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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Managerial Level October 2017 Examination

Examination Date : 28th October 2017 Number of Pages : 04
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. 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 and Analysis | (CRA / ML 2 – 302) |

PART I

Answer **all** questions

Question No. 01 (40 Marks)

- (a) Petro Ltd acquired 9,000,000 Ordinary shares of Dimo Ltd on 1st January 2016 by paying Rs. 14Mn immediately. The financial statements as at 31st December 2016 are given below.

The Statements of Comprehensive Income for the year ended 31st December 2016

| | Rs. '000 | |
|-------------------------------------|----------------------|---------------------|
| | Petro | Dimo |
| Revenue | 75,000 | 48,000 |
| Cost of Sales | <u>(42,000)</u> | <u>(29,500)</u> |
| Gross Profit | 33,000 | 18,500 |
| Other Income | <u>4,600</u> | <u>3,800</u> |
| | 37,600 | 22,300 |
| Administrative Expenses | <u>(10,200)</u> | <u>(7,600)</u> |
| Finance Expenses | <u>(6,400)</u> | <u>(3,500)</u> |
| Profit Before Tax | 21,000 | 11,200 |
| Tax Expenses | <u>(4,800)</u> | <u>(4,000)</u> |
| Profit for the year | 16,200 | 7,200 |
| Dividend Expenses | <u>(4,500)</u> | <u>(3,000)</u> |
| Retained Profit for the year | <u>11,700</u> | <u>4,200</u> |

The Statements of Financial Position as at 31st December 2016

| Assets | Rs. '000 | |
|--|---------------|---------------|
| | Petro | Dimo |
| <u>Non-Current Assets</u> | | |
| Property, Plant and Equipment | 20,400 | 15,200 |
| Investment in Dimo | 14,000 | - |
| <u>Current Assets</u> | | |
| Inventory | 7,500 | 5,400 |
| Trade Receivables | 3,800 | 2,600 |
| Other Receivables | 2,500 | 2,000 |
| Cash and equivalents | 9,200 | 5,500 |
| Total assets | 57,400 | 30,700 |
| <u>Equity and Liability</u> | | |
| <u>Equity</u> | | |
| Share Capital | | |
| - Ordinary Shares (Rs. 1/- each) | 30,000 | 15,000 |
| Retained Earnings | 15,600 | 7,300 |
| <u>Non- Current Liabilities</u> | | |
| Term Loan | 8,100 | 4,700 |
| <u>Current Liabilities</u> | | |
| Dividend Payable | - | 1,500 |
| Trade Payables | 3,700 | 2,200 |
| Total Equity and Liability | 57,400 | 30,700 |

Additional Information is given below (All figures are Rs.'000).

1. Non-Controlling Interest (NCI) at the acquisition is valued at its proportion of net assets.
2. During the year, Dimo Ltd sold goods to Petro Ltd at a value of Rs.10,000/-, by keeping a profit mark-up of 25% on cost. By the year end, Petro Ltd had 20% of such goods remained unsold.
3. On 01st January 2016, Petro Ltd sold a Factory Machine to Dimo Ltd at a price of Rs.6,000/-. The carrying value at the date of sale was Rs.4,800/-. The group companies depreciate its factory machines over an 8 year period.
4. Petro Ltd declared and paid Rs.4,500/- dividends to equity shareholders during the year. Dimo Ltd declared Rs.3,000/- of dividends to all of its' Ordinary shareholders in this year and half of it is not yet paid out, which is recorded in its' books as the dividends payables. Petro Ltd has recognized the dividend amount received as other income.
5. At the year-end, goodwill has been impaired by Rs.500/-.

You are required to prepare:

- (i) The Consolidated Statement of Financial Position as at 31st December 2016.
- (ii) The Consolidated Statement of Comprehensive Income for the year ended 31st December 2016.

