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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Managerial Level May 2015 Examination

Examination Date : 16th May 2015 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>
Corporate Reporting and Analysis	(CRA / ML 2 – 302)

PART I

Answer **all** questions

Question No. 01 (40 Marks)

Jupiter Plc has two major investments in Mars Plc and Venus Plc in different proportions. Given below are the Statements of Financial Positions of the companies as at 31st March 2014.

Assets	Rs. '000		
	Jupiter	Mars	Venus
<u>Non-Current Assets</u>			
Property, plant and equipment	90,000	70,000	65,000
Investment in Mars	48,000	-	-
Investment in Venus	20,000	-	-
Total Non-Current Assets	158,000	70,000	65,000
<u>Current Assets</u>			
Inventory	20,000	15,000	12,000
Trade receivable	30,000	25,000	25,000
Cash and cash equivalents	30,000	26,000	20,000
Total Current Assets	80,000	66,000	57,000
Total assets	<u>238,000</u>	<u>136,000</u>	<u>122,000</u>
<u>Equity and Liability</u>			
<u>Equity</u>			
Stated Capital (Equity share of Rs. 10/- each)	100,000	60,000	50,000
Retained earnings	80,000	40,000	40,000
	180,000	100,000	90,000
<u>Non-Current Liabilities</u>			
Borrowings	40,000	20,000	22,000
Total Non-Current Liabilities	40,000	20,000	22,000

Current Liabilities			
Trade and other payables	<u>18,000</u>	<u>16,000</u>	<u>10,000</u>
Total Current Liabilities	18,000	16,000	10,000
Total Equity and Liabilities	<u>238,000</u>	<u>136,000</u>	<u>122,000</u>

Following additional information is provided (All values are in Rs 000'):

1. On 1st April 2013, Jupiter Plc acquired 70% of the controlling power of Mars Plc.
 - a) Jupiter agreed to pay the consideration to Mars in following means:
 - Paying Rs.48,000/- cash immediately.
 - Paying Rs.14,400/- cash in another two years' time (The market interest rate of a similar instrument is 20%).
 - A share exchange of three shares in Jupiter for every five shares of Mars. (At the date of acquisition, shares of Jupiter and Mars had market values of Rs.12/- and Rs.8/- respectively.

(Only the immediate cash payment has been accounted for)
 - b) Jupiter's policy of measuring Non-Controlling Interest proportionately to the fair value of Net Assets.
 - c) As at 1st April 2013, Mars had following balances:
 - Share Capital Rs.60,000
 - Retained Earnings Rs.30,000
 - d) On the date of acquisition, fair value of the Net Assets of Mars exceeded its' carrying value by Rs.20,000/-. 75% of this increase in value can be attributed to a land held by Mars and the rest is the value of an internally generated brand which expected to ending in another 5 years.
2. On 1st April 2013 Jupiter made another investment of Rs.20,000/- in Venus Plc by acquiring 30% of its' controlling power. On the date of investment Venus has had following Equity balances:
 - Share Capital Rs.50,000
 - Retained Earnings Rs.35,000
3. Following inter-company transactions had taken placed during the last year:
 - Mars has sold goods to Jupiter for Rs.20,000/- which had a cost of Rs.16,000/-. By the end of the year Jupiter had 40% of these goods unsold.
 - Venus made Rs.10,000/- sale of goods to Jupiter at a margin of 20% on selling price. At the year-end 30% of these goods were remained unsold.
4. Jupiter sold a used vehicle to Mars for Rs.15,000/- on 01st October 2013 which had a carrying value of Rs.12,000/- at the date of selling. The applicable depreciation rate is 20%.
5. Mars has proposed and approved a dividend of Rs.10,000/- to all its' shareholders. This is accrued at the year ended 31st March 2014 and also no entries have been made in the books of any company with regards to this dividend.

6. During the year ended 31st March 2014 Venus has declared a Rs.5,000/- dividend to all of its shareholders. Jupiter has not accounted for this transaction.
7. No impairments in Goodwill have been found until 31st March 2014.

You are required to prepare the Consolidated Statement of Financial Position of Jupiter Group of Companies as at 31st March 2014.

(Total 40 Marks)

End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

- (a) Universal Ltd acquired a foreign subsidiary on 1st April 2014 when retained earnings were \$2,200. Summarized balance sheet of the foreign subsidiary as at 31/03/2015 is given below.

