

**Financial  
Reporting  
Summer-2023**

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## Summer Exam-2023 Solutions – Financial Reporting

**Q.1.**  
**a**

Description	Debit	Credit
	Rs.	Rs.
Contract asset	67,347	
Revenue account $(75,000/(75,000+72,000)) \times 132,000$		67,347
Recognition of revenue with respect to mobile set		
Cost of sales	65,000	
Inventory		65,000
Recognition of cost of mobile in cost of sales		
Contract receivables	33,000	
Contract asset $(67,347/24 \times 6)$		16,837
Contract revenue $[(72,000/(75,000+72,000)) \times 132,000] \times 6/24$		16,163
Recognition of revenue on provision of telecom services		
Bank account	33,000	
Contract receivables		33,000
Recording of receipt from customers	????	????

**Q.1.**  
**b**

Description	Debit	Credit
	Rs.	Rs.
Bank account	3,000	
Contract revenue account		3,000
On receipt of non-refundable fee from customers		
Cost of sales	8,200	
Inventory account		8,200
Recognition of cost of free devices as expense		
Contract receivable account $(3,500 \times 3)$	10,500	
Contract revenue from – Telecom service $(1500/(2700+1500)) \times 3500 \times 3$		3,750
Contract revenue from – internet and smart TV $(2,700/(2700+1500)) \times 3500 \times 3$		6,750
Recognition of revenue from services		
Bank account	10,500	
Contract receivables account		10,500

**Total Marks 13**

**Q.2.**

Description	Debit	Credit
	Rs.	Rs.
Investment at FVTOCI	525,000	
Bank account		525,000
Recording of investment at FV + Transaction cost		
Investment at FVTOCI	71,453	
Profit or loss account		71,453
Recording of interest at effective rate		
Bank account	60,000	
Investment at FVTOCI		60,000
Recording of dividend receipt at coupon rate		
Investment at FVTOCI	13,547	
OCI		13,547
$550,000 - [525,000 + 71,453 - 60,000]$		
Recording of fair value gain in other comprehensive income		

**Total Marks 15**



## Summer Exam-2023 Solutions – Financial Reporting

**Q.3.**  
**a**

	Rs. (m)	Rs. (m)
<b>Tax expense</b>		
Current tax	W – 1	1,551.5
Deferred tax	W – 2	(23.08)
		1,528.42
<b>W – 1 Current ax</b>		
Profit before tax		5,250
Add: - Donation to unapproved institutions		20
Liabilities older than three years		25
Excess accounting depreciation		53
Bad debt expense for the year		7
		105
Less: - Bad debts written off		(5)
Taxable profit		5,350
Current tax @ 29%		1,551.5
<b>W – 2 Calculation of deferred tax</b>	<b>Taxable temporary difference</b>	<b>Deductible temporary difference</b>
	<b>Rs. (m)</b>	<b>Rs. (m)</b>
Decelerated tax depreciation		53
Provision for doubtful debts closing balance		14
Liabilities older than three years		25
	--	92
Net deductible temporary difference		92
Deferred tax asset @ 29%		26.68
Deferred tax for the year (26.68 – 3.6)		23.08

**Q.3.**  
**b**

<b>Basic Earnings per share – 2022</b>		Rs. 13.48/share
Profit for the year (5,250 – 1,528.42)		3,721.58
Number of shares	W – 3	276
Basic EPS – 2021 [12.15x10/12x19/20]		Rs. 9.62/share

### W – 3 Number of shares

Date	Cumulative number of shares	Months outstanding	Weighted Average
01-01-22	200	6	200x6/12x12/10x20/19=126+
01-07-22	250	4	250x4/12x12/10=100+
01-11-22	300	2	300x2/12=50+
31-12-22	300		276

Bonus fraction = 12/10

Right fraction = Cum-right price / Theoretical ex-right price = 20/19

Theoretical ex-right price =

total value of shares after right issue/Total number of shares after right issue

= [(4x20) + (1x15)] / (4+1) = 19

**Total Marks 10**



## Summer Exam-2023 Solutions – Financial Reporting

**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
<b>Statement of Comprehensive Income</b>		
<b>Profit or Loss Account</b>		
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)

<b>W – 1</b> 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]			

<b>W – 1</b> 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**

**Q.5.**

	Rs. (m)	Rs. (m)
Construction cost investment through equity		30.00
Investment through loan		70.00
Borrowing cost capitalized		
Actual borrowing cost (70x16%10/12)	9.33	
Interest income [(70x12.5% x2/12)+(25x12.5% x5/12)]	(1.46+1.30)	6.57
Cost of property, plant and equipment (PPE)		106.57
Impairment loss		(7.70)
Carrying value of PPE		98.87
Recoverable value		
Value in use [4.83x20+0.226x10] = 96.60+2.27		98.87
Impairment loss to be recognized [106.57 – 98.87]		7.70

**Total Marks 12**

**Q.6.**

	Rs. (000)
Profit before tax	10,563.00
Tax expense	



## Summer Exam-2023 Solutions – Financial Reporting

Current tax	W – 1 (2,729.48+30)	(2,759.48)
Deferred tax	W – 2	(510.98)
		(3,270.46)
Profit after tax		7,292.54
<b>Calculation of Basic earnings per share (BEPS)</b>		
Current year		
Profit after tax		7,292.54
Number of shares W – 3		4,932
BEPS - 2022		Rs. 1.48/share
BEPS – 2021 [1.25x4/5x23.13/25]		Rs. 0.93/Share

