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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Professional- I Stage Pilot paper

Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Answer **all** questions.
3. The answers should be given in the **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Advanced Financial Accounting & Reporting	(AFA)

Question No. 1 (30 marks)

The trial balance of PQR Ltd, a public company as at 31st March 2006 is given below:

	Dr. (Rs. 000)	Cr. (Rs.000)
Ordinary shares of Rs.10/- each		5,000
12% Redeemable preference shares of Rs.10/- each		4,000
Share premium		970
Revaluation Reserve		1,500
Retained profit (01. 4.2005)		3,346
Freehold Land and building at valuation	8,500	
Motor vehicles at cost as at 31.3.2005	4,960	
Furniture, fittings & equipment at cost as at 31.3.2005	1,480	
Purchase of furniture, fittings & equipment during the year	1,205	
<u>Provision for depreciation as at 31. 3.2005</u>		
Motor vehicles		2,100
Furniture, fittings & equipment		520
Sales revenue		90,000
Cost of sales	66,420	
Administration cost	6,690	
Distribution cost	5,130	
Interest bearing loan		2,252

Investment of 50,000 shares in A Ltd	1,500	
Proceeds from sale of investment		640
Interim ordinary dividend paid	300	
Dividend income		100
Settlement of preference shares	4,640	
Cash received on issue of new shares		3,000
Inventory as at 31.3.06	8,140	
Trade and other receivables	10,589	
Trade and other payables		7,572
Cash at Bank	1,155	
Cash in hand	291	
	121,000	121,000

You are given the following information

- At the time of verification of inventory as at 31/03/2006 items that has cost Rs. 425,000/- and included in the inventory at cost, were identified as partly damaged. It was estimated that these items could realize Rs. 270,000/-.
 - It was discovered that goods invoiced on 29/03/2006 for Rs.144,000/- at a margin of 20% on cost, and charged to the credit customer had been at the stores and therefore were included by error in the inventory at cost on 31/03/2006.
- Freehold Land and building were revalued on 01/04/05. The details of revaluation are given below.

	Cost <u>B/fd</u>	NBV <u>b/fd on 01/04/05</u>	Revaluation <u>_____</u>
FH Land (Rs. 000)	4,080	4,080	4,400
Building (Rs.000)	3,650	2,920	4,100
	<u>7,730</u>	<u>7,000</u>	<u>8,500</u>
	=====	=====	=====

The relevant entries have already been made in the accounting records.

- Company's depreciation policy is not to provide for depreciation in the year of purchase but to provide full depreciation in the year of disposal, using straight line basis on cost or revalued amount at the following rates

Building	-	4%
Motor vehicle	-	25%
Furniture, fittings and Equipment	-	10%

- PQR Ltd had acquired 50,000 ordinary shares in A Ltd in the previous year. A Ltd issued a ONE for FIVE bonus shares on 01/07/05. PQR Ltd, on 31/12/05 disposed

15,000 shares held in A Ltd. The proceeds from this disposal appears in the trial balance. No other accounting entries have been made.

5. An interest bearing loan of Rs. 2,400,000/- at 12% interest per annum was obtained on 1st Jan 2006. The principal is payable in 48 equal monthly installments with accrued interest for the month. Installments for the months of January and February 2006 including interest were paid on 1st March 2006 and have been deducted from the loan balance. Installment for the month of March 2006 was paid in April 2006.
6. The entire preference shares were redeemed at a premium of 10% on 30th September 2005. The payment appearing in the trial balance included the dividend accrued to the date of redemption. The directors decided to raise part of the funds required for redemption from an issue of 200,000 ordinary shares at a premium of Rs.5/- each. Other than for the cash received from the issue of new shares and the amount paid to the preference shareholders no other accounting entries have been passed. The directors decided to maintain the distributable reserves at the maximum.
7. The tax liability for the year was estimated at Rs.2, 450,000/-. No payments were made during the year under the Self Assessment Scheme.
8. Final dividends on Ordinary Shares were not proposed at the end of the year.

