Q.1

Eagle Bank Limited (EBL) is listed on all the stock exchanges in Pakistan. At the year end, the total borrowings of the bank amounted to Rs. 29,761 million, which included borrowings outside Pakistan amounting to Rs. 11,712 million. Details of borrowings at the year-end were as follows:

(i) All local borrowings are in Pak Rupees.

(ii) Inter-bank call money borrowings amounted to Rs. 3,600 million. These borrowings were unsecured and carried mark-up ranging between 8.7% and 12.1% per annum.

(iii) EBL operates in several countries where it maintains nostro accounts. The overdrawn nostro accounts amounted to Rs. 456 million. Mark-up on overdrawn nostro accounts was charged by the foreign banks at the rates prevailing in the respective countries.

(iv) Outstanding loans from the State Bank of Pakistan (SBP) under the Export Refinance Scheme amounted to Rs. 14,182 million. These loans carried mark-up ranging between 9.7% and 11% per annum and were secured by EBL's cash and other securities held by SBP.

(v) The borrowings under repurchase agreements amounted to Rs. 11,523 million and carried mark-up ranging between 6.3% and 12.5% per annum. These borrowings are secured against government securities amounting to Rs. 24,802 million and are repayable latest by April 2013.

Required:

Prepare note on 'Borrowings' for inclusion in the Financial Statements of Eagle Bank Limited with appropriate disclosures in accordance with the State Bank of Pakistan guidelines. (10)

Q. 2

a) F Limited has branches in many countries. Whilst preparing the annual accounts for the year ended June 30, 2002 the accountant of the company observed the following:

I UK branch has an inventory as on June 30, 2002 valued at Pound Sterling 1,000,000. The exchange rate of one pound sterling on the date of purchase of inventory was Rs. 90 and on June 30, 2002 was Rs. 80. The net realizable value of inventory as on June 30,2002 was pound sterling 1,100,000.

II. US branch has an inventory as on June 30, 2002 valued at US $ 1,000,000. The exchange rate of one US dollar on the date of purchase of inventory was Rs. 60 and on June 30, 2002 was Rs.65. The net realizable value of inventory as on June 30,2002 was US $ 950,000. The branch has recorded the inventory at net realizable value in its financial statements.

You are required to explain how the above positions shall be reflected in the financial statements of the branch and the financial statements of F Limited. (06)

b) Financial statements of LBS Limited showing following financial instruments:

I Investment in Term Finance Certificates quoted on stock exchanges carrying markup @ 17% per annum payable semiannually.

II Long terms loans obtained from a financial institution carrying markup @ 2% above the State Bank of Pakistan's discount rate.

III Foreign currency long-term loans provided by the company to one of its associated concern carrying interest @ 2% above London Inter Bank Market Rate. (LIBOR)

You are required to classify the above financial instrument into following financial risks as required under IAS 32 (Financial Instrument: Disclosure and Presentation)

1. Exposed to interest rate price risk
2. Exposed to interest rate cash flow risk
3. Exposed to currency risk (06)

Q.3

Foreign investment Ltd., has "Investment Held for Trading" in 1,000 shares of Y Ltd. which was purchased at Rs.20. The fair value of shares on Jan 01, 2002 was Rs.30 and on Dec 31, 2002 was Rs.35. The shares were indicated at cost in the accounts for the year ending Dec 31, 2001. The shares were sold at Rs.32 on March 27, 2003.

Show th1e working in the books for the year ending Dec 31, 2002 and on disposal in accordance with IAS 39. Explain the term "Held for Trading" and describe the disclosure in the financial statements for the year ending Dec 31, 2002. (10)

Q.4

(a) With reference to the International Accounting Standard 39 'Financial Instruments Recognition and Measurement', please explain:
   (i) What are financial assets? Give three examples. **(06)**
   (ii) How should a financial asset be recognized initially? **(03)**
   (iii) What are the classifications of financial assets for subsequent measurement? **(03)**
   (iv) How should each of these financial assets be subsequently measured? **(03)**

(b) What is the status of application of IAS-39 in Pakistan? **(03)**

Q.5

Explain the concept of 'Embedded Derivative' as discussed in International Accounting Standards 39 (Financial Instrument: Recognition and Measurement). **(06)**

Q.6

Gilgit Company Limited holds 800,000 shares of a listed company namely Hunza Foods Limited, which were purchased for Rs 84,400,000 as a long-term investment. On January 15, 2007, Hunza Foods Limited announced the issuance of one right share for every 5 shares held by the shareholders of the company. Face value of the shares is Rs 100 per share. On the date of book closure, market value of the share (cum right) was Rs 106 per share. The initial quoted price of the right was Rs 4 per right.

Required:

Suggest the necessary journal entries in the books of Gilgit Company Limited in case of each of the following options:

Option # 1 If the rights are not exercised but are sold at Rs 6 per right.

Option # 2 If the rights are not exercised and are allowed to expire.

