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

YEAR II SEMESTER II – INTAKE IV/V (GROUP A)
END SEMESTER EXAMINATION – JANUARY 2017

AFM 20630 Advanced Financial Accounting

Date	:	13th January 2017
Time	:	1.00 p.m. - 4.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **only Five (05)** 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

Following balances were extracted from the books of Silky PLC as at 31st March 2016.

	Rs.000'	**Rs.000'**
Interim Dividend paid for Ordinary Share	50	
Interim Dividend paid for Preference Share	20	
Fixed assets at cost		
Land	2,000	
Building	1,800	
Motor Vehicle	1,500	
Furniture	600	
Accumulated Depreciation – 1/4/2015		
Building		500
Motor Vehicle		300
Furniture		200
Stated Capital Rs. 10/- each Ordinary Shares		1,300
Administration Expense	1,200	
Selling and Distribution Expense	750	
Finance cost	400	
Preference share Rs.10/- each (Non-cumulative, Irredeemable)		300
General Reserve		140
Sales		12,100
Cost of Sales	7,100	
Stocks	300	
Revaluation reserve		100
Retained profit - 1/4/2015		450
Cash and Bank	150	
Bank Loan at 12% (Obtained on 30.3.2016)		600
Accounts Receivables and Payables	130	190
Provision for Income tax for 2014/2015		20
Tax paid in 2015/2016	200	
	16,200	**16,200**

Following additional information is also available for your consideration.

1. On 31st December 2015 one of the distribution motor vehicle belongs to the company was fully destroyed by an accident. This motor vehicle was purchased on 1st January 2012 at a cost of Rs.500,000. Motor vehicle is depreciated at 10% on cost. Insurance claim received amounting to Rs.270,000 for the damage was credited to sales account. Further Rs.100,000 compensation to be paid to a third party for the damage resulted from the accident.
2. Building should be depreciated at 5% on cost. Buildings constructed at a cost of Rs.800,000 on 1st October 2015 is included in the balance given above
3. Furniture purchased on 1st October 2015 for Rs.400,000 was debited to purchase account by an error. Furniture should be depreciated at 10% on cost.
4. Income tax for the current year was estimated as Rs.600,000. Last year tax payable was settled in full during the current year.
5. Land was revalued with a loss of Rs.250,000 on 1/4/2015.However no adjustment has been made in the financial statements in this regard.
6. Bank overdraft of Rs.30,000 has been subtracted from the cash and bank balance given in the above trial balance.
7. Accrued administration expense is Rs.30,000 and prepaid selling expense is Rs.40,000
8. Bank loan should be repaid over 60 monthly installments starting from April 2016
9. On 31st March 2016 directors made following decisions.
   a. Transfer Rs.10,000 to General reserve
   b. Proposed a final dividend of 10% for ordinary shareholders and balance dividend of Rs.0.50 for Preference shares.
   c. Make a capitalization of reserves at the ratio of 5:1 at Rs.10 each

Using above information, you are required to;

i. Prepare Income Statement for the year ended 31st march 2016 and Statement of Financial Position as at 31st March 2016.

(10 Marks)

ii. Prepare statement of Changes in equity for the year ended 31st March 2016.

(4 Marks)

iii. Property Plant and Equipment note for the financial statements for year ending 31st March 2016. (6 Marks)

(Total 20 Marks)

Question No. 02

Following information is given for your consideration from the Financial Statements of SIGMA PLC for the year of 2015/2016.

SIGMA PLC Income statement for the year ended 31 March 2016

	Note	Rs. (000')
Sales		2700
Cost of Sales		(1400)
Gross Profit		1300
Other Income		40
Operating Cost		(700)
Finance Cost		(60)
Profit from Operations	**1**	580
Tax		(230)
Profit After Tax		**350**

SIGMA PLC Statement of Financial Position at 31st March 2016 and 31st March 2015

Assets	2016/3/31 Rs(000')		2015/3/31 Rs(000')	
PPE (Note 2)		2145		1570
Stocks	260		300	
Debtors	90		120	
Pre Paid Exp.	10		25	
Cash	150	510	140	585
		2655		**2155**
Equity and Liabilities				
Stated Capital Ordinary Share Preference Share		 1000 300		 850 400
General Reserve	400		200	
P/L Account	10	410	70	270
Loan		200		250

Creditors	600		310	
Tax Payable	80		20	
Interest Payable	45		20	
Dividend payable Preference Shares	10		30	
Accrued Expenses	10		5	
		<u>745</u>		<u>385</u>
		<u>2655</u>		**<u>2155</u>**

Changes in Equity Statement for the year ended 31st March 2016

Rs(000')	**Ordinary Share**	**Preference Shares**	**General Reserves**	**P/L A/c**	**Total**
Balance as at 31/3/2015	850	400	200	70	1520
Bonus Issue of Shares	100		(100)		-
Issue of shares	50				50
Redemption of Shares		(100)			(100)
Transfer to General reserve			300	(300)	-
Interim Dividend paid Ordinary Share Preference Share				 (50) (50)	 (50) (50)
Dividend Payable Preference Share				(10)	(10)
Profit for the year				350	350
Balance as at 31/3/2016	**1000**	**300**	**400**	**10**	**1710**

