 Serial No.……………….

Institute of Certified Management Accountants of Sri Lanka
Operational Level
May 2012 Examination

Examination Date :	12^{th} May 2012	**Number of Pages :**	12
Examination Time:	9.30 a:m. – 12.30 p:m.	**Number of Questions:**	07

Instructions to Candidates

1. Time allowed is **three (3) hours.**
2. Total: **100** Marks
3. Answer **all** questions in Part I and **four (4)** questions from Part II selecting **two (2)** question from each of the Sections **A** and **B**.
4. The answers should be in the **English Language.**

Subject	Subject Code
Financial Accounting and Reporting	**(FAR / OL 2 – 202)**

PART I

Question No. 01 (20 Marks)

Answer all parts of the Question No.1. Select the most correct answer to each part of the question. Write the number of the part of the question and the selected answer by stating the relevant English letter, in your answer booklet. **E.g. (1) (relevant English letter), (2) (relevant English letter) etc….**

(1) Which of the following phrases directly relate to the financial position?
- (a) Net income after all relevant expenses.
- (b) Assets, liabilities and equity.
- (c) Net income, expenses, assets, liabilities and equity.
- (d) None of the above.

(2) Which of the following gives the two ***underlying assumptions*** made in the preparation of financial statements as per the Framework for Preparation and Presentation of Financial Statements?
- (a) Relevance and reliability.
- (b) Accrual basis and going concern.
- (c) Accrual basis and matching.
- (d) Going concern and completeness.

(3) A building carried at a net book value of Rs.210,000/- was demolished. A new building was constructed in its place. Rs.80,000/- was realized through the sale of scrap of the old building while removed material valued at Rs.50,000/- was reused in the construction of the new building. Rs.490,000/- was expended under the construction contract for the new building.

How much is the cost of construction of the new building?
- (a) Rs. 410,000
- (b) Rs. 460,000
- (c) Rs. 490,000
- (d) Rs. 540,000

(4) As per the relevant accounting standards, an entity shall change an accounting policy only if the change is required:

(a) To make it easy to understand the financial statements.
(b) To make it easy to present financial information.
(c) To reduce the volume of information presented in the financial statements.
(d) To provided more reliable and relevant information in the financial statements.

(5) Given below is some information relating to a trading organization.

Opening inventory	Rs. 68,000
Closing inventory (excluding damaged good)	Rs. 96,000
Purchases	Rs. 364,000
Value of damaged inventory	Rs. 24,000
Gross profit margin on sales price	40%

In view of the above information, total sales value for the period would have been;

(a) Rs. 520,000/-
(b) Rs. 560,000/-
(c) Rs. 436,800/-
(d) Rs. 470,400/-

(6) The following events had taken place between the end of the financial year and the date on which the financial statements were authorized for issue. Which of the following is ***not*** an adjusting event occurred after the reporting period?

(a) A debtor of Rs.600,000/- who was provided as doubtful debts as at the balance sheet date was declared as bankrupt by the court.
(b) The court gave the order to pay a claim of Rs.900,000/- for a case which was pending as at the balance sheet date.
(c) The company acquired the controlling power of a large conglomerate with an investment of Rs.500,000,000/-.
(d) Inventories valued at a cost of Rs.700,000 as at the balance sheet date was sold only for Rs.400,000/-.

(7) Sandalanka Ltd. made a public issue of 200,000 shares at Rs.25 each. Applications were received for 300,000 shares and shares were allotted among all the applicants on pro-rata basis. Cash were collected per share as follows:

	Rs.
With the application	10.00
At the allotment	8.00
Call	7.00

A person applied for 30,000 shares did not paid the allotment money and the issue is still pending. The total cash collected from the share issue would be;

(a) Rs.5,000,000
(b) Rs.4,700,000
(c) Rs.4,800,000
(d) Rs.4,550,000

(8) Which of the following statement is ***<u>false</u>*** relating to limited liability companies?

   (a) The equity consists of stated capital and the reserves.
   (b) Consideration of a share can be collected at once with the application.
   (c) A right issue of shares will not generate a cash flow to the company.
   (d) Stated capital account should not be credited until the share allotment is made.

(9) Which of the following events will result in a ***<u>contingent liability</u>*** as at the balance sheet date of a company?

   (a) The company has filed a case of claiming Rs.1 million from a supplier for supplying of inferior materials and the court decision is pending at the balance sheet date.
   (b) Based on the past experiences, a company could make a reliable estimate of Rs.500,000 for the warranty cost for the good sold during the year.
   (c) The company has sold goods for Rs.50 million with a warranty of one year but a reliable estimate cannot be made in relation to the warranty cost.
   (d) Even though the Company is having a constructive obligation to pay a bonus of Rs.800,000/- for the current year, there is no legal obligation to do so.

