Advanced Financial Accounting (FIN711)
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Q 1: Different values of ordinary shares issued, share premium, etc were given. Company issued bonus shares also. You have to pass the journal entries for above transactions.

Ans:

Don't remember the exact figures but similar problem is given in handouts of FIN611 on page No 117.

Q 2: Objective of IAS 33 and on what type of companies it is applicable?

Ans:

International Accounting Standard (IAS) 33 provides complete guidelines regarding calculation and presentation of EPS. Only listed companies need to present EPS. Where a non-listed company chooses to present EPS in its financial statements, it must do so in accordance with IAS 33.

Earnings per share is an accounting ratio that improves comparison of the performance of different entities in the same period and of the same entity in different accounting periods.

Q 3: Calculation of Capitalization rate and borrowing costs.

Ans:

Only amounts were different. Numerical was exactly same as given in handouts of Fin711 from page 173 – 177.

Q 4: (a) A machinery is leased by ABC company for whole of its life, it is under control of company, and company is getting benefits from it. But legally company is not the owner of this machinery. Is this the case of Substance over Form?

Ans:

Substance over form
It is the principle that transactions and other events are accounted for and presented in accordance with their economic substance (economic reality) and not merely their legal form. This is a case of substance over form because although legally the asset does not belong to ABC company but practically it is under control of company, and its economic benefits are also being drawn by company.

(b) Sales of a company were shown as 50 million but the actual sales were 45 million. Give arguments whether it is faithful presentation or not?

Ans:

Faithful representation

Information must represent faithfully the transactions it purport to represent in order to be reliable. As the sales are not presented accurately, they have lost their reliability and this has impact on the decision of its users/ stakeholders. So, it constitutes a case of un-faithful representation.

Q 5: What type of provision is created for reduction in asset? What criteria should be met for a provision?

Ans:

Provision that is created for reduction in assets is of two types:

1. Provision against receivables (also known as contra to receivables – Provision for doubtful debts)
2. Provision against the expiry of economic benefits of fixed assets (Provision for depreciation/amortization).

Provision:

A provision is a liability of uncertain timing or amount. For a provision following points must be kept in mind:

• Present obligation
• Arising from the past event
• Probable outflow of resources in future
• Amount can be estimated reliably.

Q 6: What is the objective of IAS 08? When an entity can change its poliy?

Ans:

IAS 8 shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

Change in accounting policies:

An entity shall change an accounting policy only if the change:

a) Is required by Standard or an Interpretation; or
b) Result in the financial statements providing reliable and more relevant information.

Q 7: Consolidated Balance Sheet of X co. and Y co. (Y co. is subsidiary company). [Case i – Simple consolidation]

Ans:

An example of this case is given on page 199 of handouts of Fin611. Only figures were changed, rest all was simple summing of amounts.

Q 8: Benchmark treatment of borrowing costs and Allowed Alternate treatment. (This question was of 10 marks. I forgot the second part of it)

Ans:

1) Benchmark Treatment:

Recognition:

Under the benchmark treatment borrowing costs are recognized as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Disclosure:

The financial statements shall disclose the accounting policy adopted for borrowing costs (e.g. Interest, markup, profit and other charges on borrowings are charged to income).

2) Allowed Alternate Treatment:

Recognition:
Borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset.

Borrowing costs eligible for capitalization:

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided had the expenditure on the qualifying asset not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

Allah sab ko pass kary ------------------------------ Aameen
Remember me in your prayers

Thanks