No. of Pages - 09
No of Questions - 05

SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL/SPECIAL DEGREE PROGRAMME

YEAR IV SEMESTER I – INTAKE II
END SEMESTER EXAMINATION – JULY 2017

AFM 41530Advanced Financial Reporting

Date	:	10th July 2017
Time	:	5.30 p.m. - 8.30 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

Statements of Financial Position of the Lanka PLC, Ceylon PLC and Island PLC as at 31.03.2017 were as follows.

	Lanka PLC Rs. '000	Ceylon PLC Rs. '000	Island PLC Rs. '000
Non-Current Asset			
Property, Plant and Equipment	105,000	75,000	38,500
Investments	182,000	52,000	1,800
Current Assets			
Inventories	55,000	31,500	9,000
Receivables	40,500	18,500	7,500
Cash and Bank	17,500	5,500	2,200
	400,000	**182,500**	**59,000**
Equity			
Stated Capital- Ordinary shares	210,000	120,000	30,000
Revaluation reserve	11,500	4,500	1,800
Retained earnings	125,500	31,500	20,200
Non-current liabilities			
15% Debentures	34,500	12,500	3,800
Current liabilities			
Payables	18,500	14,000	3,200
	400,000	**182,500**	**59,000**

Additional information

1. Lanka PLC acquired 25% of the ordinary share capital of Ceylon PLC for Rs.41 million on 01.04.2015 when the retained earnings of Ceylon PLC was Rs.11.5 million.
2. Lanka PLC acquired further 45% of the ordinary share capital of Ceylon PLC for Rs.70 million on 01.04.2016 when the revaluation reserves and retained earnings of Ceylon PLC were Rs.2.5 million and Rs.21.5 million respectively. The fair values of identifiable assets and liabilities of Ceylon PLC at the date of acquisition was Rs.155 million. Any difference between the fair value and carrying amount of net assets Ceylon PLC was due the change in value of buildings. The remaining useful life of the buildings of Ceylon PLC was 11 years from 01.04.2016.

3. Lanka PLC acquired 60% of the stated ordinary share capital of Island PLC on 01.04.2016for Rs.35 million when the retained earnings of Island PLC was Rs.16 million. The fair value of the net identifiable assets and liabilities of the Island PLC on this date was equal to its book value.
4. The market prices of a share of Ceylon PLC and Island PLC on 01.04.2016 were Rs.30 and Rs.35 respectively.
5. During the year ending 31.03.2017, Lanka PLC sold goods to Ceylon PLC at a price of Rs. 4 million with a profit margin of 25% on the selling price. 1/2 of these goods were remained yet unsold at Ceylon PLC at the year end.
6. During the year ending 31.03.2017, Ceylon PLC sold goods to Lanka PLC at a price of Rs. 5 million by adding 25% profit markup to cost. $1/4^{th}$ of these goods were remained yet unsold at Ceylon PLC at the year end.
7. During the year, Ceylon PLC sold goods to Island PLC at a price of Rs. 2.4 million by adding 20% profit markup to cost. Half (½) of these goods were yet remained unsold at Island PLC at the year end.
8. On 02.04.2016, Lanka PLC sold a plant to Island PLC at a price of Rs. 7.5 million. The carrying amount of the plant on this date was Rs.6 million. Remaining useful life of this plant at this date was 5 years.
9. Receivable balance of Lanka PLC includes Rs.4 million receivable from Ceylon PLC. But the payable balance of Ceylon PLC includes only Rs.2.8 million payable to Lanka PLC. This difference is due to cash in transit.
10. Ceylon PLC issued 15%, Rs.100 debentures on 01.04.2016 and Lanka PLC has invested 50% of these debentures on that day.
11. Issue price of a share of Lanka PLC, Ceylon PLC and Island PLC was Rs.20 each.
12. Use fair value method to measure non-controlling interest.