(10) You are working as an Accounts Executive of a Large Public Limited Company. Your superior, the Chief Accountant has informed you that any equipment acquired by the company at a cost which is less than Rs. 8,000/- per item to be recognized as an expense during the period. What is the relevant accounting concept applicable to such policy decision taken by the Company?

   (a) Prudence concept.
   (b) Matching concept.
   (c) Accrual assumption.
   (d) Materiality concept.

(10 × 2 Marks = Total 20 Marks)

End of Part I

PART II

Section A

Answer <u>any two (2)</u> questions

<u>Question No. 02 (20 Marks)</u>

The trial balance of the Global PLC as at 31st March 2011 is given below.

Item	**(Rs.000)**	**(Rs.000)**
Receivables / Payables	2,340	630
Brand Names	1,620	
Cash and Cash Equivalents	1,185	
Stated Capital – Ordinary Shares		29,700
Retained Earnings		8,250
Bank Loan, 12%		9,600
Land and building - at cost	43,500	
Motor vehicle - at cost	25,500	
Office equipment - at cost	9,750	
Accumulated depreciation and amortization as at 01st April 2010		
- Buildings		7,800
- Motor vehicles		5,250
- Office equipment		3,600
-Brand Names		540
Sales		85,500
Cost of sales	45,750	
Administrative expenses	9,630	
Distribution expenses	7,350	
Finance expenses	1,950	
Other Income		3,180
Provision for doubtful debts as at 01st April 2010		180
Provision for income tax 2009/2010		360
Income tax paid	2,415	
Stock as at 31st March 2011	3,600	
Total	**154,590**	**154,590**

The following additional information is available.

(1) Inventory balance as at 31st March 2011 is valued at cost. This included goods costing Rs.690,000/- which had a net realizable value of Rs.540,000/-.

(2) The goods costing Rs.255,000/- was destroyed due to a fire and the scarp was sold for Rs.60,000/-. No accounting entry has been made in this regard other than recording of the scrap sales under other income. Further, it has revealed that the company has distributed Rs.300,000/- worth of inventory items at cost in a sales promotion campaign during the year under review which has not been accounted for.

(3) Cost of land included in the land and building is Rs.18 million.

(4) The company sold a motor vehicle for Rs.1,800,000/- on 30th September 2010 which was purchased on 01st October 2008 at a cost of Rs.2,600,000/-. No adjustment had been made in this regard other than recording of cash proceeds received in the sales account.

(5) New motor vehicle costing Rs.3,600,000/- and office equipment costing Rs.1,500,000/- were purchased on 01st January 2011 and has been accounted properly.

(6) There were no additions or disposal of property, plant and equipment during the year except those mentioned above.

(7) Property, Plant and Equipment are depreciated annually on straight line method using the following rates. However, no depreciation is made on assets purchased during the year but full depreciation is made on assets disposed during the year.

Buildings	-	5%
Motor Vehicles	-	25%
Office Equipments	-	20%

(8) 50% of the depreciation on motor vehicle should be charged to distribution expenses.

(9) The brand names to be amortized within a period of 05 years.

(10) Provision for doubtful debts includes a specific provision of Rs.90,000/- and it was decided to write off this as amount as bad debts. The provision for doubtful debtors is to be adjusted to 6% of debt outstanding.

(11) Tax paid includes the final tax payment of Rs.435,000/- made for the year of assessment 2009/2010. The tax advisors estimated that the company's total tax liability for the year of assessment 2010/2011 would be Rs.2,760,000/-.

You are required to prepare:

(a) Income Statement (Comprehensive) for the year ended 31st March 2011. **(08 Marks)**

(b) Statement of Financial Positions as at 31st March 2011. **(08 Marks)**

(c) Notes to Financial Statements relevant to Property, Plant and Equipment. **(04 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

(a) Briefly define the following terms by referring to the relevant financial Reporting Standards.

(i) Group
(ii) Subsidiary
(iii) Control
(iv) Non Controlling Interest **(04 Marks)**

(b) On 01st January 2010 **Ajax Ltd** acquired 2,240,000 shares of **Blue Ltd** for a consideration of Rs.22.4 million. The stated capital of **Blue Ltd** comprised of 3,200,000 ordinary shares. The summarized balance sheet of **Ajax Ltd** and **Blue Ltd** as at 31st March 2011 are given below.

	Ajax Ltd.	Blue Ltd.
	Rs. 000	Rs. 000
Assets		
Non Current Assets		
Property, Plant and Equipment	84,800	46,200
Investment in Blue Ltd.	44,800	-
Current Assets		
Inventories	41,000	24,400
Accounts Receivable	27,600	21,000
Related Company Receivable	3,400	-
Cash & Cash Equivalents	4,200	3,600
	205,800	**95,200**
Equity & Liabilities		
Capital & Reserves		
Stated Capital	80,600	32,000
Capital Reserves	-	14,000
Retained Earnings	44,600	15,800
Current Liabilities		
Accounts Payable	31,400	16,200
Short-term Borrowings	49,200	15,120
Related Company Payable	-	2,080
	205,800	**95,200**

The following information is relevant for the preparation of the Group Consolidated Balance Sheet.

