 Serial No……………….

Institute of Certified Management Accountants of Sri Lanka

Managerial Level
November 2012 Examination

Examination Date :	10th November 2012	**Number of Pages :**	06
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.**

Subject	Subject Code
Corporate Reporting and Analysis	**(CRA / ML 2 – 302)**

PART I

Answer **all** questions

Question No. 01 (40 Marks)

(a) Holmes PLC held 70% of the equity of Stoner limited as on 01/04/2011, when Stoner's net assets had a carrying value of Rs.230 million. Holmes PLC sold entire shareholding in Stoner for Rs.225 million on 01/10/2011. The full goodwill related to the acquisition of Stoner was Rs.21 million after accumulated impairments. Stoner's land revaluation reserve on this date was Rs.10 million. The net profit of Stoner for the year ended 31/03/2012 was subsequently reported at Rs.100 million. Stoner did not make any dividend payment during the year before the disposal of the shares.

Show the impact of the loss of control at the disposal. **(05 Marks)**

(b) 20% of a fully owned foreign subsidiary of Lanka PLC was sold on 01/01/2012 for $100,000. The following are the foreign subsidiary's information on that date.

Share capital	$ 100,000
Retained earnings	$ 200,000
Exchange losses in equity	$ 50,000

Assume no other equity components in the subsidiary.

Applicable Dollar exchange rates are given below.

01/04/2011	Rs. 110
01/01/2012	Rs. 115
31/03/2012	Rs. 120

How do you report the disposal in the financial statements of Lanka group? **(05 Marks)**

(c) Colombo PLC (CPLC) has a fully owned subsidiary in Malaysia. CPLC also acquired 1.5 million ordinary shares of Kandy PLC (KPLC) in 2010. Information given below is related for the year ended 31st March 2012.

	CPLC Group (consolidated with Malaysia subsidiary)	**KPLC**
	Rs. '000	**Rs. '000**
Revenue	88,000	16,000
Cost of Sales	(53,000)	(7,000)
Gross Profit	35,000	9,000
Other Income	0	3,000
Administrative Expenditure	(12,000)	(3,000)
Distribution Cost	(14,000)	(2,000)
Finance cost	(3,000)	(1,000)
Profit before tax	6,000	6,000
Income tax	(1,000)	(400)
Profit after tax	5,000	5,600

(i) KPLC has proposed a dividend of Rs. 5 million (Rs. 1 per share) for ordinary shares. CPLC has not accounted for any dividend from KPLC for the year.

(ii) CPLC has transferred goods to KPLC at Rs. 3 million which includes a margin of 20% on invoice price. The year-end inventory of KPLC includes goods transferred from CPLC at Rs.500,000/-.

(iii) The investment in KPLC had been impaired as follows.

As on	Impairment
31/03/2011	Rs. 300,000
31/03/2012	Rs. 450,000

(iv) The translation of foreign subsidiary's financial statements as at 31.3.2012 resulted in a net exchange gain of Rs. 320,000. This has been transferred directly to equity.

You are required to prepare Consolidated Statement of Comprehensive Income for the CPLC group, for the year ended 31st March 2012. **(10 Marks)**

(d) The summarized statements of financial position of the three public companies Apple, Blue and Comet as at 31st March 2012 are given below.

	Apple Rs.'000	Blue Rs.'000	Comet Rs.'000
Property, Plant and Equipment	36,000	20,000	36,000
Investments	27,000	10,000	-
Inventory	13,000	12,000	7,000
Trade Receivables	6,000	3,000	4,000
	82,000	45,000	47,000
Ordinary Shares of Rs. 20 each	20,000	16,000	8,000
Retained Earnings as at 31 March 2011	32,000	4,000	12,000
Profit for year ended 31 March 2012	18,000	6,000	10,000
7% Loan	6,000	12,000	8,000
Current Liabilities	6,000	7,000	9,000
	82,000	45,000	47,000

(v) Blue acquired 140,000 ordinary shares of Comet on 01/04/2010 at a cost of Rs.9 mn.

(vi) Apple acquired 640,000 ordinary shares of Blue on 01/04/2011 at a cash payment of Rs.16 mn and 160,000 ordinary shares of Comet at a cost of Rs.10 mn. Apple has agreed to pay an additional Rs. 2.6 mn if Blue generates profits continuously for two years, payable at the end of two years from the date of acquisition. The fair value of non controlling interest (NCI) in Blue on this date was Rs. 4.4 mn and the fair value of NCI (both direct and indirect) in Comet was Rs.7 mn.

(vii) Goodwill has suffered no impairment since acquisition.

(viii) Apple's cost of capital is 14% p.a.

(ix) Amount receivable from Blue as included in Apple's trade receivables, is less than the amount at which it is included in Blue's payables. This has been solely due to a cash in transit of Rs.500,000/-.

