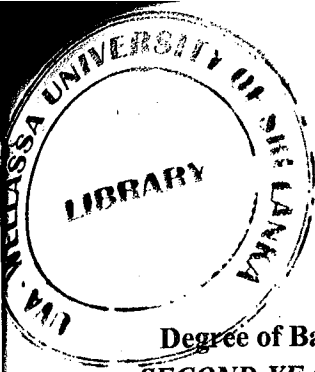


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Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION – JANUARY/FEBRUARY 2016

EMG 212 -3 Advanced Financial Accounting

counts

Instructions to candidates:

No. of pages : Seven (07)
No. of questions : Seven (07) Essay
Time allocation : Three (03) Hours
Marks allocated : 100 Marks

Index Number:

Marks)

Marks)

Answer **only 06** questions **including question number 01**
Question paper is not to be removed out from examination hall.

01. On 01/04/2014, Ganga PLC acquired 80% of the equity of Yamuna PLC for a purchase consideration of Rs. 28 million, and it was paid by cash and debited to the 'Investment in Yamuna PLC' account.

The fair value assessment of Yamuna PLC at the date of acquisition revealed the fair value of all the assets and liabilities were equal to their carrying value.

At the date of acquisition, the retained earnings of Yamuna PLC stood at Rs. 10.5 million and 900,000 ordinary shares were in issue. There were no any changes in the stated capital of both companies during the year.

The statements of financial position of Ganga PLC and Yamuna PLC as at 31/03/2015 are given below.

	Ganga PLC Rs.'000	Yamuna PLC Rs.'000
ASSETS		
Non-current assets		
Property, plant and equipment	40,000	27,375
Investment in Yamuna PLC	35,500	
Current assets		
Inventory	13,740	13,125
Trade and other receivables	10,670	10,455
Cash and cash equivalents	1,245	825
Total assets	101,155	51,780

EQUITY AND LIABILITIES		
Equity		
Stated capital	57,500	18,000
Retained earnings	34,245	12,060
Non-current liabilities		
12% redeemable debentures	-	15,000
Current liabilities		
Trade and other payables	9,410	6,270
Accrued debenture interest	-	450
Total equity and liabilities	101,155	51780

You are given the following additional information.

- ✓ In the month of March 2015, Ganga PLC sold goods to Yamuna PLC for an invoice value of Rs. 800,000 which are priced at 20% mark-up on cost. As at 31/03/2015, 75% of these goods remained unsold in the hands of Yamuna PLC.
- ✓ The intercompany current account balances are normally settled on a monthly basis. Yamuna PLC sent a cheque of Rs.800,000 to Ganga PLC to settle the due amount on goods received from Ganga PLC on 31/03/2015 and properly recorded it in its books. However, this cheque was received by Ganga PLC on 03/04/2015.
- ✓ On 01/01/2015, Yamuna PLC issued 3-year 12% redeemable debentures at its face value of Rs. 15 million, on which interest is to be paid at the end of each year. 50% of these debentures were purchased by Ganga PLC and it was debited to the 'Investment in Yamuna PLC' account. Yamuna PLC has properly accrued the 3 months interest payable on debentures in its financial statements for the year ended 31/03/2015, but Ganga PLC has not accounted for the interest receivable.

You are required to:

- i) Calculate the goodwill arising on acquisition. (05 Marks)
- ii) Calculate the non-controlling interest as at 31 March 2014. (05 Marks)
- iii) Calculate the consolidated retained earnings as at 31/03/2015. (05 Marks)
- iv) Prepare the consolidated statement of financial position of Ganga PLC group as at 31/03/2015. (15 Marks)

(Total Marks - 30)

02. The income statements of Alpha PLC and Beta PLC for the year ended 31/12/2014 and the movements of reserves are given below.

	Alpha PLC (Rs.000')	Beta PLC (Rs. 000')
Turnover	8,556	5,380
Cost of sales	3,860	2,060
Gross profit	4,696	3,320
Investment income		
Dividend from Gamma PLC	120	-
Administrative expenses	1,584	675
Net profit before tax	3,232	2,645
Tax	920	765
Profit after tax	2,312	1880

Movements on Reserves

	Alpha PLC	Beta PLC
As at 31/12/2013	Rs. 797,000	Rs.3,955,000
Retained profit for the year	<u>Rs. 2,312,000</u>	<u>Rs.1,880,000</u>
As at 31/12/2014	Rs.3,109,000	Rs.5,835,000

You are given the following additional information.

