The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examinations

5 March 2015
3 hours – 100 marks
Additional reading time – 15 minutes

Financial Accounting and Reporting-II

Q.1 The following summarised Trial Balances pertain to Rivera Limited (RL) and its subsidiary Chenab Limited (CL) for the year ended 31 December 2014:

	RL		CL	
	Debit	**Credit**	**Debit**	**Credit**
	---------- Rs. in million ----------			
Sales	-	285	-	320
Cost of sales	186	-	240	-
Selling and distribution expenses	27	-	25	-
Administration expenses	17	-	15	-
Finance charges	8	-	10	-
Tax expense	19	-	12	-
Share capital (Rs. 100 each)	-	350	-	200
Retained earnings – 1 January 2014	-	50	-	36
Property, plant and equipment	190	-	263	-
Current assets	23	-	35	-
Investment in CL (1.6 million shares)	250	-	-	-
Current liabilities		35	-	44
	720	**720**	**600**	**600**

Other relevant information is as under:

(i) RL acquired the controlling interest in CL on 1 January 2014. On the acquisition date, fair value of CL's net assets was equal to its book value except for an office building whose fair value exceeded its carrying value by Rs. 18 million. The remaining useful life of the office building on the acquisition date was 15 years.

(ii) Inter-company sales are invoiced at cost plus 20%. Details of inter-company transactions for the year ended 31 December 2014 are as follows:

- RL sold goods amounting to Rs. 60 million to CL. At year-end, inventory of CL included Rs. 9.60 million in respect of such goods.
- CL sold goods amounting to Rs. 48 million to RL. At year-end, inventory of RL included Rs. 16.80 million in respect of such goods.

(iii) There were no inter-company balances outstanding at the year-end.

(iv) RL values the non-controlling interest at its proportionate share of CL's identifiable net assets.

(v) As at 31 December 2014, goodwill of CL was impaired by 10%.

Required:
In accordance with the requirements of International Financial Reporting Standards, prepare:

(a) Consolidated Statement of Comprehensive Income for the year ended 31 December 2014. **(11)**

(b) Consolidated Statement of Financial Position as at 31 December 2014. **(06)**

(Ignore tax effects on the adjustments)

Q.2 On 31 December 2013, Omega Chemicals Limited (OCL) changed its valuation model from cost to revaluation for its buildings. The following information pertains to its buildings as at 31 December 2013:

	Estimated useful life as originally estimated	Prior to revaluation - as at 31-12-2013		Revalued amounts as per valuation report
		Cost	Accumulated depreciation*	
		---------------------- Rs. in million ----------------------		
Factory buildings	20 Years	100.00	37.50	52.00
Office buildings	25 Years	164.50	26.32	149.94
***Including depreciation for the year ended 31 December 2013**				

As per the report of the professional valuer, there was no change in estimated useful life of the buildings. OCL recorded revaluation effect for the office buildings on 31 December 2013 as per the valuation report. However, no valuation effect was incorporated for the factory buildings as the change in their value was considered to be temporary by OCL.

On 1 July 2014, one of the office buildings was sold for Rs. 30 million. On 31 December 2013, written down value before revaluation and revalued amount of the sold building amounted to Rs. 27.72 million and Rs. 31.92 million respectively.

On 31 December 2014, factory buildings were revalued at Rs. 64 million whereas there was no change in value of the office buildings.

OCL uses straight line method of depreciation which is charged from the date the asset is available for use upto the date of disposal. Revaluation is to be accounted for by using net replacement value method.

Required:
In the light of the requirements of the International Financial Reporting Standards, prepare accounting entries from the above information for the year ended 31 December 2014 including correcting entries. ***(Ignore taxation)*** **(17)**

Q.3 The following information pertains to Zamil Limited (ZL) for the year ended 31 December 2014:

(a) On 20 December 2014, ZL lodged a claim of Rs. 10 million with one of its vendors for supply of inferior quality goods. On 1 February 2015, the vendor agreed to adjust Rs. 6 million against future purchases of ZL. For the remaining claim amount, ZL took up the matter with vendor's parent company in UK and it is probable that 70% of the remaining claim would be recovered. **(04)**

(b) In February 2015, it was revealed that ZL's cashier withdrew Rs. 10 million fraudulently from ZL's bank accounts. Of these, Rs. 7 million was withdrawn before 31 December 2014. ZL and its insurance company reached an agreement for settlement of the claim at Rs. 8 million. **(05)**

(c) In October 2014, ZL decided to relocate its production unit from Sukkur to Karachi. In this respect, a detailed plan was approved by the management and a formal public announcement was made on 1 December 2014. ZL has planned to complete the relocation by the end of June 2015. The related costs have been estimated as under:

	Rs. in million
Redundancy cost	3.58
Relocation of staff to Karachi	0.45
Staff training	0.86
Salary of existing operation manager (responsible to supervise the relocation)	1.20
	6.09

(04)

(d) In December 2014, a citizen committee of the area met with the directors of the company and lodged a complaint that ZL's vehicles carrying chemicals are not fully equipped with the safety equipment and resultantly creating serious threats to health of the residents. The management held a meeting in this regard on 25 December 2014 and decided to install the safety equipment in its vehicles.

