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Serial No.....

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

Examination Date : 12th May 2018 **Number of Pages :** 06
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 in Part I and any **three** questions including **Question No.2** in Part II.
4. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Corporate Reporting & Analysis	(CRA / ML 2 - 302)

PART I

Question No. 01 (20 Marks)

For questions 1 to 10, 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) A Financial Instrument is a type of:
 - (a) Asset.
 - (b) Liability.
 - (c) Contract.
 - (d) Asset or Liability.
- (2) A company issues Rs.800,000/- of 6.5% loan stocks at a discount of 10%. Issue cost of Rs.35,000/- is incurred. The loan stock should be initially measured at;
 - (a) Rs.685,000/-
 - (b) Rs.755,000/-
 - (c) Rs.765,000/-
 - (d) Rs.835,000/-
- (3) Which of the following statements is/are incorrect regarding the consideration transferred at a business combination?
 - (i) The consideration should be measured at fair value at the acquisition date.
 - (ii) All transaction costs incurred should be included in the consideration value.
 - (iii) Deferred consideration should be measured at present value using a discount rate.
 - (a) (i) only
 - (b) (ii) only
 - (c) (iii) only
 - (d) (i) and (ii) only

- (4) An investor has a control over an investee, if and only if it has the followings except,
- Power over the investee.
 - Exposure or rights to variable returns from its involvement with the investee.
 - The ability to use its power over investee to affect the amount of investor's returns.
 - 100% Equity ownership over the investee.
- (5) Segments can be combined into an "other" category, if at least _____ of the enterprise's consolidated external revenues are disclosed by segment reporting.
- 75%
 - 90%
 - 50%
 - 10%
- (6) Which of the followings is not an initiative of the Code of Best Practices on Corporate Governance of Sri Lanka – 2017?
- Related party transaction committee
 - Minimum quota for female directors in the board
 - Environment, Society and Governance (ESG) reporting requirement
 - Reporting on Cyber security
- (7) The amortized cost of a financial asset is equal to:
- The amount at which the asset was originally recognized less payments received to date.
 - The fair value of the asset
 - The amount at which the asset was originally recognized, plus interest earned to date, less repayments received to date.
 - The amount at which the asset was originally recognized, plus interest earned to date.

Answer to question numbers (8) to (10) from the following information.

Summarized figures from the statement of comprehensive of Alpha Ltd. for the year ended 31st March 2016 and 2017 and the statement of financial position as at the same dates are given below.

	Values in Rs. '000	
	2017	2016
Credit sales	4,500	-
Cost of credit sales	2,750	-
Net profit after tax	695	-
Dividends payments – Preference	120	-
Remaining profit for the Ordinary Shares	575	-
Trade debtors	1,000	950
Share capital (Rs. 1/- ordinary share)	1,200	1,200
Additional information - Market price per share at 31 st March 2017: Rs. 5.95/-		

- (8) Debtor turnover ratio for the period is;
- 4.5 times
 - 4.62 times
 - 2.82 times
 - None of the above

- (9) Price earnings ratio is:
- (a) 8.06
 - (b) 12.4
 - (c) 2.08
 - (d) None of the above
- (10) Earning yield is:
- (a) 0.08
 - (b) 0.48
 - (c) 0.58
 - (d) 0.09

(10 × 2 Marks = Total 20 Marks)

End of Section I

PART II

Answer three questions including Question No.02

Question No. 02 (40 Marks)

- (a) On 1st January 2017, Kelix Plc has acquired 60% shares of Penix Ltd and made immediate cash payment of Rs. 45 Mn. as the consideration. Non-controlling interest is calculated proportionately to the net assets of Penix Ltd.

The financial statements as at 31st December 2017 are given below.

The Statements of Comprehensive Income for the year ended 31st December 2017

	Kelix	Penix
	Rs. '000	Rs. '000
Revenue	152,000	115,000
Cost of Sales	(86,000)	(68,000)
Gross Profit	66,000	47,000
Other Income	24,000	6,900
Administrative Expense	(39,500)	(24,700)
Finance Expense	(31,800)	(18,600)
Profit Before Tax	18,700	10,600
Tax Expense	(5,300)	(3,000)
Profit for the year	13,400	7,600
Dividend Expenses	(5,500)	(3,400)
Retained Profit for the year	7,900	4,200

The Statements of Financial Position as at 31st December 2017

	Kelix	Penix
	Rs. '000	Rs. '000
<u>Assets</u>		
<u>Non-Current Assets</u>		
Property Plant and Equipment	64,000	42,500
Investment in Penix	45,000	-
<u>Current Assets</u>		
Inventory	18,500	9,800
Trade Receivables	9,200	6,500
Other Receivables	3,500	3,100
Cash and equivalents	<u>17,700</u>	<u>12,600</u>
	<u>157,900</u>	<u>74,500</u>
<u>Equity and Liability</u>		
<u>Equity</u>		
Share Capital (Equity share of Rs.1/- each)	80,000	36,000
Retained Earnings	46,500	21,900
<u>Non-current Liabilities</u>		
Term Loan	22,000	10,500
<u>Current Liabilities</u>	<u>9,400</u>	<u>6,100</u>
	<u>157,900</u>	<u>74,500</u>

Additional Information is given below.