You are required to prepare for PQR Ltd

- | | |
|--|-------------------------|
| (a) Income statement for the year ended 31.03.2006 | <i>(11 Marks)</i> |
| (b) Balance sheet as at 31.03.2006 | <i>(8 Marks)</i> |
| (c) Statement of change in equity | <i>(6 Marks)</i> |
| (d) Movement of Property, plant and Equipment | <i>(5 Marks)</i> |
| | <i>(Total 30 Marks)</i> |

Question No. 02 (27 Marks)

The balance sheets of AB Ltd, CD Ltd and EF Ltd at 31st March 2006 are given below:

	AB Ltd		CD Ltd		EF Ltd	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<u>NON CURRENT ASSETS</u>						
Property, plant and equipment	200,000		340,000		220,000	
Investments	416,000	616,000	116,000	456,000	-	220,000
<u>CURRENT ASSETS</u>						
Inventories	212,000		186,000		100,000	

Trade and other receivables	180,000		95,000		74,000	
Cash at bank	-		58,000		-	
Cash in hand	22,000	414,000	5,000	344,000	6,000	180,000
		1,030,000		800,000		400,000
<u>EQUITY AND LIABILITIES</u>						
<u>SHARE CAPITAL & RESERVES</u>						
Ord. Shares of Rs.10/- each	360,000		320,000		128,000	
Retained profit	272,000		237,600		76,000	
Proposed Dividends	36,000	668,000	32,000	589,600	12,000	216,000
<u>NON CURRENT LIABILITIES</u>						
Long term loan		200,000		125,000		100,000
<u>CURRENT LIABILITIES</u>						
Trade and other payables	68,000		48,400		49,900	
Bank overdraft	65,000		-		23,300	
Tax payable	29,000	162,000	37,000	85,400	10,800	84,000
		1,030,000		800,000		400,000

1. AB Ltd purchased 25.6 million Ordinary shares in CD Ltd for Rs. 366 million on 1st April 2000 when the retained profit of CD Ltd was Rs. 88 million.

The fair values of the net assets of CD Ltd on the date of acquisition were same as their book values except in the case of a property owned by CD Ltd and shown in the accounts at Rs.28 million had a fair value of Rs.44 million. This property was sold by CD Ltd on 31st Dec 2003.

2. AB Ltd purchased 3.2 million shares of EF Ltd for Rs. 50 million on 30th Sept 2001 when the reserves of EF Ltd stood at Rs. 40 million. The fair value of all the assets of EF Ltd was the same as their carrying values appeared in the Balance sheet on the date of acquisition.

3. CD Ltd purchased 6.4 million shares of EF Ltd for Rs. 116 million on 1/10/2005. The fair values of all of the net assets of EF Ltd were the same as their carrying values on 1st Oct 2005. The profit of EF Ltd for the year ended 31st March 2006 before declaring dividends was Rs. 32 million which accrued evenly over the year. EF Ltd did not pay any interim dividends to the shareholders.
4. AB Ltd supplies components to both CD Ltd and EF Ltd at cost plus 20%. The following stocks (at Invoice price) remained unsold on 31st March 2006.

at CD Ltd	-	Rs. 30 million
at EF Ltd	-	Rs. 31.2 million

5. The trade and other receivables of AB Ltd and CD Ltd include the dividends receivable from CD Ltd and EF Ltd. The trade and other payables of EF Ltd and CD Ltd include amounts of Rs. 24 million and Rs. 20 million respectively as payable to AB Ltd and these balances have been reconciled and agreed. There were no other inter group trading.
6. Goodwill on acquisition is recognized as an asset in the business combination.

You are required to prepare:

The Consolidated Balance Sheet of AB Ltd Group as at 31st March 2006.

(Total 27 Marks)

Question No. 03 (12 Marks)

- (a) A Ltd incurred Rs. 150,000 and Rs. 475,000/- as preliminary expenses and pre-operational expenses respectively before commencement of operations of the Company. The directors are of the view that these costs should be treated as deferred expenditure and amortized over a period of 10 years.

You are required to prepare a short note on the accounting treatment that should be adopted in compliance with SLAS 37 – Intangible Assets. (3 Marks)

- (b) PQ Ltd is a property development company involved in construction and sale of living apartments. Buyers of the apartments are required to make an initial down payment to facilitate the developer to raise funds to meet “start up” cost. During the first year PQ Ltd collected Rs. 6,500,000/- from the prospective buyers as initial payment but the apartments were still under construction on the balance sheet date. However the directors of the company wish to recognize this initial payment as revenue.

