ICAP

Certificate in Accounting and Finance Stage Examination

11 March 2025
3 hours – 100 marks
Additional reading time – 15 minutes

Financial Accounting and Reporting-I

Instructions to examinees:
(i) Answer all **NINE** questions.
(ii) Answer in **black** pen only.
(iii) Multiple Choice Questions must be answered in answer script only.

Section A

Q.1 On 1 January 2024, Lacoste Limited commenced the construction of a warehouse building. Below is a breakdown of the payments made to the contractor:

Date of payments	Rs. in million
1 February 2024	300
1 May 2024	450
1 October 2024	290
1 December 2024	180
	1,220

Additional information:

(i) These payments were financed through the following sources:
- A long-term loan of Rs. 500 million, carrying interest at a rate of 16% per annum, was obtained on 1 January 2024. The surplus funds from the loan were invested in a savings account at 10% per annum.
- Withdrawals from a running finance facility from a bank, which carries interest at a rate of 18% per annum. This facility is also used for working capital needs.
- A government grant related to warehouse amounting to Rs. 300 million was received on 1 September 2024. The receipt of grant was used to reduce the utilization of the running finance facility.

(ii) A legal dispute arose regarding land ownership rights, and the construction work was completely halted from 1 June 2024 to 15 July 2024 due to a court order.

(iii) The construction of the warehouse was completed on 31 December 2024.

Required:
Calculate the borrowing costs to be capitalized in the cost of warehouse building. **(08)**

Q.2 As the Finance Manager at Dior Limited (DL), you have recently welcomed Fatima for a three-month internship. You assigned her the task of developing a deeper understanding of the statement of cash flows by studying DL's and other companies' recent financial statements. She has now presented the following queries for clarification:

(i) The loss on the disposal of a machine has been added in cash flows from operating activities, even though its cash effect is already reflected in investing activities.
(ii) Interest payable is component of working capital, yet change in interest payable is not reflected in the changes in working capital.
(iii) Repairs and maintenance on the office building are related to property, plant and equipment and should be categorized under investing activities. However, they do not appear in the cash flow statement at all.

Required:
Briefly respond to the queries raised by Fatima. **(06)**

Q.3 Hugo Boss Limited (HBL) is a newly established company in the book-selling industry, where Dunhill Desire Limited (DDL) is a market leader. The management of HBL aims to compare its financial performance with that of DDL. However, due to significant differences in their size and operational scale, a direct comparison of their financial statements is challenging. Below are the summarized financial statements of both companies:

Statement of profit or loss for the year ended 31 December 2024

	HBL	DDL
	--- Rs. in million ---	
Sales	340	1,700
Cost of sales	(238)	(1,156)
Gross profit	**102**	**544**
Operating expenses	(78)	(391)
Interest expense	(5)	(5)
Taxation	(6)	(47)
Net profit	**13**	**101**

Statement of financial position as at 31 December 2024

	HBL	DDL		HBL	DDL
Assets	**Rs. in million**		**Equity and liabilities**	**Rs. in million**	
Fixed assets	57	263	Share capital	26	257
Current assets	34	175	Retained earnings	13	110
			Long-term liabilities	46	44
			Current liabilities	6	27
	91	**438**		**91**	**438**

Required:

(a) Perform a vertical analysis of statements of profit or loss for both HBL and DDL. **(03)**

(b) Compute the **return on assets** and **return on equity** for both HBL and DDL and provide a brief explanation for the difference in each ratio between HBL and DDL. **(05)**

Q.4 Trussardi Limited (TL) is engaged in the business of assembling electric automobiles. Below information is available for the year 2024:

(i) On 1 January 2024, the government allotted an industrial land to TL in an underdeveloped area to set up a plant for assembling electric buses. The plant has a useful life of 10 years and became available for use on 1 October 2024. The fair value of the land was Rs. 600 million on 1 January 2024 and Rs. 615 million on 1 October 2024.

(ii) During 2024, TL achieved additional sales of Rs. 100 million, which increased profits by Rs. 19 million due to supportive government procurement policies.

