

**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**FINAL EXAMINATION – JULY 2014**

**(60) ADVANCED FINANCIAL ACCOUNTING**

20-07-2014  
Morning  
[9.00 – 12.00]

**Time: 03 hours**

• **Instructions to candidates:**

- (1) **All questions should be answered.**
- (2) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Use of calculators is permitted.**
- (5) **100 Marks.**

No. of Pages : 09  
No. of questions : 06

**01. White Flower PLC** is a company engaged in diversified businesses. The main business activities of the company are constructions, vehicle hiring and buying and selling of consumer goods. The Trial Balance of the company as at 31<sup>st</sup> March 2014 is given below:

**White Flower PLC  
Trial Balance as at 31<sup>st</sup> March 2014**

	<b>Dr (Rs.'000)</b>	<b>Cr (Rs.'000)</b>
Ordinary Share Capital (1,500,000 shares)		18,000
Redeemable Preference Share Capital (250,000 shares)		2,000
Retained Earnings as at 01 <sup>st</sup> April 2013		690
<u>Property, Plant and Equipment-at cost</u>		
Land	13,500	
Building	8,000	
Plant and Machinery	16,000	
Motor Vehicles	30,000	
Office Equipment	4,500	
<u>Provision for Depreciation as at 01<sup>st</sup> April 2013</u>		
Building		4,200
Plant and Machinery		8,000
Motor Vehicles		7,500
Office Equipment		1,800
Trade Receivables	33,000	
Inventories as at 31 <sup>st</sup> March 2014	14,800	
Trade Payables		24,400
Income Tax account for the year of assessment 2012/13		650
10% Bank loan		25,200
Cash in hand and at Bank	2,100	
Cost of Sales / Sales	69,780	144,000
Cash Advance received from the construction contract		12,500
Distribution Expenses	16,375	
Administration Expenses	29,250	
Other Expenses	260	
Finance expenses - Interest paid on 10% Bank Loan	2,750	
Income Tax Paid	7,000	
<u>Interim Dividends paid:</u>		
Ordinary Shares	1,500	
Redeemable Preference Shares	125	
	<b>248,940</b>	<b>248,940</b>

The following additional information is also provided:

- (1) The company engages in small and medium size construction contracts as a part of their business activities. During the year, the company has entered into an agreement to construct a warehouse for a business organization. The details of this construction contract are as follows:

	<b>Rs.'000</b>
Price of the Contract	19,500
Total estimated cost	15,000
Cash advance received	12,500
<b>Payments made during the year:</b>	
Material purchases	5,000
Labour charges	800
Transport expenses	300
Machinery hiring	620
Other expenses	485
Closing material stock as at 31 <sup>st</sup> March 2014	225
Accrued expenses as at 31 <sup>st</sup> March 2014	280

All the above payments made during the year in respect of this contract were debited to administration expenses and credited to cash book. No entries were made in the books of account in respect of this contract except payments made during the year and cash advance received.

- (2) The company acquired a motor car on 01<sup>st</sup> April 2013 to use as a renting vehicle under a finance lease agreement.

The details of the lease agreement are as follows:

Fair value of the vehicle	Rs.2,800,000/-
Lease term	4 years
Initial deposit	Rs.400,000/-
Annual lease installment	Rs.924,000/-
Rate of lease interest	20% per annum

Initial deposit on lease and annual lease installment made during the year were debited to trade payables and credited to cash book. Other than that no entries were made in the books of accounts.

- (3) (i) The company purchased a new Air Conditioner for Rs.1,120,000/- on 30<sup>th</sup> June 2013.
- (ii) During the year, the company has disposed a few old office equipment for Rs.25,000/-. The cost of these assets was Rs.200,000/- and these were fully depreciated as at 01<sup>st</sup> April 2013. The money received from disposal has been debited to cash book and credited to sales account. Other than that no entries were made in respect of the disposal of office equipment.

- (4) Depreciation is calculated on the straight-line method at cost and the estimated useful life of Property, Plant and Equipment is as follows:

Building	- 20 years
Plant and Machinery	- 5 years
Motor Vehicles (leased and other)	- 4 years
Office Equipment	- 5 years

- (5) In addition to the accrued expenses of construction contract, the following accrued expenses should be provided as at 31<sup>st</sup> March 2014 in the books of accounts:

	<b>Rs.</b>
Telephone, Water, Electricity and Office Maintenance	260,000
Vehicle Repair and Maintenance charges	165,000

- (6) The income tax liability for the year of assessment 2013/14 is Rs.7,500,000/-.
- (7) ½ of the bank loan as at 31<sup>st</sup> March 2014 should be settled in the following year. This loan was obtained on 01<sup>st</sup> April 2013 and the original amount of the loan was Rs. 30 million. Interest payable for the month of March 2014 should be provided in the books of accounts and interest is charged on the original amount of the loan.
- (8) The Board of Directors of the company have taken the following decisions at the board meeting held on 25<sup>th</sup> May 2014:
- To pay a final dividend of Rs.1.50 per share for the ordinary shares held on 31<sup>st</sup> March 2014.
  - To pay dividend of Rs.1/- per share for the redeemable preference shares held on 31<sup>st</sup> March 2014.
- (9) The financial statements were authorized for issue by the Board of Directors on 20<sup>th</sup> June 2014.

