has been tested for impairment and no impairment loss occurred.

Required:

Prepare Consolidated Statement of Financial Position as on June 30, 2010 in accordance with the relevant International Financial Reporting Standard(s). (20 Marks)

Question No 2

Following is the Statement of Financial Position of M/s ACA and Co as at December 31, 2009:

**M/s ACA & Co
Statement of Financial Position
As at December 31, 2009**

| | Dec 31 2009 | Dec 31 2008 |
|-------------------------------|---------------------|---------------------|
| | (Rs. .000.) | |
| Non-Current Assets | | |
| Property, plant and equipment | 5,485 | 5,050 |
| Less accumulated depreciation | (1,250) | (850) |
| | 4,235 | 4,200 |
| Current Assets | | |
| Accounts receivable | 875 | 635 |
| Investments | 100 | 75 |
| Inventory | 858 | 1,025 |
| Cash and bank | 275 | 175 |
| | <u>2,108</u> | <u>1,910</u> |
| Total Assets | <u>6,343</u> | <u>6,110</u> |
| Shareholders' Equity | | |
| Share capital | 4,000 | 4,000 |

| | | |
|--|---------------------|---------------------|
| Retained earnings | 300 | 250 |
| Reserves and surpluses | 350 | 225 |
| | 4,650 | 4,475 |
| Long-term Liabilities | | |
| Bonds payable | 208 | 200 |
| Liabilities against assets subject to finance leases | 200 | 150 |
| Deferred taxation | 235 | 175 |
| | 643 | 525 |
| Current Liabilities | | |
| Accounts payable | 250 | 205 |
| Liabilities against assets subject to finance leases | 50 | 30 |
| Provision for taxation | 290 | 265 |
| Interest payable | 260 | 310 |
| Proposed dividend | 200 | 300 |
| | <u>1,050</u> | <u>1,110</u> |
| Total Liabilities and Equity | <u>6,343</u> | <u>6,110</u> |

Additional Data:

- Interest expense for the year, Rs.75,000.
- Tax payment for the year, Rs.95,000.
- During the year, assets costing Rs.375,000 were sold for Rs.275,000. Book values of the assets were Rs.250,000.
- Investments are recorded as fair-value-through profit and loss.
- During the year, the company entered into finance lease agreement and acquired a vehicle against lease. The vehicle would cost Rs.350,000 to the company if it were purchased for cash.
- Bonds payable amounting to Rs.60,000 were issued during the year.

Required:

Prepare Statement of Cash Flows as per IAS-7 using indirect method. (20 Marks)

Question No 3

(a) Pak Limited entered into a seven-year finance lease agreement to lease a non-current asset from Lessor limited. Lease commenced on January 1, 2009 and included seven annual lease payments of Rs.100,000 each starting from January 1, 2009. Had Pak Limited purchased the asset from the market on January 1, 2009, it would have cost them Rs.511,160. Implicit interest rate is 12%. The asset has a useful life of seven years and is to be depreciated using straight-line method with no residual value.

Required:

Prepare the following extracts in the books of Pak Limited:

(i) Income Statement for the year ended December 31, 2009. (10 Marks)

(ii) Statement of Financial Position as at December 31, 2009. (10 Marks)

Question No 4

Mr. Investor has a portfolio of diversified investments. In 2008, he made investments in two financial assets:

(i) Rs.550,000 were invested in fair-value-through profit and loss. Investment that also incurred a transaction cost of Rs.5,000. At the end of 2008, value of the investment increased to Rs.600,000. In 2009, he sold the investment for Rs.625,000.

(ii) Second investment was bought for Rs.775,000 and was classified as 'available-for-sale'. Transaction cost was Rs.6,000. Its value increased to Rs.790,000 at the end of 2008. It was also sold for Rs.915,000 in 2009.

Required:

How above financial assets would have been accounted for in the financial statements of 2008 and 2009. (20 Marks)

Question No 5

For the last many years, M/s. ABC Limited has been facing the problem of turnover of staff. In order to overcome this situation, management of the company has introduced many plans to win the loyalty of the staff. On January 01, 2010, the company granted 200 cash share appreciation rights (SAR) to each of its 500 employees provided that they would remain with the company until December 31, 2012. Following is the relevant data as regards this scheme:

Assume that:

- During 2010, 30 employees leave. The entity estimates that a further 50 employees would leave during 2011 and 2012.
- During 2011, 15 employees leave. The entity estimates that a further 45 employees would leave during 2012.
- During 2012, 50 employees leave.

The fair value of one SAR for each year are shown below:

| Year | Fair value (Rs.) |
|------|---------------------|
| 2010 | 10.00 |
| 2011 | 12.00 |
| 2012 | 15.00 |

Required:

Calculate the amount to be recognized as an expense in the Income Statement for each of the three years ended to December 31, 2012 and the liability to be recognized in the Statement of Financial Position at December 31, for each of the three years. (20 Marks)
