

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION - DECEMBER/JANUARY 2017
EMG 212 -3 Advanced Financial Accounting

Instructions to candidates:

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

Index Number:

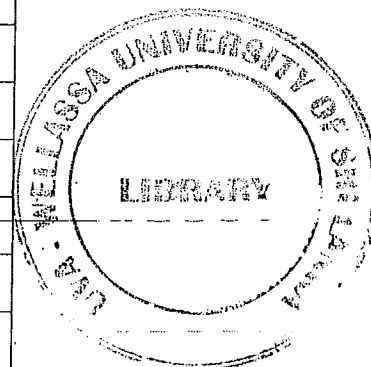
Answer **all** questions

Question paper is not to be removed out from the examination hall.

01. Gold PLC acquired 80% of common stocks of Silver PLC for a purchase consideration of Rs.30 million on 01/04/2015. The total purchase consideration was paid by cash and debited to the 'Investment in Silver PLC' account. At the date of acquisition, the retained earnings of the Silver PLC stood at Rs.10 million and 2,000,000 common shares were in issue. There were no any changes in the stated capital of both companies during the year. Further, the fair value assessment of the Silver PLC at the date of acquisition revealed the fair value of all the assets and liabilities were equal to their carrying value.

The statements of financial position of the Gold PLC and Silver PLC as at 31/03/2016 are given below.

	Gold PLC	Silver PLC
	Rs.'000	Rs.'000
ASSETS		
Non-current assets		
Property, plant and equipment	80,000	30,000
Investment in Silver PLC	30,000	
Current assets		
Inventory	11,500	11,530
Trade and other receivables	10,750	10,500
Cash and cash equivalents	1,475	1,750
Total assets	133,725	53,780



EQUITY AND LIABILITIES		
Equity		
Stated capital	97,500	20,000
Retained earnings	26,815	12,500
Non-current liabilities		
10% Bank loan	-	15,000
Current liabilities		
Trade and other payables	9,410	6,280
Total equity and liabilities	133,725	53,780

You are given the following additional information.

- ✓ The Silver PLC is purchasing goods from Gold PLC regularly. Gold PLC's policy is to sell goods at a cost plus 25% markup. Silver PLC held Rs.100,000 worth of goods purchased from Gold PLC in inventories as at 31st March 2016.
- ✓ Trade and other payables of the Silver PLC includes Rs.80,000 payable to the Gold PLC. The respective receivable amount has been included in the Silver PLC's trade and other receivables account.

You are required to:

- i) calculate the goodwill arising on acquisition. (05 Marks)
- ii) calculate the non-controlling interest as at 31 March 2016. (05 Marks)
- iii) calculate the consolidated retained earnings as at 31/03/2016. (05 Marks)
- iv) prepare the consolidated statement of financial position of Gold PLC group as at 31/03/2016. (15 Marks)

(Total Marks - 30)

02.

- i) What is meant by a 'share' in a public limited company? (04 Marks)
- ii) The board shall decide the consideration for which the shares will be issued before issuing such shares. What is meant by 'consideration' for issue of shares? (04 Marks)
- iii) Differentiate Ordinary Shares and Preference Shares (06 Marks)

(Total Marks - 14)

03. Alpha PLC published a prospectus inviting applications for 10 million ordinary shares at Rs.20 per share. The company expects to collect the proceeds per share as follows.

Rs.15 with application

Rs.5 on allotment

The company has entered into an agreement with Beta PLC, an underwriting company to underwrite 80% of the share issue at a commission of 8% on agreed risk.

At the closing date of subscription list, the company has received applications for 13.5 million shares. Applications for 1.5 million shares were rejected due to incompleteness of the applications and the money was duly returned to the applicants. The shares were allotted on pro rata basis to the remaining applicants.

State the necessary journal entries to record the issue of shares in the books of Alpha PLC.

(14 Marks)

04. Pahasara PLC invited applications for, Rs.100, 5,000 debentures at Rs.95 each (at 5% discount) on 1st October 2016. Applications were closed on 30th October 2016 and the company has received applications for 6500 debentures. Company allotted debentures on 5th December, 2016 and the excess cash were returned duly on 6th December 2016.

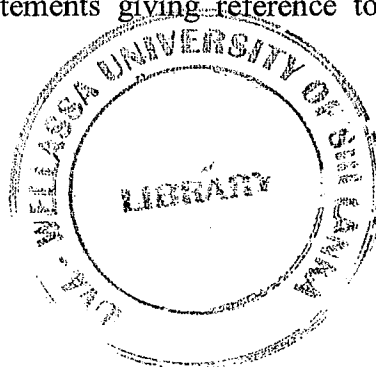
State the necessary journal entries to record the above debenture issue in the books of Pahasara PLC.

(14 Marks)

05. The Accounting Treatment for Investments in Other Entities in the Consolidated Financial Statement is dependent on the extent of the control or influence the investing entity is able to exercise over the other entity.

Briefly explain the Accounting treatment of investment in Associates and the Investments in Joint Ventures in the consolidated financial statements giving reference to the relevant accounting standards.

(14 Marks)



06.

- i) List four (04) different Financial Statement Analysis techniques (02 Marks)
- ii) The summarized statement of financial position as at 31/03/2016 and the Income Statement for the year ending 31/03/2016 of Deshakthi PLC are given below.

Deshakthi PLC

Statement of Financial Position as at 31/03/2016

	Rs.'000
Assets	
<i>Non Current Assets</i>	
Property Plant and Equipment	23,280
Investment property	8,000
<i>Current Assets</i>	
Inventories	7,520
Trade Receivables	5,800
Other current Assets	1,800
Cash and Cash Equivalents	2,600
Total assets	49,000
Equity and Liability	
<i>Equity</i>	
Stated Capital	16,000
Retained Earnings	17,640
<i>Non Current Liabilities</i>	
Long term borrowings	6,000
<i>Current Liabilities</i>	
Trade payables	6,840
Current portion of long term borrowings	1,200
Other short term payables	1,320
Total Equity and Liability	49,000

Deshakthi PLC

Income statement for the year ended 31/03/2016

	Rs.'000
Revenue	60,800
Cost of sales	38,280
Gross Profit	22,520
Distribution expenses	5,840
Administrative expenses	5,560
Finance cost	1,360
Profit before tax	9,760
Taxation	2,940
Profit after tax	6,820



The following ratios and additional information are also available

Ratio	2014/2015	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
Debt ratio	18%	20%
Earnings per share	Rs. 7.80	-
Price Earnings Ratio	5.8	5

- ✓ Average outstanding ordinary shares of Deshakthi PLC is 400,000
- ✓ Market price of Deshakthi PLC's shares on 31/03/2016 was Rs. 30 per share.
- ✓ Investment property was acquired during the year 2015/2016 and it did not yield any income during the year
- ✓ A sales growth of 5% was experienced in the year 2015/2016

You are required to;

- a. compute the necessary ratios for the year 2015/2016 (06 Marks)
- b. write a report to the Managing Director analyzing the current financial position of Deshakthi PLC under appropriate headings. (06 Marks)

(Total Marks - 14)