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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Intermediate Stage
March 2010 Examination

Examination Date : 13th March 2010 **Number of Pages :** 07
Examination Time: 9.30 a.m.- 12.30 p.m. **Number of Questions:** 05

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 / 601)

Question No.1 (18 Marks)

The summarized Income Statements of Alpha PLC and Beeta Limited for the year ended 31st March 2009 were as follows.

	(Rs. '000)	
	<u>Alpha PLC</u>	<u>Beeta Ltd.</u>
Sales	59,000	36,000
Cost of Sales	(31,200)	(12,400)
Gross Profit	27,800	23,600
Other Income	1,760	1,400
Distribution Cost	(5,450)	(3,330)
Administrative Cost	(6,030)	(3,100)
Other Expenses	(950)	(460)
Financial Costs	(1,800)	(1,100)
Profit before taxation	15,330	17,010
Taxation	(4,100)	(4,600)
Net profit for the year	11,230	12,410

The following were extracted from the Statements of Changes in Equity for the year ended 31/03/2009

	(Rs. '000)	
	<u>Alpha PLC</u>	<u>Beeta Ltd.</u>
Retained Profit as at 01/04/2008	21,200	6,900
Profit for the year	11,230	12,410
Transferred to General Reserve	(2,100)	(1,600)
<u>Interim Dividends</u>		
Preference	(1,900)	(600)
Ordinary	(1,000)	(900)
<u>Proposed Dividends</u>		
Preference		
Balance as at 31/03/2009	(1,900)	(600)
	25,530	15,610

The following information is relevant:

- (1) During the year Beeta Ltd. has sold goods to Alpha PLC at a selling price of Rs.3,200,000/- in which Beeta Ltd. had kept a margin of 20% on cost. Inventories of Alpha PLC included part of these stocks at invoiced value of Rs.900,000/-.
- (2) Alpha PLC has acquired 80% of ordinary shares and 30% of preference shares of Beeta Ltd. On 1st April 2007 when the retained profit of Beeta Ltd. was Rs.1,600,000/-.
- (3) Beeta Ltd. has granted a loan of Rs.2,000,000/- to Alpha PLC on 01st October 2008 for an interest rate of 18% p.a. Even though Beeta Ltd. has accounted the interest income correctly Alpha PLC has not accounted for the interest on this loan in the books of Alpha PLC.
- (4) During the year under review the following transactions have taken place.
 - (i) Beeta Ltd. has paid a monthly rent of Rs.30,000/- for the premises rented from Alpha PLC.
 - (ii) Alpha PLC has paid a Management fees of Rs.60,000/- on quarterly basis to Beeta Ltd.
- (5) Alpha PLC has accounted their Dividend income on the Accruals Basis.
- (6) An impairment test on goodwill carried out at the year end concluded that the goodwill should be written down by Rs.90,000/-.

You are required to prepare:

- (a) The consolidated income statement for the year ended 31st March 2009. **(12 Marks)**
- (b) Change in consolidated retained reserve for the year ended 31st March 2009. **(6 Marks)**
(Total 18 Marks)

Question No.2 (21 Marks)

The Financial Accountant of Kamal PLC has brought the following matters to your attention in order to prepare the company's Financial Statements for the year ended 31st March 2009. You are required to explain how Kamal PLC should treat the following items in accordance with the requirements of Sri Lanka Accounting Standard giving reference to the relevant Standard.

- (a) During the current year the company identified that it had made significant errors in recognizing their credit sales income over the period of two years. The over recognized income was Rs.100 Million and Rs.150 Million in respect of the financial years 2007 / 2008 and 2008 / 2009. The taxation effect on this has to be ignored. **(5 Marks)**
- (b) In addition to the normal trading activities the company has commenced construction activities on contract basis during the year 2008/2009. The company has a fixed price construction contract in progress as at 31st March 2009. Construction cost incurred up to the year end was Rs.972,000/- and further cost to complete was estimated at Rs.368,000/-. The value of the contract was Rs.3,000,000/-. During the year the company has received Rs.700,000/- as progress payments from the contractee. The accountant is not familiar with the requirement of SLAS 13 – Construction Contracts. **(5 Marks)**

- (c) The company also manufactures a particular kind of toy to cater to the children's market. The normal production capacity of the factory is 20,000 units per month. The factory produced 19,000 units during the month of March 2009. Production cost details are as follows;

Direct Materials @ 5Kg per unit	Rs. 100/-	per Kg
Direct Labour @ 6 Hours per unit	Rs. 60/-	per Hour
Variable Production Overheads for the month	Rs.400,000/-	
Monthly Fixed Production Overhead	Rs.800,000/-	

The accountant seeks your assistance to compute the cost per unit as per SLAS 05. **(6 Marks)**

- (d) The company purchased machinery at a cost of Rs. 4 Million on 30th September 2006. At that time the useful economic life of the machinery was estimated to be 10 years. Assuming there is no scrap value the company has reviewed the lifetime of the machinery on 01st April 2009 and estimated that the remaining useful economic life to be 4 years. The company depreciates its machinery on straight line method on actual usage time basis as per SLAS 18.

