

Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2012
EMG 212 -3 Advanced Financial Accounting

Instructions to candidates:

No. of pages : Four (04)
No. of questions : Four (04) Essay
Time allocation : One (01) Hours and Thirty (30) Minutes
Marks allocated : 50 Marks

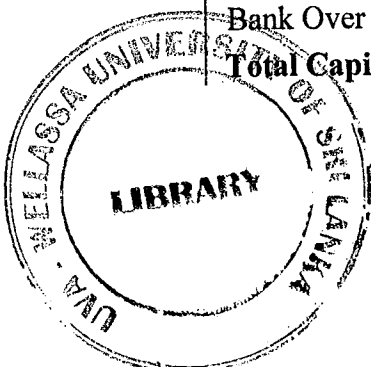
Index Number:

Answer only three (03) questions including Question number one (01)
Show all workings very clearly. Any assumption(s) should clearly be stated (if any).

Part C – Essay Questions

- 01) The summarized Balance sheets of Green PLC, Red PLC, and Blue PLC as at 31.12.2011 are given below.

	<u>Green PLC</u> Rs.'000	<u>Red PLC</u> Rs.'000	<u>Blue PLC</u> Rs.'000
Assets			
Non-Current Assets			
Property Plant and Equipment	2,745	1,625	785
Investments	1,500	-	-
Current Assets			
Inventories	575	300	265
Trade Receivables	330	290	370
Cash	50	120	20
Total Assets	5,200	2,335	1,440
Equity and Liabilities			
Share Capital and Reserves			
Stated Capital	2,000	1,000	750
Retained Earnings	1,460	885	390
	3,460	1,885	1,140
Non-Current Liabilities			
12% Debentures	500	100	-
Current Liabilities			
Trade payables	680	350	300
Bank Over Draft	560	-	-
Total Capital and Liabilities	5,200	2,335	1,440



The following information is also available

- i) Green PLC purchased 600,000 ordinary shares in Red PLC on 1st January 2006 for Rs.1,000,000 when the accumulated retained earnings of Red PLC were Rs.200,000.
- ii) Green PLC acquired 225,000 ordinary shares in Blue PLC on 1st January 2010 for Rs.500,000 when the retained profits of Blue PLC were Rs.150,000
- iii) Red PLC manufactures a component used by Green PLC only. Transfers are made by Red PLC at cost plus 25%. Green PLC held Rs.100,000 worth of these components in inventories at 31st December 2011.
- iv) It is the policy of Green PLC to review goodwill for impairment annually. The goodwill in Red Company was written off in full some years ago. An impairment test conducted at the year end (31/12/2011) revealed that impairment losses on the investment in Blue PLC of Rs.92,000.
- v) Trade payables of Green PLC includes Rs.80,000 to Red PLC. The respective receivable amount has been included in the Red PLC's trade receivables.

You are required to:

- a) Compute the goodwill/gain from a bargain purchase arising on acquisition. (3 marks)
- b) Calculate the non-controlling (minority) interest. (4 marks)
- c) Calculate the amount that should be shown as investment in Associates in the consolidated balance sheet as at 31.12.2011. (5 marks)
- d) Calculate the consolidated revenue reserve. (6 marks)
- e) Prepare the Consolidated Balance Sheet of the group as at 31.12.2011. (12 marks)

(Total – 30 Marks)

02) The following balance sheet is extracted from the books of Bright Light PLC as at 31.03.2012.

Assets	(Rs.'000)
Property Plant and Equipment	245,000
Current Assets	<u>400,000</u>
Total Assets	<u>645,000</u>
Equity and liabilities	
Stated Capital	500,000
Reserves	22,000
Non-Current Liabilities	15,000
Current Liabilities	<u>108,000</u>
Total Equity and Liabilities	<u>645,000</u>



The company has proposed to pay Rs.50,000,000 dividend to the shareholders.

You are required to:

State whether the company can pay this dividend to the shareholders referring to the Sec. 57 of the Companies Act No.7 of 2007.

(10 Marks)

03) A company has invited application for 300,000 shares to collect a proceed of Rs.7,800,000.

The company expects to collect the proceed per share as follows.

On or before

30.03.2012 With application Rs.16

30.4.2011 On allotment Rs.10

The company has entered into an agreement with an underwriting company on 10.03.2011 to underwrite 60% of the share issue at a commission of 8%.

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 10.04.2011 and on the same day the company allotted the shares to the underwriter and collected the entire amount receivable (after deducting the commission) on 30.04.2011. The company's policy is to interpret the underwriting commission as deduction to the stated capital.

You are required 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)

a) State the recognition and measurement criteria for future operating losses as explained in LKAS 37 - Provisions Contingent Liabilities and Contingent Assets.

(4 marks)

b) Save the Energy PLC has commenced sale of specially imported energy saving electric heaters from 01.10.2010. A heater cost them Rs.600 and sold at Rs.750 each with one year guarantee. For the year ended 31.03.2011 the company have sold 20,000 heaters. Out of these sales 2000 heaters have been already returned and replaced with new heaters.

The marketing manager has estimated the return of bulbs for replacement as follows.

Reasonably certain	15%
Possible	35%
Remote	50%

You are required to:

State how Save the Energy PLC should deal with the above situation in their accounts for the year ended 31.03.2011 with reference to LKAS 37 on Contingencies.

(6 marks)

(Total -10 Marks)