Required:

Prepare the consolidated statement of financial position of Lanka Group as at 31.03.2017 by clearly showing the workings for calculation of:

i. Goodwill
ii. Consolidated retained earnings
iii. Consolidated revaluation reserves
iv. Non-controlling interest

(Total 30 Marks)

Question No. 02

a. The statements of profit or loss and other comprehensive income for the year ending 31.03.2017 of Platinum PLC, Gold PLC and Silver PLC are given below.

	Platinum PLC **Rs. '000**	**Gold PLC** **Rs. '000**	**Silver PLC** **Rs. '000**
Sales revenue	27,500	11,600	7,500
Cost of sales	(12,200)	(6,500)	(3,900)
Gross profit	15,300	5,100	3,600
Other income	1,800	900	500
Operating expenses	(6,100)	(1,850)	(1,150)
Finance expense	(1,450)	(550)	(350)
Profit before tax	9,550	3,600	2,600
Taxation	(1,550)	(600)	(500)
Profit for the year	**8,000**	**3,000**	**2,100**
Other comprehensive income			
Revaluation surplus	3,000	1,000	900
Gain/ (loss) on re-measurement defined benefits plans	1,500	(500)	800
Total comprehensive income for the year	**12,500**	**3,500**	**3,800**

Additional information

1. Platinum PLC acquired 80% of the ordinary share capital of Gold PLC for Rs.60 million on 01.04.2016.
2. The fair value of net assets of Gold PLC's at the date of acquisition was Rs.80 million. Stated ordinary share capital of Gold PLC consists of 3 million shares issued at Rs.20 each. The market price of a share of Gold PLC on this date was Rs.24.
3. Platinum PLC acquired 40% of the stated ordinary share capital of Silver PLC on 01.04.2016 for Rs.20 million. Fair value of the net assets of Silver PLC on this date was Rs.50 million.
4. During the year Platinum PLC sold goods to Gold PLC at a price of Rs.4 million with a profit margin of 20% on the selling price. Half (½) of goods were remained unsold at

Gold PLC at the year end.

5. During the year, Gold PLC sold goods to Platinum PLC at a price of Rs.3 million by adding 25% profit markup to cost. All these goods were remained unsold at Platinum PLC at the year end.
6. Platinum PLC has granted a loan of Rs.2.5 million to Silver PLC on 01.01.2015 at an annual interest rate of 20%. The interest on this loan is properly accounted by both companies.
7. During the year Platinum PLC, Gold PLC and Silver PLC had paid interim dividends of Rs.2 million, Rs.1.5 million and Rs.1 million respectively. The dividend received during the year by Platinum PLC was included in other income.
8. Gold PLC has paid rent expense of Rs.300,000 to Platinum PLC during the year for the use of building owned by Platinum PLC.
9. Gold PLC sold one of its plants to Platinum PLC on 31.03.2017 for Rs.2.5 million. The carrying amount of this plant on this date was Rs.1.8 million.
10. Platinum uses proportionate share of net assets method to measure non-controlling interest.

Prepare the consolidated statement of profit or loss and other comprehensive income for the year ending 31.03.2017 by showing separately the profit and total comprehensive income attributable to:

i. Non-controlling interest
ii. Shareholders of the parent

(16 Marks)

b. Sodium PLC had invested Rs.10 million and acquired 800,000 ordinary shares of Magnesium PLC which had issued shares of 1,000,000. On 01.04.2016 Sodium PLC sold the 250,000 shares of Magnesium for Rs.4.5 million. The fair value of the net assets of Magnesium PLC on this date was Rs.16.8 million. The market price of a share of Magnesium PLC on this date was Rs.18.

Required:

Calculate the profit or loss on disposal

(04 Marks)

(Total 20 Marks)

Question No. 03

a. When preparing the financial statements for year ending 31.03.2017, the Universal PLC discovered that Rs.600,000 spent to purchase office equipment on 01.04.2015 had been erroneously recognized under office equipment maintenance expenses. The company depreciates office equipment over 5 years.

