



# 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) – 2016

May 2022

#### BCOM E 3035 – Advanced Financial Accounting

No. of questions: Four (04)

Time: 03 hours

Answer all Questions

#### Question No. 01

- a). What is the conceptual framework of Sri Lanka Accounting? Why is a conceptual framework needed in financial accounting?  
(05 Marks)
- b). Briefly explain the factors to consider when selecting a measurement basis in financial reporting.  
(07 Marks)
- c). Name the qualitative characteristics of the accounting information and briefly describe them.  
(13 Marks)

(Total 25 Marks)

#### Question No. 02

Alexa ltd acquired 75% of net assets of Blexa ltd on 01.04.2020. At the date of the acquisition, net loss of Blexa ltd was Rs. 512,000. The fair value of non-controlling interest at the date of the acquisition was Rs. 950,000. You have been given the individual financial statements of Alexa group of companies for the year ended 31<sup>st</sup> March 2021 as follows.

Statements of Comprehensive Income for the year ended 31<sup>st</sup> March 2021

	Alexa (Rs.)	Blexa (Rs.)
Revenue	13,568,226.00	10,420,712.00
Cost of sales	10,221,430.00	8,111,900.00
<b>Gross Profit</b>	<b>3,346,796.00</b>	<b>2,308,812.00</b>

Other Income	132,000.00	4,500.00
Administrative Expenses	943,236.00	622,900.00
Distribution Expenses	1,028,328.00	712,800.00
<b>Operating Profit</b>	<b>1,507,232.00</b>	<b>977,612.00</b>
Finance Expenses	323,450.00	488,950.00
<b>Profit before tax</b>	<b>1,183,782.00</b>	<b>488,662.00</b>
Taxation	428,200.00	94,500.00
<b>Profit for the year</b>	<b>755,582.00</b>	<b>394,162.00</b>

Statements of Changes in Equity for the year ended 31<sup>st</sup> March, 2021

	Alexa (Rs.)	Blexa (Rs.)
Stated Capital	6,000,000.00	3,000,000.00
<b>Retained earnings</b>	-	-
Balance as at 01.04.2020	1,512,854.00	1,472,900.00
Net Profit	755,582.00	394,162.00
Dividend Paid	156,000.00	100,000.00
Balance as at 31.03.2021	2,112,436.00	1,767,062.00
	8,112,436.00	4,767,062.00

Statements of Financial Position as at 31<sup>st</sup> March, 2021

	Alexa (Rs.)	Blexa (Rs.)
<b>Assets</b>		
Non-Current Assets		
Property, Plant and Equipment	4,325,270.00	4,328,150.00
Investment - Blexa	2,450,000.00	
Other Investment	185,000.00	75,000.00
	<b>6,960,270.00</b>	<b>4,403,150.00</b>

<b><u>Current Assets</u></b>		
Inventories	822,600.00	612,850.00
Trade debtors	456,750.00	343,600.00
Loan to Blexa	500,000.00	-
Amount due from related party	121,500.00	-
Cash and cash equivalent	377,466.00	677,362.00
	<b>2,278,316.00</b>	<b>1,633,812.00</b>
<b>Total Assets</b>	<b>9,238,586.00</b>	<b>6,036,962.00</b>
<b><u>Equity and Liabilities</u></b>		
<b><u>Equity</u></b>		
Stated capital	6,000,000.00	3,000,000.00
Retained earnings	2,112,436.00	1,767,062.00
	<b>8,112,436.00</b>	<b>4,767,062.00</b>
<b><u>Non-Current liabilities</u></b>		
Interest bearing borrowings	256,320.00	292,000.00
<b><u>Current liabilities</u></b>		
Interest bearing borrowings	361,680.00	645,000.00
Trade Creditors	383,500.00	288,950.00
Amount due to related party		1,500.00
Taxation	124,650.00	42,450.00
	<b>869,830.00</b>	<b>977,900.00</b>
<b>Total Equity &amp; Liabilities</b>	<b>9,238,586.00</b>	<b>6,036,962.00</b>

### Other Information

1. On the acquisition date, building of Blexa Ltd has been revalued for Rs. 2,800,000.

As at 31.03.2021, Blexa Ltd books shows following balances.

Building - Rs. 3,000,000

Provision for depreciation of building - Rs. 600,000.

Blexa Ltd depreciate their asset at 5% rate on straight line basis.

2. During the year Blexa Ltd sold, Rs. 600,000 cost of goods to Alexa Ltd with 20% gross profit margin. 15% of such goods remained in Alexa Ltd's inventory as at 31.03.2021
3. During the year Alexa Ltd sold goods valued at Rs. 700,000 to Blexa Ltd. Cost of these goods to Alexa Ltd was Rs. 600,000. 10% of such goods remained in Blexa Ltd's inventory as at 31.03.2021
4. On 01<sup>st</sup> October 2020 Blexa Ltd obtained a 10% interest bearing loan amounting to Rs. 250,000 from Alexa ltd with an agreement to repay it within next twelve month period.
5. During the year it was identified an unrecorded cash amount of Rs. 120,000 by Alexa Ltd. It is a cash payment made by Blexa ltd on 30<sup>th</sup> March 2021 as a settlement of the amount due to Alexa.

