

Financial Reporting Winter-2023

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Solutions – Financial Reporting

Q.1. Parker Limited Group
Consolidated statement of comprehensive income
For the year ended December 31, 2022

Profit or loss account	PL Rs. (000)	SL (000)	Adjustments Rs. (000)	Consolidated Rs. (000)
Revenue	15,450	8,175	(600)	23,025
Cost of sales	(7,350)	(3,375)	404.2	(10,320.8)
Gross profit	8,100	4,800	(195.8)	12,704.2
Distribution and administrative	(2,200)	(975)	--	(3,175)
Other operating expenses	(1,535)	(300)	(100)	(1,935)
Other income	765	--	595	1,360
Profit before tax	5,130	3,525	299.2	8,954.2
Tax expense	(1,730)	(1,125)	--	(2,855)
Profit after tax	3,400	2,400	299.2	6,099.2
Attributable to:				
Owners of parent	3,400	1,873.95	299.2	5,573.15
Non-controlling interest (NCI)	--	526.05	--	526.05
	3,400	2,400		6,099.2
Other comprehensive income				
Items that may be re-classified to profit or loss				
Items that may not be re-classified to profit or loss				
Revaluation surplus	200	150	--	350
Total other comprehensive	200	150	--	350
Total comprehensive income				
Attributable to:				
Owners of parent	3,600	1,986.45	299.2	5,885.65
Non-controlling interest (NCI)	--	563.55		563.55
	3,600	2,550		6,449.2

Workings

W – 1 Group structure

Group	75
NCI	25
	<u>100</u>

W – 2 Cost of control account

	Debit Rs. (000)	Credit Rs. (000)
Cost of investment [(14x300)+1,200]	5,400	
Share capital (4,000x75%)		3,000
Pre-acquisition reserves [2,370+(2,725-1,125-325-100-375)+500+200] = 3,870x75%		2,902.5



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Bargain purchase gain	502.5	
	<u>5,902.5</u>	<u>5,902.5</u>
W – 3 NCI Goodwill / (Bargain purchase gain)		
Fair value of NCI (100x13)		1,300
Share capital		(1,000)
Pre-acquisition reserves (3,870x25%)		<u>(967.5)</u>
		<u>(667.5)</u>
W – 4 Adjustments		
Cost of control account	502.5	
NCI	667.5	
Profit or loss account / other income		1,170
Recognition of bargain purchase gain		
Cost of sales account (500/5x9/12)	75	
Property, plant and equipment		75
Recognition of extra depreciation		
Cost of sales account (200/4x9/12)	37.5	
Intangible assets		37.5
Recognition of extra amortization		
Operating expenses (1,300-1,200)	100	
Contingent consideration payable		100
Recognition of change in contingent consideration		
Sales account	600	
Cost of sales (100+400)		500
Property, plant and equipment (400x20/120)		66.7
Closing stock (200x20/120)		33.3
Reversal of sale		
Property, plant and equipment (66.7/3x9/12)	16.7	
Cost of sales		16.7
Elimination of extra depreciation		
Other income (500x75%)	375	
Dividend account		375
Elimination of dividend		
Property, plant and equipment	350	
Other comprehensive income - PL		200
Other comprehensive income - SL		150
Recognition of revaluation surplus		
Operating expenses	200	
PL account		200
Recognition of management fee		
Other income	200	
Operating expenses		200
Reversal of income of PL and operating expenses of SL		
W – 6 Calculation of share of profit of NCI		Rs.
		(000)
Profit after tax of SL		2,400
Extra depreciation		(75)
Extra amortization		(37.5)
Extra depreciation of intra sale of fixed asset		16.7
Management fee		(200)
Adjusted profit		<u>2,104.2</u>
NCI share of profit @ 25%		526.05



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Q.2. Current tax and deferred tax expense

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a	Rs. (000)	Rs. (000)
Current tax		
Profit before tax		5,256
Add:		
Donation expense	200	
Accrued expenses	150	
Excess accounting depreciation	600	950
Less:		
Prepaid expenses	50	
Capital gain	300	
Interest income	20	(370)
Taxable profit		5,836
Current tax – normal @ 30%		1,751
Current tax – on interest income @ 15% (20x15%)		3
Total current tax		1,754
Deferred tax for the year		
Opening deferred tax – liability		1,625
Deferred tax asset on accrued expenses (150x30%)		(45)
Deferred tax liability on prepaid expenses (50x30%)		5
Deferred tax asset on excess accounting depreciation (600x30%)		(180)
Deferred tax income for the year		(220)
Closing deferred tax liability		1,405

