SPECIFIC GUIDANCE OF CAF EXAMINATION AND STUDY MATERIAL FOR SPRING 2021

December 30, 2020

EXAMS GUIDANCE

CAF-1 Introduction to Accounting

Reference	Issue	Guidance
	Exam Pattern	25% to 35% of the questions shall be short, with maximum weightage up to 8 marks each. Remaining 65% to 75% marks will comprise of 4 to 5 questions, having weightage in the range of 15-20 marks.
	The complexity and nature of scenarios for preparing journal entries	Simple and common business scenarios may require simple calculations including percentages, fractions, margins and mark ups for which knowledge has already been developed in Quantitative Methods at AFC stage.

CAF-3 Business Law

Reference	Issue	Guidance
	Exam Pattern for objective types questions	Questions comprising of 30 % marks will be objective types. Remaining 70% marks will be allocated between knowledge based and application based questions in the ratio of 40:60 respectively. Each question will carry maximum weightage of 08 marks.

CAF-5 Financial Accounting & Reporting I

Reference	Issue	Guidance
	Exam Pattern	25% to 35% of the questions shall be short, with maximum weightage up to 8 marks each. Remaining 65% to 75% marks will comprise of 4 to 5 questions, having weightage in the range of 15-20 marks.
Chapter 10: Revenue from contracts with customers study text	Level of Examination in the Chapter 10 IFRS 15 Revenue from contracts with customers	The difficulty level of examination questions would match to the discussion and questions covered in study text.
Chapter 11: Interpretation of financial statements	Interpretation of various ratios	In examination the level of interpretation would be matching to the material included in the study text of CAF-5.

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CAF-5 Financial Accounting & Reporting I

Reference	Issue	Guidance
Chapter 10 of study text	Practical implications given in the IFRS Handbook of the concepts discussed in the Chapter 10 of Study Text	The practical implications given in IFRS 15 of the concepts discussed in the Chapter 10 of Study Text have been explained in IFRS 15 by means of 63 examples attached to the IFRS 15. However, there are a number of scenarios and complexities discussed in these examples, which are not compatible with the learning outcomes and required pitch of the examination at CAF 5 level. Therefore, for the purpose of clarification, it is informed that due to the above reason, the following examples given in IFRS 15 in the IFRS Handbook 2020 are not examinable in CAF 5: Example No. and Description **IDENTIFYING THE CONTRACT** Example 1—Collectability of the consideration Example 2—Consideration is not the stated price—implicit price concession Example 3—Implicit price concession Example 4—Reassessing the criteria for identifying a contract **CONTRACT MODIFICATIONS** Example 6—Change in the transaction price after a contract modification Example 7—Modification of a services contract Example 8—Modification resulting in a cumulative catch-up adjustment to revenue Example 9—Unapproved change in scope and price **IDENTIFYING PERFORMANCE OBLIGATIONS** Example 10—Goods and services are not distinct Example 11—Determining whether goods or services are distinct Example 12—Explicit and implicit promises in a contract **PERFORMANCE OBLIGATIONS SATISFIED OVER TIME** Example 14—Assessing alternative use and right to payment Example 15—Asset has no alternative use to the entity Example 16—Enforceable right to payment for performance completed to date **MEASURING PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION** Example 19—Uninstalled materials **VARIABLE CONSIDERATION** Example 21—Estimating variable consideration **CONSTRAINING ESTIMATES OF VARIABLE CONSIDERATION** Example 23—Price concessions Example 25—Management fees subject to the constraint **THE EXISTENCE OF A SIGNIFICANT FINANCING COMPONENT IN THE CONTRACT** Example 27—Withheld payments on a long-term contract Example 28—Determining the discount rate