You are required to prepare the;

- i). Consolidated Statement of Comprehensive Income of the Alexa group for the year ended 31.03.2021
- ii). Consolidated Statement of Changes in Equity of the Alexa group for the year ended 31.03.2021
- iii). Consolidated Statement of Financial Position of the Alexa group as at 31.03.2021

**(Total 30 Marks)**

**Question No. 03**

The Widana Ltd. who incorporated their business on 01<sup>st</sup> July 2016 decided to liquidate their company on 31<sup>st</sup> March 2021. They prepared their last statement of financial position on 31<sup>st</sup> March 2021, and they have not issued new preference share and ordinary shares after their incorporation. You have been provided Statement of Financial Position as at 31.03.2021

Widana Ltd  
Statement of Financial Position  
as at 31.03.2021 (Rs.000')

<b><u>Assets</u></b>		
<b><u>Non-current Assets</u></b>		
Land	2,880	
Building	11,520	
Plant and Machinery	38,880	
Equipment	2,880	56,160

<b><u>Current Assets</u></b>		
Stock	11,386	
Debtors	16,560	
Cash at Bank	<u>4,320</u>	
		<u>32,266</u>
		<b>88,426</b>
<b><u>Equity &amp; Liabilities</u></b>		
<b><u>Equity</u></b>		
Preference share Stated Capital	28,800	
14%, 288,000 preference shares of Rs.100 each fully paid up		
<b><u>Ordinary share Stated Capital</u></b>		
342,480 ordinance quity shares of Rs.100 each fully paid up	34,248	
Calls in arrears	(90)	
Reserves	<u>(16,878)</u>	46,080
<b><u>Non-Current Liabilities</u></b>		
14%,Rs.100 debentures secured on a floating charge	16,560	
10%,Loan on Mortgage of Land	2,250	
12%, Loan on Mortgage of Building	<u>8,550</u>	27,360
<b><u>Current Liabilities</u></b>		
Trade Creditors	1,056	
Preference Share dividend payable	4,006	
Accrued director's salary (06 months)	676	
Accrued Salaries & wages (06 months)	5,400	
Accrued Debenture interest	2,318	
Income Tax		
2018/19	900	
2019/20	450	
2020/21	<u>180</u>	<u>14,986</u>
		<b><u>88,426</u></b>

On 30<sup>th</sup> June 2021 the company went into liquidation and as per the requirement of section 283 of the Companies Act No. of 2007 the secretary of the company is going to submit the statement of company affairs and other documents by using following information.

i. Assets realized values

Land-Rs,4,500,000  
Building-Rs.8,100,000  
Plant & Machinery –Rs.33,750,000  
Equipments-Rs.2,160,000  
Stock-Rs.6,750,000

ii. Accrued interests of loan on mortgages should pay up to 30<sup>th</sup> June 2021. Interest up to 31<sup>st</sup> March 2021 paid in full.

iii. Based on the cash receipts of trade debtor's they have been analyzed them as good debtors, doubtful debtors and bad debtors. The amount of each Category of debtors are as follows.

Good Debtors - Rs.9,900,000  
Doubtful Debtors –Rs.4,725,000 (estimated to realize 75%)  
Rest of the debtors will be treated as bad debtors

iv. Company has called arrears money from the shareholders, and it is estimated to realize Rs.67,500 from them

v. Including late charges Rs.1,080,000 should be paid to the creditors.

vi. Director agrees to receive Rs.630,000 as his accrued salary.

vii. Other liabilities, except creditors and directors' accrued salary, have to be settled in full as per the statement of financial position.

viii. Company received Rs.99,000 from an unrecorded debtor.

ix. There is a contingent liability for legal payment Rs.112,500 and estimated to be realized for Rs.99,000

x. Retaining earning balance as at 31.03.2021 occurred as a result of following reasons.

2016/17 - Company had Rs.23,400,000 trade profit and Rs. 4,500,000 general reserve. At the year end they declared Rs.6,300,000 ordinary share and preference share dividends.

2017/18 - Company had Rs.2,250,000 trade profit at the end of the year and they faced a stock loss of Rs.90,000. They declared Rs.4,950,000 of ordinary share and preference share dividends.

2018/19 - Company had Rs.900,000 trade loss and at the end of the year they declared Rs.4,006,000 preference share dividends.

2019/20 - Company had Rs.11,250,000 trade loss and at the end of the year they declared Rs.4,006,000 preference share dividends.

2020/21 - Company had Rs.11,520,000 trade loss and at the end of the year they declared Rs.4,006,000 preference share dividends.

By using above information, you are required to prepare,

- a). Statements of Company affairs
- b). Deficiency or Surplus Account

**(Total 30 Marks)**

**Question No. 04**

- a). List out the exemption criteria for a parent company to discharge the responsible presenting consolidated Financial Statements as per Sri Lanka Financial Reporting Standard (SLFRS) – 10.

(05 Marks)

- b). Explain the four requirements of the acquisition method in accounting for Business Combinations as per Sri Lanka Financial Reporting Standard (SLFRS) – 03.

(10 Marks)

**(Total 15 Marks)**

