



Advanced Accounting and Financial Reporting

Final Examination
Winter 2011
Module E

10 December 2011
100 marks - 3 hours
Additional reading time - 15 minutes

Q.1 Hi-Tech Pakistan Limited (HPL) is a public limited company and deals in medical equipments. On 1 October 2009 HPL had introduced a Robotic Surgery System for the first time in Pakistan.

In November 2009, HPL had launched a country wide sales promotion campaign to introduce the system in various hospitals at a cost of Rs. 16 million whereas expenditure on training of the technical staff amounted to Rs. 12 million.

On 1 April 2010 HPL signed a lease agreement with Comforts Hospital for sale and 3-year maintenance of the system. The terms of the agreement are as under:

Lease period	3 years
Initial payment on signing of the agreement	Rs. 20 million
6 half yearly installments commencing 30 September 2010	Rs. 25 million
Implicit rate of interest per annum	15.192%

Cost of the system is Rs. 100 million whereas maintenance cost of the system for the three years was estimated at Rs. 8.4 million. To cash customers, the system is sold at a mark-up of 25% on cost. HPL expects a gross margin of 30% on such maintenance contracts, whereas actual costs incurred on the maintenance, during the year ended 30 September 2011 amounted to Rs. 2.5 million (2010: Rs. 1.7 million).

The hospital was unable to pay the installment due on 31 March 2011 due to solvency problems. After intense negotiations, HPL and the hospital agreed to a restructuring arrangement, whereby the hospital would settle its obligation by paying 4 half yearly installments of Rs. 32 million each, commencing from 30 September 2011.

Required:

Compute the impact of the above transactions on various items forming part of the statements of comprehensive income and financial position of Hi-Tech Pakistan Limited for the year ended 30 September 2011 in accordance with International Financial Reporting Standards. Give comparative figures. *(Notes to the financial statements are not required.)* (16 marks)

Q.2 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:

- 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.
- 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.3 Alpha Pakistan Limited (APL) is a listed company and has 60% holding in Bravo Limited (BL). The company is in the process of preparation of its consolidated financial statements for the year ended 30 September 2011. Following are the extracts from the information that has been gathered so far:

Consolidated Statement of Comprehensive Income (Draft)

	2011
	Rs. in million
Sales	65,000
Cost of products sold	(59,110)
Other operating income	2,000
Operating expenses	(3,000)
Financial expenses	(890)
Income tax expense	(1,200)
Profit for the year	2,800
Profit attributable to	
▪ Owners of the holding company	2,500
▪ Non-controlling interest	300
	2,800

Consolidated Statement of Financial Position (Draft)

	2011	2010		2011	2010
	Rs. in million			Rs. in million	
Equity and liabilities			Assets		
Share capital (Rs. 10 each)	550	500	Property, plant and equipment	1,100	900
Retained earnings	5,950	3,600	Goodwill	15	15
Non-controlling interest	235	120	Long term receivables	24	29
Long term loans	440	145	Stock in trade	6,760	4,280
Deferred tax	210	10	Trade debts	7,534	5,421
Trade and other payables	4,688	3,970	Other receivables	900	725
Accrued financial expenses	35	30	Cash and bank balances	2,645	2,980
Provision for taxation	200	25			
Short term borrowings	6,670	5,950			
	18,978	14,350		18,978	14,350

Following additional information is available:

- (i) During the year, BL sold goods amounting to Rs. 140 million to APL at a margin of 25% of cost. 40% of the above amount remained unpaid and 30% of the goods remained unsold as on 30 September 2011. No adjustments in this regard have been made in the above statements.
- (ii) Depreciation charge for the year was Rs. 75 million and Rs. 15 million for APL and BL respectively.
- (iii) During the year APL acquired property, plant and equipment amounting to Rs. 250 million against a long term loan.
- (iv) The amount of long term receivables represents present value of interest free loans to employees. The gross value of the loans is Rs. 27 million (2010: Rs. 33 million).
- (v) Operating expenses include bad debt expenses amounting to Rs. 44 million. During the year, trade debtors amounting to Rs. 30 million were written off.
- (vi) Trade and other payables include APL's unclaimed dividend amounting to Rs. 8 million (2010: Rs. 10 million). At APL's Board meeting held on 30 November 2011, final cash dividend of Rs. 3.0 per share has been proposed (2010: Final cash dividend of Rs 2.0 per share and 10% bonus shares).