What will be the depreciation cost on this machinery for the accounting year 2009/2010?

(5 Marks)

(Total 21 Marks)

Question No.3 (28 Marks)

The Trial Balance extracted from the Sakura Company books on 31st March 2009 is given below. (All amounts in Rs. '000)

	Debit (Rs.)	Credit (Rs.)
Share Capital – Ordinary Shares (2,000,000 Shares)		43,200
Retained Profit 01/04/2008		23,600
Stated Capital – Preference Shares		6,000
<u>Property, Plant & Equipment</u>		
- Lands & Buildings (Land Rs.19,200,000/-)	35,200	
- Furniture & Fittings	12,800	
- Motor Vehicles	22,400	
<u>Provision for Depreciation as at 01/04/2008</u>		
- Buildings		2,560
- Furniture & Fittings		4,320
- Motor Vehicles		9,600
Sales		96,000
Cost of Sales	76,400	
Inventories	14,160	
Receivables / Payables	7,040	4,260
12% Convertible Debentures		6,400
10% Bank Loan		8,000
Administration Costs	11,280	
Distribution Costs	6,560	
Finance Costs	1,048	
Income Tax	3,200	
Provision for Income Tax 2007/2008		260
Lease rentals Paid (280,000 x 12)	3,360	
Interim Dividend paid	2,000	
Investment (Costs)	4,000	
Cash & Cash Equivalents	4,752	
	204,200	204,200

Following information is available.

- (1) The company has acquired two Motor vehicles on a Finance Lease on 1st April 2008. The total cost of these two Vehicles was Rs.8,400,000/-. As per the lease agreement 36 monthly lease rentals should be paid at Rs.280,000/- each. The rental payments during the period 2008/2009 which includes an interest amounting of Rs.520,000/- has been debited to lease rentals paid account.
- (2) Equipment, purchased for Rs.1,600,000/- has been depreciated fully by end of the year 2007/2008. New equipment has been purchased for Rs.800,000/- on 1st April 2008. Company depreciates Property, Plant and Equipment on Straight Line Method at following rates.

Buildings	5%
Furniture, Fittings & Equipment	10%
Motor Vehicles	20%

- (3) Income Tax for the year 2007/2008 amounting to Rs.360,000/- was paid during the year 2008/2009. Income Tax liability for the year 2008/2009 has been ascertained as Rs.3,640,000/-.
- (4) Debenture interest is payable bi-annually on 30th September and 31st March each year. Interest for the 6 month ended 30th September 2008 has already been paid. The company has decided to convert 50% of Debentures with interest accrued thereon to Ordinary Share with a consideration of Rs.12.50 per share as at 31st March 2009. Adjusting entries in this respect has not been incorporated in the accounts.
- (5) 12% of Bank Loan of Rs.8,000,000/- was obtained on 01st of April 2008. First installment was due on 31st August 2008 and thereafter installments have been paid by the company on a regular basis. Bank Loan interest for the year has been a paid promptly.
- (6) Rs.360,000/- is to be written off as bad debts. Provision for doubtful debts is to be adjusted as 10% on the balance outstanding as at end of the year.
- (7) The company has issued 200,000 Preference shares at a consideration of Rs.30/- per share on 1st of October 2008. Preference Shareholders are entitled for a dividend of an Rs.1.50 per share per annum. Interim Dividends shown in the trial balance represent the interim dividend paid to ordinary shareholders at Rs.0.50 per share. The Directors have proposed a final dividend of Rs.1/- per share for their Ordinary Shareholders.
- (8) The company has signed an agreement with outside contractors for a value of Rs.5,000,000/- for their future capital constructions.
- (9) The following expenses are included in the administration cost:

Auditors Remuneration and Expenses	Rs.240,000
Directors Remuneration	Rs.300,000
Donations	Rs.250,000
- (10) It is required to comply with the requirements of the new companies Act No.07 of 2007 in the preparation of company's Financial Statements.

You are required to prepare for publication purposes:

- (a) Income Statement for the year ended 31st March 2009. **(09 Marks)**
- (b) The Balance Sheet of the Company as at 31st March 2009. **(07 Marks)**
- (c) The Statement of Changes in Equity for the year ended 31st March 2009. **(04 Marks)**
- (d) The Statement of Property, Plant & Equipment. **(05 Marks)**
- (e) Relevant Notes. **(03 Marks)**

(Total 28 Marks)

Question No.4 (19 Marks)

Asoka, Bandara and Chamil were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. The extracted Balance Sheet as at 31st March 2008 is given below.