(1) The Capital Reserves of **Blue Ltd** includes a net profit of Rs. 11 million earned during the post acquisition period.

(2) **Ajax Ltd's** portion of goodwill on acquisition of **Blue Ltd** was identified to be impaired by Rs.1,000,000/- as at 31st March 2011.

(3) Inventories of **Blue Ltd** as at 31st March 2011 includes goods transferred from **Ajax Ltd** at Rs. 12 million. **Ajax Ltd** retained a margin of 50% on cost.

(4) **Ajax Ltd** transferred a plant which had a written down value of Rs. 7 million to **Blue Ltd** for Rs. 9 million on 01st April 2010. **Blue Ltd** estimated the plant to have a useful life of 5 years. **Blue Ltd** depreciates its assets on the straight line basis.

(5) **Blue Ltd** has made a cash transfer of Rs.1,000,000/- to **Ajax Ltd** as at the year end but it had been received by **Ajax Ltd** after few days. Further, **Blue Ltd** incurred advertising expenses of Rs.320,000/- on behalf of **Ajax Ltd** and that too has not been recorded in the books of **Ajax Ltd.**

You are required to:

(i) Calculate the goodwill arising on the acquisition of **Blue Ltd** based on the guidelines given in SLFRS 03 – Business Combinations. **(08 Marks)**

(ii) Prepare the Consolidated Statement of Financial Position of **Ajax Group** as at 31st March 2011. **(08 Marks)**

(Total 20 Marks)

Question No. 04 (20 Marks)

(a) Set out below are the income statement and the balance sheets of Araliya Ltd.

Balance Sheet as at 31st March

	2011	2010
	Rs. 000	Rs. 000
ASSETS		
Non Current Assets		
Property, Plant and Equipment (PPE)	24,800	20,000
Investments	3,680	3,200
Intangible Assets	3,600	4,000
Current Assets		
Inventories	2,480	2,280
Trade Receivables	1,520	1,960
Cash & Cash Equivalents	1,080	1,520
Total Assets	**37,160**	**32,960**
EQUITY & LIABILITIES		
Capital & Reserves		
Ordinary Share Capital	18,400	16,000
Revaluation Surplus	1,200	800
Retained Earnings	11,720	9,120
Non-Current Liabilities		
Debentures	1,600	700
Bank Loans	1,400	2,900
Retiring Gratuity	400	300
Current Liabilities		
Trade Payable	1,000	1,320
Interest Payable	480	320
Taxation Payable	320	480
Loan Account – Short term	640	1,020
Total Equity & Liabilities	**37,160**	**32,960**

Following information is given;

(1) Depreciation charge for the year amounted to Rs.1,920,000/-. There was no disposal of PPE during the year. Intangible Assets are amortized within a period of 10 years. However an amount of Rs.900,000/- has been recognized as an impairment loss during the year.

(2) Investment in the year 2009/2010 shows a fixed deposit of Rs.3,200,000/- made on 31st March 2010 at 15% interest p.a. renewable automatically with interest.

(3) There were no appropriations from profit after tax during the year, except the amount of Rs.400,000/- paid as dividends during the year.

(4) Taxation for the year was estimated at Rs.1,800,000/-.

(5) Interest Expenses Charged to the Income Statement for the year was Rs.351,000/-.

(6) An amount of Rs.250,000/- has been charged to the Income Statement as provision for the Retiring Gratuity for the year.

You are required to prepare the cash flow statement for year ended 31st March 2011. **(10 Marks)**

(b) Asha Traders entered in to finance leased agreement with Isuru Finance Company to acquire machinery on 1st January 2010. The company's financial year ends 31st December. The following information is provided in relation to this transaction.

Cost/ Fair value of the motor vehicle	-	Rs.750,576/-
Lease term	-	4 years
Lease interest rate	-	10% p.a.
Down-payment	-	Rs.180,000/- on 1st January 2010
Lease rental	-	Rs.180,000/- on 31st December each year
Transfer of the ownership	-	at end of the lease term
Useful life of the machinery	-	5 years
Residual value of the machinery	-	Rs.30,576/-

You are required to ascertain the;

(i) Interest expense for the year ending 31st December 2011.

(ii) Depreciation for the year.

(iii) Carrying amount of the machinery as at 31st December 2011.

(iv) Liability recorded as the current liability as at 31st December 2011.

(v) Liability recorded as the non-current liability as at 31st December 2011.

