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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Managerial Level May 2012 Examination

Examination Date : 12th May 2012 **Number of Pages :** 07
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 the **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) Good Ltd is a diversified company that has made two long term investments in Better Ltd and Best Ltd. Information relating to the investments is given below:

Investment in Better Ltd.

Good Ltd paid Rs.70 million to acquire 80% of the equity shares of Better Ltd on 01st April 2009 when:

- the accumulated reserve balance of Better Ltd was Rs.7 million.
- the fair value of the net assets of Better Ltd was equal to their carrying amount with the exception of property plant and equipment of Better Ltd., which had a fair value of Rs.8 million over and above its carrying amount and economic life of PPE, as on the date of acquisition, was four (04) years.
- a brand name developed by Better Ltd for a product already being commercially exploited has a market value of Rs 15 million with a remaining commercial life of 10 years at the date of acquisition.

Investment in Best Ltd.

Good Ltd acquired 40% share of Best Ltd for Rs.30 million on 01st April 2011.

Draft financial statements of Good, Better and Best for the year 2011 / 2012 are given.

Income Statements for the year ended 31st March 2012

	Good Ltd. Rs. '000	Better Ltd. Rs. '000	Best Ltd. Rs. '000
Sales	160,200	125,400	94,000
Cost of sales	(85,000)	(65,300)	(46,000)
Gross profit	75,200	60,100	48,000
Other income	10,300	5,000	6,000
Administrative expenses	(22,500)	(24,600)	(15,000)
Distribution cost	(38,000)	(26,500)	(16,000)
Finance cost	(5,000)	(2,000)	(8,000)
Profit before tax	20,000	12,000	15,000
Tax expenses	(6,000)	(4,000)	(5,000)
Profit after tax	14,000	8,000	10,000

Balance Sheets as at 31st March 2012

	Good Ltd. Rs. '000	Better Ltd. Rs. '000	Best Ltd. Rs. '000
Assets			
Non-current assets			
Property Plant and Equipment	85,000	72,000	60,800
Investments	120,000	15,000	10,000
Current Assets			
Stock	18,600	12,400	12,500
Debtors	6,400	7,600	8,700
Current account with Better Ltd	15,000	-	-
Cash and Bank	5,000	3,000	4,000
Total Assets	250,000	110,000	96,000
Equity and Liabilities			
Equity			
Stated capital	150,000	50,000	50,000
Reserves	68,600	32,500	36,800
Non-current liabilities			
15% Debentures	20,000	10,000	-
Current Liabilities			
Creditors	11,400	5,500	9,200
Current account with Good Ltd	-	12,000	-
Total Equity and Liabilities	250,000	110,000	96,000

The following additional information is available.

1. It is the group policy to charge brand amortization to the cost of sales.
2. During the year, Good Ltd sold Rs.12 million (invoice) worth of goods to Better Ltd and Better Ltd sold Rs.8 million (invoice) worth of goods to Good Ltd. Each company keeps a gross margin of 50% on invoice price. However half of these goods were remained unsold at each company at the balance sheet date.
3. Other income of Better Ltd includes building rental income of Rs.3 million received from Good Ltd for using the premises of Better Ltd. for its general administrative functions.
4. Impairment test made on 31st March 2012 concluded the followings:
 - Goodwill of Better Ltd has an impaired loss of Rs 2 million
 - Investment in Best Ltd has similarly been impaired by Rs.1 million
5. Difference in between the current accounts represents the followings:
 - Cash in transits Rs. 1 million
 - Goods in transits Rs. 2 million
6. Good Ltd sold one of its motor vehicles to Better Ltd on 01st January 2010 for Rs.15million The carrying value of the vehicle as on that date was Rs.10million with an economic life of 5 years.
7. Good Ltd has acquired 60% of the debentures of Better Ltd on 01st January 2011 for Rs.6 million. Better Ltd has paid debenture interest in full for the year.

You are required to prepare:

- 1) Consolidated income statement of Good Ltd for the year ended 31st March 2012. (12 Marks)
 - 2) Consolidated statement of financial position as at 31st March 2012. (16 Marks)
- (b) Global Ltd paid Rs.620million to acquire 75% of the equity share capital of Foreign Ltd on 01st April 2011, which operates in overseas. As on the date of acquisition, the fair value of the net assets of Foreign Ltd. which equalled to their carrying value was US\$ 8,000,000. Foreign Ltd. prepares its financial statements in Dollars (\$), which is its functional currency.

Global Ltd has also acquired 80% of shares of Domestic Ltd on 01st April 2009 for Rs.90 million. The reserve balance of Domestic Ltd as on that date was Rs.40million. For consolidation purpose, Global Ltd revalued the property plant and equipment (PPE) of Domestic Ltd, which indicated their fair value was Rs.15million over and above the carrying value with a remaining economic life of five (05) years.

The draft balance sheets of three companies as at 31st March 2012 are given below.

