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Serial No.....

## Institute of Certified Management Accountants of Sri Lanka

### Managerial Level

### November 2016 Examination

**Examination Date :** 12<sup>th</sup> November 2016      **Number of Pages :** 05  
**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 **three (3)** questions from Part II.
4. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
<b>Corporate Reporting and Analysis</b>	<b>(CRA / ML 2 – 302)</b>

#### **PART I**

Answer **all** questions

#### **Question No. 01 (40 Marks)**

- (a) Kanon Ltd acquired 80% of the Ordinary shares of Solex Ltd on 1<sup>st</sup> January 2015 by paying cash immediately. The financial statements as at 31<sup>st</sup> December 2015 are given below.

#### **The Statements of Comprehensive Income for the year ended 31<sup>st</sup> December 2015**

	<b>Rs. '000</b>	
	<b>Kanon</b>	<b>Solex</b>
Revenue	53,000	32,500
Cost of Sales	(29,000)	(19,400)
<b>Gross Profit</b>	<b>24,000</b>	<b>13,100</b>
Other Income	7,500	5,100
Administrative Expenses	(8,600)	(6,500)
Finance Expenses	(4,400)	(2,500)
<b>Profit Before Tax</b>	<b>18,500</b>	<b>9,200</b>
Tax Expenses	(5,200)	(4,000)
<b>Profit for the year</b>	<b>13,300</b>	<b>5,200</b>
Dividend Expenses	(7,300)	(2,000)
<b>Retained Profit for the year</b>	<b>6,000</b>	<b>3,200</b>

**The Statements of Financial Positions as at 31<sup>st</sup> December 2015**

Assets	Rs. '000	
	Kanon	Solex
<b><u>Non-Current Assets</u></b>		
Property, Plant and Equipment	16,200	11,300
Investment in Solex	11,000	-
<b><u>Current Assets</u></b>		
Inventory	6,200	2,300
Trade Receivables	4,000	2,400
Other Receivables	3,000	2,800
Cash and equivalents	<u>8,600</u>	<u>3,200</u>
<b>Total assets</b>	<b><u>49,000</u></b>	<b><u>22,000</u></b>
<b><u>Equity and Liability</u></b>		
<b><u>Equity</u></b>		
Share Capital		
- Ordinary Shares (Equity share of Rs. 1/- each)	20,000	8,000
Revaluation Reserve	1,100	800
Retained Earnings	12,400	5,200
<b><u>Non- Current Liabilities</u></b>		
Term Loan	11,300	4,800
<b><u>Current Liabilities</u></b>		
Dividend Payable	-	2,000
Trade Payables	<u>4,200</u>	<u>1,200</u>
	<b><u>49,000</u></b>	<b><u>22,000</u></b>

**Additional information is given below (All figures are in Rs.'000).**

1. Non-Controlling Interest (NCI) at the acquisition is valued at its proportion of net assets.
2. During the year, Solex Ltd sold goods to Kanon Ltd at a value of Rs.5,000/-, by keeping a profit margin of 20% on selling price. By the year end, Kanon Ltd had sold out 70% of such goods.
3. The office buildings of Kanon Ltd were revalued at the year-end making a gain of Rs.300/-. The same assets had a revaluation loss of Rs.100/- in previous year. No revaluation gains/ losses were resulted for Solex Ltd for the year.
4. Solex Ltd declared Rs.2,000/- of dividends to all of its' Ordinary shareholders in this year and it is not yet paid out which is recorded in its' books as the dividends payables. Kanon Ltd has not accounted with regard to this.

**You are required to prepare:**

- (i) The Consolidated Statement of Financial Position as at 31<sup>st</sup> December 2015.
- (ii) The Consolidated Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2015.

**(30 Marks)**

- (b) P Ltd acquires 100% of S Ltd on 01/01/2015 and paid Rs. 50 Mn in cash. For the acquisition arrangements P Ltd had to incur a legal charge of Rs.200,000/-. Further, P Ltd transferred the ownership of its' land to the former owners of S Ltd, where it had a carrying value of Rs. 3 Mn and a fair value of Rs. 4 Mn at the date of acquisition. P Ltd also agreed S Ltd to pay an additional Rs. 6.05 Mn on 31/12/2016 in relation to the acquisition. Assume the discount rate is 10%. At the date of acquisition, S Ltd had net assets valuing Rs. 48 Mn.

**You are required to calculate:**

- (i) the purchase consideration.
- (ii) the Goodwill/ Gain on bargain purchase of this acquisition.

