



Society of Certified Management Accountants of Sri Lanka

Intermediate Stage Pilot paper

Instructions to candidates:

1. Time allowed is **three (3) hours**.
2. Answer **all** questions.
3. Show workings.
4. Answers should be entirely in the **English** language.

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

Question No. 01 (20 Marks)

- (i)
- a) State the Benchmark treatment in accounting for borrowing cost. **(1 Mark)**
 - b) What do you mean by a “qualifying asset”? **(1 Mark)**
 - c) B Company has constructed an office building for which it has obtained a bank loan of Rs.1.2 Million on January 01, 2005. Interest payable at 18% per annum. The repayable period of the loan will commence only after the occupation of the building completed. You are given the following details.
 - Technical and administration work prior to construction commenced on 01.03.2005.
 - Construction work commenced on 01.05.2005.
 - Construction work completed on 31.05.2006.
 - Office building taken in to the occupation on 01.07.2006.

You are require to compute the amount to be capitalized as borrowing cost on this construction under the Allowed Alternative treatment of SLAS 20 – Borrowing Cost. **(4 Marks)**

- (ii) Excellent Limited, an Investment Company, commenced its business activities during the year 2005/2006. Following is a part of its investment portfolio as at March 31, 2006. According to the nature of these investments, they are to be recognized as current investments.

Company	Sector	Cost Rs. ‘000	Market Value Rs. ‘000
A	Hotel	700	750
B	Hotel	1,300	1,240

C	Tourism	1,220	1,280
D	Tourism	1,500	1,450
E	Plantation	1,600	1,300
F	Plantation	640	960
G	Manufacturing	1,200	1,400

What are the different methods available for valuation of above investments in accordance with SLAS 22? What are those different values? **(4 Marks)**

- (iii) You are requested to calculate basic earning per share of “Jaya” Limited based on the details given below for the year ended March 31, 2006.

	Rs. ‘000
Net Profit before Taxation	8,400
Taxation	(1,680)
Net Profit after Taxation	<u>6,720</u>
Deduction	
Preference Share Dividends	(600)
Ordinary Share Dividends	(1,200)
Retained Profit for the year	<u><u>4,920</u></u>

Number of Shares on April 01, 2005

Preference	600,000
Ordinary	1,200,000
New Ordinary Shares issued on 01.01.2006	400,000

Calculate the basic earning pr ordinary share as at 31.03.2006.

(2 Marks)

- (iv) You are given below some figures relating to cost of import of “Z” Ltd.

	Rs.
Invoice value of Raw Materials imports	7,500,000
Custom Duty	1,350,000
Clearance Charges	375,000
Transport	210,000
Turnover Tax	165,000
VAT (Which can be recovered)	590,000

10% of the goods imported were found to be damaged after transporting to the factory. The company has received an 80% claim against this stock damage.

The Company has further spent the following sums in the manufacturing process.

Direct wages	Rs. 480,000
Factory overhead	Rs. 180,000

After the manufacturing process the company has transported all finished goods to the retail shop incurring Rs. 360,000 for transport cost. At the warehouse of the retail shop 10% of finished goods were damaged due to improper storing. Damaged finished goods can be sold in an auction is to be held on 16.04.2006.

During the year 80% of the stocks transferred to retail shop were sold with a profit margin of 25% on cost.

Calculate the stock values to be shown in the Financial Statements for the year 2005/2006. **(8 Marks)**
(Total 20 Marks)

Question No. 02 (16 Marks)

The Summarized Balance Sheet of A Ltd and B Limited as at March 31, 2006 are given below.