(iii) In 2024, due to a violation of one of the conditions attached to a government grant received in 2021 to set up a plant for assembling electric cars, TL received a notice from the government authorities to repay the amount of Rs. 75 million. The grant was initially recorded as deferred income in the financial statements. The balance of deferred grant income at the time of repayment was Rs. 48 million.

Required:

In accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', discuss how the above should be dealt with in the financial statements of TL for the year ended 31 December 2024. ***(Entries are not required)*** **(08)**

Q.5 The retained earnings column, extracted from the draft statement of changes in equity, prepared by a junior accountant, of Versace Limited (VL) for the year ended 31 December 2024, is as follows:

	Rs. in million
Balance as at 31 December 2022	580
Profit for the year 2023	218
Final cash dividend @ 15% for the year 2023	(180)
Balance as at 31 December 2023	618
Profit for the year 2024	196
Final cash dividend @ 20% for the year 2024	(240)
Balance as at 31 December 2024	**574**

The following changes have not been incorporated in the draft financial statements of VL:

(i) It was identified that inventory items costing Rs. 28 million that had been sold during 2023, were included in the closing inventory as at 31 December 2023. VL uses the periodic inventory method.

(ii) It was decided to change the measurement basis of investment property from the cost model to fair value model to provide more relevant and reliable information.

The only investment property owned by VL is a building purchased on 1 April 2021 at a cost of Rs. 750 million, with 30% of the cost allocated to the land element. Depreciation has been charged at 5% per annum under the reducing balance method and is included in the above draft financial statements. The fair value of the investment property at the end of 2021, 2022, 2023 and 2024 amounted to Rs. 770 million, Rs. 805 million, Rs. 790 million and Rs. 815 million respectively.

Required:
Prepare the retained earnings column as would appear in VL's statement of changes in equity for the year ended 31 December 2024 in accordance with IFRSs. ***(Show comparative figures)*** **(10)**

Q.6 Select the most appropriate answer(s) from the options available for each of the following Multiple Choice Questions.

(i) In preparing the statement of cash flows under the indirect method, which **TWO** of the following items are added as adjustments to profit before tax?

(a) Finance cost
(b) Decrease in allowance for doubtful debts
(c) Impairment loss
(d) Fair value gain on re-measurement of investment property **(01)**

(ii) Under IAS 7 'Statement of Cash Flows', which of the following is **NOT** considered a cash or cash equivalent?

(a) Treasury bills maturing in 45 days
(b) A bank overdraft repayable on demand
(c) Investment in ordinary shares of another entity held for short-term trading
(d) Prize bonds issued by Government of Pakistan **(01)**

(iii) When calculating value in use, which discount rate should be used?

(a) The entity's weighted average cost of capital
(b) The asset-specific pre-tax discount rate reflecting current market conditions
(c) The risk-free rate adjusted for inflation
(d) The entity's average borrowing cost **(01)**

(iv) Which of the following errors affects only the profit while still keeping the trial balance in agreement?

(a) Recording an incorrect purchase amount in the cash book
(b) Omitting a sales invoice from the sales ledger
(c) Entering a bank deposit amount in the cash column of the cash book
(d) Posting payment to the wrong supplier account **(01)**

(v) The interest coverage ratio has decreased from 6 times to 3.5 times. What could explain this drop?

(a) The company has repaid some of its outstanding loans
(b) The company's operating profit has decreased
(c) The company has reduced its interest expense through refinancing
(d) The company has significantly increased its sales revenue **(01)**

(vi) The investment property is initially measured at:

(a) fair value plus transaction costs
(b) fair value
(c) cost including transaction costs
(d) cost excluding transaction costs **(01)**

(vii) Which of the following would be treated as a change in accounting policy?