(10 Marks)
(Total 20 Marks)
End of Section A

Section B

Answer <u>any two (2)</u> questions

<u>Question No. 05 (20 Marks)</u>

(a) The ledger balances of XY Limited as at 01st April 2010 were as follows.

	Rs'000
Ordinary Shares (200,000 shares)	6,000
Preference Shares (80,000 shares)	2,000
General Reserve	1,800
Retained Profit	1,940

Additional information.

(1) The company has issued 60,000 new ordinary shares and 40,000 preference shares at Rs.50 and Rs.35 respectively during the year under review. Applications were received by the company for 90,000 ordinary shares and 45,000 preference shares. The company has allotted the shares after refunding the excess application money.

(2) The company has made a bonus issue of one (1) share to every ten (10) ordinary shares held as at beginning of the year using the general reserves. The value per bonus share was Rs.35/-.

(3) The property, plant and equipment of the company was revalued during the year end resulted a surplus of Rs.1,800,000/-. These assets were revalued in the year 2009 and had been resulted a deficit of Rs.800,000/-.

(4) The net profit for the year had been reported as Rs.3,100,000/-.

(5) The company has paid following net dividends after deducting 10% dividend tax.

	Rs.
Preference Shares	324,000
Ordinary Shares	720,000

(6) The Board of Directors of the Company has proposed;

a. To transfer Rs.600,000/- to General Reserve.
b. To declare a final dividend to preference share holder Rs.300,000/- and ordinary share holder Rs.420,000/- respectively.

You are required to prepare the Statement of the Changes in Equity for the year ended 31st March 2011. **(10 Marks)**

(b) Builders had the following fixed price construction contract in progress as at 31st March 2011. The company recognizes revenue and costs relating to construction contracts in reference to the percentage of completion method, which is measured by reference to the percentage of contract costs incurred for work performed to date to the estimated total contract costs.

Project A	**(Rs. '000)**
Value of contract	4,800
Value of work done to date	2,160
Estimated costs to complete	1,950
Progress billings to date	1,920
Contract period	2 years
Construction contract costs incurred to 31st March 2011	1,890
Progress billings received	1,800

You are required to:

(i) Calculate the profit / loss of the contract as at 31st March 2011, in accordance with Sri Lanka Accounting Standards (SLAS).

(ii) Show relevant disclosures to be made in the Income Statement and Statement of Financial Position, as required by the Sri Lanka Accounting Standards, based on available information.

(10 Marks)
(Total 20 Marks)

Question No. 06 (20 Marks)

(a) Company 'A' purchased its only plant on 01st April 2008 at a cost of Rs.2,400,000/-. On 31st March 2009 this asset was revalued at Rs.2,000,000/-. An impairment test carried out on 31st March 2010 revealed an impairment loss of Rs.300,000/- on this asset. This same asset was revalued on 31st March 2011 at Rs.1,280,000/-. The useful life time of the plant was estimated as a period of 05 years and depreciation is charged on straight line method.

You are required to show the:

(i) Journal entries for the revaluation of the plant as at 31st March 2009.

(ii) Journal entries for the impairment of the plant as at 31st March 2010.

(iii) Journal entries for revaluation of the plant as at 31st March 2011.

(iv) Carrying value of the plant as at 31st March 2012.

(10 Marks)

(b) The following information is relevant to product “Selta” purchased and sold by Magnum Ltd during the December 2010.

Date	Description
01.12	Balance of 3,000 units purchased at Rs.15 each
08.12	Purchased 2,000 units at Rs.14 each
12.12	Sold 3,600 units at Rs.20 each
17.12	Purchased 1,600 units at Rs.16 each
20.12	Sold 1,200 units at Rs.20 each
22.12	Sold 900 units at Rs.20 each
25.12	Purchase of 1,000 units at Rs.18 each

You are required to calculate the followings under **FIFO** and **Weighted Average** methods seperately.

(i) Cost of closing stock as at 31st December 2010.

(ii) Cost of sales for the month of December 2010.

(iii) Gross profit for the month of December 2010

(10 Marks)
(Total 20 Marks)

Question No. 07 (20 Marks)

(a) State the components of Financial Statements as stated in LKAS 01 – Presentation of Financial Statements and the objectives of each component. **(05 Marks)**

(b) List 07 important items get included in a Statements of Financial Position. **(07 Marks)**

(c) Clarify the two (02) methods as stated in that LKAS 01, which an entity could apply for presenting items of Comprehensive Statement of Income. **(02 Marks)**

(d) What are the two (02) components of total Comprehensive Income shown in such an Income Statement? **(02 Marks)**

(e) Name two (02) items to be shown as other Comprehensive Income items in the Statement of Comprehensive Income. **(04 Marks)**

(Total 20 Marks)
End of Section B
End of Part II
End of Question Paper