Q.2. Basic EPS

08

b	Rs. (000)
Basic EPS (3,722/55.18)	Rs. 67.45/Share
Profit before tax	5,256
Tax expense	
Current tax expense	(1,754)
Deferred tax income	220
	1,534
Profit after tax	3,722
	(000)
Opening	50
Right issue	10
Closing	60
Weighted average number of shares	
$50 \times 9/12 \times 50/46.67 + 60 \times 3/12 = 40.18 + 15$	55.18
Right fraction = $50/46.67$	
$5 \times 50 = 250$	
$1 \times 30 = 30$	
$= 280$	
TERP = $280/6 = 46.67$	

Total Marks 18



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- Q.3.**
- The property will be transferred from inventory to investment property and re-measured at fair value and fair value gain will be charged to profit or loss account i.e. Rs. 2.5 million. The property will be again re-measured at fair value at the reporting date at Rs. 18.2 million and further gain of Rs. 0.7 million will be charged to profit or loss account.
 - The property, will be reclassified to investment property and measured at fair value at reclassification date. The fair value gain of Rs. 10 million will be recognized as revaluation surplus under IAS 16 (Property, plant and equipment). The property will again be re-measured at fair value at the reporting date and fair value loss of Rs. 2 million will be charged against the revaluation surplus.
 - The property will be reclassified from investment property under IAS 40 to inventory under IAS 2. The fair value Rs. 12 million at the reclassification date will become cost under IAS 2 (Inventory) and will be carried under IAS 2 at lower of cost or net realizable value (NRV). As the NRV at the reporting date is more than cost (fair value at the reclassification date) i.e. Rs. 12 million, therefore no gain or loss will be recognized at the reporting date.

Total Marks 12

Q.4.

Statement of Financial Position	2021	2020
	Rs.	Rs.
Cost of asset	500,000	500,000
Accumulated depreciation	(100,000)	50,000
Accumulated impairment losses	--	205,340
	400,000	244,660

Statement of Comprehensive Income		
Profit or loss account		
Depreciation for the year	(27,185)	(50,000)
Impairment loss for the year		(205,340)
Reversal of impairment loss	182,525	--
	155,340	(255,340)

W – 1 carrying value of assets		
01-07-2019 cost of asset		500,000
30-06-2020 Depreciation for the year		(50,000)
Impairment loss		(205,340)
30-06-2020 Recoverable value		244,660
30-06-2021 depreciation for the year (244,660/9)		(27,185)
		217,475
Reversal of impairment loss		182,525
30-06-2021 Recoverable value		400,000
Note the excess 15,000 reversal cannot be recognized as reversal is only possible up to carrying value would have been which is 400,000= [500,000 -100,000]		

W – 1 Calculation of recoverable value		
30-06-2020 value in sale (200,000-20,000)		180,000
Value in use [216,290+28,370]		244,660

Total Marks 10



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Q.5.

	Assets	Liabilities	Profit or loss for the year	Opening retained earnings
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
Balances given	42,525	20,253	10,256	5,632
a) Noncurrent assets held for sale	(0.26)		(0.26)	
W – 1				
b) Lease contract	2.01	2.28	(0.10)	(0.17)
W – 2				
c) Investment property	13.00	--	9.50	3.50
Correct balances	42,539.75	20,255.28	10,265.14	5,635.33

W – 1

Noncurrent assets held for sale

Carrying value = $10.5 - 5.2 = 5.3$

Fair value less cost to sell = $5.6 - (10\% \times 5.6) = 5.04$

The asset will be carried at lower of carrying value and fair value less cost to sell so loss of Rs. 0.26 million will be recognized.