Comment briefly on the decision of the directors with reference to conditions that should be satisfied in recognizing Rs. 6,500,000 as revenue as per SLAS 29.

(4 Marks)

- (c) (i) Briefly explain the objective of **SLAS 38** under the caption **Discontinuing operation** (2 Marks)
- (ii) List the information an enterprise should include relating to a discontinued or discontinuing operation in its financial statements. (3 Marks)

(Total 12 Marks)

Question No. 4 (13 Marks)

- (a) A Ltd during the recent past has increased its investment outside the business operations. There were severe criticisms from some of the shareholders against this policy decision.

The following information are made available

Year	2002/03 (Rs. 000)	2003/04 (Rs.000)	2004/05 (Rs.000)	2005/06 (Rs.000)
* Total capital employed by the company (including investment made outside)	54,000	60,000	70,000	80,000
* Capital employed outside the business on long term investments	9,000	15,000	20,000	30,000
* ROCE on operating activities within the business	6,000	6,700	8,075	8,600
* Return on outside investment	990	1,500	2,050	3,000

You are required to calculate;

- (i) (a) ROCE within the business operation for the four years **(2 Marks)**
- (b) Return on investment made outside the company **(2 Marks)**
- (ii) Comment briefly whether there is any justification for increasing the capital employed (investments made) outside the business **(3 Marks)**
- (b) (i) What are the circumstances that can lead to a qualification in the auditors report **(3 Marks)**
- (ii) Describe briefly the difference between a qualified and an unqualified report **(3 Marks)**
- (Total 13 Marks)**

Question No 05 (18 Marks)

You are given the Balance Sheet of Sarasavi Ltd as at 31st March 2005 and 2006

	31.03.2006		31.03.2005	
	Rs.000	Rs.000	Rs.000	Rs.000
<u>NON – CURRENT ASSETS</u>				
Property, plant and equipment at cost		12,000		9,600
Less- Provision for depreciation		5,400		(4,200)
		6,600		5,400
Intangible		2,000		1,400
Long term Investment		1,400		800
		10,000		7,600
<u>CURRENT ASSETS</u>				
Inventories		1,190		544
Trade Receivables	1,400		1,630	
Cash	150	2,740	226	2,400
		12,740		10,000
<u>EQUITY AND LIABILITIES</u>				
<u>SHARE CAPITAL & RESERVES</u>				
Ordinary shares of 10/- each	7,000		4,000	
Share premium	680		480	
Revaluation Reserve	400		280	
Profit & Loss a/c	840		1,580	
Proposed dividend	700	9,620	230	6,570
<u>NON CURRENT LIABILITIES</u>				
14% Debenture		1,200		1,600
<u>CURRENT LIABILITIES</u>				
Trade payable	1,190		1,428	
Other payables	470		212	
Tax payable	260	1,920	190	1,830
		12,740		10,000

You are given the following information

- (1) The following items have been charged / credited in arriving at the profit for the year

	Rs.000
Depreciation on Property, Plant and Equipment	1,500
Loss on sale of Plant and Equipment	420
Dividend income	200
Profit on sale of Investment	140

Premium on redemption of debenture is set off against share premium account

- (2) The investment disposed had a cost of Rs.400,000/-
- (3) Plant and equipment disposed during the year was purchased for Rs.1,600,000/-
- (4) On 30/09/2005, Rs.400,000/- of the debentures were redeemed at a premium of 10% after paying the interest due upto that time on all the debentures. The debenture interest for the period 1.10.05 to 31.03.06 has not been paid till the end of the year but included in the **other payables** on 31.03.06.
- (5) Income tax on the profits of the year was Rs.360,000/-. Last year's Tax liability was settled in full after necessary adjustments.
- (6) The company has paid an interim dividend of Rs.350,000/-
- (7) The company has issued bonus shares on 01/10/2005, one for every 4 shares held on that date.

You are required to;

Prepare a Cashflow Statement in accordance with SLAS 9 (revised)

(Total 18 Marks)

End of question paper