	A Ltd Rs '000	B Ltd Rs '000
ASSETS		
NON CURRENT ASSETS		
<u>Property, Plant & Equipment</u>		
Land	300	200
Other Properties, Plant & Equipment	1,080	630
Accumulated Depreciation	(360)	(180)
<u>Investments</u>		
Investments in B Ltd	720	-
Other Investment	60	100
	<u>1,800</u>	<u>750</u>
CURRENT ASSETS		
Inventories	460	675
Receivables	560	235
Current Account with B	320	-
Cash and Cash Equivalents	750	395
	<u>2,090</u>	<u>1,305</u>
Total Assets	<u>3,890</u>	<u>2,055</u>
EQUITY AND LIABILITIES		
SHARE CAPITAL AND RESERVES		
SHARE CAPITAL		
Ordinary Share Capital of Rs. 10/- each	1,200	400
12% preference Shares of Rs. 10/- each	400	200
	<u>1,600</u>	<u>600</u>
RESERVES		
Share Premium Account	280	60
General Reserves	360	180
Retained Profit	550	420
	<u>1,190</u>	<u>660</u>
NON CURRENT LIABILITIES		
18% Debentures	500	300
Bank Loans	200	-
CURRENT LIABILITIES		
Payables / Creditors	270	190
Current Accounts with B	-	240
Income Tax	130	65
	<u>3,890</u>	<u>2,055</u>

The following information is relevant:

- i. A limited has purchased shares of B Limited on April 01, 2003 as stated below.

36,000 Ordinary Shares at Rs. 18/-	648,000
6,000 Ordinary Shares at Rs. 12/-	72,000
	<u>720,000</u>

- ii. Balances of Reserve Accounts of B Limited as at April 01, 2003 were as follows.
- | | |
|-----------------------|------------|
| Share Premium Account | Rs. 60,000 |
| General Reserves | Rs. 70,000 |
| Retained Profit | Rs. 50,000 |
- iii. During the year B Limited has sold stocks to the value of Rs. 300,000 to A Limited at cost plus 20% margin of which 40% were still in the inventories as at 31.03.2006.
- iv. At the time of the acquisition A Limited has considered the fair value of funds of B Limited as Rs. 300,000/-. This valuation is to be adopted in the consolidated financial statements.
- v. Inter company current accounts are not agreeing due to following reasons:
- Inventories from B Ltd to the invoice value of Rs. 90,000/- was received by A Ltd only on 04.04.2006.
 - A cash remittance from A Ltd to B Ltd received by B Ltd only on 10.04.2006.

You are required to;

Prepare consolidated Balance Sheet as at March 31, 2006 of A Ltd and its subsidiary.

(16 Marks)

Question No. 03 (14 Marks)

X Ltd's Balance Sheets as at March 31, 2005, and March 31, 2006 together with the income statement for the year ended March 31, 2006 is given below.

X Limited., Balance Sheet

	31.03.2006 (Rs. Million)	31.03.2005 (Rs. Million)
<u>NON CURRENT ASSETS</u>		
Property, Plant & Equipment	1,410.2	1,435.6
Investments	0.6	0.6
	1,410.8	1,436.2
<u>CURRENT ASSETS</u>		
Stocks	481.4	384.6
Debtors	271.8	254.8
Fixed and Call Deposits	37.6	139.2
Cash and Bank	15.6	8.4
	806.4	787.0
Total Assets	2,217.2	2,223.2
<u>EQUITY & LIABILITIES</u>		
Share Capital	554.2	554.2
Other Reserves	1,037.2	1,037.2
Accumulated Losses	(102.6)	(149.8)
Shareholders Funds	1,488.8	1,441.6
<u>NON CURRENT LIABILITIES</u>		
Long Term Loans	281.8	376.0
Debentures	39.6	39.6
Deferred Liabilities	98.6	69.6
	420.0	485.2

<u>CURRENT LIABILITIES</u>		
Trade Creditors	22.6	16.8
Other Creditors	91.8	81.0
Dividends	91.6	58.8
Loans Payable within one year	94.6	103.2
Bank Overdraft	1.2	7.0
Other	6.6	29.6
	308.4	296.4
Total Equity & Liabilities	2,217.2	2,223.2

Income Statement for the year ended March 31, 2006

	31.03.2006 (Rs. Million)
Sales	1,025.8
Operating Profit	217.2
Other Income	11.0
Profit before Interest	228.2
Interest	(97.8)
Profit before Tax	130.4
Tax	-
Dividends	83.2
Retained Profits	47.2

The following information is also relevant.

i. Summary of Fixed Assets Account at 31.03. 2006.