(a) An entity has received its first government grant and is applying the deferred income method
(b) An entity has revalued its properties. Up to now, they had all been carried using the cost model
(c) An entity has changed depreciation method from straight line to reducing balance
(d) An entity has increased its allowance for irrecoverable debt from 10% to 12% **(01)**

(viii) According to the Conceptual Framework for Financial Reporting, the historical cost of an asset is updated over time to reflect:

(a) its fair value at the reporting date
(b) the replacement cost of the asset
(c) the present value of future cash flows expected from the asset
(d) the cost adjusted for depreciation, amortisation, or impairment **(01)**

(ix) The draft statement of profit or loss of Oud Enterprises for the year ended 31 December 2024 shows a gross profit of Rs. 150,000 and a net profit of Rs. 100,000. It was subsequently discovered that an invoice of Rs. 5,000 was debited to purchases, but the goods were received after year-end and were not included in the closing stock.

Which of the following is the corrected gross profit and net profit for the year?

(a) Gross profit: Rs. 145,000 and Net profit: Rs. 95,000
(b) Gross profit: Rs. 155,000 and Net profit: Rs. 105,000
(c) Gross profit: Rs. 150,000 and Net profit: Rs. 105,000
(d) Gross profit: Rs. 155,000 and Net profit: Rs. 100,000 **(02)**

Section B

Q.7 (a) The following information related to Windsor Limited (WL) has been gathered for the calculation of basic earnings per share (EPS):

(i) Profit after tax for the year ended 31 December 2024 amounted to Rs. 190 million.

(ii) Outstanding ordinary and preference shares as at 1 January 2024:

- 12 million ordinary shares with a par value of Rs. 10 each.
- 1 million preference shares having par value of Rs. 100 each. These shares are irredeemable and carry a cumulative dividend of 20%.
- 1.4 million preference shares with a par value of Rs. 100 each. These shares are irredeemable and carry a non-cumulative dividend of 25%.

(iii) On 1 April 2024, WL made a 2 for 1 share split for ordinary shares. The market value of each share of WL at that date was Rs. 60.

(iv) On 1 August 2024, WL announced a right issue to its ordinary shareholders in proportion of 1 right share for every 3 ordinary shares at Rs. 65 per share. The entitlement date for the rights issue was 1 September 2024. The market price per share immediately before the announcement and entitlement dates was Rs. 80 and Rs. 90 respectively.

(v) For 2024, WL declared and paid 25% dividend to non-cumulative irredeemable preference shareholders.

(vi) On 18 February 2025, WL issued 20% bonus shares to its ordinary shareholders before the finalization of financial statements for the year ended 31 December 2024.

(vii) Basic EPS of Rs. 12.2 was disclosed in the financial statements for the year ended 31 December 2023.

Required:
Compute basic earnings per share to be disclosed in WL's financial statements for the year ended 31 December 2024. **(08)**

(b) The basic earnings per share of Burberry Limited (BL) for the year ended 31 December 2024 was computed as Rs. 3.80 per share, using a numerator of Rs. 97.70 million and a denominator of 25.70 million shares. The following information has been gathered for computing diluted earnings per share:

(i) In 2021, BL issued 2 million 15% redeemable preference shares, each with a par value of Rs. 200. Shareholders have the right to convert each preference share into 8 ordinary shares.

(ii) In 2022, BL issued 8.5% convertible bonds amounting to Rs. 120 million. The face value of each bond is Rs. 100 and each bond is convertible into 4 ordinary shares after 5 years.

(iii) In 2023, BL issued options to buy 2.5 million ordinary shares at Rs. 18 per share for a period of 5 years which have not been exercised yet.

(iv) On 1 January 2024, BL issued 1 million 20% irredeemable non-cumulative preference shares, each with a par value of Rs. 100. Each preference share is convertible into 3 ordinary shares. No dividend for 2024 has been paid on these shares.

(v) The average market price of BL's ordinary shares during 2024 was Rs. 20 per share.

Required:
Calculate BL's diluted earnings per share for the year ended 31 December 2024. ***(Show all workings)*** **(08)**

Q.8 Following is the trial balance of Gucci Welfare Hospital (GWH) as on 31 December 2024.

