The Institute of Chartered Accountants of Pakis

Advanced Accounting and Financial Reporting

Final Examination	3 December 2013
Winter 2013	100 marks - 3 hours
Module E	Additional reading time - 15 minutes

Q.1 On 1 October 2012, Alpha Industries Limited (AIL) held 15% and 35% equity in Beta (Private) Limited (BPL) and Delta (Private) Limited (DPL) respectively. The following balances pertain to the three companies, as on the above date.

	AIL	BPL	DPL
	Rs. in million		
Share capital (Rs. 100 each)	100	60	50
Retained earnings	35	30	15
Other comprehensive income - fair value reserve related to BPL	6	-	-
Total equity	**141**	**90**	**65**
Non-current investments – BPL*[1] (Cost Rs. 18 million)	20	-	-
Non-current investments – DPL*[2] (Cost Rs. 40 million)	43	-	-
*[1] *recorded as available for sale*			
*[2] *recorded as investment in associate*			

On 1 April 2013, AIL acquired a further 55% equity in BPL when:

- the fair value of the net assets of BPL was Rs. 100 million which was equal to their carrying value; and
- the fair value of the 15% equity already held in BPL was Rs. 25 million.

The purchase consideration comprised of 150,000 shares in AIL which were issued on the date of acquisition at their market value of Rs. 160 per share and Rs. 42 million payable in cash on 31 March 2014. AIL uses discount rate of 12% for determining the present value of its future assets and liabilities.

Other relevant details are as follows:

(i) For the year ended 30 September 2013 the profits after tax of AIL, BPL and DPL were Rs. 58 million, Rs. 40 million and Rs. 30 million respectively.

(ii) AIL values non-controlling interest at the acquisition date at its fair value which was Rs. 32 million.

(iii) AIL sold goods at Rs. 65 million to BPL on 1 July 2013. The sales were invoiced at 30% above cost. 20% of these goods remained unsold as on 30 September 2013.

(iv) DPL's sales to AIL amounted to Rs. 70 million. DPL earns a profit of 20% of sales value. On 30 September 2013, inventory of AIL included Rs. 20 million in respect of such goods.

(v) For the year ended 30 September 2012 AIL, BPL and DPL paid final cash dividend of 15%, 20%, and 12% respectively.

Required:

(a) Compute the amount of goodwill, retained earnings and investment in associate as they would appear in the **consolidated** statement of financial position of AIL as at 30 September 2013, in accordance with IFRS. ***(Ignore taxation)*** **(18)**

(b) Describe how the investment in BPL and DPL may be accounted for and also compute the amount of the investments as it would appear in the **separate** statement of financial position of AIL as at 30 September 2013, in accordance with IFRS. **(04)**

Q.2 Mega Super Stores (MSS) introduced a customer loyalty scheme on 1 August 2013 which was based on the following conditions:

- Customers were granted 500 points with each purchase of Rs. 5,000 or above.
- These points could be exchanged for goods supplied by MSS within two months from the date the points were granted.
- For every 500 points, goods having a retail price of Rs. 200 were to be given.

However, the scheme was discontinued from 1 October 2013. During the period covered by the scheme, the customers were granted 1.5 million points out of which 0.5 million points were redeemed. At year end, a study was carried out and it was established that approximately 30% of the points granted would lapse unutilised. Actual results showed that finally 470,000 points lapsed unutilised.

MSS sells goods at a margin of 40%. No entries in respect of grant of points have been recorded so far.

Required:
Prepare accounting entries to record the above transactions in accordance with IFRS. **(08)**

Q.3 The financial statements of Bravo Limited (BL) for the year ended 30 September 2013 are under finalisation and the following matters are under consideration:

(i) BL's plant was commissioned and became operational on 1 April 2008 at a cost of Rs. 130 million. At the time of commissioning its useful life and present value of decommissioning liability was estimated at 20 years and Rs. 19 million respectively. BL's discount rate is 10%.

There has been no change in the above estimates till 30 September 2013 except for the decommissioning liability whose present value as at 1 April 2013 was estimated at Rs. 25 million. **(06)**

(ii) On 1 October 2011, BL acquired 160,000 12% debentures of Rs. 100 each, for Rs. 15.5 million and classified them as ' held to maturity'.

On 30 September 2013, in view of financing requirements for a new project, BL is uncertain about holding the debentures till redemption. Therefore, it has decided to reclassify the debentures as 'available for sale'.

Other relevant information is as follows:

- The debentures carry a fixed interest rate of 12%, payable annually in arrears.
- The effective rate of interest is 14.09%.
- The debentures are redeemable at Rs. 105 on 30 September 2015.
- The market value per debenture as of 30 September 2012 and 2013 was Rs. 102 and Rs. 104 respectively. **(06)**

(iii) On 1 April 2013, BL shifted to a newly acquired building in the city centre. The vacated building was leased as follows:

Date of commencement of the lease	1 April 2013
Lease period	3 years
Six semi-annual installments payable in advance ***(to be increased by 5% annually)***	Rs. 3 million

On 1 April 2013, the carrying value and fair value of the vacated building was Rs. 55 million and Rs. 70 million respectively. As at 30 September 2013 the fair value of the vacated building was reduced to Rs. 66 million. BL uses fair value model to account for investment properties. **(06)**

Required:
For each of the above matters, compute the related amounts as they would appear in the statements of financial position and comprehensive income of Bravo Limited for the year ended 30 September 2013 in accordance with IFRS. ***(Ignore corresponding figures)***

Q.4 Global Air Limited (GAL) owns 100% equity in Moon (Private) Limited (MPL). On 1 July 2013, GAL decided to dispose of 90% equity in MPL. It is expected that the sale will be finalised by 30 June 2014 at an estimated sale price of Rs. 140 million with an estimated cost to sell of Rs. 3.5 million. Relevant information pertaining to MPL is as under:

(i) Assets and liabilities as of 30 June 2013:

	Rs. in million
Non-current assets	195.00
Current assets	50.00
Liabilities	90.00

(ii) It is estimated that MPL's trade debtors amounting to Rs. 6 million will not be recovered; whereas provisions included in the liabilities amounting to Rs. 8 million are no more required.

