



## Advanced Accounting and Financial Reporting

### Instructions to examinees:

- (i) Answer all FIVE questions.
- (ii) Answer in black pen only.

Q.1 Following information is available regarding few transactions of Leo Limited (LL):

- (i) On 1 January 2020, LL entered into a 7-year lease for office space with annual lease payments of Rs. 40 million, payable at the end of each year. LL's incremental borrowing rate at the commencement date was 12% per annum.

On 1 January 2022, the lease was amended to reduce the space to 60% of the original, with new annual payments of Rs. 28 million. LL's incremental borrowing rate on that date was 15% per annum.

- (ii) On 31 December 2021, LL purchased bonds of Rs. 150 million at par value, issued by one of its subsidiaries. These bonds carry an annual interest rate of 10% payable on 31 December each year, and will be redeemed after four years at par value. In contrast, similar bonds available in the market offers interest rate of 16% per annum.

LL intends to hold the investment in bonds till redemption. Further, LL estimated that 12 months expected credit losses in respect of the investment in bonds at 31 December 2021 and 31 December 2022 amounted to Rs. 4 million and Rs. 5 million, respectively.

- (iii) On 1 January 2020, LL granted share based compensation to 40 of its employees on the condition that they will remain in LL's employment for 3 years. Employees would be entitled to either 30,000 shares of LL or cash equal to the increase in fair value of 80,000 shares of LL from the grant date. LL will decide the mode of settlement at the end of 3 years. At the grant date, LL had no present obligation to settle in cash.

On 31 December 2022, LL chooses the share alternative for settlement of the scheme.

	1-Jan-20	31-Dec-20	31-Dec-21	31-Dec-22
Fair value of each equity instrument	Rs. 100	Rs. 135	Rs. 155	Rs. 178
No. of employees already left till date	-	2	6	9
Further no. of employees expected to leave	8	7	5	-

### Required:

Prepare the relevant extracts (*including comparative figures*) from LL's **separate** statement of financial position and statement of profit or loss and other comprehensive income for the year ended 31 December 2022, in accordance with the IFRSs.

(Notes to the financial statements and the bifurcation of current and non-current items in the statement of financial position are not required)

(25)

Q.2 Following are the extracts from consolidated financial statements of Pisces Limited (PL):

**Consolidated statement of financial position as on 30 June 2023**

	2023	2022
	---- Rs. in million ----	
<b>Assets</b>		
Property, plant and equipment	814	795
Goodwill	118	136
Equity accounted investees	261	124
Loan to associate	40	-
Current assets other than cash balances	489	360
Cash balances	142	75
	<b>1,864</b>	<b>1,490</b>
<b>Equity and liabilities</b>		
Share capital (Rs. 10 per share)	734	650
Share premium	121	-
Consolidated retained earnings	370	265
Non-controlling interest	291	268
Long term loans	188	98
Dividend payable	16	4
Other current liabilities	144	205
	<b>1,864</b>	<b>1,490</b>

**Consolidated statement of profit or loss for the year ended 30 June 2023**

	Rs. in million
Operating profit	274
Finance cost	(66)
Share of profit from equity accounted investees	81
Profit for the year from continuing operations	289
Profit from discontinued operation	33
Profit for the year	<b>322</b>
Profit attributable to:	
▪ Owners of the parent	241
▪ Non-controlling interests	81
	<b>322</b>

**Additional information:**

- (i) During the year, PL entered into an agreement with another entity to set up Capricorn Limited (CL), a joint arrangement. PL has invested Rs. 100 million in the form of cash and has a 40% right in the net assets of CL. This amount has not yet been utilized in CL's operation, and remains in the form of cash.
- (ii) During the year, property, plant and equipment purchased by PL and its subsidiaries amounted to Rs. 69 million and Rs. 84 million respectively. Furthermore, one of the subsidiaries sold an equipment for Rs. 45 million, which had a carrying value of Rs. 56 million.
- (iii) The finance cost includes foreign exchange loss of Rs. 23 million on retranslation of the foreign currency loan.
- (iv) During the year, PL acquired 70% shareholdings in Aries Limited (AL) by paying Rs. 375 million, including Rs. 15 million for acquisition cost. The majority of this payment was financed through a right issue to PL's shareholders.