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		Example 30—Advance payment **ALLOCATING THE TRANSACTION PRICE TO PERFORMANCE OBLIGATIONS** Example 35—Allocation of variable consideration **CONTRACT COSTS** Example 37—Costs that give rise to an asset **DISCLOSURE** Example 41—Disaggregation of revenue—quantitative disclosure Example 42—Disclosure of the transaction price allocated to the remaining performance obligations Example 43—Disclosure of the transaction price allocated to the remaining performance obligations—qualitative disclosure **WARRANTIES** Example 44—Warranties **PRINCIPAL VERSUS AGENT CONSIDERATIONS** Example 45—Arranging for the provision of goods or services (entity is an agent) Example 46—Promise to provide goods or services (entity is a principal) Example 47—Promise to provide goods or services (entity is a principal) Example 48—Arranging for the provision of goods or services (entity is an agent) **CUSTOMER OPTIONS FOR ADDITIONAL GOODS OR SERVICES** Example 50—Option that does not provide the customer with a material right (additional goods or services) Example 51—Option that provides the customer with a material right (renewal option) **NON-REFUNDABLE UPFRONT FEES** Example 53—Non-refundable upfront fee **LICENSING** Example 54—Right to use intellectual property Example 55—Licence of intellectual property Example 56—Identifying a distinct licence Example 57—Franchise rights Example 58—Access to intellectual property Example 59—Right to use intellectual property Example 60—Access to intellectual property Example 61—Access to intellectual property **REPURCHASE AGREEMENTS** Example 62—Repurchase agreements

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CAF-7 Financial Accounting & Reporting II

Reference	Issue	Guidance
	Exam Pattern	25% to 35% of the questions shall be short, with maximum weightage up to 8 marks each. Remaining 65% to 75% marks will comprise of 4 to 5 questions, having weightage in the range of 15-20 marks.

CAF-8 Cost and Management Accounting

Reference	Issue	Guidance
	Approaches to test variances.	The approaches discussed in study text will be tested. Sales variances are not examinable.

CAF-9 Audit and Assurance

Reference	Issue	Guidance
Syllabus	Code of Ethics for Chartered Accountants	Edition Revised –2019 is relevant
Syllabus	ISAs	Published Edition 2018 is relevant
	Companies Act, 2017	The provisions of Companies Act, 2017 are examinable in Audit and Assurance to the extent of topics covered in the Study text.

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STUDY MATERIAL GUIDANCE

CAF-2 Intro. To Economics and Finance

Reference	Issue	Guidance
Page 228 Chapter 8: Multiplier and accelerator of Study Text	Typo in last line	The last line of page will be read as: "This is covered in more detail in Chapter 9"
Page 322 Chapter 14: Balance of payments and trade of Study Text	Typo in last para	The last para of page will be read as: "As the exchange rate falls so **imports** look less attractive. Consequently, Pakistani demand for imports will contract. As a consequence of needing less foreign currency the supply of rupees to the exchange will contract also"

CAF-3 Business Law

Reference	Issue	Guidance
Chapter 1: Introduction to the legal system Page #14	Objective Based Question to be deleted.	Objective Based Question 16 shall be considered as deleted.
Chapter 3: Lawful consideration and objects, and capacity of parties Page # 78	Correction of answer of Objective Based Question	Answer 42 to be corrected as Option (b) An agreement with a minor is void ab initio as minor is not competent to enter into a contract.
Chapter 14: Issue of shares and distribution of profits Page # 433	Example to be deleted	Example 21 shall be considered as deleted.
Chapter 14: Issue of shares and distribution of profits Page # 436 & 437	Example to be corrected	Part (c) of the Question and Answer of Example 27 shall be considered as deleted.
Chapter 16: Accounts and Investments Page # 491	Corrections in the definition of associated undertakings	The words "or the Investment Corporation of Pakistan" shall be considered as deleted in second last bullet point. The words "where such shares are not beneficially owned by the central depository" shall be inserted at the end of last bullet point.
Chapter 16: Accounts and Investments Page # 493	Clarification in Example 16	In part (ii) of the question section, the last sentence shall be read as "KL currently holds 25% of MPL's paid-up capital and has two directors in common." In part (ii) of the answer section, the first sentence shall be read -as "MPL is an associated undertaking of KL due to common directorship".

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CAF-5 Financial Accounting & Reporting I

Reference	Issue	Guidance
Chapter 2: IAS 1: Preparation of financial statements Page 24 1.5 Journal Entries	Journal entries on redemption of share capital have been added.	The journal entries 11 and 12 are to be added as given in Annexure A.
Chapter 2: IAS 1: Preparation of financial statements Page 25	The illustration needs to be corrected for treatment of redemption of shares.	The Illustration is to be replaced as given in Annexure B.
Chapter 7: IAS 16- Property, plant and equipment: Page 359	The solution to example requires correction	The correct answer to the example is: Revaluation surplus = Rs. 160,000
Chapter 7: IAS 16- Property, plant and equipment: Example 3 on Page 365	The information about the cost of asset as on 01.04.2015 is missing.	The costs of manufacturing the asset were Rs. 30,800,000.