	<u>Rs.'000</u>	
<u>ASSETS</u>		
<u>Non Current Assets</u>		
<u>Property, Plant & Equipment</u>		
- Lands & Buildings		2,800
- Motor Vehicles		8,800
- Other PPE		<u>16,640</u>
		28,240
Investment		1,280
Goodwill		<u>720</u>
		30,240
<u>Current Assets</u>		
Inventory	8,320	
Receivables	7,680	
Bank & Cash	<u>960</u>	<u>16,960</u>
Total Assets		<u><u>47,200</u></u>
<u>Equity & Liabilities</u>		
<u>Capital Accounts</u>		
Asoka	6,720	
Bandara	4,800	
Chamil	<u>3,840</u>	15,360
<u>Current Accounts</u>		
Asoka	1,440	
Bandara	1,120	
Chamil	<u>600</u>	<u>3,160</u>
		18,520
Profit for the year 2007 / 2008		<u>6,720</u>
		25,240
<u>Non Current Liabilities</u>		
Bank Loans	4,800	
Loan – Bandara	<u>3,200</u>	8,000
<u>Current Liabilities</u>		
Payables	10,560	
Accruals	<u>3,400</u>	<u>13,960</u>
Total Equity & Liabilities		<u><u>47,200</u></u>

The partners have decided to convert their partnership in to a Limited Liability Company in order to expand their business. For this purpose they have registered ABC (Pvt.) Ltd., which acquires assets of the partnership excluding investment and Goodwill. The Company acquires all liabilities excluding Bandara's loan account.

You are given following additional information.

- (1) A motor vehicle with a carrying value of Rs.1,600,000/- was disposed for Rs.1,800,000/-. Amount received by realization of investment was Rs.1,600,000/-. The partnership paid Rs.2,880,000/- to settle Bandara's Loan account fully. Expenditure incurred in connection with the closing of the partnership was Rs.128,000/-. The partnership had to pay Rs.640,000/- as compensation for their employees who will discontinue their services.
- (2) The partners are entitled to interest of 5% p.a. on their capital balances. All partners are entitled to a salary of Rs.48,000/- per month per partner.
- (3) Income Tax on the divisible profit of the partnership for the year ended 31st March 2008 was ascertained at Rs.824,000/-. The Income Tax paid by the partnership on Self Assessment basis for the year amounting to Rs.320,000/- has been included in the receivables. Partner Asoka agreed to pay the balance tax liability on behalf of the partnership for the year ended 31st March 2008.
- (4) The new company agreed to allot 800,000 Ordinary Shares at Rs.22/- and 240,000 Preference Shares at Rs.18/- to the partnership to settle the purchase consideration.
- (5) After the incorporation, ABC Limited decided that the assets of the partnership to be taken to books of the company at following values.

	(Rs. '000)
Land & Buildings	4,000
Other Motor Vehicles	6,400
Other PPE	17,600

Other assets are to be taken to the books of the company at their book values. It is also decided to make a 10% provision for doubtful debts on receivables. Further, it was agreed to make a provision of Rs.1,200,000/- for the retiring gratuity in the books of the company.

- (6) In addition to the shares allotted to the partners, ABC Limited issued 400,000 Ordinary Shares of Rs.24/- and 80,000 Preference Shares at Rs.20/- in order to enhance their liquidity position. The company has incurred a cost of Rs.264,000/- for the incorporation activities.

You are required to prepare:

- (a) Ledger Accounts of Asoka, Bandara and Chamil partnership **(12 Marks)**
 - (b) Opening Balance Sheet of ABC (Pvt.) Ltd. **(7 Marks)**
- (Total 19 Marks)**

Question No.5 (14 Marks)

Summarized Income Statement of Sandalanka PLC for the year ended 31st March 2009 and components of Current Assets and Liabilities as at the Balance Sheet date with comparative figures are given below.

INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH 2009

	<u>(Rs. '000)</u>
Sales	76,500
Cost of Sales	<u>(50,400)</u>
Gross Profit	26,100
Expenses	<u>(15,300)</u>
Net Profit before Taxation	10,800
Taxation	<u>(3,600)</u>
Net Profit After Taxation	7,200
Proposed Dividends	<u>(1,500)</u>
Retained Profit	<u>5,700</u>

Expenses included Rs.1,680,000/- being depreciation charges.

	(Rs. '000)	
Working Capital as at	<u>31/03/2009</u>	<u>31/03/2008</u>
Stocks	3,840	3,360
Trade Receivables	2,520	2,730
Cash & Cash Equivalents	2,355	1,440
Trade Payables	1,560	1,290
Accrued Expenses	630	840
Taxation Payable	1,560	750
Dividend Payable	1,500	-

You are required to;

- (a) Prepare the Cash Flow from operating activities for the year ended 31st March 2009 using the indirect method. **(08 Marks)**
- (b) Compute the following accounting ratios for the year ended 31st March 2009.
- (i) Gross Profit Ratio.
 - (ii) Net Profit Ratio.
 - (iii) Stock Turnover Ratio.
 - (iv) Stock Residential Period.
 - (v) Debtors Turnover Ratio.
 - (vi) Debt Collection period.

(06 Marks)

(Total 14 Marks)

End of Question Paper