Note 01

Profit from operations has been calculated after deducting following expenses Rs(000')

Depreciation	70	Director fee	300	EPF	45
Bad debt	10	Audit fee	100		
Stock loss	20	ETF	15		

Note 02 - Property Plant and Equipment (PPE)

Cost Rs(000')	Land	Motor Vehicle	Furniture	Building	Total
Balance as at 31/3/2015	700	440	400	300	1840
Additions	500		150	100	750
Disposals		(150)			(150)
Balance as at 31/3/2016	1200	290	550	400	2440
Depreciation					
Balance as at 31/3/2015	-	120	100	50	270
Additions	-	30	25	15	70
Disposals	-	(45)			(45)
Balance as at 31/3/2016	-	105	125	65	295
WDV	**1200**	**185**	**425**	**335**	**2145**

Additional information for your reference

- *Finance cost represents the Interest on loan*
- *Following are included in the other income*

  # Dividend received Rs.30000 *# Disposal profit of Rs.10000*

You are required to prepare cash flow statement (Indirect method of calculating the operational cash flows) for the year ended 31/3/2016

(Total 20 Marks)

Question No. 03

Big PLC purchased shares in two entities Lahiru PLC and Sigiri PLC details of which are as follows:

	Lahiru PLC	**Sigiri PLC**
Date of acquisition	1 April 2015	1 April 2015
FV of the NCI at acquisition	55,000	N/A
Retained earnings at acquisition	30,000	25,000
Fair value excess of net assets at acquisition	120,000	--
Cost of investment	100,000	21,000
No of equity shares acquired	45,000	10,500

Summarised accounts of the 3 entities for the year ended 31st March 2016 are as follows:

Statements of Financial Position.

	Big PLC	**Lahiru PLC**	**Sigiri PLC**
	Rs.	**Rs.**	**Rs.**
Assets			
Non-Current Assets	100,000	80,000	60,000
Investments	121,000	-	-
Inventory	22,000	30,000	15,000
Receivables	70,000	10,000	2,000
Cash at bank	37,000	20,000	3,000
	350,000	**140,000**	**80,000**
Equity and liabilities			
Equity capital (Rs.1 shares)	100,000	75,000	35,000
Retained earnings	200,000	50,000	40,000
Liabilities	50,000	15,000	5,000
	350,000	**140,000**	**80,000**
Income Statements			
Revenue	500,000	200,000	100,000
Cost of sales	(300,000)	(140,000)	(60,000)
Gross profit	200,000	60,000	40,000

Administration costs	(50,000)	(10,000)	(10,000)
Operating profit	150,000	50,000	30,000
Interest income/(Expenses)	10,000	(10,000)	-
Profit before tax	160,000	40,000	30,000
Tax	(60,000)	(20,000)	(15,000)
Profit after tax	**100,000**	**20,000**	**15,000**

Following additional information should also be considered.

i. Note that there are no other items of other comprehensive income.

ii. Any excess of the fair value of net assets over their carrying values at the date of acquisition of Lahiru PLC relates to tangible assets with a remaining estimated useful life of five years at that date. The fair values have not been incorporated into the accounting records of Lahiru PLC. It is group policy to value the non-controlling interest using the full goodwill method. Goodwill has been subject to an impairment review and there is an impairment to the extent of Rs.7,000.

iii. During the year Big PLC sold goods to Lahiru PLC for Rs.10,000 at a margin of 50%. At the year end the Lahiru Plc had sold only 80% of these goods.

iv. During the year Big PLC gave Lahiru PLC substantial short term loans – most of which was repaid shortly before the year end. The final balance of Rs.5,000 was paid on 10 April 2016. The interest charged in Lahiru PLC's income statement and the interest receivable in Big PLC's income statement represents interest on this loan.

Required:

a. Prepare the consolidated income statement of the Big Plc group for the year ended 31st March 2016. (10 Marks)

b. Prepare consolidated statement of financial position of Big Plc as at 31st March 2016. (10 Marks)

(Total 20 Marks)

Question No. 04

Following statements of financial position were taken from the books of ‘A’ Ltd and ‘B’ Ltd as at 31st December 2015

	A Ltd	**B Ltd**
	Rs.000	**Rs.000**
Non-Current Assets		
Property Plant & Equipment	5,600	4,000
Less: Accumulated Dep:	(1,200)	(1,600)
Written down value	4,400	2,400
Investments	3,500	
Current Assets		
Inventories	2,800	1,600
Trade Receivables	3,200	1,900
Cash and cash equivalents	3,100	1,400
	17,000	**7,300**
Equity and Liabilities		
Equity - Ordinary shares	6,000	2,000
Retained Earnings	1,500	1,000
General Reserve	4,000	1,500
Non-Current Liabilities	3,000	1,500
Current Liabilities		
Trade payables	1,500	800
Bank overdraft	1,000	500
	17,000	**7,300**

Following information is provided.