Annexure A

11	Share capital	X	
	Bank		X
	Payment of cash for redemption of shares (at par)		
12	Retained earnings	X	
	Capital repurchase reserve account		X
	Transfer from distributable reserves to capital repurchase reserve on redemption		

Annexure B

Illustration:

Statement of changes in equity for the year ended 31 December 2019 considering there is redemption at par value, bonus and right issues along with dividends paid during the year

	Share Capital	Share Premium	Capital Repurchase Reserve	Retained earnings	Total
		Rs. in million			
Balance as at 1 January 2019	100	10	-	60	170
Profit after tax for the year	-	-	-	20	20
Bonus issue	10	-	-	(10)	-
Right issue	5	-	-	-	5
Redemption	(10)	-	10	(10)	(10)
Dividends paid during the year	-	-		(20)	(20)
Balance as at 31 December 2019	**105**	**10**	**10**	**40**	**165**

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CAF-6 Principles of Taxation

Reference	Issue	Guidance
Page 46, Chapter 4, Basic concepts of taxation	Local Govt. definition contained in the study text needs to be updated.	The updated definition to be read as below: "Local Government" shall have the same meaning for respective provisions and Islamabad Capital Territory as contained in the Balochistan Local Government Act, 2010 (V of 2010), the Khyber Pakhtunkhwa Local Government Act, 2013 (XXVIII of 2013), the Sindh Local Government Act, 2013 (XLII of 2013), the Islamabad Capital Territory Local Government Act, 2015 (X of 2015) and the Punjab Local Government Act, 2019(XIII of 2019)]
Page 81, Chapter 5, Salary	In exercise salary figures of Mr. Asad and Mr. Alamgir amounting to Rs. 2,400,000 and Rs. 3,200,000 respectively are incorrect.	Salary figures of Rs. 2,400,000 and Rs. 3,200,000 should be changed to Rs. 240,000 and Rs. 320,000 respectively.
Page 83, Chapter 5, Salary	Heading 'certain perquisites without by virtue of employment' is wrongly worded.	Wording should be corrected as "certain perquisite by virtue of employment"
Page 98, Chapter 6, Income from Property	In Section 15A, sub-section 1, clause (h), the rate of deduction of six percent (6%) is incorrect.	The rate of deduction to be used is four percent (4%).
Page 99, Chapter 6, Income from Property	In exercise, in the first line, the month 'July 2019' is wrongly mentioned	'July 2019' should be changed to 'July 2018'. After this change the correct wording should be: "Mr. A had let out the property to Mr. B for a sum of Rs. 150,000 per month in July 2018".
Page 144, Chapter 9, Capital gain	In the table showing tax rates, in row 3, the wording 'but less than 48 months' is wrongly mentioned.	The wording "less than 48 months" should be deleted. After the change, row 3, under column 'Holding period', will be read as: "equal or more than 24 months but acquired on or after 01 July 2013"
Page 165, Chapter 11, Losses, deductible	(i). The condition of payment through banking channel in case of donation to any of	(i). The last bullet point under the heading, "*Donations to institutions under clause 61 part I of the 2nd schedule*" reading:

allowances, tax credits and exemptions	the institutes covered under second schedule, is now a mandatory condition. (ii). Limit in case of donation by associate is missing.	"The condition of payment through banking channel is not applicable for donations to be permissible deductions" <u>should be deleted</u>. (ii). Following new bullet point in place of (i) above shall be added "In case of payment of donation by associate, amount of donation shall not exceed 15% of taxable income in the case of individual and AOP and 10% in the case of company.
Page 231, Chapter 16, Appeals, references and petitions- Appointment of Appellate Tribunal	Section 130, under the heading "Appointment of Appellate tribunal" is not updated.	The updated section 130 to be read as follows; I. There shall be established an Appellate Tribunal to be called the Appellate Tribunal Inland Revenue to exercise the powers and perform the functions conferred on the Appellate Tribunal Inland Revenue by this Act. II. The Appellate Tribunal Inland Revenue shall consist of a chairman and such other judicial and accountant members who shall be appoints in such numbers and in such manner as the Prime Minister may prescribe by rules, which may be made and shall take effect notwithstanding anything contained in section 237 or any other law or rules for the time being in force. III. No person shall be appointed as judicial member of an Appellate Tribunal Inland Revenue unless he – (a) has been a Judge of a High Court; (b) is or has been a District Judge; or (c) is an advocate of a High Court with a standing of not less than ten years; or (d) possesses such other qualification as may be prescribed under sub-section (2) of this section. IV. No person shall be appointed as an accountant member of an Appellate Tribunal Inland Revenue unless he, (a) is an officer of the Inland Revenue Service equivalent in rank to that of Regional Commissioner; (b) is a Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals)

		having not less than three years' experience as Commissioner or Collector; (c) has for a period of not less than ten years practiced professionally as a chartered accountant within the meaning of the Chartered Accountants' Ordinance, 1961 (X of 1961); or (d) has for a period of not less than ten years practiced professionally as a cost and management accountant within the meaning of the Cost and Management Accountant' Act, 1966 (XIV of 1966). V. The constitution, functioning of benches and procedure of the Appellate Tribunal Inland Revenue shall be regulated by rules which the Prime Minister may prescribe. VI. The rules in respect of the matters covered under this section made prior to commencement of the Tax Laws (Second Amendment) Ordinance, 2019 shall continue in force

CAF-7 Financial Accounting & Reporting II

Reference	Issue	Guidance
Chapter 2: IAS 1: Presentation of financial statements Page 31	The third paragraph under the heading "minimum comparative information" is to be replaced.	The paragraph "Comparative information can also……in the current year" is to be replaced by following paragraph: "In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, an uncertainty arising in the previous period and steps that have been taken to address the issue."
Chapter 2: IAS 1: Presentation of financial statements Page 87-88	Example 17: Wah Agriprod Ltd Additional information (ii) and (v) needs to be revised. Line items in statement of comprehensive income need to be rephrased.	In additional information (ii), the following sentence is to be deleted. "Wah Agriprod Ltd does not make a transfer to retained earnings in respect of excess amortisation." Additional information (v) is to be replaced by following sentences. "On 20 November 2016, Wah Agriprod Ltd paid a dividend of Rs. 25.3 million. The dividend paid

		was included as part of administrative expenses figure shown in the trial balance.” In statement of comprehensive income, the line item “Unrealised loss on investments – Fair Value through P/L” should be rephrased as “Loss on investments”. In statement of comprehensive income, the line item “Movement in surplus on revaluation of leasehold property” should be rephrased as “Gain on revaluation of leased property”. In working note (iii) Admin expenses the calculation of dividend (i.e. Rs. 115,000 x 2 x Rs. 2.2 x Rs. 0.05) should be removed.
Chapter 5: Consolidated Accounts: Statement of comprehensive income	The Examples 13, 14 and 15 are not consistent with the approach suggested in ICAP Study Text [page 172 Chapter 4] in which unrealized profit on disposal of non-current asset is eliminated by net amount i.e. unrealized gain less extra depreciation.	The following revised examples are included in Annexure A: Example 13: Oscar Limited Example 14: Present Limited and Future Limited Example 15: Fatima Limited and Ali Limited
Chapter 8: IAS 12: Income taxes Page 363	Example 40: The data is missing in question.	The Note 3 in question data should be read as follows: **“Note 3:** The asset held under the lease was acquired on 1 Jan 2016 and have been depreciated over useful life of 5 years. Rental expense for leases is tax deductible. The annual rental for the asset is Rs. 28,800 (including Rs. 14,667 for interest) and was paid on 31st December 2016.”
Chapter 10 IAS 38: Intangible assets	Example 3: Marfoo Limited Typing error	The word “**eight**” in second paragraph should be replaced with the word “**right**”.
Chapter 10 IAS 38: Intangible assets Page 427	Addition and deletion under the heading “Initial measurement”.	The following sentence is to be deleted. “The IAS 23 guidance was covered in previous chapter.” The following words should be added after the words “Selling and administration overhead costs”: “unless this expenditure can be directly attributed to preparing the asset for use;”

