



Institute of Certified Management Accountants of Sri Lanka

Intermediate Stage September 2009 Examination

Examination Date : 12th September 2009 Number of Pages : 08
 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 Balance Sheet of Anura PLC and Bandula PLC as at March 31, 2009 are given below.

	Anura PLC Rs '000	Bandula PLC Rs '000
<u>ASSETS</u>		
<u>NON CURRENT ASSETS</u>		
Property, Plant & Equipment		
Land	1,800	1,200
Other Property, Plant & Equipment	6,480	3,780
Accumulated Depreciation	(2,160)	(1,080)
	6,120	3,900
Investments		
Investments in Bandula PLC	3,888	-
Other Investments	792	600
	10,800	4,500
<u>CURRENT ASSETS</u>		
Inventories	4,680	4,050
Receivables	3,360	1,410
Current Account with Anura PLC	-	1,920
Cash and Cash Equivalents	4,500	450
	12,540	7,830
TOTAL ASSETS	23,340	12,330

EQUITY AND LIABILITIES
STATED CAPITAL AND RESERVES

Stated Capital

Ordinary Shares	7,200	2,400
Preference Shares	2,400	-
	<u>9,600</u>	<u>2,400</u>

Reserves

General Reserves	3,840	1,440
Retained Profits	3,300	2,520
	<u>7,140</u>	<u>3,960</u>

NON CURRENT LIABILITIES

18% Debentures	1,560	1,800
Bank Loans	1,200	1,200

CURRENT LIABILITIES

Payables / Creditors	1,620	2,580
Current Accounts with Bandula PLC	1,440	-
Income Tax	780	390
	<u>23,340</u>	<u>12,330</u>

The following information is relevant:

- (1) Anura PLC has acquired 72,000 shares of Bandula PLC on April 01, 2008. Ordinary Share capital of Bandula PLC is comprised of 80,000 Shares.
- (2) Balances of Reserve Accounts of Bandula PLC as at April 01, 2008 was as follows.

General Reserves	Rs.780,000/-
Retained Profits	Rs.300,000/-
- (3) During the year Bandula PLC has sold stocks to the value of Rs.1,800,000/- to Anura PLC at cost plus 20% margin of which 50% were still in the inventories of Anura PLC as at 31/03/2009.
- (4) At the time of the acquisition Anura PLC has considered the fair value of lands of Bandula PLC as Rs.1,800,000/-. This valuation is to be adopted in the consolidated financial statements.
- (5) Inter company current accounts are not agreeing due to following reasons:
 - (i) Inventories from Bandula PLC to the invoice value of Rs.360,000/- was received by Anura PLC only on 04/04/2009.
 - (ii) A cash remittance from Anura PLC to Bandula PLC received by Bandula PLC only on 10/04/2009.
- (6) It has revealed that the Goodwill on consolidation had been impaired by Rs.30,000/- as at 31/03/2009 and it is required to incorporate the relevant entries for the impairment.

You are required to prepare consolidated Balance Sheet as at March 31, 2009 of Anura PLC and its subsidiary. (Total 18 Marks)

Question No.2 (18 Marks)

(a) Explain the following terms as per SLAS:

- (i) Fair value
- (ii) Net realizable value
- (iii) Holding Company
- (iv) Subsidiary Company
- (v) Control

(05 Marks)

(b) City Builders Ltd. has a fixed price contract in progress as at 31st March 2009. It is expected that the construction of the contract would be completed during the year 2009. The total cost incurred up to the year end 2008 / 2009 was Rs.1,154,000/- and cost to complete the contract was estimated at Rs.936,000/-. The value of the contract is Rs.2,700,000/- . Calculate the Profit / Loss applicable to the contract for the year ended 31st March 2009 in accordance with SLAS 13.

(04 Marks)

(c) "Comparability" is one of the qualitative characteristics expected from financial statements in accordance with the "framework for the preparation and presentation of financial statements" issued by Institute of Chartered Accountants of Sri Lanka.

You are required to;

- (i) Identify two needs for comparability. **(02 Marks)**
- (ii) State and explain three measures taken to enhance comparability in the financial statements. **(03 Marks)**

(d) State the accounting treatment required as per SLAS 18 in each of the following cases in preparation of Financial Statements for the year ended 31st March 2009.