Further, the company has decided to change its accounting policy on measurement of cost of inventories from weighted average cost (WAC) method to first in first out (FIFO) method on 31.03.2017.

The following information was available in relation to cost of inventories.

Date	Cost under FIFO method (Rs.)	Cost under WAC Method (Rs.)
31.03.2017	850,000	650,000
31.03.2016	750,000	650,000
31.03.2015	900,000	750,000
31.03.2014	750,000	975,000

The following information was extracted from the Statement of Profit or Loss prior to making any adjustment for the change in accounting policy.

	2017 (Rs.'000)	**2016 (Rs.'000)**
Revenue	3,200	2,800
Cost of sales	1,600	1,300
Distribution expenses	400	325
Administrative expenses	450	875
Finance cost	200	100

Income tax rate is 30% of the profit before tax.

The ordinary share capital and the retained earnings balances as at 01.04.2015 were Rs.6 million and Rs.4.5 million respectively.

Required:

As per guideline of LKAS 01 and LKAS 8

I. **Prepare** the statement of profit or loss (Income Statement) for year ending 31.03.2017 with comparative information.

II. **Prepare** the statement of changes in equity for the year ending 31.03.2017 with comparative information.

(10 Marks)

b. **Differentiate** the retrospective application and retrospective restatement with reference to the relevant accounting standard providing one illustrative example for each.

(04 Marks)

c. **"**Relevance, reliability, comparability and understandability are four main the qualitative characteristic of useful accounting information."

Critically evaluate the above statement with reference to current Conceptual Framework for Financial Reporting of the International Accounting Standards Board (IASB)**.**

(06 Marks)

(Total 20 Marks)

Question No.04

The following information was extracted from the financial statements of Galaxies PLC for the year ending / as at 31.03.2017 and 31.03.2016.

For the year ending 31.03.	**2017 (Rs.)**	**2016 (Rs.)**
Total Reserves	400,000	400,000
Total Equity	1,200,000	900,000
Total Liabilities	600,000	400,000
Non-current liabilities (bank loans)	300,000	200,000
Gross Profit	1,600,000	1,200,000
Cost of Sales	2,400,000	2,200,000
Other Income	500,000	50,000
Total Expenses (Excluding income tax expense)	1,500,000	1,000,000
As at 31.03.	**2017 (Rs.)**	**2016 (Rs.)**
Inventories	350,000	450,000
Trade receivables	525,000	475,000
Trade payables	400,000	500,000
Cash and cash equivalents	175,000	75,000

The following additional information is also available.

- Inventories, trade receivables and trade payable balances as at 31.03.2015 were Rs.550,000, 425,000 and Rs.600,000 respectively.
- All sales and purchases of the Galaxies PLC are made on credit terms.
- Interest expenses represents 20% of the total expenses (excluding income tax expenses)

Required:

a. **Comment** on the liquidity position of the company by calculating the following ratios for both periods.

   i. Current ratio

   ii. Quick asset ratio

(04 marks)

b. **Evaluate** the working capital management status of the company based on the calculation of the following ratios for both periods.

   i. Inventory resident period

   ii. Trade receivable collection period

   iii. Trade payable payment period

(06 marks)

c. Assume that you are the finance manager of the Jupiter PLC which is now considering in investing in ordinary shares of Galaxies PLC with the strategic objective of obtaining the control over it in the long run.

   Write a report to the board of directors of the business about the profitability and gearing of the Galaxies PLC based on suitable ratio calculations.

(08 marks)

d. **List** four limitation of using accounting ratios in performing a financial statement analysis.

(02 marks)

(Total 20 Marks)

Question No. 05

a. 'Sri Lanka accounting standards (Full SLFRSs) are mandatory to apply by all the entities of operated in Sri Lanka'

Critically evaluate the above statement.

(04 marks)

b. **List** the six types of capitals discussed in the Integrated Reporting.

(03 marks)

c. **State three** accounting treatments which are disallowed by the SLFRS for SMEs.

(03 marks)

(Total 10 Marks)