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Chapter 10 IAS 38: Intangible assets	Objective Based Question No. 20 The solution to Question requires correction	The correct answer to the question is: **Rs. 290,000** The costs of Rs. 750,000 relate to ten months of the year (up to April 2015). Therefore, the costs per month were Rs. 75,000. As the project was confirmed as feasible on 1 January 2015, the costs can be capitalised from this date. So, four months of these costs can be capitalised = Rs. 75,000 × 4 = Rs. 300,000. The asset should be amortised from when the project is complete and available for use, so two month's amortisation should be charged to 30 June 2015. Amortisation is (Rs. 300,000/5) × 2/12 = Rs. 10,000. The carrying amount of the asset at 30 June 2015 is Rs. 300,000 – Rs. 10,000 = Rs. 290,000.
Chapter 13: IFRS 16: Leases Page 517	Under the heading "Recognition exemptions" the term short term lease has been included in repetition.	The repetition should be ignored. "…it using another systematic basis (this approach is referred as "simplified approach") to: (a) Short-term lease (b) leases for which the underlying asset is of low value"
Chapter 13: IFRS 16: Leases Page 522	Example 12: Progress Ltd The journal entries do not include entries for recording the depreciation expense.	The requirement (b) should be read as follows: "The journal entries that will record the transaction resulting from the lease agreement (other than accounting for depreciation) shall be shown as follows:"
Chapter 13: IFRS 16: Leases Page 526	Example 16: ACACIA Ltd The data is missing in question.	The following para should be added. "(b) Office equipment with a fair value of Rs. 24,000 was leased under a non-cancellable agreement which requires Acacia Ltd to make annual payments of Rs. 6,000 on 1 April each year, commencing on 1 April 2015, for three years. The lessor remains responsible for insuring and maintaining the equipment during the period of the lease. The equipment has an estimated useful life of ten years. The present value of the lease payments is Rs. 16,415. This lease is considered low value item lease by Acacia Ltd."

Annexure A

Example 13: OSCAR LIMITED

The summarized trial balances of Oscar Limited (OL) and United Limited (UL) as at 31 December 2015 are as follows:

	Oscar Limited (OL)		United Limited (UL)	
	Debit	Credit	Debit	Credit
	——— Rs. in million ———			
Sales		835		645
Cost of sales	525		396	
Operating expense	115		102	
Tax expense	65		48	
Share capital (Rs. 10 each)		600		250
Share premium		150		60
Retained earnings as at 1 January 2015		265		179
Current liabilities		115		105
Property, plant and equipment	390		350	
Cost of investment	500			
Stock-in-trade	125		115	
Trade receivables	140		125	
Cash and bank	105		103	
	1,965	1,965	1,239	1,239

Additional information:

(i) On 1 May 2015, OL acquired 80% shares of UL. UL has not recognised the value of brand in its books of account. At the date of acquisition, the fair value of brand was assessed at Rs. 45 million. The remaining useful life of the brand was estimated as 15 years.

(ii) OL charged Rs. 2.5 million monthly to UL for management services provided from the date of acquisition and has credited it to operating expenses.

(iii) On 1 October 2015, UL sold a machine to OL for Rs. 24 million. The machine had been purchased on 1 October 2013 for Rs. 26 million. On the date of acquisition the machine was assessed as having a useful life of ten years and that estimate has not changed. Gain on disposal was erroneously credited to sales account.

(iv) Other inter-company transactions during the year 2015 were as follows:

	Sales	Included in buyer's closing stock-in-trade	Profit %
	——— Rs. in million ———		
OL to UL	60	20	25% of cost
UL to OL	30	5	20% of sales

UL settled the inter-company balance as on 31 December 2015 by issuing a cheque of Rs. 30 million. However, the cheque was received by OL on 1 January 2016.

(v) The non-controlling interest is measured at the proportionate share of UL's identifiable net assets.

It may be assumed that profits of both companies had accrued evenly during the year.

