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THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

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

YEAR IV SEMESTER I – INTAKE I
END SEMESTER EXAMINATION – JANUARY 2017

AFM 41530Advanced Financial Reporting

Date	:	17th January 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.

<u>Question No. 01</u>

Statements of financial position of the Universal PLC, Galaxies PLC and Planet PLC as at 31.03.2016 were as follows.

	Universal PLCRs. '000	**Galaxies PLCRs. '000**	**Planet PLCRs. '000**
Non Current Asset			
Property, Plant and Equipment	66,000	42,500	28,500
Investments	97,000	26,400	1,800
Current Assets			
Inventories	29,000	15,000	9,000
Receivables	22,500	9,500	7,500
Cash and Bank	9,500	4,800	2,200
	224,000	**98,200**	**49,000**
Equity			
Stated Capital -Ordinary shares (Rs.10 each)	120,000	60,000	30,000
Retained earnings	61,500	16,000	10,200
Revaluation reserve	5,500	2,000	1,800
Non-current liabilities			
12% Debentures	29,500	9,000	3,800
Current liabilities			
Payables	7,500	11,200	3,200
	224,000	**98,200**	**49,000**

Additional information

1. Universal PLC acquired 20% of the ordinary share capital of Galaxies PLC for Rs.16 million on 01.04.2014 when the retained earnings of Galaxies PLC was Rs.6 million.
2. Universal PLC acquired further40% of the ordinary share capital of Galaxies PLC for Rs.42 million on 01.04.2015 when the retained earnings of Galaxies PLC was Rs.9 million. The fair values of identifiable assets and liabilities of Galaxies PLCat the date of acquisition was Rs.78 million and any difference between the fair values of net assets and the carrying

amount was due the change in value of property, plant and equipment. This fair value difference results in an additional deprecation of Rs.1.8 million to Galaxies PLC per year.

3. Universal PLC acquired 70% of the stated ordinary share capital of Planet PLC on 01.04.2015 for Rs.26 million when the retained earnings of Planet PLC was Rs.5 million. The fair value of the net identifiable assets and liabilities of the Plant PLC on this date was equal to its book value.
4. The market prices of a share of Galaxies PLC and Planet PLC on 01.04.2015 were Rs.14 and Rs.13, respectively.
5. During the year ending 31.03.2016, Universal PLC sold goods to Galaxies PLC at a price of Rs. 3 million with a profit margin of 20% on the selling price. 1/2 of these goods were remained unsold at Galaxies PLC at the year end.
6. During the year Galaxies PLC sold goods to Universal PLC at a price of Rs. 4 million by adding 20% profit markup to cost. $1/4^{th}$ of these goods were remained unsold at Galaxies PLC at the year end.
7. During the year Universal PLC sold a plantto Planet PLC at a price of Rs. 5 million. The carrying amount of the plant on this date was Rs.4 million. This transaction has result in an additional depreciation of Rs.200,000 to Planet PLC during the current year.
8. During the year,Galaxies PLC sold goods to Planet PLC at a price of Rs. 2 million by adding 25% profit markup to cost. $3/4^{th}$of these goods were remained unsold at Planet PLC at the year end.
9. Receivable balance of Universal PLC includes Rs.2.5 million receivable from Galaxies PLC. But payable balance of Galaxies PLC includes only Rs.1.5 million payable to Universal PLC. This difference is due to cash in transit.
10. Galaxies PLC issued 12%, Rs.100 debentures on 01.04.2015 and Universal PLC has invested 30% of these debentures on that day.
11. Use fair value method to measure non-controlling interest.

Prepare the consolidated statement of financial position of Universal group as at 31.03.2016 clearly <u>showing the workings</u> for calculation of:

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

(Total 20 Marks)

Question No. 02

a. **Differentiate** the retrospective application and retrospective restatement with reference to the relevant accounting standard providing one illustration for each.

(05 Marks)

b. **“**Objective of general purpose financial reporting is to provide all information about a reporting entity to satisfy all information needs of external stakeholders.”

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

(06 Marks)

c. A business entity obtained a loan of Rs.5 million on 01.04.2015 for the purpose to finance a building construction project which was commenced on 01.01.2015. By investing the funds obtained from the loan, the business entity has earned an interest income of Rs.350,000 during the year ending 31.03.2016. The effective interest rate of the borrowings of the business is 16% p.a. The construction of building was completed on 01.06.2016. The total borrowing cost incurred by the entity during the year ending 31.03.2016 was Rs.1.2 million.

Discuss the accounting treatment for the borrowing cost in relation to above information as per <u>LKAS 23</u> and <u>SLPSAS 4</u>.

(06 Marks)

d. **Explain** how to recognize the revenue arising in the form of interest, royalties and dividends as per SLPSAS 10 - Revenue from Exchange Transactions.

(03 Marks)

(Total 20 Marks)

Question No. 03

a. The statements of profit or loss and other comprehensive income for the year ending 31.03.2016 of Alfa PLC, Beta PLC and Sigma PLC are given below.

