Serial No………………

Institute of Certified Management Accountants of Sri Lanka
Operational Level
May 2018 Examination

Examination Date :	12th May 2018	**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. Total: **100 Marks**.
3. Answer **all** questions.
4. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language.**

Subject	**Subject Code**
Advanced Financial Accounting and Finance	**(AFF / OL 2 - 202)**

Part I

Question No. 01 (40 Marks)

For questions 1 to 20, select the most appropriate answer from the given answers under (a), (b), (c) & (d) for each question and write only the letter [i.e. (a) or (b) or (c) or (d)] relating to the most appropriate answer against the question number, in the answer booklet.

(1) **The *Conceptual Framework* identifies an underline assumption in preparing financial statements. This is;**
- (a) Going Concern
- (b) Materiality
- (c) A substance over form
- (d) Accruals

(2) Gama Company is developing a new product and expects to be able to capitalize the costs. **Which one of the following would prevent capitalization of the costs?**
- (a) No sales contracts have yet been signed in relation to the product.
- (b) Patent has not yet been registered in respect of the product.
- (c) Development of the product is not yet complete.
- (d) It has not been possible to reliably allocate costs to development of the product.

(3) Cole has built a new factory incurring the following costs:

	Rs.'000
Land	1,500
Materials	2,500
Labour	3,200
Surveyor's fees	50
Architects' fees	40
Site overhead	750
Apportionment of administrative overheads	450
Testing of fire alarms	15
Rates for the year	7
	8,512

What will be the total amount that Cole can capitalize in respect of the factory?

(a) Rs. 8,505,000/-
(b) Rs. 8,055,000/-
(c) Rs. 7,290,000/-
(d) Rs. 8,512,000/-

(4) **When an impairment review is carried out, at what amount is a potentially impaired asset measured?**

(a) Fair value
(b) Value in use
(c) Recoverable amount
(d) Carrying amount

(5) A cash generating unit comprises the following assets:

	Rs.'000
Building	900
Plant & machinery	600
Goodwill	90
Current Assets	110
	1,700

One of the machines, carried at Rs. 75,000/-, is damaged and will have to be scrapped. The recoverable amount of the cash-generating unit is estimated at Rs. 1,250,000/-.

What will be the carrying amount of the building when the impairment loss has been recognised?

(a) Rs. 1,415,000/-
(b) Rs. 1,250,000/-
(c) Rs. 450,000/-
(d) Rs. 720,000/-

(6) **Which one of the following events taken place after the year end but before the financial statements were authorized for issue would require adjustment in accordance with the LKAS-10 Events after the reporting period?**

(a) The value of the company's investments fell sharply.
(b) The directors announced a major restricting.
(c) Two lines of inventory held at the year-end were discovered to have faults rendering them unsalable.
(d) Three lines of inventory held at the year-end were destroyed by flooding in the warehouse.

(7) **Which one of the following would not be a valid ground for a provision?**

(a) A company is leasing an office building for which it has no further use. However, it is tied into the lease for another year.
(b) A company is closing down one of the division. The board of directors has prepared a detailed closure plans which have been communicated to its customers and employees.
(c) A company has acquired a machine which requires a major overhaul once in every three year. The cost of the first overhaul is reliably estimated at Rs. 150,000/-.
(d) A company has a policy of cleaning up any environmental containment caused by its operation although it is not legally obliged to do so.

(8) **A company has the following products at the year end.**

Product	Quantity	Cost (Rs.)	Selling Price (Rs.)	Selling Cost. (Rs.)
X	1,200	60	80	12
Y	2,500	30	45	10
Z	600	45	55	14

At what amount should total inventory be stated in the statement of financial position?

(a) Rs. 174,000/-
(b) Rs. 193,700/-
(c) Rs. 171,600/-
(d) Rs. 221,800/-

(9) Which **two** of the events that occur after the reporting date of a company but before the financial statements are authorized for issue are classified as adjusting events in accordance with the ***LKAS 10: Events after the reporting date*?**

(i) The destruction of a factory due to fire.
(ii) The determination of the sales proceeds of an item of machinery sold before the year end.
(iii) Discovery of a fraud which had occurred during the year.
(iv) Change in tax rate announced after the reporting date, affecting current tax liability.