The estimated cost of installing the equipment is Rs. 25 million. The company has neither legal obligation nor any published policy regarding installation of such safety equipment in its vehicles. **(04)**

Required:
Discuss how each of the above issues should be dealt with in ZL's financial statements for the year ended 31 December 2014. ***(Quantify effects where practicable)***

Q.4 The following information pertains to draft financial statements of Pak Ocean Limited (POL) for the year ended 31 December 2014.

(i)

	2014	**2013**
	------ Rs. in million ------	
Profit after tax	78	52
Other comprehensive income	12	(5)
Incremental depreciation on revaluation of property, plant and equipment	1.5	2.3

(ii) Installation of an assembly plant was completed in December 2012 at a cost of Rs. 60 million and it was ready for use on 1 February 2013. However, depreciation for the year ended 31 December 2013 amounting to Rs. 4.5 million was worked out from the date of production i.e. 1 April 2013. The mistake was corrected by adjusting the profit and loss account for the year ended 31 December 2014.

(iii) Shareholders' equity as at 1 January 2013 was as follows:

	Rs. in million
Share capital (Rs. 100 each)	200
Retained earnings	45

On 30 November 2014, POL issued 25% right shares to its ordinary shareholders at Rs. 120 per share.

(iv) Cash dividend and bonuses declared/paid during the last three years:

For the year ended	**Final**		***Interim**	
	Cash	**Bonus**	**Cash**	**Bonus**
31 December 2012	–	15%	16%	–
31 December 2013	18%	–	20%	–
31 December 2014	–	25%	–	10%
***Declared with half yearly accounts**				

Required:
Prepare Statement of Changes in Equity for the year ended 31 December 2014 in accordance with the requirements of the Companies Ordinance, 1984 and International Financial Reporting Standards. ***(Ignore taxation)*** **(15)**

Q.5 According to the ICAP's Code of Ethics, in complying with the fundamental principles, a chartered accountant in business may be subject to various threats.

List categories of such threats in business and give one situation which may create such threats. **(05)**

Q.6 The following information has been extracted from the draft financial statements of Shaheen Limited (SL) for the year ended 31 December 2014:

Statement of Financial Position as at 31 December 2014

Equity and liabilities	Rs. in million	Assets	Rs. in million
Share capital (Rs. 100 each)	1,200	Property, plant and equipment	1,876
Retained earnings	618	Patents	28
Trade payables	645	Trade receivables	630
Accruals and provisions	395	Inventory	503
Taxation	215	Prepayments and other receivables	23
		Cash and bank balances	13
	3,073		**3,073**

Additional information:

(i) Closing inventory includes damaged goods costing Rs. 3 million which can be sold for Rs. 2.5 million after repair and repacking at a cost of Rs. 0.4 million.

(ii) In December 2014, SL settled an old outstanding liability of Rs. 6 million by paying Rs. 4.5 million. The payment was debited to trade payables. The said liability had been written back prior to 2014.

(iii) Fair value and value in use of patents as at 31 December 2014 amounted to Rs. 25 million and Rs. 27 million respectively.

(iv) Tax liability is net of deferred tax asset amounting to Rs. 12 million.

(v) On 1 January 2014, SL acquired five vehicles costing Rs. 8.5 million on lease. As per the lease agreement, four annual installments of Rs. 2.5 million each are payable in advance on 1 January, each year. The market rate of interest is 14%. While preparing the draft financial statements, the installment paid was charged to rent expense.

(vi) SL depreciates its vehicles over a period of five years using straight line method.

(vii) Due to increasing bad debts, the management is of the view that provision for doubtful debts need to be increased from 3% to 5% of trade receivables.

(viii) Applicable tax rate for the year is 34%.

Required:
Prepare a Statement of Financial Position as at 31 December 2014 in accordance with the International Financial Reporting Standards and the Companies Ordinance, 1984. ***(Show relevant calculations. Notes to the financial statements and comparative figures are not required)*** **(17)**

Q.7 On 1 July 2014, Alpha Trading Limited (ATL) signed an agreement with Quality Builders Limited for construction of an office building at a cost of Rs. 500 million. Construction commenced on 1 July 2014 and is planned to complete on 30 June 2016. The payments made to the builders were as follows:

Invoice date	Payment date	Description	Net payment (Rs. in million)
20-Jan-2014	1-Jul-2014	Advance	50.00
10-Sep-2014	31-Oct-2014	1st progress bill	79.90
30-Dec-2014	31-Jan-2015	2nd progress bill	100.30

The progress bills were paid after deduction of advance and retention money at 10% and 5% of the gross amount of the bills respectively. Retention money is to be refunded on completion of warranty period of one year from the date of completion of the building.

On 1 September 2014, the construction work was stopped for one month to resolve geological complications pertaining to foundation of the building.

The construction cost has been financed from the following sources:

(i) Bank loan of Rs. 100 million was obtained on 1 July 2014. The loan carries a mark-up of 11% payable semi-annually on 31 December and 30 June each year. The principal is repayable in four equal annual instalments, commencing from 1 April 2015.

(ii) Existing finance facility was used for balance payments. Average running finance balance for the year ended 31 December 2014 was Rs. 190 million. Mark-up charges for the year ended 31 December 2014 amounted to Rs. 24.70 million.

(iii) Surplus funds available were invested in a saving account @ 7% per annum.

ATL computes finance cost on a monthly basis.

Required:
From the above information, compute the related amounts and disclose them under appropriate heads in ATL's Statement of Financial Position as at 31 December 2014 in accordance with the International Financial Reporting Standards. **(12)**

(THE END)