	Global Ltd Rs.000	Domestic Ltd Rs.000	Foreign Ltd \$. '000
Assets			
Non-current assets			
Property Plant and Equipment	40,000	106,000	6,000
Long term investments	710,000	15,000	-
Current Assets			
Inventory	8,000	18,000	1,500
Trade receivables	18,000	16,000	1,200
Cash and bank	12,000	9,000	300
Total Assets	788,000	164,000	9,000
Equity and Liabilities			
Stated capital	400,000	50,000	6,000
Reserves	315,600	88,000	2,800
Non-current liabilities			
Debentures	50,000	20,000	-
Current Liabilities			
Trade payables	22,400	6,000	200
Total Equity and Liabilities	788,000	164,000	9,000

Additional Information:

The foreign exchange rates that prevailed between Rupee and US Dollar were as follows:

	Rupees to 1 Dollar
01 st April 2011	110
31 st March 2012	130
Average for 2011/2012	120

You are required to:

- 1) Translated balance sheet of Foreign Ltd in Rupees as at 31st March 2012. **(03 Marks)**
 - 2) Foreign exchange gain/loss for the year. **(03 Marks)**
 - 3) Consolidated reserve balance as at 31st March 2012. **(03 Marks)**
 - 4) Non-controlling interest as at 31st March 2012. **(03 Marks)**
- (Total 40 Marks)**
End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

- (a) State six (06) limitations of accounting ratio analysis as a tool of analysing financial statements. **(03 Marks)**
- (b) State four (04) non financial factors that should be considered when analysing financial statements. **(02 Marks)**
- (c) “A strong financial result and financial position of a company will essentially secure its future survival”
Critically assess the above statement. **(03 Marks)**
- (d) The income statement and the balance sheet of Delta PLC for the year ended 31st March 2011 are given below.

Income Statement

	2012 (Rs.000)	2011 (Rs.000)
Sales turnover	13,000	9,000
Cost of Sales	(7,000)	(4,500)
Gross Profit	6,000	4,500
Profit from disposal of land	2,000	-
Distribution Cost	(1,600)	(1,000)
Administrative Expenses	(1,400)	(500)
Finance Cost	(1,500)	(300)
Profit Before Tax	3,500	2,700
Tax Expense	(1,200)	(800)
Profit After Tax	2,300	1,900

Balance Sheets

	2012 (Rs.000)	2011 (Rs.000)
Non-current assets		
Property plant and equipment	32,000	16,500
Current assets		
Stock	2,500	800
Debtors	800	1,200
Cash and bank	300	1,500
Total assets	35,600	20,000
Equity and Liability		
Stated capital	10,000	10,000
Reserves	8,800	6,500
Non-current Liabilities		
Bank loan	15,000	2,500
Current Liabilities		
Creditors	1,800	1,000
Equity and Total Liabilities	35,600	20,000

You are required to comment on the financial result and financial position of Delta Ltd by computing appropriate accounting ratios. **(12 Marks)**
(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Explain the following as per SLFRS 8 – Operating Segments. **(08 Marks)**
- (i) Operating segment.
 - (ii) Application of quantitative thresholds in identifying reportable segments.
 - (iii) Aggregation criteria in reporting two or more segments as a single segment.
 - (iv) Disclosure requirements for reportable segments.
- (b) Define the following terms in line with SLFRS 4 – Insurance contracts. **(04 Marks)**
- (i) Insurance contract.
 - (ii) Insurance assets and insurance liabilities.
- (c) Briefly explain the following terms in relating to banks and finance companies. **(04 Marks)**
- (i) Tier one capital.
 - (ii) Tier two capital.
- (d) Briefly explain the meaning and the accounting treatment for “permanent land development cost” and “limited land development cost” in accordance with relevant Sri Lanka Accounting Standards. **(04 Marks)**
- (Total 20 Marks)**

Question No. 04 (20 Marks)

- (a) Define the following terms in accordance with LKAS 32 and LKAS 39. **(08 Marks)**
- (i) Financial instruments.
 - (ii) Derivative.
 - (iii) Hedging instruments.
 - (iv) Hedge effectiveness.
- (b) “Preference shares can be considered as equity instruments” Do you agree with this statement? Discuss. **(03 Marks)**
- (c) Alpha limited has repurchased 5% of its own equity shares with the view of maximizing its equity holders’ wealth. Chief accountant of Alpha Ltd is of the view that the equity shares repurchased should be recognized as a financial asset. Discuss the possibilities for Alpha Ltd to recognize its own equity shares as a financial asset. **(04 Marks)**
- (d) Lanka Petroleum PLC purchases crude oil from Iranian Petroleum Ltd. On 01st April 2012 Lanka Petroleum entered in to an agreement with Iranian Petroleum to purchase crude oil for US\$ 500 million when the exchange rate is US\$ 1= Rs.130/-. The cargo is to be supplied and paid for on 31st May 2012. As on 01st April 2012, the forward rate for the delivery of US Dollars on 31st May 2012 was US\$ 1 = Rs.135/-.

You are required to:

- (i) State whether the forward agreement signed by the Lanka Petroleum can be considered as a derivative as per Sri Lanka Accounting Standards. **(02 Marks)**
 - (ii) Identify the type of hedge, hedging instrument, and hedge item relating to the above scenario. **(03 Marks)**
- (Total 20 Marks)**

Question No. 05 (20 Marks)

- (a) Briefly explain 'environmental accounting' and 'human resources accounting' as emerging trends in accounting. **(05 Marks)**
- (b) State the powers vested on Auditor General as per the Constitution and his reporting responsibility. **(05 Marks)**
- (c) State the meaning and the limitations of social responsibility accounting. **(05 Marks)**
- (d) Explain the meaning and the importance of "Fair Value Accounting". **(05 Marks)**

(Total 20 Marks)

End of Part II

End of Question Paper