(30 Marks)

- (b) Differentiate each of following coupled-terms referring to Business Combinations.
- (i) Controlling Interest *and* Non-controlling Interest.
 - (ii) Deferred Consideration *and* Contingent Consideration.
 - (iii) Goodwill *and* Gain on a bargain purchase.
 - (iv) Subsidiary *and* Investment in Associate.
 - (v) Pre-acquisition reserves *and* Post-acquisition reserves.

(5 × 2 Marks = 10 Marks)

(Total 40 Marks)

End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

- (a) X Ltd raise funds by issuing Rs.20,000,000/- 6% four-year loan notes on the first day of the current accounting period. The loan notes are issued at a discount of 10%, and will be redeemed at the maturity at a premium of Rs.1,015,000/-. The effective rate of interest is 12%. The issue costs were Rs.1,000,000/-.
- (i) What is the type of financial instrument involved in the above case? **(02 Marks)**
 - (ii) What is the value of initial measurement of this transaction? **(03 Marks)**
 - (iii) How should it be measured subsequently and accounted for throughout the four years? Show the ledger account. **(05 Marks)**
- (b) State the types of financial assets and liabilities and mention the subsequent measurement methods of each. **(05 Marks)**
- (c) Briefly explain what is a ‘compound instrument’ and how should account for such as per the **LKAS 32/39**. **(05 Marks)**
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- (a) Briefly explain Committee on Public Accounts (COPA) and Committee on Public Enterprise (COPE). **(06 Marks)**
 - (b) Authority assigned to Auditor General by the section 154 of the constitution and power of Auditor General according to the section 154 (5) of the constitution in respect of public sector audit. **(06 Marks)**
 - (c) What are the Biological assets which do not cover within the scope of **LKAS 41**? **(04 Marks)**
 - (d) Briefly mention disclosure requirement in respect of government grants related to agricultural activity. **(04 Marks)**
- (Total 20 Marks)**

Question No. 04 (20 Marks)

- (a) Current ratio of “A” company is 5:1 whereas current ratio of “B” company is 0.75:1. Industry norm is 2:1. Which company shows good financial performance? Justify your answer.
- (b) “High inventory turnover is not always good”. Do you agree with this statement? Discuss.
- (c) Price earnings ratio is 08 times. What does it implies. Explain.
- (d) You are given the following data of Alpha Company for the year ended 12/03/2017.

| | Rs.'000 |
|---------------------------------|-------------------|
| Net profit before tax | 1,210 |
| Income tax | <u>(405)</u> |
| Net profit after tax | 805 |
| Dividends payments – Preference | <u>(120)</u> |
| Retained profit | <u><u>685</u></u> |

Additional information:

- Status Capital consists of Rs.10/- ordinary shares 150,000 and 12%, Rs.10/- preference shares 100,000.
- Whereas, market price per ordinary shares at 31st March 2017 was Rs.14/-.
- Dividend payment during the year 2017 was Rs.250,000/-.

You are required to calculate Earning yield, Dividend yield and Price earnings ratio.

- (e) Debtors’ turnover is 5.6. Calculate the debtors’ collection period.

(5 × 4 Marks =Total 20 Marks)

Question No. 05 (20 Marks)

- (a) “Integrated reporting is mainly provides information on value creation process”. Discuss above statement with the support of integrated reporting framework. **(10 Marks)**
- (b) Identity what are the main elements / contents of a current corporate report. **(05 Marks)**
- (c) State whether the following statements are **“true”** or **“false”**. Write your answer together with the relevant question number.
- (i) Future corporate reporting practices mainly focus on producing sustainability information.
- (ii) Sustainability reporting mainly focuses on reporting of social and environmental impact of business activities.
- (iii) Corporate governance practices needs to be implemented to protect shareholders’ right.
- (iv) One of the criteria to identify Specified Business Enterprise (SBE) according to the accounting and auditing standards act is annual turnover.
- (v) Good composition of the capital structure is low gearing position.

(5 × 1 Mark = 05 Marks)

(Total 20 Marks)

End of Part II

End of Question Paper