	Cost (Rs. Million)	Provision for Depreciation (Rs. Million)
Balance at 01.04.2005	1,778.4	342.8
Additions	64.2	88.8
Disposals	3.2	2.4
Balance at 31.03.2006	1,839.4	429.2

- ii. Operating profits include Rs. 1.2 Million profit on sale of fixed assets.
- iii. Deferred Liability Account is maintained for gratuity payment and the provision. Rs. 32 Million provided during the year as additional provision.
- iv. Other Income account includes Rs. 10.2 Million interest received and the balance in the account is receipt of dividends.
- v. "Loans payable within one year" account is maintained to show the short term portion of the long term loan. There were no additions to long term loan during the year.
- vi. Rs. 10 Million had been taken during the year as other loans.

You are required to;

Prepare Cash Flow Statement for the year ended 31.03.2006 for X Limited., SLAS (revised 1994) should be followed in presenting your answer. **(14 Marks)**

Question No. 04 (30 Marks)

Mahesh Limited was incorporated in April 2000 with authorised capital made up of 2,000,000 ordinary shares of Rs. 10/- each and 1,000,000, 10% cumulative preference shares of Rs. 10/- each.

Trail Balance extracted from the books of Kamal Limited as at 31.03.2006 was as follows.

	Dr. (Rs. '000)	Cr. (Rs. '000)
Ordinary Share Capital		10,000
10% preference share capital		5,200
Share Premium		900
Retained profit on 31.03.2005		5,100
Freehold Land and Buildings at Cost	8,000	
Furniture and Office Equipment at Cost	4,500	
Motor Vehicles at Cost	9,200	
Provision for Depreciation on 31.03.2005		
- Buildings		320
- Furniture & Office Equipment		1,900
- Motor Vehicles		3,060
Turnover		77,160
Cost of goods Sold	60,500	
Stocks	7,680	
Trade receivables / Trade Payables	4,240	3,700
Administration Expenses	4,200	
Selling & Distribution Expenses	4,100	
Provision for bad and doubtful debts		240
12% redeemable debentures on 01.04.2005		2,000
Debenture redemption Account	1,160	
Interest Paid	120	
Income Tax Paid – Y/A 2004/2005	1,920	
Cash at Bank	2,900	
Cash in Hand	1,060	
	<u>109,580</u>	<u>109,580</u>

Following additional information is available.

- i.
 - Kamal Limited acquired the land & buildings in the year 2000 at a land value of Rs. 5.6 Million.
 - A Computer at a cost of Rs. 160,000 was purchased for office use during this year.
 - A motor vehicle purchased on 10.05.2003 at a cost of Rs. 1,680,000 was sold for Rs. 800,000 during the year and the entire sale proceeds was credited to motor vehicle account. No other entries were made in this respect.
 - A motor vehicle at a cost of Rs. 1,000,000 was purchased during this year and property accounted for.

There was on other addition / disposal during this year.
- ii. Company's depreciation policy is not to provide for depreciation in the year of purchase but to provide full depreciation in the year of sale, on straight line method at the following rates.
 - Buildings @ 5% per annum
 - Furniture & Office Equipment @ 20% per annum
 - Motor vehicle @ 25% per annum
- iii. Closing stocks were valued at cost and included the following.

- a) 10,000 units of material X at Rs. 50/- per unit. These materials have become absolute and could be sold as scrap at Rs. 5/- per unit.
- b) Stock of material Y to the value of Rs. 240,000/- was destroyed by fire on 15.04.2005. These stocks were not insured against any risk.
- iv. Provision for doubtful debts account balance as on 31.03.2005 had included Rs. 40,000 as a specific provision for amount due from customer Cyril who was declared bankrupt on 15.09.2005. Balance amount was on account of general provision.
- Customer Jaya who owed Rs. 80,000/- as at 31.03.2006 died on 15.04.2006 and hence this amount become irrecoverable. No adjustments have been made in the books in this respect. Provision for doubtful debts is to be adjusted at 5% on balance outstanding as at the end of the year.
- v. Company did not provide for gratuity payable in the past. Management has now decided to incorporate this liability as at March 31, 2005 as follows.
- | | |
|-------------------------------------|-----------------|
| Gratuity liability as at 31.03.2005 | - Rs. 1,160,000 |
| Gratuity liability as at 31.03.2006 | - Rs. 1,440,000 |
- vi. Debenture interest is payable half yearly on September 30, and March 31, each year.
- vii. Income tax of the company for the year ended 31.03.2005 has been estimated at Rs. 2,080,000.
- viii. Board of Directors of Kamal Ltd., had decided to redeem 50% of its debentures at 10% premium on 31.03.2005. For this purpose, it issued 100,000 preference shares at a premium of Rs. 2 per share. Total amount paid to the debenture holders on account of redemption was debited to debenture redemption account while total proceeds from issue of preference shares was credited to preference share capital account.
- ix. Further, the Board has proposed the following.
- a) To pay dividend on preference shares held throughout the year.
- b) To issue bonus shares at the rate of one share for every four ordinary shares as at 31.03.2005.