Option # 3 If the following transaction take place:

- 200,000 shares are sold at cum right price for Rs 23,000,000;
- The right to purchase 120,000 additional shares at Rs 100 per share is exercised. Immediately after the book closure, the shares were quoted at Rs 103 per share (ex-right); and
- 100,000 shares originally held are sold at Rs 107 per share, after the exercise of the rights. **(16)**

Q.7

Red Limited has carried out the following transactions during the year ended June 30, 2008.

(a) On July 1, 2007, the company has received a loan of Rs. 100 million from Green Limited – a related party which is due for repayment after three years and does not carry any interest. The market interest rate for similar loans is 15% per annum. Red Limited is subject to taxation at the rate of 35%.

(b) On August 1, 2007, the company granted 200,000 employees' stock options at Rs. 5, when the market price was Rs. 13 per share. 95% of the options were exercised between March 1, 2008 and April 30, 2008. The remaining options lapsed. The share capital of the company is divided into shares of Rs. 10 each.

(c) The company holds 500,000 shares of Green Limited (GL), a listed company, which were purchased many years ago at Rs. 10 per share. The transaction cost on purchase was Rs. 120,000. The shares were classified as available for sale. On May 31, 2008, the fair value of GL's shares was Rs. 20 per share. On the same day, GL was acquired by Orange Limited (OL), a listed company. As a result, Red Limited received 200,000 shares of OL which had a market value of Rs. 65 per share, on that date.

Required:

Prepare journal entries to record the above transactions including the effect of deferred tax thereon, if any, in the books of Red Limited, for the year ended June 30, 2008. **(21)**

Q.8

During the year ended December 31, 2008, a Pakistani Sugar Company (PSC) was facing severe problems in meeting its foreign currency obligations especially in view of the steep increase in the foreign exchange rates. In October 2008, PSC commenced negotiations with the foreign lenders for restructuring of loans.

Following is a summary of the foreign exchange liabilities of the company as of December 31, 2008 prior to making adjustments on restructuring:

		Lenders	
	SBD	**JICA**	**AFI**
Loan amount (US$)	350,000	500,000	270,000
Remaining number of installments including due on December 31, 2008	5	4	3
Interest / markup rate	2.50%	3.00%	2.00%

The loans are repayable in equal annual installments. All the above liabilities are appearing in PSC's books at the exchange rate of US$ 1 = Rs. 65 which was the rate at the beginning of the year. The exchange rate as at the end of the year is US$ 1 = Rs. 80.

Agreements with SBD and AFI were finalized and signed before year-end, however, the agreement with JICA was finalized in January 2009 but before finalization of the financial statements. Following is the information in respect of rescheduling agreements.

	Lenders		
	SBD	**JICA**	**AFI**
Revised value of loan amount (US$)	370,000	525,000	280,000
Revised present value as per original effective interest rate (US$)	390,000	535,000	250,000
Revised present value as per market interest rate for similar instruments (fair value) (US$)	400,000	510,000	220,000
First installment due on	31-Dec-10	31-Dec-11	31-Dec-12

Required:

(a) Prepare accounting entries in the books of PSC to record the

(i) effect of exchange differences.

(ii) effect of rescheduling, if any.

(b) In respect of each of the above loans, identify the amounts to be reported as current portion of the loan in the financial statements, as at December 31, 2008.

(11)

Q.9

The following information relates to Afridi Industries Limited (AIL) for the year ended December 31, 2008:

(i) The share capital of the company as on January 1, 2008 was Rs. 400 million of Rs. 10 each.

(ii) On March 1, 2008, AIL entered into a financing arrangement with a local bank. Under the arrangement, all the current and long-term debts of AIL, other than trade payables, were paid by the bank. In lieu thereof, AIL issued 4 million Convertible Term Finance Certificates (TFCs) having a face value of Rs. 100, to the bank. These TFCs are redeemable in five years and carry mark up at the rate of 8% per annum. The bank has been allowed the option to convert these TFCs on the date of redemption, in the ratio of 10 TFCs to 35 ordinary shares.

(iii) On April 1, 2008, AIL issued 30% right shares to its existing shareholders at a price which did not contain any bonus element.

(iv) During the year, AIL earned profit before tax amounting to Rs. 120 million. This profit includes a loss before tax from a discontinued operation, amounting to Rs. 20 million.

(v) The applicable tax rate is 35%.

Required:
Prepare extracts from the financial statements of Afridi Industries Limited for the year ended December 31, 2008 showing all necessary disclosures related to earnings per share and diluted earnings per share. **(15)**
(Ignore corresponding figures)

Q.10
Arif Industries Limited (AIL) owns and operates a textile mill with spinning and weaving units. Due to recurring losses, AIL disposed of the weaving unit for an amount of Rs. 100 million on July 1, 2007 and invested the proceeds in Pakistan Investment Bonds (PIBs). Details of investment in PIBs are as follows:

(i) The PIBs were purchased through a commercial bank at face value. The bank initially charged premium and investment handling charges of Rs. 4,641,483. At the time of purchase, AIL had envisaged to liquidate the investment after four years and utilize the realized amount for expansion of its spinning business. The bank had agreed to repurchase the PIBs on June 30, 2011, at their face value.