Required:

Prepare a consolidated statement of cash flows including all relevant notes for Alpha Pakistan Limited for the year ended 30 September 2011 using the direct method in accordance with International Financial Reporting Standards. (Ignore corresponding figures.) (23 marks)

- Q.4 On 1 October 2009 Sky Limited (SL) acquired 25% holding (2.5 million ordinary shares) in Mars Limited (ML) for Rs. 900 million. On the date of acquisition, ML's equity was as follows:

	Rs. in million
Ordinary share capital (Rs. 100 each)	1,000
Share premium	150
Retained earnings	2,898
12% cumulative preference share capital	200

On the above date, fair value of a building owned by ML exceeded its carrying value by Rs. 12 million and its estimated useful life was 15 years. Fair values of all other assets and liabilities of ML were equal to their carrying values.

Following additional information is available:

- (i) ML's profit after tax for the year ended 30 September 2011 was Rs. 250 million (2010: Rs. 240 million). Dividend received from ML amounted to Rs. 30 million (2010: nil).
- (ii) Cost of goods purchased from SL and included in ML's closing inventory was Rs. 10 million (2010: Rs. 16 million). SL makes a profit of 20% on all sales.
- (iii) Applicable tax rate is 35% and 10% for business and dividend income respectively.

On 1 January 2011, SL acquired 70% holding (7 million ordinary shares) in Jupiter Limited (JL) for Rs. 1,400 million. SL has been following a policy to account for investments in associates using equity basis of accounting. Since SL is now required to prepare consolidated financial statements, it needs to change its accounting policy for investments in associates, for the purpose of preparation of its **separate** financial statements, to comply with the requirements of International Financial Reporting Standards.

Required:

Prepare the following notes (relevant portion only) for incorporation in the **separate** financial statements of Sky Limited for the year ended 30 September 2011:

- (a) Change in accounting policy
- (b) Investments

(Show all the necessary disclosures and comparative figures in respect of the above, in accordance with International Financial Reporting Standards.) (22 marks)

- Q.5 XL (Private) Limited is a long established company and provides a range of services to business organizations for development of their human resources. Most of its staff consists of qualified and experienced professionals.

The company plans to expand its business by establishing a research division. In this respect, XL is evaluating a proposal for raising finance by issuing ordinary shares. To estimate value of its shares, XL has identified a listed company, PL Limited, which is engaged in similar business.

Financial statistics and other information as of 30 September 2011, for XL and PL, are given below:

	XL Limited	PL Limited
	--- Rs. in million ---	
Ordinary share capital as at 1 October 2010 (Rs. 10 each)	400	1,000
10% cumulative preference shares as at 1 October 2010 (Rs. 10 each)	120	-
Right shares issued on 1 April 2011 (Rs. 10 each)	-	100
Total comprehensive income	292	600
Dividend paid	168	500

PL issued right shares on 1 April 2011 at Rs. 25 per share. The prevailing market price per share on the date of issue and on 30 September 2011 was Rs. 35 and Rs. 40 respectively.

PL's total comprehensive income includes unrealized gain of Rs. 15 million on investments available for sale.

Annual rate of growth in earnings and dividends for XL and PL is estimated at 5% and 4.5% respectively. The cost of equity of companies having similar businesses is estimated at 15% per annum.

Required:

- (a) Compute the value of XL's shares as on 30 September 2011 based on:
- P/E ratio
 - Dividend yield

- (b) Identify any two weaknesses of each of the above valuation methods.

(13 marks)

- Q.6 Al-Amin Bank Limited is listed on all the stock exchanges in Pakistan. At year end, the total advances amounted to Rs 75,000 million which include non-performing advances of Rs. 5,000 million. The break-up of the non-performing advances and the provisions there-against is as under:

	Other assets especially mentioned	Sub-Standard	Doubtful	Loss	Total
----- Rs. in million -----					
Advances	100	660	840	3,400	5,000
Provisions required and held	5	120	530	3,345	4,000

The sub-standard category includes advances of Rs. 260 million pertaining to overseas operations of the bank. The required provision of Rs. 50 million has been made against such advances.

During the year the movement in the specific provision was as under:

	Rs. in million
Opening balance	3,320
Charge for the year	802
Reversals	(90)
Amounts written off	(50)
Exchange rate adjustment	18
Total	4,000

In addition to the above specific provisions, it is the bank's policy to make additional general provision based on the judgment of the bank. Opening balance for general provision was Rs. 65 million. During the year, the bank made provisions of Rs. 25 million and Rs. 15 million against consumer and agriculture advances respectively.

Required:

Prepare relevant notes on non-performing advances and provisions for inclusion in the financial statements of Al-Amin Bank Limited giving appropriate disclosure in accordance with the guidelines issued by the State Bank of Pakistan.

*(10 marks)***(THE END)**