You are required to prepare:

- i) Income Statement of Kamal Limited for the year ended March 31, 2006. **(9 marks)**
- ii) Balance Sheet as at March 31, 2006. **(9 Marks)**
- iii) Statement of Changes in Equity for the year ended March 31, 2006. **(5 Marks)**
- iv) Following Notes to Financial Statements.
- | | |
|-----------------------------------|------------------|
| a) Property, Plant and Equipment. | (4 Marks) |
| b) Operating Profit. | (1 Mark) |
| c) Stocks. | (1 Mark) |
| d) Share Capital. | (1 Mark) |
- (Total 30 Marks)**

Question No. 05 (20 Marks)

Nimal, Wimal and Kamal have been trading in electrical items for several years as a partnership. The partners decided to convert the partnership to a limited liability company. In this regard Synergy Ltd, was incorporated with effect from April 01, 2005, bringing in Lalith as well as a shareholder. Lalith had been operating a sole proprietorship business specializing in the sale of media equipment.

The balance sheet of the partnership and the sole proprietorship as at March 31, 2005 are given below.

	Partnership Nimal, Wimal, Kamal Rs. '000	Sole Proprietorship Rs '000
Assets		
Property, Plant & Equipment at WDV	846	320
Equipment	740	170
Furniture & Fittings	560	-
Motor Vehicle	200	-
Deferred Expenditure	390	164
Inventory	320	280
Trade Receivable	160	40
Cash	<u>3,216</u>	<u>974</u>
Partners Capital Account		
Nimal	1,000	
Wimal	600	
Kamal	200	
Capital Account – Lalith		504
Current Accounts as at 01.04.2004		
Nimal	292	
Wimal	288	
Kamal	(280)	
Profit available for appropriation for the year ended 31.03.05	356	-
Loan	340	-
Trade Payables	420	340
Bank Overdraft	-	130
	<u>3,216</u>	<u>974</u>

The following information is relevant

- i. Namal, Wimal and Kamal were sharing profits and losses in the ratio 2:1:1. The partners are entitled to an interest of 8% per annum on their capital balances and Wimal was entitled to a salary of Rs. 5,000 per month.
- ii. It was decided that Synergy Ltd., would like to take over the assets and liabilities of both business on the following basis.

	Partnership	Sole Proprietorship
Property, Plant & Equipment at their fair Values - Equipment	900,000	330,000
- Furniture & Fittings	690,000	180,000
Inventory at book value less any provisions	No Provision	Provision of Rs. 20,000
Debtors at book value less	Specific provision of Rs. 40,000	} No Provision
	General Provision 5%	
Liabilities at Book Value		

Cash Balances and Bank Overdraft would be retained by the relevant businesses.

- iii. The Motor Vehicle would be taken over by Nimal at Rs. 568,000.
- iv. Synergy Ltd., would issue 160,000 numbers of ordinary shares to the partnership and 62,000 numbers of ordinary shares to at the nominal value of Rs. 20.
- v. Kamal informed that he does not have any personal assets or facilities to settle his liabilities and that he would not be accepting any shares from Synergy Ltd.
- vi. The partners agreed to allocate the shares received amongst Nimal and Wimal equally. Whatever amounts due to either party at the end of the conversion would be settled by way of cash.

You are required to;

- a) Prepare an appropriation account of the partnership for the year ended March 31, 2005. **(2 Marks)**
- b) Prepare the ledger accounts to close the books of the partnership and the sole proprietorship as at March 31, 2005. **(10 Marks)**
- c) Prepare the opening balance sheet of Synergy Ltd., as of April 01, 2005. **(8 Marks)**

(Total 20 Marks)

End of question paper