	Debit	Credit
	--- Rs. in million ---	
Capital assets	150.0	
Accumulated depreciation – 1 January 2024		30.0
Long-term investments	27.0	
Pharmacy inventory – 31 December 2024	25.0	
Cash and bank balances	17.0	
General fund – 1 January 2024		53.0
Endowment fund for cancer patients		20.0
Long-term loan		60.0
Accrued expenses		2.0
Clinical income		47.0
Contributions received		170.0
Investment income		5.0
Canteen inventory – 1 January 2024	12.0	
Canteen purchases	14.0	
Canteen sales		20.0
Clinical expenses including free medicines	98.0	
General and administrative expenses	45.6	
Marketing expenses	15.2	
Interest paid	3.2	
	407.0	**407.0**

Additional information:

(i) GWH also operates a pharmacy (providing free medicines) and a canteen (selling refreshments). The closing inventory values for the pharmacy and canteen, based on different measurement principles, are as follows:

	Pharmacy	Canteen
	--- Rs. in million ---	
Cost	25.0	11.0
Lower of cost and net realisable value	Nil	10.5
Lower of cost and current replacement cost	22.0	9.8
Lower of cost and current fair value	24.0	10.9

(ii) In 2024, the GWH's board of trustees passed a resolution requiring 30% of each year's surplus to be allocated to a designated special fund called the 'Health Care Fund.'

(iii) The investment income includes Rs. 2 million, which is externally restricted and designated to be added to the endowment fund for cancer patients.

(iv) No adjusting entries have been made for accrued administrative expenses of Rs. 2.5 million and prepaid marketing expenses of Rs. 4.2 million.

(v) Contribution received comprises of the following:

- Rs. 5 million was donated for the endowment fund for cancer patients.
- Rs. 10 million was donated with the stipulation that it must be used for free distribution of medicines during the year.
- Rs. 13 million was contributed by a corporate donor to pay nurses' salaries for the year 2025.
- Other contributions were received without any specific restrictions.

(vi) On 1 May 2022, GWH acquired a hospital building for Rs. 100 million financed through a bank loan. The cost of building includes land valued at Rs. 30 million. The loan principal is to be repaid in five equal annual instalments of Rs. 20 million, along with interest at 12% per annum, on 30 April each year.

(vii) On 1 October 2024, medical equipment with a fair value of Rs. 40 million was received as a donation. The equipment was put into use immediately but has not yet been recorded in the books.

(viii) The building is depreciated at 6% per annum using the straight-line method, while other capital assets are depreciated at 10% per annum using the reducing balance method.

Required:
Prepare the following using the deferral method:

(a) Statement of income and expenditure for the year ended 31 December 2024. **(11)**

(b) Statement of financial position as at 31 December 2024. **(07)**

Q.9 The following information pertains to Calvin Klein Limited (CKL):

(i) The factory building was acquired on 1 January 2021 at a cost of Rs. 125 million with a useful life of 10 years. The revalued amounts of the factory building as on 31 December 2022 and 2024 were Rs. 110 million and Rs. 70 million respectively.

(ii) Two similar machines costing Rs. 100 million each were acquired on 1 January 2023 while a third machine costing Rs. 40 million was acquired on 1 October 2024. In December 2024, all machines were damaged in an accident and are currently operating at less than 100% capacity. CKL plans to repair them in the coming months.

The following information has been gathered for potential impairment testing:

	Machine 1	**Machine 2**	**Machine 3**
	------------- Rs. in million -------------		
Value in use:			
▪ In current condition	60	75	35
▪ In repaired condition	68	81	42
Fair value less cost of disposal:			
▪ In current condition	55	73	30
▪ In repaired condition	65	82	38

(iii) 20 similar vehicles costing Rs. 5 million each were acquired on 1 January 2022. On 30 June 2024, CKL disposed of two vehicles to employees at 70% of the original cost.

Other information:

- The cost model is used for subsequent measurement of all property, plant and equipment except for the factory building, which is measured using the revaluation model.
- Depreciation is charged on all assets using reducing balance method at 15% per annum, except for factory building, which is depreciated over its useful life using the straight-line method.
- CKL accounts for revaluation using the net replacement value method and transfers the maximum possible amount from revaluation surplus to retained earnings on an annual basis.

Required:
Prepare a note on property, plant and equipment for inclusion in CKL's financial statements for the year ended 31 December 2024. ***(Comparative figures and the total column are not required)*** **(16)**

(THE END)