The acquisition of AL resulted in goodwill of Rs. 45 million. The carrying values of AL's net assets is as follows:

	Acquisition date	30 June 2023
	----- Rs. in million -----	
Property, plant and equipment	265	272
Current assets other than cash balances	152	182
Cash balances	21	16
Trade payables	(58)	(65)
	<b>380</b>	<b>405</b>

On the acquisition date, the fair value of AL's net assets was equal to their carrying value, except for a building whose fair value exceeded the carrying value by Rs. 70 million. The building had a remaining useful life of ten years.

- (v) During the year, PL disposed of its entire shareholdings in Virgo Limited (VL) for a consideration of Rs. 300 million, out of which Rs. 65 million remains receivable at year-end. The shareholding in VL, acquired many years ago for Rs. 140 million, had resulted in a bargain purchase of Rs. 40 million. On the date of disposal, VL's non-controlling interest amounted to Rs. 150 million. The carrying values of VL's net assets (excluding cash balances) at the time of disposal were as follows:

	Rs. in million
Property, plant and equipment	300
Current assets	120
Trade payables	(80)
	<b>340</b>

- (vi) The profit from discontinued operation, as reported in the statement of profit or loss, comprises of VL's operating loss amounting to Rs. 42 million and gain on disposal of VL amounting to Rs. 75 million.

**Required:**

Prepare PL's consolidated statement of cash flows for the year ended 30 June 2023 in accordance with IFRS.

(25)

- Q.3 (a) The following amounts pertain to Cancer Bank Limited (CBL) for the year ended 31 December 2022:

	Rs. in million
Credit loss allowance and write offs – net	2,152
Dividend income	733
Fee and commission income	9,217
Foreign exchange income	3,160
Gain on securities – net	343
Loss from derivatives	873
Mark-up / Return / Interest earned	136,324
Mark-up / Return / Interest expensed	85,612
Operating expenses	36,825
Other charges	159
Other income	170
Taxation	13,562
Workers welfare fund	477

**Required:**

Prepare the statement of profit or loss for the year ended 31 December 2022 of CBL. (Notes to the financial statements are not required)

(07)

- (b) Discuss key differences between requirements of IFRS for SMEs and full IFRS in respect of **Business combinations**.

(03)

Q.4 Following is the draft statement of financial position of Sagittarius Ltd (SL) as at 31 December 2022 before incorporating the effects of the outstanding issues:

	Rs. in million		Rs. in million
<b>Non-current assets</b>		<b>Equity</b>	
Property, plant and equipment	311	Share capital	740
Right of use assets	214	Retained earnings	388
Investment in associates	520		1,128
	<b>1,045</b>	<b>Liabilities</b>	
		Lease liabilities	174
Current assets	312	Deferred tax liability	82
Asset held for sale	220	Current tax liability	54
		Other liabilities	139
			449
	<b>1,577</b>		<b>1,577</b>

#### Outstanding issues:

- (i) Asset held for sale represents a manufacturing plant that has been stopped using by SL, as the demand for the related product has fallen in recent year. Currently, this plant has no other use, but the management intends to use this plant for the upcoming products, which are under development, and are expected to earn supernormal profits in the coming years. On 1 May 2022, the accountant temporarily classified the plant as held for sale. He estimated its fair value less cost to sell as Rs. 240 million and Rs. 220 million on 1 May 2022 and 31 December 2022, respectively.

The plant, purchased on 1 May 2019 for Rs. 405 million, has been depreciated over its useful life of 15 years until 30 April 2022. However, tax depreciation has been charged for the entire year.

