Pakistan Institute of
Public Finance Accountants

Model Solutions

Financial Reporting
Summer Exam-2024

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Q.1.

	Debit Rs.	Credit Rs.
Year – 1		
ROU	114,000	
Lease liability		114,000
Interest expense (114,000x20%)	22,800	
Lease liability		22,800
Depreciation expense (114,000)/3	38,000	
ROU		38,000
Lease liability	50,000	
Bank		50,000
Year – 2		
Interest expense (*86,800 x 20%) (*114000+22800-50000)	17,360	
Lease liability		17,360
Depreciation expense	38,000	
ROU		38,000
Rent expense (100x150)	15,000	
Bank		15,000
Lease liability	50,000	
Bank		50,000
Year – 3		
Interest expense (54,160x20%)	10,840	
Lease liability		10,840
Depreciation expense	38,000	
ROU		38,000
Lease liability	50,000	
Bank		50,000
Rent expense (150x150)	22,500	
Bank		22,500
Lease liability	15,000	
Bank		15,000

W – 1 Rental @ 50,000 pa
Lease liability = Annuity factor x lease payment + DFx Excess GRV
Lease liability= 2.106x50,000+0.58 x 15,000= 105,300 + 8,700 = 114,000
Right of Use = 114,000

Q.2.

a) Before classifying the asset under held for sale there was taxable or deductible temporary difference however, when the asset is classified under IFRS 5 (Noncurrent assets held for sale, disposal group and discontinued operations) a deductible temporary difference will arise. The carrying value will be Rs. 25 million and tax base is Rs. 30million (100-70). The resultant deferred tax asset and deferred tax income amounting to Rs. 1.45 million (5x29%) will be recognized will be in statement of financial position and profit or loss account.

b) The revaluation surplus at the end of the year will create taxable temporary difference of Rs. 60 million (200-140). As the revaluation surplus is recognized in statement of other comprehensive income (OCI) the resultant deferred tax expense will also be charged in OCI amounting to Rs. 17.4 million (60x29%).

c) The carrying value of development cost will zero in statement of financial position which will give rise to a deductible temporary difference and resultant deferred tax asset. The resultant deferred tax income amounting to Rs. 0.522 [(2 – (2/10))x29%] will be charged to profit or loss account in current year.

d) The un-used tax losses give rise to deductible temporary difference and if future taxable profits are available deferred tax asset/income will be recognized. Provided future taxable profits are available. The deferred tax asset/income of Rs. 17.4 (60x29%) will be recognized in current year.

e) The capitalization of borrowing cost will give rise taxable temporary difference and deferred tax liability. The deferred tax liability/expense will be recognized in current year amounting to Rs. 1.45 million (5x29%).

f) The carrying value of lease liability Rs. 19 million (20-1) will give rise deductible temporary difference and carrying value of ROU Rs. 16 million (20-(20/5)) will give rise to taxable temporary difference. The net deductible temporary difference of Rs. 3 will give rise to Rs. 0.87 million as deferred tax income /asset in the financial statements. The deferred tax income will be charged to profit or loss account.

Q.3.

Sr. No.	**Classification**
a)	The issued loan will be classified as at Amortized cost.
b)	The investment in shares will be classified as at FVTOCI.
c)	The investment in shares will be classified as at FVTPL.
d)	The investment in TFCs will be classified as at Amortized Cost.

Q.4. Following are the threats that will be created:

Self-Interest Threat: The promise of a promotion in the next year based on improving company performance may create a self-interest threat.

Advocacy Threat: Being in a reporting role to the chief executive, there could be pressure to advocate for strategies that prioritize short-term profitability over long-term sustainability. This could lead to compromising objectivity and professional judgment.

Intimidation Threat: The CEO's emphasis on the consequences of continued poor performance, such as further loss of market value, may create an intimidation threat of being fired from this role if the results are not achieved. This could lead to feeling coerced into making unethical decisions or engaging in fraudulent activities to avoid negative outcomes.

To mitigate these threats and uphold professional ethics, it's important to:

Maintain Independence: Ensure independence in thought and action, making decisions based solely on professional judgment and ethical considerations rather than personal interests or relationships.

Exercise Professional Skepticism: Question assumptions, scrutinize data, and critically evaluate proposed strategies to ensure they are in the best interest of the company and its stakeholders.

Communicate Ethical Concerns: I will communicate my concerns transparently and seek guidance from relevant authorities within the organization (audit committee or the governance) or professional regulatory bodies.

Uphold Integrity: Commit to honesty, transparency, and integrity in all financial reporting and decision-making processes, even if it means delivering unfavorable news or challenging directives from senior management.

