

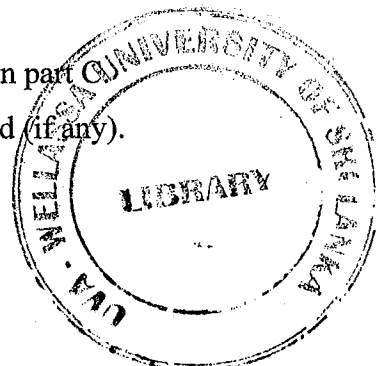
Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2013

EMG 212 -3 Advanced Financial Accounting
Part C – Essay Questions

Answer **only three (03) questions** including **Question number one (01)** in part C.
Show all workings very clearly. Any assumption(s) should clearly be stated (if any).
Marks allocation for part C: 50 Marks



01)

a) SLFRS 3- Business Combinations is giving recommendation on recognizing and measuring goodwill or gain from bargaining purchase. Describe the meaning of goodwill or gain from bargaining purchase and explain with a hypothetical example how you would treat it in preparation of consolidated financial statements.

(10 Marks)

b) The income statements of Zigma PLC and Gamma PLC for the year ended 31/12/2012 are given below.

	Zigma PLC (Rs. Million)	Gamma PLC (Rs. Million)
Turnover	7,956	4,290
Cost of sales	3,608	1970
Gross profit	4,348	2,320
Investment income		
Dividend from Gamma PLC	140	-
Administrative expenses	1,284	660
Net profit before tax	3,204	1,660
Tax	1264	598
Profit after tax	1940	1062

Movements on reserves

	Zigma PLC	Gamma PLC
As at 31/12/2011	Rs.797 million	Rs.3955 million
Retained profit for the year	Rs.1,040 million	Rs.562 million
As at 31/12/2012	Rs.1,837 million	Rs.4517 million

Additional information

- i. Zigma PLC acquired 6,000 million shares of the issued 10,000 million ordinary shares and 2,000 million shares of the issued 5,000 million, 7% preference shares of Rs.1 each in Gamma PLC several years ago when the reserve of Gamma PLC were Rs.980 million.
- ii. In the year ended 31/12/2012 Zigma PLC sold to Gamma PLC goods costing Rs.500 million for Rs.625 million (20% profit margin).
- iii. At 31/12/2012 Zigma had sold 40% of these goods for Rs.300 million.
- iv. Dividend paid as at 31/12/2012

Zigma PLC	Rs.900 million
Gamma PLC	Rs.500 million

You are required to prepare the consolidated income statement and the changes in equity statement of Zigma group for the year ended 31/12/2012. Ignore goodwill.

(20 Marks)

(Total 30 Marks)

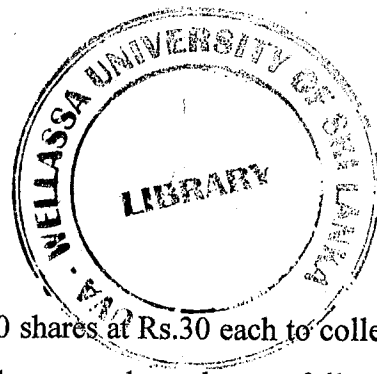
02)

- a) State the recognition criteria of borrowing cost as set out in LKAS 23 Borrowing costs.
(4 Marks)
- b) Alpha company commenced a construction of a new warehouse on 1st July 2012. The construction was completed on 31st December 2012. The construction cost of the warehouse (before the capitalization of interest) was Rs.22.5 million. This money was paid to the contractor as follows.

On 1 st July 2012	Rs.10 million
On 1 st September 2012	Rs.5 million
On 1 st January 2013	Rs.7.5 million

The company had obtained a bank overdraft facility for Rs.30 million from a government bank at an overdraft interest rate of 18% per annum and another bank overdraft facility for Rs.45 million from a private bank at an overdraft interest rate of 24% per annum. Both overdraft facilities were fully utilized throughout the year. The construction of the warehouse was fully financed by using money taken under these two overdraft facilities.

How much of the interest paid by the Alpha company in the year can be capitalized as part of the construction cost of the warehouse?



- 03) Beta company has invited application for 300,000 shares at Rs.30 each to collect a proceed of Rs.9 million. The company expects to collect the proceed per share as follows.

On or before 30.03.2013 with application	Rs.20
On or before 30. 03.2013 on allotment	Rs.10

The company has entered into an agreement with an underwriting company on 10.03.2013 to underwrite 60% of the share issue at a commission of 10%.

At the closing date of applications the company has received applications for 200,000 shares. The company allotted all the shares applied by the general public on 10.04.2013 and on the same day the company allotted the shares to the underwriter and collected the entire amount receivable (after deducting the commission) on 30.04.2013. The company's policy is to interpret the underwriting commission as deduction to the stated capital.

You are requires to:

- a. Show the necessary journal entries to record the above transactions
(7 marks)
 - b. Show the balance sheet extracts
(3 marks)
- (Total – 10 Marks)

- 04) Modern constructors PLC took a license to utilize a land belongs to P.Perera to produce bricks on a royalty payment at the rate of Rs.4 per brick produced. Minimum royalty payable by Modern constructors PLC was fixed at Rs.100,000 per annum with a right to recoup short workings in the following year.

Modern constructors PLC entered into a sub-royalty agreement with ABC enterprises to produce Bricks from the land belongs to P.Perera for a royalty payment of Rs.6 per brick sold. Minimum royalty payable by ABC PLC was fixed at Rs.50,000 per annum with a right to recoup short workings in the following two years.

Following details are extracted from the books of Modern constructors PLC.

Year	Modern constructors PLC		ABC PLC	
	Sales	Closing Stock	Sales	Closing Stock
1 st year	12,000	1,500	8,400	1,200
2 nd year	19,000	3,300	5,500	2,600
3 rd year	16,000	1,200	5,700	1,900

You are required to:

Prepare necessary accounts in the books of Modern Constructors PLC from the details given above.

(10 marks)