### W – 1 calculation of Current Tax

	Rs. (000)
Profit before tax	10,563
Add: Donation	2,334
Expenses to be allowed over 5 years (1,000/5)-200	800
	3,134
	13,697
Less: Exempt income	(1,523)
Tax depreciation	(2,562)
Dividend income	(200)
	(4,285)
	9,412
Current tax @ 29%	2,729.48

### W – 2 Calculation of Deferred Tax

	Taxable temporary differences	Deductible temporary differences
	Rs. (000)	Rs. (000)
Expenses to be allowed in next years	--	800
Accelerated tax depreciation	2,562	
	2,562	800
Net taxable temporary differences	1,762	
Deferred tax liability @ 29%	510.98	

### W – 3 Number of Shares

Date	Cumulative number of shares	Months outstanding	Weighted average
01-01-2022	3,500	3	$3,500 \times 3 / 12 \times 25 / 23.13 \times 5 / 4 = 1,182$
01-04-2022	4,000	3	$4,000 \times 3 / 12 \times 5 / 4 = 1,250$
01-07-2022	5,000	6	$5,000 \times 6 / 12 = 2,500$
31-12-2022	5,000		=4,932
Bonus fraction =	No. of shares after issue / No. of shares before bonus issue		
	5/4		
Right fraction =	Cum-right price / Theoretical ex-right price 25/22.86		
Market value of shares before right issue	$35,000 \times 25 = 87,500$		
Issue price of right shares	$500 \times 10 = 5,000$		
Theoretical ex-right price = total value of shares after right issue / total number of shares after right issue			
Theoretical ex-right price	$(87,500 + 5,000) / 4,000 = 23.13$		



## Summer Exam-2023 Solutions – Financial Reporting

**Q.7.**  
**a**

### Golf limited Consolidated statement of comprehensive income For the year ended June 30, 2022

	GL Rs. (m)	SL Rs. (m)	Adjustments Rs. (m)	Consolidated Rs. (m)
<b>Profit or loss account</b>				
Sales	3,500	1,800	(667)	4,633
Cost of sales	1,550	(1,368)	439	(2,479)
Gross profit	1,950	432	(228)	2,154
Operating expenses	(810)	(390)	(2)	(1,202)
Other income	350	135	(51)	434
Finance cost	(90)	(54)	(80)	(224)
Profit before tax	1,400	123	(361)	1,162
Profit attributable to:				
Owners of parent				1,151.50
Non-controlling interest				10.50
				<b>1,162.00</b>
<b>Other Comprehensive Income</b>				
<i>Items that may be re-classified to profit or loss account</i>				
<i>Items that may not be re-classified to profit or loss account</i>				
Revaluation surplus	60	40	--	100
<b>Total other Comprehensive Income</b>	<b>60</b>	<b>40</b>	<b>--</b>	<b>100</b>
Total Comprehensive Income				
Attributable to:				
Owners of parent (1,151.50+60+28)				1,239.50
Non-controlling interest (10.5+12)				22.50
				<b>1,262.00</b>

**Q.7.**  
**b**

#### Consolidated retained earnings

Balance brought forward

#### Goodwill

Cost of investment (2,400+4,500+789-15)

Share of share capital (6,000) x70%

Share of pre-acquisition reserves (3,500+44+180-72) x70%

Goodwill

NCI goodwill

FV of NCI (600x30%x18)

Share of share capital (6,000x30%)

Share of pre-acquisition reserves (3,500+44+180-72) x 30%

Goodwill

#### Workings

#### W – 1 Group structure

Group

NCI

Debit  
Rs. (m)

Credit  
Rs. (m)

Debit  
Rs. (m)

Credit  
Rs. (m)

7,674

4,200

2,556

918

7,674

7,674

3,240

(1,800)

(1,096)

344

1,262

1,262

SL

%

70

30

100



## Summer Exam-2023 Solutions – Financial Reporting

### W – 2

#### Adjusting entries

Operating expenses	15	
Investment in SL		15
Interest expenses	89	
Deferred liability $(789 \times 15\%) \times 9/12$		89
Software – Intangible asset	180	
SRE-Pre		180
Operating expenses $(180/5) \times 9/12$	27	
Software - Intangible asset		27
SRE-pre	72	
Operating expenses		40
Contingent liability		32
Sales	667	
Cost of sales		667
Cost of sales $(207 \times 15/115)$	27	
Closing stock		27
Interest income	9	
Interest expense $(150 \times 12\% \times 6/12)$		9
Property, plant and equipment	35	
Revaluation surplus		35
Other income $(6,000 \times 1\%) \times 70\%$	42	
NCI $(6,000 \times 1\%) \times 30\%$	18	
Dividend		60
PPE	40	
Revaluation surplus		40
Cost of sales	12	
PPE		12
Cost of sales $(1,262 \times 0.15)$	189	
Goodwill		189

### W – 3 Share of profit of NCI

Profit after tax	123
Amortization of software	(27)
Decrease in operating expenses	(40)
URP on closing stock $(69 \times 15/115)$	(9)
Extra depreciation	(12)
Adjusted profit	<u>35</u>
NCI share @ 30%	<u><u>10.50</u></u>

**Total Marks 25**

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