

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION –AUGUST/SEPTEMBER 2014
EMG 212 -3 Advanced Financial Accounting

Instructions to candidates:

No. of pages : Six (06)
No. of questions : Seven (07) Essay
Time allocation : Three (03) Hours
Marks allocated : 100 Marks

Index Number:

Answer only 06 questions including question No. 01.

Show all the workings clearly. Non programmable calculators are permitted.

01.

i) SLFRS 3-Business Combinations is giving recommendation on recognizing and measuring goodwill or gain from bargaining purchase.

a. Describe the meaning of goodwill and gain from bargaining purchase arises in business combination.

(05 Marks)

b. Use a hypothetical example and explain how you would treat it in preparation of consolidated financial statements.

(05 Marks)

ii) The income statements of Alpha PLC and Beta PLC for the year ended 31/12/2013 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 31/12/2012	Rs.797,000	Rs.3955,000
Retained profit for the year	Rs.2,312,000	Rs.1,880,000
As at 31/12/2013	Rs.3,109,000	Rs.5,835,000

You are given the following additional information.

- A. Alpha PLC acquired 60% of ordinary shares and 40% of , 7% preference shares of Beta PLC several years ago when the reserve of Beta PLC were Rs.980 million.
- B. In the year ended 31/12/2013 Alpha PLC sold to Beta PLC goods costing Rs.500,000 for Rs.625,000 (20% profit margin).
- C. At 31/12/2013 Beta had sold 40% of these goods for Rs.300,000.

You are required to;

Prepare the consolidated income statement and the changes in equity statement of Alpha group for the year ended 31/12/2013. Ignore goodwill. (15 Marks)

(Total - 25 Marks)

02.

- i) LKAS 23- Borrowing Costs deals with accounting for borrowing costs.
 - a. What is meant by borrowing cost (02 Marks)
 - b. State the recognition criteria of borrowing cost as set out in LKAS 23. (04 Marks)
- ii) Naradha PLC commenced a construction of a new warehouse on 1st July 2013 and completed the construction work on 31st December 2013. The construction cost of the warehouse (before the capitalization of interest) was Rs.22,500,000. This money was paid to the contractor as follows.

On 1 st July 2013	Rs.10,000,000
On 1 st September 2013	Rs.5,000,000
On 1 st January 2014	Rs.7,500,000

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

How much of the interest paid by Naradha PLC in the year can be capitalized as part of the construction cost of the warehouse? (09 Marks)

(Total -15 Marks)

03. Sithumina PLC published a prospectus on 20/8/2013 for calling applications from general public for 100,000 shares at Rs.32 each. Proceed per share shall be settled as follows.

Rs. 18 on application (on or before 05/09/2014)

Rs. 14 on call

The company has received applications for 120,000 shares on closing date of the subscription list and the company allotted 100,000 shares and refund the money received on 20,000 shares to the applicants. The company sent letters to the shareholders on 25/09/2013 asking for first call money on or before 22/10/2013. The company received the first call money for all the applications except for 20,000 shares as at the due date. The board of directors decided to charge 10% interest on default and collect the money. All the default shareholders paid the amount defaulted together with the interest on 30/11/2013.

You are required to;

- i) Show the journal entries to record above transactions including cash

(10 Marks)

- ii) Show the extracts of the Balance sheet as at 30/11/2013

(05 Marks)

(Total -15 Marks)

04. The following balance sheet is extracted from the books of Bright Light PLC as at 31.03.2014.

Assets	(Rs. 000)
Property Plant and Equipment	33,500
Current Assets	<u>19,400</u>
Total Assets	<u>52,900</u>
Equity and liabilities	
Stated Capital	28,500
Reserves	4,300
Non-Current Liabilities	8,750
Current Liabilities	<u>11,350</u>
Total Equity and Liabilities	<u>52,900</u>



The company has proposed to distribute Rs.6,000,000 as dividends to the shareholders.

You are required to:

i) State whether the company is satisfying the Solvency test referring to the criteria set out in the Sec.57 of the Companies Act No.7 of 2007 on this distribution.

(10 Marks)

ii) State other requirements to be completed before any distributions to shareholders.

(05 Marks)

(Total -15 Marks)

05.

i) List any three (03) techniques of financial statement analysis

(03 Marks)

ii) You are the newly recruited Financial Accountant to the Sinethma PLC. The CEO, Mr. Gamini Pathirage asked you to submit a report commending on Liquidity, Solvency and Profitability of the company. You are given the following list of ratios calculated by the Account Assistant for the last two years together with the industry averages.

Ratio	2012	2013	Industry Average
Return on capital employed	32%	32%	30%
Gross profit margin	45%	40%	40%
Net profit Margin	15%	15%	15%
Current Ratio	2.2:1	3:1	2 : 1
Quick Asset Ratio	1.4 : 1	1.4:1	1.2 : 1
Inventory Turnover Ratio	8.2 times	7 times	6 times
Debt to total Asset Ratio	75%	70%	65%

You are required to;

Write a report to the CEO providing your idea on the Liquidity, Solvency and Profitability of Sinethma PLC based on the above information.

(12 Marks)

(Total -15 Marks)

06. 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 within the next two years.

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.

(15 Marks)

07. LKAS 37 deals with accounting for Provisions, Contingent Liabilities and Contingent Assets.

i) Identify the recognition criteria of Provisions as set out in LKAS 37

(5 Marks)

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

(4 Marks)

iii) Save the Energy PLC has commenced sale of specially imported energy serving electric heaters from 01.10.2012. A heater costs them Rs.600 and sold at Rs.750 each with one year guarantee. For the year ended 31.03.2013 the company has 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 31.03.2013 with reference to LKAS 37.

(06 Marks)

(Total -15 Marks)