**(06 Marks)**

- (c) State the appropriate accounting method for each of below scenarios:

- (i) Control
- (ii) Joint control
- (iii) Significant influence
- (iv) Other investment

**(04 Marks)**

**(Total 40 Marks)**

End of Part I

## **Part II**

Answer any **three (3)** questions

### **Question No. 02 (20 Marks)**

- (a) Briefly discuss the role of the Auditor General in relating to financial reporting of public sector entities. **(05 Marks)**
- (b) What are the applicable criteria to measure biological assets or agricultural produce with reference to LKAS 41-Agriculture? **(05 Marks)**
- (c) As par the Public Sector Accounting Standards - 01 (SLPSAS-01), what are the minimum disclosures in the face of statement of financial performance of a public sector entity. **(05 Marks)**
- (d) Briefly discuss how revenue from performing assets and non-performing assets are recognized in financial statements of the Finance companies. **(05 Marks)**

**(Total 20 Marks)**

**Question No. 03 (20 Marks)**

- (a) Surani Ltd has obtained a loan facility from CCB bank on 1<sup>st</sup> April 2013 to implement its one of the major expansion project. Following details with regard to this loan are given below.

Loan Amount (Rs.)	5,000,000
Transaction Cost (Rs.)	210,000
Annual Installment (Rs.)	1,575,000
Period	4 years
Interest rate	10%
Effective rate	12%

You are required to prepare the Loan account for the first three years as appeared in the Surani Ltd ledger, according to LKAS 39. Assume that financial year of Surani Ltd. is ended at the 31<sup>st</sup> of every year. **(05 Marks)**

- (b) Under which circumstances Financial Assets and Liabilities can be offset and net amount can be presented at the statement of financial position according to LKAS 32. **(03 Marks)**
- (c) Following information relates to investment transactions of Nadun Plc during the year 2015/2016.
- (i) 1<sup>st</sup> April 2015, purchase of 120,000 shares of Sumudu Ltd at a price of Rs. 1.2 Mn by incurring a transaction cost of Rs.120,000/-. Nadun Ltd intends to hold these shares as a strategic investment for a long period. As at 31<sup>st</sup> March 2016, the price per share of Sumudu Ltd was Rs. 15.50/-.
- (ii) 1<sup>st</sup> April 2015, debentures of Kasum Ltd were purchased at Rs. 980,000/-. The face value of debentures was Rs.1,150,000/- and the coupon rate was 11.5%. The effective rate was 14%. Nadun Plc expects to hold these debentures until its maturity. Fair value of the debentures was valued as Rs.780,000/- by the year end.

You are required to prepare the ledger accounts for the above transactions for year ended 31<sup>st</sup> March 2016. **(06 Marks)**

- (d) Briefly explain following:
- (i) Equity instrument
- (ii) Puttable instrument
- (iii) Financing instrument

**(06 Marks)**  
**(Total 20 Marks)**

**Question No. 04 (20 Marks)**

Summarized Comprehensive income statements of Dee Limited for the year ended 31<sup>st</sup> March 2016 and 2015 are as follows.

**Dee Limited**  
**Comprehensive Income Statement for the year ended 31<sup>st</sup> March**

	2016 (Rs.)	2015 (Rs.)
Net Sales	900,000	750,000
Cost of goods sold	<u>(530,000)</u>	<u>(420,000)</u>
<b>Gross Profit</b>	370,000	330,000
Operating Expenses	(243,000)	(170,000)
Interest expenses	<u>(24,000)</u>	<u>(30,000)</u>
<b>Income before taxes</b>	103,000	130,000
Income Tax	<u>(28,000)</u>	<u>(40,000)</u>
<b>Net Income</b>	<u><b>75,000</b></u>	<u><b>90,000</b></u>

**You are required to:**

- (a) Carry out a horizontal analysis of Comprehensive income statements of Dee Limited. **(10 Marks)**
  - (b) Carry out a vertical analysis of Comprehensive income statement of Dee Limited. **(05 Marks)**
  - (c) Prepare a common size Comprehensive income statement of Dee Limited for the year ended 31<sup>st</sup> March 2016. **(05 Marks)**
- (Total 20 Marks)**

**Question No. 05 (20 Marks)**

- (a) “At present corporate reporting practices moving towards the Integrate reporting practices”.

Write a brief note on integrated reporting practices. Meaning, objectives and framework of integrated reporting need to be discussed in your note. **(10 Marks)**

- (b) “With the globalization of corporate sector existing financial reporting practices need to be harmonized”.

Briefly discuss advantages and barriers associated with harmonization of financial reporting.

**(10 Marks)**

**(Total 20 Marks)**

End of Part II

End of Question Paper