- Alpha PLC acquired 60% of ordinary shares of Beta PLC several years ago when the reserve of Beta PLC was Rs.980 million.
- During the year ended 31/12/2014 Alpha PLC sold goods costing Rs.500,000 to Beta PLC for Rs.625,000 (20% profit margin). The stock is not sold by the Beta PLC until 31/12/2014.

You are required to;

Prepare the consolidated income statement and the changes in equity statement of Alpha group for the year ended 31/12/2014. Ignore goodwill.

(14 Marks)



03.

- i) Before issuing any shares, the board shall decide the consideration for which the shares will be issued and resolve that in its opinion that consideration is fair and reasonable to the company and to all existing shareholders.

Describe the meaning of consideration for issue of shares. (08 Marks)

- ii) List down the different classes of shares a company can issue as stated in sec 49 (03) of the companies Act No 07 of 2007. (06 Marks)

(Total Marks - 14)

04. Sigma PLC has published a prospectus inviting applications for 500,000 shares to collect a proceed of Rs.15 million. The company expects to collect the proceed per share as follows.

Rs.20 with application

Rs.10 on allotment

The company has entered into an agreement with Gamma PLC, an underwriting company to underwrite 80% of the share issue at a commission of 12%.

At the closing date of subscription list the company has received applications for 300,000 shares. The company allotted all the shares applied by the general public and on the same day the company allotted the shares to Gamma PLC and collected the entire amount receivable after deducting the commission payable to the Gamma PLC.

You are required to show the necessary journal entries to record the issue of shares.

(14 Marks)

05. Subhasiri PLC issued 16%, Rs.100 each 10,000 debentures on 10/11/2015 to acquire a business organization with following assets and liabilities.

Land and Building	Rs. 500,000
Motor Vehicle	Rs. 225,000
Furniture and Fittings	Rs. 175,000
Stock	Rs. 250,000
Creditors	Rs. 75,000

After acquiring this organization, it was decided to buy a new motor vehicle for Rs.150,000 and for this purpose the company issued 12%, Rs.100 each, 2,000 new debentures at a discounted value of Rs 80 per debenture.

You are required to;

- i) Show the necessary journal entries to record the above transactions. (08 Marks)
- ii) Prepare the Balance Sheet (06 Marks)

(Total Marks - 14)

06. The accounting treatment for investments in other entities in the consolidated financial statements is depending on the extent of the control or influence the investing entity is able to exercise over the other entity.

State the alternative treatments of investments in consolidated financial statements giving reference to relevant Sri Lanka Accounting Standards (LKAS). (14 Marks)

07. Thatsara PLC is a trading company and its summarized Balance Sheet as at 31/3/2015 and the Income Statement for the year ending 31/03/2015 are given below.

Thatsara PLC

Income statement for the year ended 31/03/2015

	Rs.'000
Revenue	30,400
Cost of sales	19,140
Gross Profit	11,260
Distribution expenses	2,920
Administrative expenses	2,780
Finance cost	680
Profit before tax	4,880
Taxation	1,470
Profit after tax	3,410



Thathsara PLC

Statement of Financial Position as at 31/03/2015

	(Rs. '000)
Assets	
<i>Non Current Assets</i>	
Property Plant and Equipment	11,640
Investment property	4,000
<i>Current Assets</i>	
Inventories	3,760
Trade Receivables	2,900
Other current Assets	900
Cash and Cash Equivalents	1,300
Total assets	24,500
Equity and Liability	
<i>Equity</i>	
Stated Capital	8,000
Retained Earnings	8,820
<i>Non Current Liabilities</i>	
Long term borrowings	3,000
<i>Current Liabilities</i>	
Trade payables	3,420
Current portion of long term borrowings	600
Other short term payables	660
Total Equity and Liability	24,500



The following ratios and additional information are also available

Ratio	2013/2014	Industry average
Gross profit margin	41%	40%
Net profit margin	15.5%	15%
Return on capital employed	32%	32%
Current ratio	2.2:1	2 : 1
Liquidity ratio	1.4 : 1	1.2 : 1
Inventory turnover	6 times	6 times
Average collection period	29 days	30 days
Debt ratio	18%	20%
Earnings per share	Rs. 5.80	-
Price Earnings Ratio	5.8	5

- ✓ Market price of Thathsara PLC's shares on 31/03/2015 was Rs. 30 per share.
- ✓ Investment property was acquired during 2014/2015 and it did not yield any income during the year
- ✓ A sales growth of 5% was experienced in the year 2014/2015

You are required to:

compute the necessary ratios for the year 2014/2015 and to write a report to the Managing Director analyzing the current financial position of Thathsara PLC under appropriate headings.

(14 Marks)