(i) Company 'A' purchased machinery at a cost of Rs. 3 Million on 01/10/2006. At that time the useful economic life of the machinery was estimated to be 10 years assuming no scrap value. However in the process of reviewing the life time of the machinery on 01/04/2008 the remaining useful life was estimated as 4 years. The company depreciation policy is to provide for depreciation on a Straight Line Method on actual usage time basis.

(02 Marks)

(ii) Company 'C' purchased plant for Rs.4 Million on 01/04/2006 and estimated its useful economic life at 5 years. The company has adopted the Straight Line Method of depreciation and has assumed that no scrap value. This plant was revalued on 01/04/2008 at Rs.3 Million and the Management has decided to incorporate this valuation in the books of accounts.

(02 Marks)

(Total Marks 18)

Question No.3 (28 Marks)

The following trial balance has been extracted form the accounting records of Sarasa Limited as at 31st March 2009. (All amounts in Rs. '000)

	Debit (Rs.)	Credit (Rs.)
Revaluation Reserve		2,400
Profit & Loss A/C		6,800
16% Debentures		32,000
Sales		299,060
Cost of goods sold	196,000	
Staff Costs	36,000	
Motor Vehicles (At cost)	11,200	
Debenture Interest	2,560	
Office Equipment (At cost)	6,400	
Directors Remuneration	3,540	
Buildings (At cost)	7,200	
Land (At cost)	12,000	
Bank Balance / Overdraft	9,840	2,432
<u>Interim Dividends Paid - Net</u>		
Ordinary Shares	2,880	
Preference Shares	648	
<u>Provision for Depreciation as at 01.04.2008</u>		
Buildings		2,160
Office Equipment		2,560
Motor Vehicles		4,800
Long Term Investments	5,200	
Trade Investments	640	
Interest Received		320
Receivables / Payables	11,840	2,080
Provision for Income Tax		1,040
Provision for doubtful debts		192
Income Tax paid	7,040	
Administration expenses	21,760	
Selling & Distribution	24,400	
Other Operating Costs	11,520	
Cash in hand	952	
Inventories 31.03.2009	20,824	
<u>Stated Capital</u>		
Ordinary (1,800,000 Shares)		27,000
Preference (600,000 Shares)		7,200
General Reserve		2,400
	392,444	392,444

You are given the following additional information.

- (1) The following acquisitions of property, plant & Equipment have taken place during the year and have been properly accounted for;
- | | | | |
|------------------|--------------|---|-----------------------------|
| Office Equipment | Rs.2,400,000 | - | Date of purchase 01/07/2008 |
| Motor Vehicles | Rs.3,200,000 | - | Date of purchase 01/01/2009 |
- (2) The company depreciates its depreciable assets on the straight line method based on the actual usage time as per SLAS 18 as follows.
- | | | |
|------------------|-------------|-----|
| Buildings | (Per annum) | 5% |
| Office Equipment | (Per annum) | 10% |
| Motor Vehicles | (Per annum) | 20% |
- (3) The following assets of the company were re-valued by a firm of professional valuers as at March 31, 2009 and Directors have decided to recognize such valuations in the books of accounts of the company as follows. You are required to adopt these valuations in the Financial Statements.
- | | |
|-----------|------------------|
| Land | Rs. 20,000,000/- |
| Buildings | Rs. 8,000,000/- |
- (4) 16% Debentures were issued five years ago and the interest is payable half yearly on 30th September and 31st March respectively.
- (5) Income tax paid during the year comprised of Rs.1,280,000/- paid in respect of the final payments for the year of assessment 2007/2008 and balance under self assessment for the year of assessment 2008/2009. The liability for the year 2008/2009 has now been estimated as Rs.7,200,000/-
- (6) Debts for Rs.120,000/- are to be written off as irrecoverable and the provision for doubtful debts is to be adjusted as follows:
- | | |
|--------------------|-------------|
| Specific Provision | Rs.30,000/- |
| General Provision | 5% |
- (7) The administration expenses include audit fees of Rs.300,000/-.
- (8) Interim dividends have been paid after deducting 10% WHT on dividends. However no relevant entries have been made for such deductions of dividend tax.
- (9) The Board of Directors proposes to:
- Transfer Rs.500,000/- to general reserve.
 - Declare the balance dividends for preference shares. (Annual Dividend per Preference Share should be Rs.1.20)
 - Declare a final dividend of Rs.1.50 per ordinary shares.