1. A Ltd acquired 75% of the equity shares in B Ltd on 1st January 2013, when B Ltd’s retained earnings were Rs. 1,200,000 (debit balance)
2. The fair values of the assets and liabilities of B limited were almost equal to the book values except the followings.

PPE had a fair value of Rs. 5,000,000. Inventories as of the acquisition date had a fair value which was Rs.600, 000 higher than the book value.

3. There was a contingent liability as of the acquisition date of which fair value was Rs. 1,100,000
4. Both companies depreciate PPE by 10% per annum on cost.
5. The balance of the general reserve of B limited as of the acquisition date was Rs.1,000,000
6. The fair value of the net assets attributable to NCI as of the date of acquisition was Rs.3,500,000.

You are required to prepare the consolidated statement of financial position of A Group as at 31st December 2015.

(Total 20 Marks)

Question No. 05

A. Define Following terms in accordance with SLFRS 3 / SLFRS 10
    1. Parent
    2. Subsidiary
    3. Control
    4. Joint Venture
    5. Non-Controlling Interest

(10 Marks)

B. The following income statements were taken from 'A' Ltd and 'B' Ltd for the year ending 31st December 2015.

	A Ltd	**B Ltd**
Turnover	300,000	250,000
Cost of Sales	(100,000)	(100,000)
Gross Profit	**200,000**	**150,000**
Other income	25,000	10,000
Administration Expenses	(30,000)	(60,000)
Distribution Expenses	(45,000)	(30,000)
Finance Cost	(20,000)	(10,000)
Profit before tax	130,000	60,000
Taxation	(30,000)	(20,000)
Profit after tax	**100,000**	**40,000**
Retained Profit B/F	120,000	90,000
Retained Profit C/F	220,000	130,000

1. A Ltd acquired 80% of ordinary shares on 1st January 2013 when the retained Earnings of B Ltd were Rs. 40,000/-
2. A Ltd sold Rs. 80,000 worth of goods to 'B' Ltd during the year keeping a mark-up of 25% on cost. However, 'B' Ltd's closing stock includes 1/4 of the goods sold.

You are required to prepare Consolidated Income Statement for the year ended 31st December 2015.

(10 Marks)

(Total 20 Marks)

Question No. 06

Financial information relating to **"Harsha Ltd"** a retailer of furniture and electrical goods is provided below:

Harsha Ltd Income Statement for the year ended 31 December:

	2015 (Rs.)	**2014 (Rs.)**
Net Sales (all Credit Sales)	830,000	1,000,000
Expenses		
Cost of Goods Sold	655,700	741,000
Selling and administrative	150,800	145,600
Interest expense	16,800	11,000
Income tax expense	2,000	30,720
	825,300	928,320
Net Profit	**4,700**	**71,680**

Harsha Ltd Statement of Financial Position as at 31 December:

	2015 (Rs.)	**2014 (Rs.)**
Assets		
Current Assets		
Cash	40,000	30,000
Accounts Receivable	116,000	122,000
Inventory	124,000	106,000
Total Current Assets	280,000	258,000
Total non-current assets	352,380	331,880
Total Assets	**632,380**	**589,880**
Liabilities and Owner's Equity		
Current Liabilities		
Accounts Payable	144,000	150,000
Income Taxes Payable	2,000	30,720
Total Current Liabilities	*146,000*	*180,720*
Non-Current Liabilities		
Long term Loans	210,000	137,480

Total Liabilities	*356,000*	*318,200*
Owner's Equity		
Capital	271,680	200,000
Profits for the year	4,700	71,680
Total Owner's Equity	*276,380*	*271,680*
Total Liabilities and Owner's Equity	**632,380**	**589,880**

The following ratios have been calculated, based on the above:

	Current	**Acid-test**	**Receivables Turnover**	**Inventory Turnover**	**Profit Margin**
2014	1.43 : 1	0.84 : 1	8.2 times	7.0 times	7.2%
2015	1.92 : 1	1.07 : 1	5.5 times	5.7 times	0.1%
	Asset Turnover	**Return on Assets**	**Return on Equity**	**Debt to Total Assets**	**Times Interest Earned**
2014	1.7 times	12.4%	30.4%	54.0%	10.3 times
2015	1.3 times	0.7%	1.7%	56.3%	1.4 times

Required;

a. Comment on the liquidity of "Harsha Ltd" over the two year period using Current and Acid-test ratios, and the Receivables and Inventory Turnovers.

(05 Marks)

b. Comment on the *profitability* of "Harsha Ltd" over the two year period referring to the Profit Margin, Return on Assets, Return on Owner's Equity and Asset Turnover ratios.

(05 Marks)

c. What is your view about the *solvency* of "Harsha Ltd" over the two year period considering the changes in the Debt to Assets and Times Interest Earned ratios?

(05 Marks)

d. If you are a bank manager, and if "Harsha Ltd" approaches you for a long term loan of Rs.80,000 to meet working capital needs, what will be your response? Give reasons.

(05 Marks)

(Total 20 Marks)