

**Uva Wellassa University**

**Faculty of Management**

**Bachelor of Business Management in Entrepreneurship and  
Management**

*Year 2 Semester II - Examination June/July 2010*

EMG 212-3 Advanced Financial Accounting



### Section III

Answer only two questions including question number one (01).

Total marks for Section III is 50

Use a new booklet to answer Section III

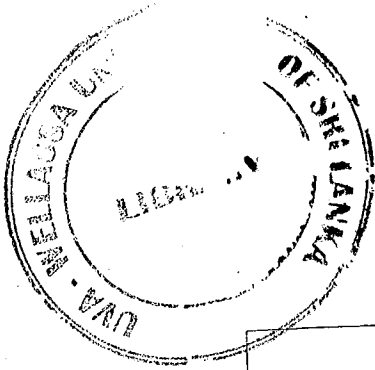
Workings should be attached.

- 01) X Ltd acquired 60% of ordinary shares in Y Ltd on 1<sup>st</sup> April 2004 when Y Ltd had a debit balance of Rs. 40,000 on its revenue reserve. X Ltd purchased further 5000 ordinary shares of Y Ltd for sum of Rs. 45,000 on 1<sup>st</sup> April 2007, when Y Ltd had a credit balance of Rs. 80,000 on its revenue reserve.

The balance sheets of X Ltd and Y Ltd as at 31/03/2009 were as follows

#### Balance sheet of Y Ltd.

	Rs.
<u>Noncurrent assets</u>	
Property plant and equipment	64,000
<u>Current Assets</u>	
Inventory	194,000
Debtors	79,000
Cash and bank	187,000
	524,000
<u>Equity and liability</u>	
<u>Equity</u>	
Stated capital (20,000 shares)	200,000
Revenue reserve	120,000
<u>Current liabilities</u>	
Trade creditors	55,000
Tax payable	19,000
Bills payable	10,000
Proposed dividend	120,000
	524,000



Balance sheet of X Ltd

	Rs
<u>Noncurrent assets</u>	
Property Plant and Equipment	358,000
Investment at cost	131,000
<u>Current Assets</u>	
Stock in Hand	306,000
Debtors	231,000
Bills Receivables	30,000
Cash and Bank	198,000
	1,254,000
<u>Equity and Liabilities</u>	
<u>Equity</u>	
Stated Capital	600,000
General reserve	80,000
Revenue reserve	92,000
<u>Current Liabilities</u>	
Trade creditors	205,000
Tax payable	27,000
Proposed dividend (gross)	250,000
	1,254,000

You are further informed that;

- i. Bills receivable by X Ltd. include Rs. 5,000 from Y Ltd.
- ii. The proposed dividends from subsidiary company have been included in X Ltd's debtors.
- iii. X Ltd. has sold goods to Y Ltd. for 20% mark up on cost. Out of those goods Rs. 150,000 worth of goods were still remained in Y Ltd's store as at 31/12/2009.
- iv. Goodwill arising from acquisition should be treated as per SLAS 25 business combination.

You are required to;

- c. Calculate the goodwill on acquisition (6 marks)
- d. Calculate the consolidated reserve (6 marks)
- e. Calculate the minority interest (6 marks)
- f. Prepare the consolidated balance sheet for X group as at 31/03/2009 (12 marks)

(Total 30 Marks)

02)

- a. Briefly explain the term Royalty (2 marks)
- b. Nadaraj Ltd obtained a license for a production of a foreign medicine from Rithic Ltd. on a royalty payment at the rate of Rs 40 per bottle sold. Minimum royalty payable by Nadaraj Ltd Was fixed at Rs 200,000 per annum with a right to recoup short working in the following two years.

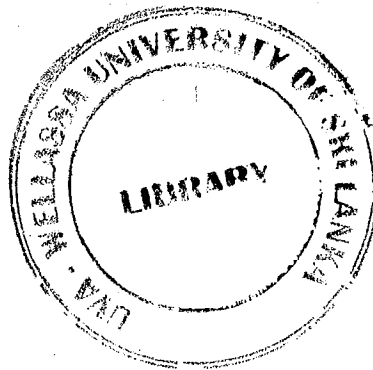
Nadaraj Ltd issued a sub license to Medigain Ltd. on the basis of a royalty payment of Rs 50 per bottle produced. Minimum royalty payable by Medigain Ltd was fixed at Rs 100,000 per annum with a right to recoup short working in the following three years.

From the books of Nadaraj Ltd following details are available.

Year	Nadaraj Ltd		Medigain Ltd	
	Production (No.of bottles)	Closing stock (No. of Bottles)	Sales (No. of Bottles)	Closing stock (No.of Bottles)
1 <sup>st</sup>	3500	500	1400	200
2 <sup>nd</sup>	3000	300	1500	600
3 <sup>rd</sup>	3400	200	1700	900
4 <sup>th</sup>	4600	800	2000	700
5 <sup>th</sup>	3900	500	1800	1100

You are required to prepare Royalty Account and other relevant accounts from the above information available in the books of Nadaraj Ltd. (18 marks)

(Total 20 marks)



03)

- a. Explain what is meant by Construction Contract. (2 marks)
- b. A construction contractor has a fixed price contract for Rs. 9,000,000 to build a shopping complex. The initial amount of revenue agreed in the contract is Rs. 9,000,000. The contractor has initially estimated the contract cost at Rs. 8,000,000 and it will take three years to complete the building of shopping complex. By the end of the 1<sup>st</sup> year of construction, the contractor's estimate of contract costs has increased to Rs. 8,050,000.

In year 2 the customer approved a variation resulting in an increase in contract revenue of Rs. 200,000 and estimated additional contract cost of Rs.150,000. At the end of first year, cost incurred include Rs.100,000 for standard materials stored at the site to be used in the third year to complete the project.

The contractor determines the stage of completion of the contract by calculating the proportion that contract costs incurred for works performed to date bear to the latest estimated total contract costs. Summary of the financial data during the construction period as follows.

	Year 1 Rs.	Year 2 Rs.	Year 3 Rs.
Initial amount of revenue agreed	9,000,000	9,000,000	9,000,000
Variation	-	200,000	200,000
Total Contract Revenue	9,000,000	9,200,000	9,200,000
Contract costs incurred to date	2,193,000	6,168,000	8,200,000
Contract costs to complete	5,857,000	2,032,000	-
Total estimated contract costs	8,050,000	8,200,000	8,200,000

You are required to determine the contract revenue, expense and profit to be recognized in each year.

(18 marks)

(Total 20 marks)