The consolidated statement of comprehensive income for the year ended 31 December 2015 and consolidated statement of financial position as at 31 December 2015 are as follows:

For the year ended 31 December 2015

		Rs. in million
Sales	[835+(645×8÷12)]-(60×8÷12)–(30×8÷12)–3.2**(W-1)**	1,201.80
Cost of sales	[525+(396×8÷12)]-(60×8÷12)–(30×8÷12)+4+1	(734.00)
Gross profit		**467.80**
Operating expenses	[115+(102×8÷12)]+2 - [3.2 - 3.1 **(W-1)**]	(184.90)
Profit before tax		**282.90**
Tax expense	[65+(48×8÷12)]	(97.00)
Profit after tax		**185.90**
Other comprehensive income		-
Total comprehensive income		**185.90**
Total comprehensive income attributable to:		
Owners of the parent – balancing figure		173.92
Non-controlling interest **(W-4)**		11.98
		185.90
As on 31 December 2015		
Property, plant and equipment (W-1)		736.90
Brand/Intangibles	(45-2)	43.00
Goodwill (W-3)		46.40
Stock-in-trade	(125+115-4-1)	235.00
Trade receivables	(140+125-30)	235.00
Cash and bank	(105+103+30)	238.00
Total Assets		1,534.00
Share capital (@ Rs. 10 each)		600.00
Share premium		150.00
Consolidated retained earnings	(265+173.92)	438.92

Non-controlling interest (W-4)		125.38
Current liabilities	(115+105)	220.00
Total Equity and Liabilities		1,534.30

Workings:

W-1: Property, plant and equipment

	Rs. in million
OL and UL (390 + 350)	740
Reversal of gain on disposal [24 – (26÷10×8)]	(3.2)
Reversal of depreciation on gain amount (3.2÷8×0.25)	0.1
	736.9

W-2: Adjustment for management services

No adjustment for management services in the consolidated financial statements.

W-3: Computation of Goodwill

	Rs. in million	
Cost of investment		500
Less : Share in FV of UL's net assets at acquisition		
Share capital	250	
Share Premium	60	
Retained earnings (179 + 99 × 4 ÷ 12)	212	
FV of brand	45	
	(567)	
Share in FV of UL's net assets at acquisition (567 × 0.8)		(453.60)
Goodwill		46.40

W-4: Non-controlling interest

		Rs. in million
UL's post acquisition profit	(99 - 8 ÷ 12)	66.00
Gain on sale of machine to OL	3.2 – 0.1 **(W-1)**	(3.10)
Inventory held by OL		(1.00)
Amortization of brand		(2.00)
		59.90
Total comprehensive income attributable to NCI	(59.90 × 0.2)	11.98
NCI's share of net assets at acquisition date	(20% of 567)	113.40
NCI share of net assets at consolidation date		125.38

Example 14: PRESENT LIMITED AND FUTURE LIMITED

The following balances are extracted from the records of Present Limited (PL) and Future Limited (FL) for the year ended 30 June 2017:

	PL		FL	
	Debit	Credit	Debit	Credit
	——— Rs. In million ———			
Sales		2,060		1,524
Cost of sales	1,300		846	
Selling and administrative expenses	350		225	
Investment income		190		50
Gain on disposal of fixed assets - net		35		
Taxation	80		60	
Share capital (Rs. 10 each)		3,500		2,600
Retained earnings as on 30 June 2017		1,996		704

Additional information:

(i) PL acquired 65% shares of FL on 1 September 2016 against the following consideration:

- Cash payment of Rs. 900 million.
- Issuance of shares having nominal value of Rs. 1,000 million.

The fair value of each share of PL and FL on acquisition date was Rs. 16 and Rs. 12 respectively. Retained earnings of PL and FL on the acquisition date were Rs. 1,671 million and Rs. 506.5 million respectively.

At acquisition date, fair value of FL's net assets was equal to their book value except a brand which had not been recognised by FL. The fair value of the brand is assessed at Rs. 90 million. PL estimates that benefit would be obtained from the brand for the next 10 years.

(ii) The incomes and expenses of FL had accrued evenly during the year except investment income. The investment income is exempt from tax and had been recognised in August 2016 and received in September 2016.

(iii) On 1 January 2017 PL sold a manufacturing plant having carrying value of Rs. 42 million to FL against cash consideration of Rs. 30 million. The plant had a remaining useful life of 6 years on the date of disposal.

(iv) On 1 February 2017 FL delivered goods having sale price of Rs. 100 million to PL on 'sale or return basis'. 40% of these goods were returned on 1 May 2017 and the remaining were accepted by PL. 20% of the goods accepted were included in the closing inventory of PL. FL earned a profit of 33.33% on cost.