	\$
Non-Current Assets	15,000
Current Assets	<u>7,000</u>
	<u>22,000</u>
Equity	10,500
Retained earnings	3,200
Non-current liabilities	5,300
Current liabilities	<u>3,000</u>
	<u>22,000</u>

On 1st April 2014 1\$ = Rs. 128.00

On 31st March 2015 1\$ = Rs. 133.00

Average exchange rate for the year 1\$ = Rs. 130.50

You are required to:

- (i) Translate the summarized balance sheet of the foreign subsidiary as at 31/03/2015 to Sri Lankan Rupees (Rs.) for the purpose of consolidation with Universal Ltd's group financial statements. **(06 Marks)**
- (ii) Find out the Exchange Gain / Loss on above currency translation. **(02 Marks)**
- (b) Framework for the preparation of financial statements state that the objective of financial statements is to provide information about the financial position, performance and the changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Further segment reporting have been introduced to contribute for achieving this objective smoothly.

You are required to:

- (i) Define the term 'operating segment' referring to three main conditions to be satisfied. **(03 Marks)**
- (ii) Do we need to report separately for every identified operating segment? Justify your answer. **(03 Marks)**

- (c) Following transactions related to the last financial year have been summarized from the ledger of Alpha Ltd;
- (i) The annual salary of the two executive directors amounted to Rs. 4.2 million. Fees paid to directors for attending board meetings amounted to Rs.800,000/-. The company made a one off payment of Rs. 1 million to its retired executive director during the year.
 - (ii) Mr. Roy a non-executive director of the company is also a director of FB Bank Ltd. which had lent the company Rs. 6 million during the year of which Rs. 4 million is outstanding at the year end.
 - (iii) During the year, BEE Ltd has sold some inventories amounting to Rs. 1.2 million to the company. Mr. Yuhu owns 30% shares of the company and Mrs. Yuhu (spouse of Mr. Yuhu) holds 100% shares of BEE Ltd.

You are required to identify whether the above transactions are Related Party transactions and advise the company on reporting for those transactions. **(06 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Quree Ltd had three investments in ordinary shares in two different quoted companies. It was initially done on 1st January 2014. Quree is expecting to trade the shares of ABC Co. by looking at the daily movements of the share market, but the shares of XYZ Co. are to be held with a long-term strategic investment plan. All the investments are still recorded at initial cost in the financial statements as at 31st December 2014. Following details are given regarding the Quree Ltd's investments in shares.

Investee	Number of Shares	Initial price per share (Rs.)	Market price per share (Rs.)
ABC Co.	1,000	100/-	110/-
XYZ Co.	1,500	120/-	140/-

In addition to above details, Quree had to incur a 2% initial transaction cost for each investment he made.

You are required to determine the type of financial instrument for each two above investments and show the extracts of financial statements as at 31st December 2014. **(08 Marks)**

- (b) Shefeild Plc purchased a Treasury bond on 1st April 2014, at a price of Rs.100,000/- which had a coupon rate of 10% on the face value of Rs.120,000/- and a yield of 14%. Shefeild was not intending to hold this until maturity, nor to trade on it. The coupon received at the year end, 31st March 2015 was Rs.105,000/-.

Determine the classification of this investment and prepare the relevant investment account accordingly for the year ended 31st March 2015. **(06 Marks)**

- (c) Is there any difference between the two interest rates of convertible securities and non-convertible securities? Explain your answer with the reasons. **(03 Marks)**

- (d) Describe what is called as 'Hybrid security' and provide two examples for such securities.

(03 Marks)

(Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Total assets employed of the firm is Rs.600,000/-. 40% of the assets have being financed by borrowed capital at 8% interest rate per annum and the balance from Rs.10/-, 20,000 ordinary shares and 6%, Rs.10/-, 16,000 preference shares. The direct cost is Rs.480,000/- and all other operating cash cost is Rs.60,000/-. The goods are sold to customers at 150% of the direct cost. Company tax rate is 25%.

Calculate the followings.

- (i) Net profit margin
- (ii) Return on assets
- (iii) Assets turnover ratio
- (iv) Return on equity
- (v) Earnings per share

(10 Marks)

- (b) What are the financial ratios would you most likely refer to in each of the following situations? Give reasons for your answers.

- (i) As you are a marketing manager, when you deciding to extend credit sales.
- (ii) When you are considering of investing Rs.50,000/- in a company debentures.
- (iii) When you are considering of investing Rs.100,000/- in a company common shares.
- (iv) As you are a material supplier of a manufacturing company, when you are deciding to supply material on credit basis.

(10 Marks)

(Total 20 Marks)

Question No. 05 (20 Marks)

- (a) “Human Resource Accounting (HRA) is a relatively new subject to Sri Lankan context”. Assume that you have been assigned responsibilities to introduce HR accounting practices in your company”. How do you convince to the board of management of your company that the significance of an application of HRA for the betterment of the company.

Objectives, specific uses, scope of HRA and methods available for valuation of human resources etc... to be incorporated into your answer.

(10 Marks)

- (b) Why corporate governance practices need to be published as a part of the annual reports?

(10 Marks)

(Total 20 Marks)

End of Part II

End of Question Paper