(ii) The markup on PIBs is 15% for the initial two years and 20% for the remaining three years. The effective yield on investment at the time of purchase was 15.50%.

However, due to economic turmoil in the European and American markets, the existing spinning unit is working below its rated capacity. Therefore, on June 30, 2009 AIL decided to defer the expansion plan by one year. The bank agreed to extend the holding period accordingly but reduced the repurchase price by 2%.

Required:
Compute the amount of interest income (including the effect of revision of holding period, if any) to be recognized in the financial years ended(ing) 2009, 2010, 2011 and 2012. **(15)**

Q.11
Global Investment Limited (GIL) is listed in Pakistan. During the year ended 30 September 2011, GIL entered into the following contracts with a UAE based company:

(i) On 28 September 2011 GIL committed to buy certain financial assets on 3 October 2011 for AED 20,000. The fair value of these assets on balance sheet date and settlement date was AED 21,000 and AED 21,500 respectively.

(ii) On 29 September 2011 GIL agreed to sell certain financial assets on 4 October 2011 having a carrying value of AED 34,000 (Rs. 809,200) for AED 35,000. The fair value of these assets on the balance sheet date and settlement date was AED 35,200 and AED 34,800 respectively.

The above types of financial assets are classified by GIL as held for trading. Exchange rates on the relevant dates were as under:

Date	1 AED = Rs.
28 September 2011	24.00
29 September 2011	23.00
30 September 2011	23.50
03 October 2011	25.00

04 October 2011	26.00

Required:

Prepare accounting entries to record the above transactions on the relevant dates in accordance with International Financial Reporting Standards, using:

(a) Trade date accounting

(b) Settlement date accounting (16 marks)

Q.12

Zee Power Limited (ZPL) has been facing short term liquidity issues during the financial year ended on 31 December 2011. As a result, the following transactions were undertaken:

(i) On 27 December 2011, ZPL sold its investment in listed Term Finance Certificates (TFCs) to Vee Investment Company Limited with an agreement to buy them back in 10 days. Relevant details are as follows:

	Rupees
Sale price	10,150,000
Buy back price	10,183,337
Value in ZPL's books as on 27 December 2011	10,144,332
Market price as on 31 December 2011	10,163,125

ZPL intends to hold these TFCs till maturity.

(ii) On 1 January 2009, ZPL had obtained a bank loan of Rs. 100 million at 10% per annum. The interest was payable annually on 31 December and principal amount was repayable in five equal annual installments commencing from 31 December 2009. On 1 January 2011, the bank agreed to facilitate ZPL as follows:

- Balance amount of the principal would be paid at the end of the loan's term i.e. on 31 December 2013.
- With effect from 1 January 2011, interest would be paid at the rate of 10.5% per annum.

The market rate for similar debt is 10%.

(iii) On 1 July 2011, ZPL sold its plant and machinery to Kay Leasing Limited, a related party, for Rs. 90 million and leased it back for five years at semi-annual rentals amounting to Rs. 9.66 million, payable in arrears on June 30 and December 31. The carrying amount of plant and machinery on the date of sale was Rs. 80 million and its fair value was Rs. 60 million.

The lease qualifies as an operating lease and the rentals are based on fair market rate.

Required:

Prepare journal entries to record the above transactions in the books of Zee Power Limited. (18 marks)

Q.13

The following information pertains to Crow Textile Mills Limited (CTML) for the year ended 30 June 2012:

(a) Stocks include 4,000 maunds of cotton which was purchased on 1 April 2012 at a cost of Rs. 6,200 per maund. In order to protect against the impact of adverse fluctuations in the price of cotton, on the price of its products, CTML entered into a six months futures contract on the same day to deliver 4,000 maunds of cotton at a price of Rs. 6,300 per maund.

At year end i.e. 30 June 2012, the market price of cotton (spot) was Rs. 5,500 per maund and the futures price for September delivery was Rs. 5,550 per maund.

All necessary conditions for hedge accounting have been complied with. (05)

(b) On 1 July 2011, 2 million convertible debentures of Rs. 100 each were issued. Each debenture is convertible into 25 ordinary shares of Rs. 10 each on 30 June 2014. Interest is payable annually in arrears @ 8% per annum. On the date of issue, market interest rate for similar debt without conversion option was 11% per annum. However, on account of expenditure of Rs. 4 million, incurred on issuance of shares, the effective interest rate increased to 11.81%. (08)

Required:
Prepare Journal entries for the year ended 30 June 2012 to record the above transactions. ***(Show all necessary calculations)***