You are required to prepare the following for publication purposes:

- (a) The Income Statement of Sinwa Limited for the year ended March 31, 2009. **(10 Marks)**
- (b) The Balance Sheet of the company as at March 31, 2009. **(07 Marks)**
- (c) The Statement of Changes in Equity for the year ended March 31, 2009. **(04 Marks)**
- (d) The relevant notes on Property, Plant & Equipment, Stated Capital, Operating profit & proposed dividends. **(07 Marks)**

(Total 28 Marks)

Question No.4 (23 Marks)

Arthur and Berty were carrying on a partnership sharing profits and losses in the ratio 3:2.

Chathura and David were also in a partnership sharing profits and losses in the ratio 2:1.

Given below are the trial balances of both partnerships as at 31st March 2009. The financial years of both partnerships are from 01st April to 31st March.

(All amounts in Rs.'000)

Debits	Arthur & Berty	Chathura & David
Office Equipment - written down value	50,000	25,600
Motor Vehicles - written down value	25,200	30,000
Inventory	67,600	69,600
Cash and Cash Equivalents	9,600	6,000
Trade Receivables	40,400	46,960
Cost of Sales	231,200	208,800
Administrative Expenses	42,960	34,720
Distribution Costs	34,000	29,920
Drawings	2,640	5,600
	503,600	457,200

Credits	Arthur & Berty	Chathura & David
Sales	330,400	298,400
Trade Payables	33,600	34,800
Partners Capital a/c		
Arthur	72,000	
Berty	40,000	
Chathura		60,000
David		40,000
Partners Current a/c		
Arthur	15,600	
Berty	12,000	
Chathura		14,000
David		10,000
	503,600	457,200

The following relates to the partnership between Anil and Basil

- (1) Arthur and Berty were supplied with goods from the partnerships inventory for their personal consumption costing Rs.100,000/- and Rs.120,000/- respectively. This was not recorded in the books. Berty was allowed to obtain a salary of Rs.40,000/- per month.

Partners' cash drawings were as follows:

Arthur Rs.1,800,000/-
Berty Rs. 840,000/-

- (2) A debt of Rs.300,000/- was identified as uncollectible in March 2009.

The following relates to the partnership between Chathura and David

- (3) The Partners cash drawings were as follows:

Chathura Rs.3,600,000/-
David Rs.2,000,000/-

General

- (4) Partners of two businesses have now agreed to amalgamate the two businesses with effect from 01st April 2009 and to form a new partnership namely "ABCD Traders" sharing profits and losses among Arthur, Berty, Chathura and David in the ratio 4:3:2:1 and it is further agreed for amalgamation purposes goodwill of the two businesses were valued as follows;

Arthur and Berty Rs. 800,000/-
Chathura and David Rs. 400,000/-

- (5) Fair value of Property, Plant and Equipment has ascertained as follows;

	Arthur & Berty	Chathura & David
Office Equipment	60,000	30,000
Motor Vehicles	30,000	35,000

- (6) The Goodwill should not be shown in the books of New Partnership.

You are required to;

- (a) Prepare the Profit and Loss and Appropriation Account of both partnerships for the year ended 31st March 2009. **(04 Marks)**
- (b) Prepare partner's capital and current accounts, and close the books of the two businesses. **(12 Marks)**
- (c) Prepare the opening Balance Sheet of New Partnership of ABCD Traders as at 01st April 2009. **(07 Marks)**

(Total 23 Marks)

Question No.5 (13 Marks)

You are given the following information of a business of a Sole proprietor who is expected to apply for a bank loan for prospective expansions of the business.

	(Rs. '000)
Sales	48,000
Raw Materials Consumed	23,400
Factory Consumables	2,400
Direct Labour	3,000
Other Direct Expenses	1,400
Administrative Expenses	2,600
Selling Expenses	1,150
Interest	3,200
Fixed Assets /PPE	43,550
Depreciation	1,400
Capital	15,000
Reserves and Surplus	4,000
Secured Term Loans	24,000
Unsecured Term Loans	3,000
Trade Creditors / Payables	7,100
Long Term Investments	2,000
Inventories	12,000
Receivables	7,400
Cash in hand and at Bank	300
Provisions	1,300
Other Current Liabilities	1,400

You are required to calculate the ratios mentioned below and give your brief comments on the business affairs.

- (i) Gross Profit Ratio
- (ii) Net Profit Ratio
- (iii) Stock Turnover Ratio
- (iv) Current Ratio
- (v) Quick Asset Ratio
- (vi) Debt Equity Ratio
- (vii) Return on Investment Ratio

(Total 13 Marks)

End of Question Paper