- Total Sales made by Penix Ltd to Kelix Plc during the year was Rs.22,000,000/-. Penix Ltd set the selling price at a markup of 20% on cost. At the end of year, Kelix Plc had 30% of these goods unsold.
- Kelix Plc has settled an electricity bill of Penix Ltd amounting Rs.35,000/-. This value is included in the administrative expense of both companies.
- On 01st May 2017, Kelix Plc has sold a machine to Penix Ltd at a price of Rs. 5.6 Mn. Kelix Plc had bought this building on 01st August 2014 for Rs. 8 Mn and the applicable depreciation rate is 20%.
- At the beginning of the year, Kelix Plc given a short-term loan of Rs. 1.5 Mn to Penix Ltd and had charged an interest of Rs.150,000 on this amount. At the end of the year, Penix Ltd settled this amount together with the interest. Both the companies have recorded for this transaction (Capital & interest) in their books respectively.
- Other income of Kelix Plc consists of dividend income received from Penix Ltd.

You are required to prepare:

- The Consolidated Statement of Financial Position as at 31st December 2017. **(15 Marks)**
- The Consolidated Statement of Comprehensive Income for the year ended 31st December 2017. **(15 Marks)**

- (b) P Ltd acquires 100% of S Ltd on 01/01/2017 and paid Rs.50,000/- in cash. For the acquisition arrangements P Ltd had to incur a legal charge of Rs.2,000/-. Further P Ltd transferred the ownership of its' land to the former owner of S Ltd, where it had a carrying value of Rs.9,000/- and a fair value of Rs.10,000/- at the date of acquisition. P Ltd also agreed to S Ltd to pay an additional Rs.20,000/- on 31/12/2017 in relation to the acquisition. Assume the discount rate is 10%. Net assets of S Ltd as at the date of acquisition was Rs.68,000/-.

You are required to calculate the:

- (i) Cost of combination/ acquisition.
(ii) Goodwill on acquisition.

(10 Marks)
(Total 40 Marks)

Question No. 03 (20 Marks)

- (a) Aqua Plc purchased debentures of A Ltd and B Ltd on 01st January 2017 at Rs.10,000/- and Rs.15,000/- respectively. The face values were Rs.12,000/- and Rs.18,000/- and the coupon rate was 10% and 12% respectively. The effective rates were 14% and 16%. The treasury of Aqua Plc has confirmed that the debentures of B Ltd will be held until the maturity where no such commitment was given for the debentures of A Ltd. These debentures were not listed in any market. However, the fair value determined at the yearend Rs.11,000/- for A Ltd and Rs.13,800/- for B Ltd. The coupon interest was received on 31st December 2017.

For above two investments, you are required to:

- (i) Determine the type of financial instrument *and*,
(ii) Prepare the investment accounts for the year ended 31st December 2017. **(12 Marks)**
- (b) Briefly explain the term, 'Hybrid Instruments' and the relevant method of accounting. **(04 Marks)**
- (c) State the requirements to classify an asset as Non-Current Asset Held-for-sale. **(04 Marks)**

(Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Summarised financial performance of SPM Ltd for the year ended 31st March 2017 is as follows.

Ratios	Industry	Company
Current ratio - Current assets/ Current liabilities	2.2:1	3.67:1
Debtors turn over - Credit sales / Debtors (times)	10	8
Inventory turnover - Sales/Average inventory (times)	8	3.5
Total assets turn over - Sales/ Average total assets (times)	4	2.4
Gross profit margin - Gross profit/ Total sales (%)	35	30
Net profit margin - Net profit (before tax) /Total sales (%)	21	13.5
Gearing ratio - Long term Debt capital (at 15% per annum)/ Equity capital (%)	62.5	33
EPS - Net profit for equity capital/ Number of equity shares Rs.10/= each (Rs.)	2.2	1.05

Managing Director of the SPM Ltd; seeks your advice to improve the financial performance in future. So, you are required to write a report to the Managing Director of the SPM Ltd; explaining the reasons for such a weak performance and suggestions to improve the financial performance in future **(15 Marks)**

- (b) Briefly explain how cash flow statements can be used as an analytical technique of business performance. **(05 Marks)**

(Total 20 Marks)

Question No. 05 (20 Marks)

- (a) Discuss the significance of disclosures of corporate governance practices as a part of the annual reports of corporate entities. **(08 Marks)**
- (b) Explain Global Reporting Initiatives (GRI) which provides guidelines for sustainable reporting. **(07 Marks)**
- (c) Mention, whether the following statements are **true (T)** or **false (F)**.
- (i) Provisions of Accounting and Auditing standards Act No.15 of 1995 do not applicable to public companies registered under Company Act No. 07 of 2007. _____
- (ii) Corporate Governance center around the responsibilities of stakeholders. _____
- (iii) Efficiency of assets utilisation is measured through turn over ratios. _____
- (iv) Price earning ratio mainly emphasis the relationship between selling price and earning. _____
- (v) Sustainable reporting mainly emphasis on Economic, social and environment responsibilities on corporate entities. _____

(01 × 5 Marks = 05 Marks)

(Total 20 Marks)

End of Secion II

End of Question Paper