By adhering to these principles and staying true to the ethical standards set forth by regulatory bodies, I can navigate the challenges of improving company profitability while safeguarding my professional integrity and reputation.

Q.5. a

PL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023

	Rs. (m)	Rs. (m)
Assets		
Noncurrent assets		
Tangible assets (1,558+613-30+5)	2,146	
Intangible assets (150+52-52)	150	
Goodwill (275-5)	270	2,566.00
Current assets (615+365)		980.00
		3,546.00
Equity and liabilities		
Equity-Ordinary share capital of Rs. 10 each	2,000	
Retained earnings	451.60	2,451.60
Non-controlling interest		269.40
		2,721.00
Current liabilities (400+425)		825.00
		3,546.00

W- 1 Group structure	**%**
Group	**70**
NCI	**30**
	100

W-2 Cost of control account

Cost of investment		600
Share of share capital	280	
Share of pre-acquisition reserves	157.50	437.50
		162.50

W-3 Non-controlling interest (NCI)

Share capital	120	
Pre-acquisition reserves	67.50	
Post-acquisition reserves	(29.10)	
Impairment loss on goodwill (5x30%)	(1.50)	
Goodwill	112.50	269.40

W-4 NCI goodwill

Fair value of NCI		300
Share capital	120.00	
Pre-acquisition reserves	67.50	(187.50)
Goodwill		112.50

W-6 Consolidated retained earnings

B /f	523	
Impairment loss on goodwill (5x70%)	(3.5)	
Share of loss from subsidiary company	(67.90)	451.60

W-7 Subsidiary retained earnings

	Pre	Post
B /f	225	(50)
Extra depreciation		5
Intangible assets		(52)
	225	(97)
Group share 70%	157.50	(67.90)
NCI share 30%	67.50	(29.10)

Q.5. b **Adjustments which have no effect on consolidated statement of financial position.**

1. Cheque in transit
2. Management fee charged by PL
3. Goods sold/purchased intra group

Q.6.

	Assets	Liabilities	Profit or loss	Opening retained earnings
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Draft balances	15,632	8,695	4,658	2,759
Software – internally generated				
Cost to be recognized asset	5,000	--	--	5,000
Amortization expense	(1,500)	--	(1,000)	(500)

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	Assets	Liabilities	Profit or loss	Opening retained earnings
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Investment property				
Reversal of accumulated dep.	2,000	--	200	1,800
Fair value gain	1,200	--	700	500
Provision for dismantling				
Recognition of provision (1.15)^-10	742	742	--	--
Interest cost		111	(111)	--
Extra depreciation (742/10)	(74)	--	(74)	--
Asset held for sale				
Impairment loss	(500)	--	(500)	--
	22,500	9,548	3,873	9,559

Q.7. a

Tax expense	**Rs. (000)**
Current tax – normal	4,431.00
Current tax – final (300x15%)	45.00
Deferred tax expense (300-296)	4.20
	4,480.20
Reconciliation	
Tax expense	4,480.20
Tax on accounting profit (15,250x30%)	4,575.00
Effect of:	
Change in tax rate (1,020x1%)	10.20
Capital gain (200x30%)	(60.00)
Dividend income (300x15%)	(45.00)
	4,480.20

W – 1 calculation of current tax

	Rs. (000)	Rs. (000)
Profit before tax		15,250
Add:		
Accounting depreciation (4,520-3,250)		1,270
Less:		
Accrued expense (500-250)	250	
Tax depreciation (3,000-2,000)	1,000	
Capital gain exempt	200	
Dividend income @15%	300	(1,750)
Taxable profit		14,770
Current tax @ 30%		4,431

W – 2 Calculation of deferred tax

Opening	Carrying value Rs. (000)	Tax base Rs. (000)	TTD Rs. (000)	DTD Rs. (000)
Accrued expenses	500	--	--	500
Property, plant and equipment	4,520	3,000	1,520	--
			1,520	500
Net taxable			1,020	
Opening deferred tax– liability	@ 29%		295.80	
Closing				
Accrued expenses	250	--	--	250
Property, plant and equipment	3,250	2,000	1,250	--
			1,250	250
Net taxable			1,000	
Closing deferred tax – liability	@30%		300.00	

Q.7. b **Basic EPS**

	(000)	
Basic EPS	10,770/1,125	Rs. 9.6/share
	(000)	**(000)**
Profit after tax (Rs.)	(15,250-4,480)	10,770
Number of shares		1,125
01-07-2022	(1,000x6/12)+	
31-12-2022	(1,250x6/12)	
30-06-2023		

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