(a) (i) and (ii)
(b) (ii) and (iii)
(c) (iii) and (iv)
(d) (ii) and (iv)

(10) A company trail balance as at 31st March 2017 shows a debit balance of Rs. 450,000/- on current tax and a credit balance of Rs. 2,500,000/- on deferred tax. Directors have estimated the provision for income tax for the year at Rs. 1,500,000/- and the required deferred tax provision is Rs. 1,200.000/-.

What is the profit or loss income tax charge for the year ended 31st March 2017?

(a) Rs. 1,250,000/-
(b) Rs. 1,750,000/-
(c) Rs. 2,650,000/-
(d) Rs. 5,650,000/-

(11) The following information relates to a company.

(i) At 1st April 2016 the carrying amount of non-current assets exceeded their tax written down value by Rs. 850,000/-.
(ii) For the year to 31st March 2017, the company claimed depreciation for tax purposes of Rs. 500,000/- and charged depreciation of Rs. 450,000/- in the financial statements.
(iii) During the year ended 31st March 2017, the company revalued a property. The revaluation surplus was Rs. 250,000/-. There are no current plans to sell the property.
(iv) The tax rate was 30% throughout the year.

What is the provision for deferred tax required as per LKAS 12 for the year ended 31st March 2017?

(a) Rs. 126,000/-
(b) Rs. 144,000/-
(c) Rs. 171,000/-
(d) Rs. 189,000/-

(12) Which of the following is **not** an item required by ***LKAS 1: Presentation of Financial Statements*** to be shown on the face of the statement of financial position?

(a) Inventories
(b) Government Grants
(c) Intangible assets
(d) Provisions

(13) **Where equity dividends paid is presented in the financial statements?**

(a) As a deduction from retained earnings in the statement of changes in equity.
(b) As a liability in the statement of financial position.
(c) As an expense in profit and loss account.
(d) As a loss in ‘other comprehensive income’.

(14) According to ***LKAS 38: Intangible Assets***, which of the following statements are correct?

(i) Research expenditure should not be capitalized.
(ii) Intangible assets are never amortized.
(iii) Development expenditure must be capitalized if certain conditions are met.

(a) (i) and (iii) only
(b) (i) and (ii) only
(c) (ii) and (iii) only
(d) All three statements are correct

(15) As per ***LKAS 38: Intangible Assets***, which of the following are intangible non-current assets, in the financial statement of Beta Company?

(i) A state of the factory purchased by Beta Company for Rs. 2,500,000/-.
(ii) Development costs capitalized in accordance with LKAS 38.
(iii) A license to broadcast a television series, purchased by Beta company for Rs. 350,000/-.
(iv) A patent for a new glue purchased for Rs. 150,000/- by Beta Company.

(a) (i) and (ii) only
(b) (i), (ii) and (iii) only
(c) (iii) and (iv) only
(d) (ii), (iii) and (iv) only

(16) Which of the following best describes a **provision** according to ***LKAS 37: Provisions, contingent liabilities and contingent assets?***

(a) A provision is a possible asset that arises from past events.
(b) A provision is a liability of uncertain timing or amount.
(c) A provision is a possible obligation of uncertain timing or amount.
(d) A Provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.

(17) Which of the following **items** could appear in a **company’s statement of cash flows**?

(i) Dividends received
(ii) Proposed dividends
(iii) Bad Debts written off
(iv) Proceeds of issue of shares
(v) Surplus on revaluation of non-current assets

(a) (i), (iv) and (v) only
(b) (i), (ii), (iii) and (iv) only
(c) (i) and (iv) only
(d) (ii) and (iii) only

(18) Objective of ***LKAS 17: Leases*** is to prescribe the appropriate accounting treatment and required disclosures in relation to leases.

Which of the following situations would normally lead to a lease being classified as a finance lease?

