THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

SUGGESTED SOLUTIONS

08204 – Accounting Applications and Taxation

Certificate in Accounting and Business II Examination

September 2013

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

<u>Answer No. 01</u>

(i) **Calculation of Goodwill arising on acquisition**

		Rs.'000
Investment		4,200
Market value of non-controlling interest		
MV per share	13.50	
Non-controlling shares	80,000	<u>1,080</u>
		5,280
<u>Net Assets</u>		
Stated Capital	1,600	
Retained earnings	2,480	
Decrease in FV of P&M	(440)	
Debtors w/o	<u>(125)</u>	<u>(3,515)</u>
		1,765 ======

(**4 marks)**

(ii) **Consolidated Statement of Comprehensive Income**

<u>Premier Plc Group</u>

<u>Consolidated Statement of Comprehensive Income Statement for the year ended 31 March 2013</u>

					Rs. '000
Revenue	42,900		20,900	- Sales Return 180 - Intercompany sales 1,160 (-1,340 + 180)	62,460
Cost of Sales	33,640		15,420	- Cost of Sales Return 144 - Intercompany sales 1160 + URP on unsold 72	<u>(47,828)</u>
Gross Profit					14,632
Other Income	2,770		940	- MV disposal profit 400 - Inter co truck hire income 375 - Inter co dividend 1600	1,335
Distribution Exp.	860		590	- Over depreciation on MV 75 - Inter co truck hire income 375 - reversal of debtors w/o 125	(875)
Admin Exp.	1,085		645	- Dep on P & M 66	(1,664)
Finance Exp.	125		95	+ bank loan interest 56	(276)
Goodwill impairment					<u>(130)</u>
Profit Before Tax					13,022
Income Tax Expense	2,850		1,410		<u>(4,260)</u>
Profit for the year					**<u>8,762</u>**
Profit attributable to equity holders of parent company					8,025
Profit attributable to Non-controlling interest (Refer W-1)					737

(14 marks)

(iii) **Non-controlling interest as at 31 March 2013**

Market value as at 1/4/2012	1,080
Profit for the year attributable to NCI	737
Dividend (2000 * 20%)	(400)
	1,417

(2 marks)
(Total 20 marks)

W-1

			Premier	Regent
Profit after tax - Stated			7,110	3,680
Reduced dep on P & M (440*15%)				66
Adj 1	Debtors w/o - Already adjusted at the time of acquisition			125
Adj 2	Disposal profit net of additional dep			
Sales proceeds		2,200		
NBV		(1,800)		
Disposal profit		400		
Additional depreciation (9 months)		(75)	(325)	
Adj 3	Bank loan interest	(729 - 673)		(56)
Adj 4	Sales return	(540*1/3rd)	(180)	
	Cost of sales return	(180*80%)	144	
	URP on unsold inventory	(540*2/3rd)*20%	(72)	
	Intercompany dividend		(1,600)	_____
	Adjusted profit		5,077	3,815 =====
	NCI @ 20% 3,815 20%			763
	Group share 80% 3,815 80%		3,052	_____
			8,129	763
Adj 5	Goodwill impairment		(104)	(26)
			8,025	737

Answer No. 02

All figures in Rs.000's

I. Fair-Trade PLC
Statement of Comprehensive Income for the year ended 31/03/2013

Revenue	47,800
Cost of Sales [32,400 – 275 (Op.stock) – 220 (stock loss) + 135]	32,040
Gross Profit	15,760
Other Income [265 + 60 (bad-debt recovery)]	325
Distribution Cost [2,640 + 87 (d.debt Prov'n) + 160 (M.Veh dep'n)]	(2,887)
Administration Exp [3,820 + 20 (stock loss) + 1,250 (dep'n)]	(5,090)
Financial Charges [210 (lease interest)]	(210)
Profit before Tax	7,898
Income Tax expenses [2,800 – 240 (Over-prov'n Y/A 2011/12)]	(2,560)
Profit for the year	**5,338**
Other Comprehensive Income:	
Revaluation of Plant and Machinery	400
Total Comprehensive Income for the year	**5,738**

II. Statement of Financial Position as at 31 March 2013

ASSETS	
Non-Current Assets	
Property, plant and equipment	18,775
Current Assets	
Inventory [4,260 – 135]	4,125
Trade Receivable [3,200 + 60 – 20 (b.debts) – 162 (prov'n)]	3,078
Other Receivable [860 + 200 (insurance claim)]	1,060
Cash & Cash equivalents	2,075
	29,113
EQUITY & LIABILITIES	
Share Capital & Reserves	
Stated Capital	8,000
Revaluation Reserve	1,500
Retained Earnings	10,268
Non Current Liabilities	
Non current portion of lease liability [4,635 – 1,104]	3,531
Current Liabilities	
Trade payables	3,840
Other payables [620 +1500-396) (lessor) + 250 Tax payable]	1,974
	29,113

Finance charge could be allocated as follows:

Year			90.47
1	4	396	476.79
2	3	297	353.78
3	2	198	216.04
4	1	99	62.93
	10	**990**	**1200.01**

125*12 = 1,500 -396 =1,104

4,800	cash price
210	Interest for first year
5,010	
375	payments
4,635	payable with next year
1,104	
3,531	long term liability

LKAS – 17 Para 506

26 - In practice in allocating the finance charge to periods during the lease term, a lease may use some form of approximation to simplify the calculation.

