



UNIVERSITY OF KELANIYA - SRI LANKA

Centre for Distance and Continuing Education

FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2014/15

August 2020

BCOME 3035 – Advanced Financial Accounting

No. of Questions: Five (05)

Time : Three Hours (03)

Answer all questions.

Question No. 01

Costa PLC acquired 80% of net assets of Dora PLC on 1st April, 2018. The consideration paid by Costa is recorded in the investments account.

The market prices of shares of two companies on 1 April, 2018 were;

- Costa – Rs.30
- Dora – Rs. 20

The summarized statements of financial position of the two public companies, Costa and Dora as at 31st March, 2019 are given below.

| | Costa Rs.'000 | Dora Rs.'000 |
|-------------------------------|--------------------------|-------------------------|
| Property, plant and equipment | 56,000 | 40,000 |
| Investments | 50,000 | 8,000 |
| | | |
| Inventory | 23,000 | 14,000 |
| Trade receivables | 16,000 | 13,000 |
| Cash | 9,000 | 3,000 |
| | 154,000 | 78,000 |
| Ordinary shares | 60,000 | 45,000 |

| | | |
|------------------------------------|-----------------------|-----------------------|
| Ordinary shares (No. of shares) | 60,000 (3 million) | 45,000 (3 million) |
| Retained earnings 31.03.2019 | 32,000 | 14,000 |
| 12% debentures | 18,000 | - |
| Trade payables | 36,000 | 12,000 |
| Tax liability | 8,000 | 7,000 |
| | 154,000 | 78,000 |

Additional information.

- i. The fair value of a property of Dora at the date of the acquisition was Rs. 6 million higher than the carrying value. Remaining life of this property at acquisition was 6 years.
- ii. The profit of Dora for the year ended 31st March 2019 was Rs. 6 million.
- iii. Depreciation is charged by the two companies on a straight-line basis
- iv. During the year ended 31 March 2019 Costa PLC sold goods to Dora PLC for Rs. 540,000. Costa PLC had marked up these goods at 50% on cost. Dora PLC had one third of these goods in its inventory as at 31 March 2019. There were no intra group payables/ receivables on 31 March 2019.
- v. Ignore taxation.

You are required to prepare:

- a). Consolidated goodwill at acquisition. **(05 marks)**
- b). The consolidated statement of financial position of Costa Group as at 31st March 2019 **(20 marks)**
(Total 25 marks)

Question No. 02

- a). List out the enhancing qualitative characteristics of Financial Statements as per the Conceptual Framework for Financial Reporting and briefly explain two of them. **(08 marks)**
- b). Discuss the importance of maintaining faithful representation of financial information in financial statements with its criteria. **(06 marks)**
- c). Define the following terms as per Financial Accounting.
 - i). Materiality
 - ii). Predictive value
 - iii). Conformity value

(02 marks each = 06 marks)
(Total 20 marks)

Question No. 03

The following information is extracted from the books of Kapila Limited Company, liquidated on completed on May 31st, 2019.

| <u>Assets & Liabilities</u> | <u>Book Value (Rs.)</u> |
|--|-------------------------|
| 5% Preferred Share Capital - 50,000 shares, Rs. 10 each | 500,000 |
| Equity Share Capital - 75,000 shares, Rs. 20 each | 1,500,000 |
| First mortgage on Land and Building | 500,000 |
| Second mortgage on Land and Building | 450,000 |
| 10% Debentures secured by floating charge (Interest paid till 31 st March 2019) | 250,000 |
| Secured bank overdrafts with a floating charge | 112,000 |
| Trade accounts payable | 413,000 |
| Bills payable | 118,500 |
| Income Tax Payable | |
| -2015/16 | 35,000 |
| -2016/17 | 10,550 |
| -2017/18 | <u>4,960</u> |
| | 50,510 |
| Workers compensation due to liquidation of company | 313,450 |
| Accrued salaries and wages (for 5 months) | 895,000 |
| Director's salary payable (agreed to receive only Rs. 30,000) | 40,000 |
| Preferred stock dividends payable | 50,000 |
| Land and Buildings (estimated to be Rs. 1,200,000) | 1,016,000 |
| Plant and Machinery (estimated to be worth Rs. 600,000) | 720,000 |
| Fittings (estimated to be worth Rs. 715,000) | 695,000 |
| Patent (estimated to be worth Rs. 475,000) | 500,000 |
| Inventory (estimated to be 50% lower) | 485,000 |
| Trade Debtors (Rs. 250,000 can be recovered, 75% of doubtful debtors of Rs 125,000 are estimated to borrow, and the balance is bad debtors). | 512,000 |
| Bills receivable | 224,500 |
| Prepaid (Received Total Payment) | 14,600 |
| Cash | 7,200 |

Additional information is as follows:

- 1) There is a contingent liability to pay for a legal case amounting to Rs. 45,000. It is estimated that it will cost Rs. 37,000 for the settlement.
- 2) As of March 31st, 2015, the company's statement of financial position had a trading profit of Rs.325,000 and general reserve of Rs.68,000 and dividends of 214,000 shares of preferred stock and common stock. The Company incurred a loss of Rs. 128,360, Rs. 244,100, Rs. 315,000 and Rs. 489,700, respectively, for the years ended 2015/16, 2016/17, 2017/18 and 2018/19. The total stock loss in 2016/17 was Rs 20,000.
- 3) Payments for liabilities were made on June 30th, 2019.

Using the information above, you are required to prepare:

- a). Statement of Company Affairs
- b). Deficiency/Surplus Account

(Total 20 Marks)

Question No. 04

- a). What are the criteria that determine whether the investor controls investee?
(05 marks)
- b). You are provided with the information related to three different acquisitions of Nesna PLC during the year ended 31st March 2019. Identify whether Nesna PLC controls three investees and justify your answer.
 - i. Acquired 46% of net assets of Alpha PLC. There are another 30 shareholders to Alpha PLC each holding less than 2% of the voting power. They are rarely attending the meetings and use their voting power.
 - ii. Acquired 49% of net assets of Beta PLC. Nesna formulates the policies of Beta and actively participates in the operational activities of Beta. The balance shares lie in the hand of Sigma PLC and they do not participate in the day-to-day management activities of Beta.
 - iii. Acquired 46% of net assets of Theta PLC. There are another two shareholders to Theta PLC each holding 27% of the voting power. They are regularly attending the meetings and use their voting power.

(05 marks each – 15 marks)

(Total 20 marks)

Question No. 05

a). Explain the difference between ‘Principal’ and ‘Agent’ as per the Sri Lanka Financial Reporting Standards No. 10 – Consolidated Financial Statements

(05 marks)

b). A PLC acquired 80% of net assets of B PLC on 01st April 2018. Below details are given to the date of the acquisition.

Net assets of B PLC

| | |
|------------------------|---------------|
| Ordinary share capital | Rs. 4,500,000 |
| Reserves | |
| Retained earnings | Rs. 1,600,000 |
| General reserves | Rs. 500,000 |

Fair value of investment by non-controlling interest was Rs. 2,000,000.

Consideration transferred by A PLC to B PLC

- Cash of Rs. 3,000,000, half to be paid on the date of the acquisition, with the balance due on 1st April 2019. The incremental borrowing rate for A PLC was 10%.
- 10,000 shares in A PLC were issued. The share price on 01st April 2018 was Rs 200 per share. Costs of issuing the shares was Rs 10,000
- Legal fees related to the acquisition totalled Rs 15,000

You are required to calculate the goodwill at the acquisition under the Sri Lanka Financial Reporting Standards No. 03 – Business Combinations.

(10 marks)

(Total 15 marks)