Under tax laws, impairment of the plant is not allowable as expense while depreciation on plant is allowed till the date of disposal.

- (ii) In respect of investment in Gemini Limited (GL), no further entries have been passed in the books since recording the purchase. SL accounts for investment in associates under the equity method.

On 1 January 2022, SL purchased a 35% stake in the ordinary shares of GL for Rs. 375 million. During the year ended 31 December 2022, GL earned a profit of Rs. 158 million and other comprehensive income (fair value gain on investments subsequently measured at fair value through other comprehensive income) of Rs. 42 million. In addition to ordinary shares, GL has 30 million cumulative preference shares with a par value of Rs. 10 each. These shares are classified as equity in GL's books and are entitled to 18% dividend. However, GL has not declared any dividend in 2022.

As per tax laws, profits from an associate are only taxable upon receipt of a dividend or upon disposal of an investment.

- (iii) Share capital includes Rs. 400 million received from issuance of mandatorily convertible bonds. No further entries have been made in respect of these bonds.

On 1 April 2022, SL issued 4 million bonds of Rs. 100 each for Rs. 400 million. Each bond is mandatorily convertible on 31 March 2028 into 3 ordinary shares having par value of Rs. 10 each. Interest is payable at 15% per annum on 31 March each year until the conversion date. On the issue date, market interest rate for similar debt without conversion was 12% per annum.

Under tax laws, interest on such bonds is not an allowable expense.

- (iv) No entries have been made in respect of a lease arrangement with a foreign supplier.

On 1 July 2022, SL acquired a specialized machine on lease. Under the lease agreement, an instalment of USD 0.2 million is to be paid annually in arrears. At the end of the lease term, SL has an option to purchase the machine at USD 0.5 million. It is reasonably certain that SL will exercise this option. The lease term is 4 years, while useful life is 8 years. The rate implicit in the lease is 5% per annum. The following exchange rates per USD are available:

01-Jul-2022	31-Dec-2022	Average for Jul-Dec 2022
Rs. 270	Rs. 287	Rs. 280

Under tax laws, payments made under a lease arrangement are allowable as an expense.

The applicable tax rate is 30%.

**Required:**

Prepare SL's revised statement of financial position as at 31 December 2022, after incorporating the effects of outstanding issues and tax implications of the corrections. (25)

Q.5 The following transactions pertain to Taurus Limited (TL):

- (i) On 1 October 2023, TL entered into a contract with a customer to supply 180 units of specialized vehicles for a total consideration of Rs. 360 million. The delivery and billing schedule for vehicles is as follows:

Delivery date	Units	Unit price	Total
		----- Rs. in million -----	
31 December 2023	50	2	100
31 March 2024	60	2	120
30 June 2024	70	2	140
			<b>360</b>

The customer has paid 20% of the consideration in advance. The remaining 80% for each lot will be paid 15 days after delivery of each lot, but not before.

TL is entitled to an additional consideration of Rs. 54 million, payable in August 2024, if all the delivery dates are met. It is highly probable that TL will achieve this.

TL's sales team, which had been working on obtaining this contract since the start of 2023, was rewarded with a bonus of Rs. 21 million upon securing the contract. (08)

- (ii) On 1 November 2023, TL entered into a restructuring plan to modify the terms of a loan with a bank. According to the plan, TL will make a single payment of Rs. 760 million on 31 October 2028, instead of originally scheduled payments. The market interest rate at the time of restructuring was 12% per annum. A fee of Rs. 15 million was paid for the restructuring plan.

On the restructuring date, the carrying amount of the original loan was Rs. 430 million, with an effective interest rate of 14% per annum. The original loan was repayable in equal annual installments due in arrears, with the final payment on 31 October 2028. (07)

**Required:**

Discuss how the above information would be dealt with in TL's financial statements for the year ending 31 December 2023.

(THE END)