(i) The lease term is for approximately half of the economic life of the asset.
(ii) The lease transfers ownership of the asset to the lessee by the end of the lease terms.
(iii) The lease assets are of a specialized nature such that only the lessee can use them without major modifications being made.
(iv) At the inception of the lease, the present value of the minimum lease payments is 60% of what the leased asset would cost to purchase.

(a) (i) and (ii) only
(b) (ii) and (iii) only
(c) (i), (ii) and (iii) only
(d) (ii), (iii) and (iv) only

(19) Bernard Co has a current ratio of 2. Receivables are Rs. 1,500,000/- and current liabilities are Rs. 1,200,000/-.

If cost of sales is Rs. 9,000,000/- per annum, which of the following corresponds to the number of inventory days?

(a) 36.5 days
(b) 91.25 days
(c) 14.6 days
(d) 243.3 days

(20) Which one of the following best describes **overtrading**?

(a) Having too much working capital thus reducing profitability.
(b) Selling more than you can manufacture and or you hold in inventory.
(c) Suffering liquidity issues as a result of growing too quickly.
(d) Selling shares outside the stock exchange opening hours.

(20 × 2 Marks = Total 40 Marks)

End of Part I

Part II

<u>Question No. 02 (15 Marks)</u>

Furnas PLC is a furniture manufacturing Company. The trial balance extracted from the accounting records of **Furnas PLC** as at 31st March 2017 is given below.

	Debit Rs. '000	Credit Rs. '000
6% loan notes (redeemable 2022)		1,500
Accumulated profits as at 31st March 2016		338
Administrative Expenses	1,564	
Available for sale investments at market value 31st March 2016	1,600	
Cash and Bank	830	
Cost of Sales	3,454	
Distribution Expenses	1,740	
Dividend paid 1st December 2016	225	
Interest paid on loan notes - half year to 30th September 2016	45	
Inventory at 31st March 2017	1,570	

Investment income received		82
Land and building at cost	5,200	
Ordinary share Capital (450,000 shares)		4,500
Plant and equipment at cost	3,200	
Provision for deferred tax		550
Provisions for depreciation at 31st March 2016: Buildings		1,500
Provisions for depreciation at 31st March 2016: Plant and equipment		1,650
Revaluation reserve		400
Sales revenue		8,190
General reserves		1,388
Trade payables		880
Trade receivables	1,550	
	20,978	20,978

Additional information provided:

a. Available for sale investments are carried in the financial statements at market value. The market value of the available for sale investments at 31st March 2017 was Rs. 1,850,000/-.

b. Depreciation is charged on buildings using the straight-line basis at 3% each year. The cost of land included in land and buildings is Rs. 2,000,000/-. Plant and equipment is depreciated using the reducing balance method at 20%. Depreciation of Plant & equipment is regarded as cost of sales whereas depreciation of Building is regarded as administration expenses.

c. There were no sales or purchases of non-current assets or available for sale investments during the year ended 31st March 2017.

d. It was decided to write off Rs. 28,000/- due from trade debtor Mr. Berty since his business declared bankrupt as at 31st March 2017. This has not yet been done.

e. The 6% loan notes are 10-year loans due for repayment March 2022. Furnas PLC incurred no other finance costs in the year to 31st March 2017.

f. Income tax due for the year ended 31st March 2017 is estimated at Rs. 350,000/-. There is no balance outstanding in relation to previous years' corporate income tax. The deferred tax provision needs to be increased by Rs. 150,000/-.

g. Furnas PLC entered into a non-cancellable five-year operating lease on 1st April 2016 to obtain a machinery to manufacture a new range of furniture units. Under the terms of the lease, Furnas PLC will receive the first year rent free, then Rs. 50,000/- is payable for four years commencing in year two of the lease. The machine is estimated to have a useful economic life of 10 years.

You are required to prepare the following financial statements for the presentation to the shareholders of Furnas PLC.