Present value factors

	Year 1	Year 2	Year 3	Year 4
12%	0.893	0.797	0.712	0.636
14%	0.877	0.769	0.675	0.592

You are required to prepare Consolidated Statement of Financial Position of Apple group as at 31/03/2012. **(20 Marks)**

(Total 40 Marks)

End of Part I

Part II

Answer any **<u>three (3)</u>** questions

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

(a) Bank of People has provided Highway Builders (Private) limited (HBL) a loan which accounts for about 80% of the company's capital requirements. HBL is owned by a friend of the Managing Director of the Bank of People. HBL's assets have been mortgaged against the loan.

Explain the related party disclosure requirements. **(04 Marks)**

(b) (i) How would you identify Reportable Segments of an entity? **(04 Marks)**

(ii) Janatha PLC has operations in two business segments. The company practice is to report foreign exchange differences arising from the revaluation of USD receivables within administrative expenses.

Advice the management on whether segment result should include the exchange differences related to each segment. **(04 Marks)**

(iii) Seed limited has two Reportable Segments. The accountant requires eliminating sales from one unit to another within the segment, and also the balances between one unit and another within the segment.

Explain the requirement of the applicable reporting standard. **(04 Marks)**

(iv) TUMORO PLC has three business segments; management requires presenting a fourth segment to reflect a business component. The revenue of fourth component, which does not generate any inter-segmental revenue, falls below the 10% thresholds for mandatory reporting. However it is expected to reach more than 12% of the total revenue in the next few years as the business component is growing.

Comment on the management's view. **(04 Marks)**

(Total 20 Marks)

<u>Question No. 03 (20 Marks)</u>

(a) DEL PLC has a pension plan for its employees. The company has increased the pension benefits with immediate effect. Hence the current pensioners will receive additional monthly payments over a period of years. The additional payments are valued at Rs. 5 million in today's terms.

Explain the appropriate accounting requirements. **(04 Marks)**

(b) (i) Explain the meaning of the term 'financial liability'. **(03 Marks)**

(ii) Holland PLC has issued perpetual debentures at an interest of 14% p.a. Do you consider the debenture of Holland as a financial liability? Explain. **(03 Marks)**

(iii) Accountant of Cee PLC requires offsetting a financial asset and a financial liability and the net amount to be reported in the financial statements.

Do you agree with the accountant? Explain. **(04 Marks)**

(iv) Johns PLC has issued 1,000 debentures at a face value of Rs.100/- each, at an interest of 10% p.a. payable end of each year. These debentures are convertible in to ordinary shares at the discretion of the holder at the end of four year period. Similar non-convertible debt has a market rate of 12% p.a.

Present value factors

	Year 1	Year 2	Year 3	Year 4
10%	0.9090	0.8264	0.7513	0.6830
12%	0.8928	0.7972	0.7117	0.6355

Calculate the carrying amount of the equity component to be included in the financial statements.

(06 Marks)
(Total 20 Marks)

Question No. 04 (20 Marks)

Lanka (Pvt) Ltd has become increasingly concerned over its liquidity position in recent months. Following information has been extracted from the financial statements.

Profit and Loss Account
for the period ended 31st March 2012

	2012 Rs. '000		2011 Rs. '000	
Sales		2,400,000		1,600,000
Cost of sales				
Opening stock	340,000		200,000	
Purchases	2,330,000		1,100,000	
	2,670,000		1,300,000	
Closing stock	(860,000)		(340,000)	
Cost of sales		1,810,000		960,000
Gross profit		590,000		640,000
Expenses		(370,000)		(180,000)
Net profit		220,000		460,000

Balance Sheets as at 31st March 2012

	2012 Rs. '000	2011 Rs. '000
Property NBV	310,000	200,000
Fixtures and fittings NBV	45,000	10,000
Motor vehicles NBV	70,000	30,000
Stocks	860,000	340,000
Debtors	280,000	50,000
	1,565,000	630,000
Stated Capital	120,000	120,000
Retained profit	530,000	310,000
Current liabilities		
Creditors	250,000	60,000
Accrued expenses	80,000	0
Bank overdraft	265,000	40,000
Related parties	80,000	0
Loans	240,000	100,000
	1,565,000	630,000

You are required to write a report to the Management of Lanka Limited explaining:

(a) Performance, liquidity position and efficiency in resources utilization of Lanka Ltd (using appropriate ratios).

(b) Steps as appropriate to improve the financial condition of the company.

(c) Limitations (if any) of your analysis.

(Total 20 Marks)

Question No. 05 (20 Marks)

(a) What are the methods a business could discharge its 'Corporate Social Responsibility'? **(04 Marks)**

(b) What are the benefits of purchasing power adjusted financial statements? **(04 Marks)**

(c) Explain the need for good governance in the corporate sector today. **(04 Marks)**

(d) Describe how a strong internal control system of a company would contribute to corporate governance. **(04 Marks)**

(e) Udarata Farm Company started a fish farm recently and has incurred the following costs thereon.

Materials	Rs. 300,000
Direct labour	Rs. 200,000
Overheads	Rs. 180,000

The company expects to generate revenue in the next year and that the fish harvest would bring a net margin of 20% on cost.

Explain how do you treat the above costs in the current financial statements. **(04 Marks)**

(Total 20 Marks)

End of Part II

End of Question Paper