(iii) MPL's net loss after tax for the nine months period ended 30 June 2013 was Rs. 30 million.

(iv) During the period 1 July 2013 to 30 September 2013, liabilities amounting to Rs. 26 million were paid and current assets of Rs. 18 million were recovered.

Goodwill of MPL as per the consolidated statement of financial position of GAL as at 30 September 2012 amounted to Rs. 15 million.

GAL had incurred expenses amounting to Rs. 1.5 million, for disposal of the equity upto 30 September 2013.

Required:
Prepare relevant extracts from the consolidated statements of financial position and comprehensive income of GAL for the year ended 30 September 2013, in accordance with IFRS. **(12)**

Q.5 Following is the extract of Trial Balance of Zee Bank Limited for the year ended 30 June 2013:

	Rs. in million
Cash in hand - Local currency	10,000
- Foreign currency	2,000
National Prize Bonds	100
Rupee current account with SBP	30,000
Rupee current account with NBP	8,000
Foreign currency current account with SBP	3,000
Foreign currency deposit account with SBP	10,000
Deposit account with central bank of UAE	12,000
Current account with central bank of South Africa	9,800
Current account with Muslim Commercial Bank Ltd.	700
Deposit account with Barclays Bank, London	25,000
Current account with Citibank, New York	4,000

Balances with treasury banks and other banks include remunerative accounts amounting to Rs. 10.8 million and Rs. 27.5 million respectively.

Required:
To the extent the information is available, prepare notes on 'Cash and balances with treasury banks' and 'Balances with other banks' for inclusion in financial statements of Zee Bank Limited for the year ended 30 June 2013, in accordance with the laws applicable in Pakistan. **(10)**

Q.6 New Horizon (Private) Limited (NHPL) is engaged in the distribution and supply of pharmaceutical products. The following information has been extracted from NHPL's draft financial statements for the year ended 30 September 2013:

Statement of comprehensive income for the year ended 30 September 2013

	2013	2012
	---------Rs. in million---------	
Sales revenue	720.00	234.00
Cost of sales	(534.00)	(190.00)
Gross profit	186.00	44.00
Operating expenses	(120.00)	(45.00)
Operating profit/(loss)	66.00	(1.00)
Finance charges	(35.00)	(5.00)
Profit / (loss) before tax	31.00	(6.00)
Taxation	(12.00)	1.30
Net profit / (loss)	**19.00**	**(4.70)**

Statement of financial position as at 30 September 2013

	2013	2012		2013	2012
	Rs. in million			Rs. in million	
Share capital	300.00	300.00	Property, plant & equipment	555.00	361.50
Retained earnings	65.00	46.00	Intangible assets	32.00	17.50
	365.00	346.00		587.00	379.00
Long term loans	198.00	40.00			
Current liabilities			**Current assets**		
Trade payables	96.00	25.00	Inventories	30.00	18.00
Other payables	5.50	1.00	Trade receivables	48.00	12.00
Borrowings	10.50	4.00	Cash and bank balances	10.00	7.00
	112.00	30.00		88.00	37.00
	675.00	**416.00**		**675.00**	**416.00**

Following further information is available:

(i) On June 2012, NHPL acquired exclusive distribution rights of a range of life saving drugs from a Malaysian company for 12 years at a cost of Rs. 18 million. NHPL has capitalized the cost of rights and it is to be amortized over the period of distribution rights.

(ii) In October 2012, NHPL launched a country-wide sales promotion campaign to introduce the Malaysian drugs. The cost of the advertisement campaign was Rs. 25million. As the benefits of the campaign are long term, NHPL has decided to amortize the costs over a period of 5 years.

(iii) The prices offered by the Malaysian company are quite low as compared to prices of similar quality drugs in Pakistan. Since this matter was publicized vigorously in the advertisement campaign, the Malaysian drugs were able to capture the market.

(iv) In 2013, the sales of drugs imported from Malaysia accounted for 70% of the company's revenue. The level of credit sales has remained constant at 40% of total sales.

(v) NHPL is also negotiating the acquisition of distribution rights of the products of another foreign company.

Required:
Comment on the financial and operating performance of NHPL for the year ended 30 September 2013, supported by relevant accounting ratios. **(14)**

Q.7 Dynamic Steel Limited (DSL) signed an agreement on 1 June 2013 for import of equipment for SK 50 million. According to the agreement, the plant was delivered on 1 November 2013 and invoice thereof was paid on 1 December 2013.

In order to hedge the commitment to pay SK 50 million, on 1 June 2013, DSL entered into a forward contract to buy the required SK on 1 December 2013 at a fixed exchange rate of SK 1=Rupees 15. Exchange rates on various dates are as follows:

		1-Jun-2013	30-Sep-2013	1-Nov-2013	1-Dec-2013
		SK 1			
Spot rate	Rs.	14.50	12.00	11.15	10.00
Forward rate	Rs.	15.00	12.39	11.35	-

It is DSL's policy to adjust any gain or loss arising on forward contracts to the carrying value of the imported goods. DSL's accounting year end is 30 September.

Required:
Prepare accounting entries relating to the above transactions, on each of the above dates, in accordance with the requirement of IFRS. **(16)**

(THE END)