(v) Both companies paid interim cash dividend at the rate of 5% in May 2017.

(vi) An impairment test carried out at year end has indicated that goodwill of FL has been impaired by 10%.

(vii) PL measures the non-controlling interest at its fair value.

a) The consolidated statement of profit or loss for the year ended 30 June 2017 is as follows:

Present Limited

Consolidated statement of profit or loss for the year ended 30 June 2017

	Rs. in million
Sales [2,060+(1,524×10/12)–(100×60%)]	3,270.00
Cost of sales **(W-2)**	(1,948.00)
Gross profit	1,322.00
Selling and administrative expenses **(W-3)**	(584.55)
Profit before other income	737.45
Other income:	
Investment income [190–(2600×65%×5%)]	105.50
Gain on disposal of fixed assets [35+11 **(W-5)**]	46.00
Total other income	151.50
Profit before tax	888.95
Taxation [80+(60×10/12)]	(130.00)
Net profit after tax	758.95
Net profit after tax attributable to:	
Owners of the parent - balancing figure	661.84
Non-controlling interest **(W-4)**	97.11
	758.95

WORKINGS

(1) **Group structure**

PL

$\downarrow$ 65%

FL

W-2: Cost of sales	Rs. in million
PL	1,300
FL (846×10/12)	705
FL's sales to PL (100×60%)	(60)
Unrealized profit included in PL's closing stock [(100×60%×20%)÷1.3333×0.3333]	3
	1,948

W-3: Selling and administrative expense	Rs. in million
PL	350.00
FL (225×10/12)	187.50
Amortization of brand (90÷10×10/12))	7.50
Impairment of goodwill [395.50(**W-3.1**)×10%]	39.55
	584.55

W-3.1: Goodwill	Rs. in million
Cost of investments [(100×16)+900]	2,500.00
Fair value of NCI [260×35%×12]	1,092.00
	3,592.00
Less : Fair value of net assets acquired [2,600+506.5+90]	3,196.50
Goodwill	395.50

W-4: Non-controlling interest	Rs. in million
FL's profit for ten months [(1,524–846–225–60)×10/12×35%]	114.63
Unrealized profit in closing stock [3×35%]	(1.05)
Amortization of brand (7.5×35%)	(2.63)
Impairment of goodwill (39.55×35%)	(13.84)
	97.11

W-5: Unrealised loss on disposal	Rs. in million
Loss on disposal [42 – 30]	(12)
Increase in depreciation [42–30)/6×6/12)]	1
Unrealised loss	(11)

b) The amounts of consolidated retained earnings and non-controlling interest as would appear in the consolidated statement of financial position as at 30 June 2017 are as follows:

Consolidated retained earnings	Rs. in million
PL's retained earning – 1 July 2016 [1996–555(i.e.2,060–1,300–350+190+35–80)+(3500×5%)]	1,616.00
PL's dividend (3500×5%)	(175.00)
Consolidated income attributable to parent (**part a)**	661.84
	2,102.84

Non-controlling interest	Rs. in million
FV of NCI at acquisition [260×35%×12]	1,092.00
NCI's share in FL' s dividend [2600×5%×35%]	(45.50)
NCI for the year **(part a)**	97.11
	1,143.61

Example 15: FATIMA LIMITED AND ALI LIMITED

Following is the summarised trial balance of Fatima Limited (FL) and its subsidiary, Ali Limited (AL) for the year ended December 31, 2018:

	FL	AL
	——Rs. in million——	
Cash and bank balances	4,920	2,700
Accounts receivable	6,240	6,580
Stocks in trade – closing	14,460	5,680
Investment in AL	10,500	-
Other investments	20,100	-
Property, plant and equipment	22,500	5,940
Cost of sales	49,200	21,000
Operating expenses	3,600	5,400
Accumulated depreciation	(5,760)	(1,260)
Ordinary share capital (Rs. 10 each)	(30,000)	(6,000)
Retained earnings – opening	(33,780)	(4,800)
Sales	(57,600)	(33,800)
Accounts payable	(2,760)	(1,440)
Gain on sale of fixed assets	(540)	-
Dividend income	(1,080)	-