W – 2

The error in both years is as under:

	Debit	Credit
Wrong entries	Rs. (m)	Rs. (m)
2021		
Rent expense $(1.5 + (1 \times 5)) / 5$	1.3	
Prepaid rent	1.2	
Bank account		2.5
2022		
Rent expense	1.3	
Bank account		1.0
Prepaid rent		0.3
Correct entries		
2021		
ROU	4.85	
Lease liability		3.35
Bank		1.5
Interest expense $(3.35 \times 15\%)$	0.50	
Lease liability		0.50
Lease liability	1.0	
Bank		1.0
Depreciation expense $(4.85 / 5)$	0.97	
ROU		0.97
2022		
Interest expense $(2.85 \times 15\%)$	0.43	
Lease liability		0.43
Lease liability	1.0	
Bank		1.0
Depreciation expense $(4.85 / 5)$	0.97	
ROU		0.97

The lease accounting

ROU = $1.5 + 3.35 = 4.85$

Lease liability = 3.35



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W – 3

	Debit	Credit
Change in accounting policy	Rs. (m)	Rs. (m)
Actual entries		
2021		
Investment property	50.00	
Bank		50.00
Depreciation expense (30/20)	1.50	
Investment property		1.50
2022		
Depreciation expense	1.50	
Investment property		1.50
Change in accounting policy		
2021		
Investment property	50.00	
Bank		50.00
Investment property (52-50)	2.00	
Profit or loss account		2.00
2022		
Investment property (60-52)	8.00	
Profit or loss account		8.00

Total Marks 18

Q.6. Statement of Financial Position

Assets		Rs.
ROU		168,993
Liabilities		
Noncurrent liabilities		
Lease liability		97,017
Decommissioning cost (11,280x1.21)		13,649
Current liabilities		
Lease liability		65,807

Statement of Comprehensive Income

Profit or loss account		Rs.
Interest expense		45,614
Depreciation expense		84,497
Interest on decommissioning cost (11,280x21%)		2,369

Notes to Financial Statements

ROU		Rs.
Cost		253,490
Accumulated depreciation		(84,497)
Carrying value		168,993
Lease liability		
Lease payment		
Within one year		100,000
Two to five years		115,000
		215,000
Interest expense		
Within one year		34,193
Two to five years		17,983



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		52,176
PV of lease liability		162,824
Within one year		65,807
After one year		97,017
		162,824
Decommissioning cost		
Opening balance		11,280
Unwinding interest		2,369
Closing balance		13,649

Workings

W – 1 Lease liability and lease repayment schedule

PV of lease payments = Annuity factor x annual rental + Discount factor x GRV

PV of lease payments = $2.074 \times 100,000 + 0.564 \times 15,000 = 207,400 + 9,810 = 217,210$

Year	Opening balance	Interest	Payment	Closing balance
1	217,210	45,614	(100,000)	162,824
2	162,824	34,193	(100,000)	97,017
3	97,017	17,983	(100,000)	15,000

W – 2 Right of use (ROU) and depreciation

ROU = Lease liability + Initial direct cost + PV of decommissioning cost

ROU = $217,210 + 25,000 + (1.21)^{-3} \times 20,000 = 242,210 + (0.564 \times 20,000) = 253,490$

Depreciation = $253,490 / 3 = 84,497$

Total Marks 10

Q.7. Identification of reportable segment

Reportable segment

- Retail
- Packaging + Paper products
- Cement

Under criteria of revenue

Operating segment	Revenue (Internal plus external)	10%	Reportable segment
	Rs. (m)	%	
Retail stores	3,650	19.17	Yes
Packaging + Paper products	13,480	70.78	Yes
Textile	650	3.42	No
Cement	1,263	6.63	No
Total	19,043	100.00	

Under criteria of revenue

Operating segment	Profit	(Loss)	10%	Reportable segment
	Rs. (m)	Rs. (m)	%	
Retail stores	--	(360)	$360/796 \times 100 = 45.23$	Yes
Packaging + Paper products	796	--	$796/796 \times 100 = 100.00$	Yes
Textile	--	(12)	$12/796 \times 100 = 1.50$	No
Cement	--	(5)	0.62	No
Total	796	(377)		

Contd.....



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Under criteria of assets

Operating segment	Assets	10%	Reportable segment
	Rs. (m)	%	
Retail stores	2,652	27.03	Yes
Packaging + Paper products	5,405	55.09	Yes
Textile	310	3.16	No
Cement	1,445	14.72	Yes
Total	9,812	100.00	

Total Marks 07