31 - Disclosures

(b) reconciliation between the total future minimum payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods.

(i) not later than one year
(ii) later than one year and not later than five years.
(iii) Later than five years.

III. Statement of changes in equity for the year ended 31/03/2013

	Stated Capital	Revaluation Reserve	Retained Earnings
Balance on 01/04/2012	8,000	1,100	6,005
Adjustment for Opening Stock	-	-	(275)
Restated Balance on 01/04/2012	8,000	1,100	5,730
Comprehensive income for the year	-	400	5,338
Interim dividend paid	-	-	(800)
Balance on 31/03/2013	**8,000**	**1,500**	**10,268**

(2 marks)

IV. Statement showing movement in Property, plant & equipment

	Land & Building	Plant & Machinery	Office Equipment	Leased M.Vehicle	TOTAL
Cost					
Balance on 01/04/12	11,200	4,400	2,600	-	18,200
Additions	-	-	600	4,800	5,400
Accumulated depn On re-valued asset	-	(450)	-	-	(450)
Revaluation	-	400	-	-	400
Balance on 31/03/13	11,200	4,350	3,200	4,800	23,550
Accumulated Depn					
Balance on 01/04/12	1,085	1,520	1,210	-	3,815
Charge for the year	260	440	550	160	1,410
Revaluation adjust.	-	(450)	-	-	(450)
Balance on 31/03/13	1,345	,1510	1,760	160	4,855
WDV on 31/03/13	**9,855**	**2,840**	**1,440**	**4,640**	**18,775**

(4 marks)

Answer No. 03

(a) General purpose financial statements:
Financial statements prepared and presented at least annually and are directed towards the common information needs of a wide range of users. **(1 mark)**

(b) Main areas dealt by a framework:

- The objective of financial statements;
- The qualitative characteristics that determine the usefulness of information in financial statements;
- The definition, recognition and measurement of the elements from which financial statements are constructed;
- Concepts of capital and capital maintenance.

(3 marks)

(c) Recognition criteria of an asset are:

- Probable that future economic benefit to flow to the entity;
- Has a cost or value that can be measured reliably.
- Generally ownership to the entity.

Recognition criteria of an expense are:

- Decrease in future economic benefits related to a decrease in an asset or an increase of a liability;
- Can be measured reliably.

When comparing an asset with an expense, main difference is related to future economic benefit.
In the given case, Company spent cash to acquire the right to manufacture and sell the said medicine with the intention of increasing its sales and thereby increasing its future cash inflows. i.e, it is probable that future economic benefit will flow to the entity. Therefore, it will be recognised as an asset

(4 marks)

(d)

<u>Cash flow from Investing Activities</u>		
Purchase of property, plant and equipment	(5,300)	(W-1 below)
Proceeds from disposal of property, plant and equipment	235	(W-2 below)
Investments in fixed deposit	(270)	(W-3 below)
<u>Cash flow from Financing Activities</u>		
Proceeds from issuance of shares	1,250	
Payment of lease installments	(685)	(W-4 below)

(7 marks)

W-1 Property, Plant and Equipment

B/f	12,500	Depreciation	1,290
Addition - Lease	2,200	Disposal - NBV	375
Additions - Cash	**5,300**	Impairment loss	185
		C/d	18,150
	20,000		20,000

-

W-2

NBV	375
Loss on disposal	(140)
Sales proceeds	235

W-3 Investment in fixed deposit

B/f	1,360		
Interest re-investment	148		
Additions - Cash	**270**	C/d	1,778
	1,778		1,778

-

W – 4 Lease liability

Installments paid	**685**	B/f	-
C/d - NC	1,050	Addition	2,200
C/d - C	690	Interest cost	225
	2,425		2,425