Following additional information is also available:

i. On January 1, 2018, FL acquired 480 million shares of AL from its major shareholder for Rs.10,500 million.

ii. The following intercompany sales were made during the year 2018:

	Sales	Included in buyer's closing stocks in trade	Amount receivable/ payable at year end	Gross profit% on Sales
	——Rs. in million——			
FL to AL	2,800	900	300	20
AL to FL	5,000	1,200	500	30

FL and AL value stock in trade at the lower of cost or net realisable value. While valuing FL's stock in trade, the stock purchased from AL has been written down by Rs. 100 million.

iii. On July 1, 2018, FL sold certain plants and machineries to AL. Details of the transaction are as follows:

	Rs. in million
Sales value	144
Less: Cost of plant and machineries	150
Accumulated depreciation	(60)
Net book value	90
Gain on sale of plant	54

iv. The plants and machineries were purchased on July 1, 2016, and were being depreciated on straight line method over a period of five years. AL computed depreciation thereon using the same method based on the remaining useful life.

v. FL billed Rs. 100 million to each subsidiary for management services provided during the year 2018 and credited it to operating expenses. The invoices were paid on December 15, 2018.

vi. Details of cash dividend are as follows:

	Dividend		
	Date of declaration	Date of payment	%
FL	November 25, 2018	January 5, 2019	20
AL	October 15, 2018	November 20, 2018	10

The consolidated statement of financial position and statement of comprehensive income of FL for the year ended December 31, 2018, ignoring tax and corresponding figures shall be as follows:

Statement of Financial Position as at December 31, 2018

	FL	*AIL*	*Adj.*	*Cons.*
PPE	16,740	4,680	(36.00)	21,384
Goodwill				1,860
Other Investments	20,100		-	20,100
Stock in trade	14,460	5,680	(570)	19,570
Accounts receivables	6,240	6,580	(800)	12,020
Cash and bank balances	4,920	2,700	(600)	7,020
	62,460	**19,640**	**(2,006)**	**81,954**
Share capital	30,000			30,000
GRE			39,112	39,112
NCI			3,442	3,442
Accounts payable	2,760	1,440	(800)	3,400
Dividend payable	6,000	-	-	6,000
	38,760	**1,440**	**41,754**	**81,954**
				-

Statement of Comprehensive Income for the year ended December 31, 2018

	FL	*AIL*	*Adj.*	*Cons.*
Sales revenue	57,600	33,800	(7,800)	**83,600**
Cost of Sales	(49,200)	(21,000)	7,230	**(62,970)**
Gross Profit	**8,400**	**12,800**	**(570)**	**20,630**
Operating expenses	(3,600)	(5,400)		**(9,000)**
Gain on sale of fixed assets	540	-	(36)	**504**
Dividend income	1,080	-	(480)	**600**
Profit before tax	**6,420**	**7,400**	**(1,086)**	**12,734**
Taxation	-	-	-	-

Profit after tax	**6,420**	**7,400**	**(1,086)**	**12,734**

Profit attributable to:

P (balancing figure)	11,332
NCI (working below)	1,402
	12,734

Group Structure1	***AL***
	Subsidiary
FL	80%
NCI	20%

Net assets of subsidiaries	***AL***	
	At Acq.	***At Rep.***
Share capital	6,000	6,000
Retained earnings – Opening	4,800	4,800
Profit for the year	-	7,400
Dividend paid	-	(600)
Unrealized profit on stock-in-trade	-	(390)
	10,800	**17,210**

Goodwill	***AL***
Cost of investment	10,500
NCI at acquisition 10,800 x 20%	2,160
	12,660
Less: NA at fair value	(10,800)
Goodwill	**1,860**

NCI

At acquisition 10,800 x 20%	2,160
Post - acquisition profits – AL	1,282
	3,442

Group retained earnings

P's retained earnings	33,780
Profit for the year	6,420
Post - acquisition profits – AL	5,128
Unrealized profit	(180)

Unrealised gain on sale [54 – depreciation 54/3 years]	(36)
Dividend payable	(6,000)
	39,112

NCI in income statement	**AIL**
Profit after tax	7,400
Less:	
Unrealized profit on stock in trade	(390)
	7,010
NCI% of share	**1,402**