	Alfa PLC **Rs. '000**	**Beta PLC** **Rs. '000**	**Sigma 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 reserve	3,000	1,000	900
Gain/ (loss) on re-measurement of available for sale financial assets	1,500	(500)	800
Total comprehensive income for the year	**12,500**	**3,500**	**3,800**

Additional information

1. Alfa PLC acquired 75% of the ordinary share capital of Beta PLC at a cost of Rs.50 million on 01.04.2015.
2. The fair value of net assets of Beta PLC's at the date of acquisition was Rs.70 million. Stated ordinary share capital of Beta PLC consists of 1 million shares issued at Rs.20 each. The market price of a share of BBB PLC on this date was Rs.25.
3. Beta PLC acquired 60% of the stated ordinary share capital of Sigma PLC on 01.04.2015 for Rs.30 million. Fair value of the net assets of Sigma PLC on this date was Rs.50 million.
4. During the year Alfa PLC sold goods to Beta PLC at a price of Rs.2 million with a profit margin of 25% on the selling price. All these goods were remained unsold at Beta PLC at the year end.

5. During the year Beta PLC sold goods to Alfa PLC at a price of Rs.1 million by adding 25% profit markup to cost. 1/2 of these goods were remained unsold at Beta PLC at the year end.
6. Beta has granted a loan of Rs.2 million to Sigma on 01.10.2015 at annual interest rate of 15%.
7. During the year Alfa, Beta and Sigma had paid dividends of Rs.1 million each and Alfa PLC and Beta PLC have properly accounted for the dividend received from Beta PLC and Sigma PLC respectively.
8. Beta PLC has paid Rs.400,000 rent to Alfa PLC during the year for the use of building owned by Alfa PLC.
9. Beta PLC issued 30,000 dentures at Rs.100 on 01.04.2015 and Alfa PLC has invested 40% of these debentures on that day. These debentures carries coupon rate of 15% p.a. which is equal to effective interest rate.
10. Sigma sold one of its plants to Alfa PLC on 31.03.2016 for Rs.3.5 million. The carrying amount of this plant on this date was Rs.3 million.
11. Alfa 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 31.03.2016 showing separately the profit and total comprehensive income attributable to:

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

(Total 20 Marks)

Question No. 04

The following information was extracted from the financial statements of Global PLC for the year ended31.03.2016.

	(Rs.)
Reserves	200,000
Total Equity	500,000
Total Liabilities	250,000
Gross Profit	800,000
Cost of Sales	1,200,000
Other Income	250,000
Total Expenses	750,000
Issue Price per Share	Rs.10
Market Price per Share	Rs.50

Additional information

- 20% of the total expenses represent interest expenses.
- Income tax rate applicable to the company is 20%.

Required:

a. **Calculate** the following ratios

1. Gross Profit Ratio
2. Net Profit Ratio
3. Return on Equity Ratio
4. Return on Assets Ratio
5. Earnings per Share
6. Price Earnings Ratio
7. Earning Yield Ratio

(07 marks)

b. **Explain** the factors to be considered when interpreting the following Ratios in performing a ratio analysis.

1. Gross Profit Ratio
2. Net Profit Ratio

(04 marks)

c. The following information is relevant to Neptune PLC for the year ending 31.03.2015 and 31.03.2016.

	2015/16	**2014/15**
Debtors turnover	10 times	8 times
Creditors turnover	6 times	8 times
Inventory turnover	12 times	10 times

Comment on working capital management of the company based your calculations.

(05 marks)

d. **List** four limitation of accounting ratios in performing a ratio analysis.

(04 marks)

(Total 20 Marks)

<u>Question No. 05</u>

a. **List** the <u>six</u> types of capitals discussed in the integrated reporting and **briefly explain** <u>three</u> of them.

(08 marks)

b. **Differentiate** among the terms the presentation currency, reporting currency and foreign currency with reference LKAS 21 by providing one example for each.

(04 marks)

c. Colombo PLC, the parent company of the Colombo Group, acquired 40% of ordinary shares of Galle PLC on 01.04.2015 for Rs.150 million. On the same date, Kandy PLC acquired 60% of the ordinary shares of Galle PLC. Colombo PLC and Kandy PLC entered in to joint control agreement to jointly control Galle PLC on 02.04.2016. The following information is relevant to year ending 31.03.2016.

	Colombo PLC (in Rs.000)	**Galle PLC (in Rs.000)**
Profit for the year	180,000	80,000
Revaluation surplus	50,000	30,000
Gain/ (loss) on change in fair value of available for sale financial instruments	25,000	(10,000)
Interim dividends paid	70,000	30,000

The only reserve of the Colombo PLC as at 01.04.2015 was Rs.250 million of retained earnings.

i. **Provide** the extracts of the consolidated statement of profit or loss and other comprehensive income of Colombo Group for the year ending 31.03.2016.

ii. **Provide** the extracts of the consolidated statement of financial position of Colombo Group as at 31.03.2016.

(08 Marks)

(Total 20 Marks)