(a) Statement of profit or loss and other comprehensive income for year ended 31/03/2017. **(07 Marks)**

(b) Statement of financial position as at 31/03/2017. **(08 Marks)**

(Notes to the financial statements are NOT required, but all workings must be clearly shown. DO NOT prepare a statement of accounting policies or a statement of changes in equity).

(Total 15 Marks)

Question No. 03 (15 Marks)

(a) The statements of financial position of Lotus PLC as at 31/03/2016 and 31/03/2017 are given below.

	31/03/2017 Rs. '000	31/03/2016 Rs. '000
Fixed Assets		
Land and Building	380	400
Machinery	920	750
Investments	50	100
	1,350	1,250
Current Assets		
Inventories	280	300
Trade receivables	420	400
Cash in hand	140	200
Cash at Bank	410	300
	1,250	1,200
Total Assets	**2,600**	**2,450**
Equity and Liabilities		
Stated Capital : Ordinary Share Capital	1,250	1,000
Capital Reserves	10	-
Retained Earnings	480	400
	1,740	1,400
Non-Current Liabilities		
Bank: Long term loan	400	500
Current Liabilities		
Trade Creditors	400	500
Provision for Tax	60	50
	460	550
Total Equity and Liabilities	**2,600**	**2,450**

Additional Information

a. Depreciation charged for the year in respect of Buildings amounted to Rs. 20,000/-.

b. Income tax provided during the year amounted to Rs. 55,000/-.

c. The company sold some investments at a profit of Rs. 10,000/- and the sale proceeds credited to Capital Reserves.

d. Machinery purchased during the year for Rs.225,000/-. Company paid Rs. 125,000/- in cash and issued 1,000 ordinary shares at a value of Rs.10,000/-.

You are required to prepare the statement of cash flow for the year ended 31/03/2017 using indirect method.

(10 Marks)

(b) Describe **<u>any two</u>** of the following terms as per conceptual framework for financial reporting.

(i) Going concern

(ii) Materiality

(iii) Timeliness

(05 Marks)

(Total 15 Marks)

Question No. 04 (15 Marks)

(a) **Define the following terms as per *LKAS 36: "Impairment of Assets"*.**

(i) Carrying amount **(02 Marks)**

(ii) A Cash-generating unit **(02 Marks)**

(iii) An Impairment loss **(02 Marks)**

(b) **What conditions should have been satisfied to recognize revenue from the sale of goods as per *LKAS 18: "Revenue"*?** **(05 Marks)**

(c) Revenue arising from the use by others of entities assets yielding interest, royalties and dividends shall be recognized on the bases, as per LKAS 18: "Revenue"

Identify and describe the bases as set out in the *LKAS 18: "Revenue*". **(04 Marks)**

(Total 15 Marks)

Question No. 05 (15 Marks)

(a) The Delta Trading Company has obtained a license to introduce a new product for 6 years. The product would be purchased from manufacturing company for Rs. 10/- per unit and sold to customers for Rs. 20/- per unit. The estimated annual cash expenses to sell the new product would be Rs. 18,000/-. Other information associated with the new product is given below:

- Cost of equipment needed: Rs. 30,000/-
- Working capital needed: Rs. 40,000/-
- Repairs and maintenance of equipment after 5 years: Rs. 2,500/-
- Residual value of equipment after 6 years: Rs. 5,000/-

The working capital would be released at the end of 6-year period. The expected annual sales are 5,000 units of product. The discount rate of the company is 16%.

You are required to:

(i) Compute net present value (NPV) of the new product. (Ignore income tax).

(ii) Would you recommend the addition of new product?

(10 Marks)

(b) The following information extracted from the annual financial statements of Mega plc. for the year ended 31st March 2017.

		Rs.
Inventories:	Raw Materials	90,000
	Working Progress	60,500
	Finished Goods	85,500
Purchase of Raw Materials		540,000
Cost of Production		680,000
Cost of Goods sold		780,000
Sales		864,000
Trade Receivables		172,800
Trade Payables		97,000

You are required to calculate the length of the working capital (assuming 365 days in the year).

(05 Marks)

(Total 15 Marks)

End of Part II

End of Question Paper