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Answer No. 04

Mr. Jagadeep Goal

Computation of Income tax payable for the year of assessment 2012/2013

		Exempt/ not liable	**Liable**
Employment Income Salary –300,000 x 12			3,600,000
Vehicle allowances 85,000 x 12 = 1,020,000 Less: exempt 50,000 per month = 600,000		600,000	420,000
Cost of air ticket is exempt		29,500	
House benefit Rating assessment + rates = Rental Value 300,000 + 60,000 = 360,000 Restricted to 180,000 since employment income is more than Rs. 1, 800,000 Rent paid by the employee is 20,000 x 12 = 240,000 `There is no benefit for him since he has paid more than the statutory benefit of 180,000			-
Share benefit = market value less price at which the shares were given 750 x 100 = 75,000 Less 750 x 60 = 45,000 Benefit for income tax purpose			30,000
Employment Income			4,050,000
Employment tax free allowance -			(100,000)
Statutory Income from employment			3,950,000
Interest income Net Interest received on deposits made in commercial banks – Since the tax has been deducted, it does not form part of the assessable income Interest from India is not chargeable to tax under Section 13zz of the Act		98,000 354,000	
Dividend income Net dividend received - since the tax has been deducted, it does not form part of the assessable income Shareholder is exempt since the paying company is qualified for exemption under section 16C Dividend from India is not chargeable to tax under Section 13zz of the Act		34,000 12,000 64,000	
Business Income **Net profit as per accounts**	**644,500**		
Add/less – disallowable items/allowable items			
Salaries paid to wife – allowed **Salaries paid to brother – allowed**			
loss on the sale of the computer	20,000		
Purchase of a computer	140,000		
Profit/loss from the disposal of the computer Sale proceeds = 50,000 **Less**: cost of acquisition = 70,000 Less: capital allowance granted = 17,500 52,500 **Tax loss** **(2,500)** Since the computer is a replacement, capital allowance is to be granted on the cost of acquisition less tax profit . However, since there is a tax loss, capital allowance is granted on the cost of	(2,500)		

acquisition of the new asset Capital allowance - – 100,000 x 25%	(25,000)		
Computer software - capital allowance 40,000 x 100%	(40,000)		
Depreciation van	625,000		
Capital allowance for the Van 2nd year 20% x 2,500,000	(500,000)		
Purchase of wooden shelves	134,000		
Capital allowance for furniture 134,000 x 20%	(26,800)		
Foreign travel disallowed (Since adjusted profit for the y/a 2011/12 is Nil)	340,000		
Advertisement - 25% disallowed 43,000 x 25%	10,750		
Other expenses – allowed for tax purpose			
Adjusted profit			1,319,950
Income of spouse **Salary - 600,000**			600,000
Total statutory income			5,869,950
Add : child's income - Prabaga's income is not chargeable to tax as per section 13(zz)			
Less: deductions under section 32 Lower of Trade Loss b/f 25,500 and 35% o statutory income 2,054,483 Interest, if any, included in credit card bills			25,500 Disallowed
Assessable income			5,869,950
Less qualifying payments Donation – to an approved charity – Hindu Temple not claimable –since it does not maintain sick and needy people personal allowance			5,844,450 500,000
Taxable income			5,344,450
First 500,000 @ 4% 20,000 Next 500,000 @ 8% 40,000 Next 500,000 @ 12% 60,000 Next 500,000 @ 16% 80,000 Next 1,000,000 @ 20% 200,000 Balance 2,344,450 @ 24% 562,668			
Gross income tax payable 962,668			
Less: tax credit			
self-assessment 475,000 PAYE 508,000 983,000			
Refund due 20,332			

Answer No. 05

SISIRA FLOWERS

(a) Computation of Divisible profit for the year of assessment 2012/13		
	Rs.	
Net profit as per account	4,798,000	
Partners' salaries Sisira 800,000 Kasun 800,000	1,600,000	
Donation – disallowed	66,000	
Legal cost – Labour dispute –allowed		
Interest paid to partners Sisira - 100,000 Kasun -100,000	200,000	
Cost of opening up of a land for horticulture is allowed		
Vehicle allowance paid to a partner - disallowed	360,000	
Divisible profit/ Adjusted Profit	**7,024,000**	
(b) Computation of partnership tax		
Partnership Tax (Divisible Profit + Other Income) - 600,000 **(7,024,000 + 0) - 600,000 =** 6,424,000 **x 8%** = 513,920 =======		

(c) Computation of Distribution of Divisible Profit

	Total	**Sisira**	**Kasun**
Share of profit	4,864,000	2,432,000	2,432,000
Vehicle allowance to Sisira	360,000	360,000	-
Interest paid to partners	200,000	100,000	100,000
Salaries paid to partners	1,600,000	800,000	800,000
Divisible Profit	7,024,000		

Answer No. 06

The due dates for the payment of income tax for the year of assessment 2012/2013 under the self-assessment scheme and the minimum amount payable for each quarter to avoid payment of a penalty are as follows:

	Quarter Ended	**Due Date on or before**	**Amount (Rs.)**
(1)	30th June, 2012	15th August 2012	300,000
(2)	30th September 2012	15th November 2012	300,000
(3)	31st December 2012	15th February 2013	300,000
(4)	31st March 2013	15th May 2013	300,000

Answer No. 07

Computation of VAT liability.

Value of supply	Rs. 2,807,000	
Less: Supply of pharmaceuticals - exempt	Rs. 340,000	
	Rs. 2,467,000 @ 12%	Rs. 296,040
Less: VAT paid on supplies obtained (input VAT)	Rs. 190,020	
Less: VAT attributable to pharmaceuticals	Rs. 18,570	Rs. 171,450
VAT liability		Rs. 124,590
		=========

Sale of land is not liable to VAT

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