Based on the above information, **you are required to prepare**, for **White Flower PLC** the following, in a form suitable for publication:

- (a) Comprehensive Income Statement for the year ended 31<sup>st</sup> March 2014. (12 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2014. (10 marks)
- (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2014. (03 marks)
- (d) Notes to Property, Plant and Equipment. (05 marks)
- (Total 30 marks)



- 03.** On 01<sup>st</sup> April 2013, **Para PLC** acquired 80% of the equity share capital of **Sara Ltd.** at Rs.20 million. The fair value of identifiable net assets of **Sara Ltd.** on the date of acquisition was Rs.22 million and fair value of non-controlling interest on 01<sup>st</sup> April 2013 was Rs.5 million:

You may assume that the fair value of identifiable net assets as at the date of acquisition was equal to its book value.

The Statements of Comprehensive Income of the two companies for the year ended 31<sup>st</sup> March 2014 are given below:

**Statements of Comprehensive Income for the year ended 31<sup>st</sup> March 2014**

	<b>Para PLC (Rs.'000)</b>	<b>Sara Ltd. (Rs.'000)</b>
Revenue	68,400	34,200
Cost of Sales	(42,800)	(20,300)
<b>Gross Profit</b>	<b>25,600</b>	<b>13,900</b>
Other Income	1,400	-
<b>Expenses:</b>		
Distribution expenses	(6,400)	(3,800)
Administration expenses	(8,200)	(4,300)
Finance expenses	(2,200)	(600)
<b>Profit before tax</b>	<b>10,200</b>	<b>5,200</b>
Income tax	(2,240)	(1,020)
<b>Profit for the year</b>	<b>7,960</b>	<b>4,180</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>7,960</b>	<b>4,180</b>

The following additional information is also provided:

- (1) During the year, **Sara Ltd.** sold goods to **Para PLC**, at an invoiced value of Rs.3.2 million of which 25% of this stock was included in the inventory of **Para PLC** as at 31<sup>st</sup> March 2014. **Sara Ltd.** sells goods to **Para PLC** at 25% mark-up on cost.
- (2) Other income of **Para PLC** is as follows:

	<b>Rs.</b>
Management fees received from <b>Sara Ltd.</b> for the year	600,000
Interim dividend received from <b>Sara Ltd.</b> during the year	500,000
Sale of scrap items	300,000
<b>Total</b>	<b>1,400,000</b>

Using the above information, **you are required to,**

- (a) Compute the goodwill on consolidation. (03 marks)
  - (b) Prepare the statement of Consolidated Comprehensive Income for the year ended 31<sup>st</sup> March 2014. (12 marks)
- (Total 15 marks)

04. (A) State two(02) constitutional provisions relating to Public Finance. (02 marks)
- (B) Briefly explain the Committee on Public Accounts (COPA). (04 marks)
- (C) State four(04) functions / roles of the Treasury. (04 marks)
- (Total 10 marks)

05. The Statements of Financial Position as at 31<sup>st</sup> March 2014 and 31<sup>st</sup> March 2013 and the Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2014 of **Black Bolt Company Ltd.** are given below:

**Black Bolt Company Ltd.**  
**Statements of Financial Position** (Rs.'000)

	as at 31 <sup>st</sup> March 2014		as at 31 <sup>st</sup> March 2013	
<b>Assets</b>				
<b>Non Current Assets</b>				
Property, Plant and Equipment at carrying value		26,990		32,450
Investments		5,600		-
<b>Current Assets</b>				
Inventories	7,200		8,500	
Trade Receivables	5,695		6,750	
Cash & Cash Equivalents	2,300	15,195	1,000	16,250
<b>Total Assets</b>		<b>47,785</b>		<b>48,700</b>
<b>Equity &amp; Liabilities</b>				
<b>Equity</b>				
Ordinary Share Capital (1,650,000 shares)		33,000		33,000
Retained Earnings		4,640		3,400
		37,640		36,400
<b>Non Current Liabilities</b>				
Bank Loan		-		2,800
Redeemable Preference Share Capital (200,000 shares)		3,000		-
<b>Current Liabilities</b>				
Trade Payables	6,200		8,300	
Accrued Expenses	945	7,145	1,200	9,500
<b>Total Equity and Liabilities</b>		<b>47,785</b>		<b>48,700</b>

**Black Bolt Company Ltd.**  
**Statement of Comprehensive Income**  
**for the year ended 31<sup>st</sup> March 2014**

	Rs.'000	Rs.'000
Sales		48,500
Cost of sales		(32,000)
<b>Gross Profit</b>		<b>16,500</b>
<b>Expenses:</b>		
Distribution expenses	6,585	
Administration expenses	4,800	
Other expenses	1,840	
Finance expenses - dividends on preference shares	200	(13,425)
<b>Profit before tax</b>		<b>3,075</b>
Income Tax		(1,835)
<b>Profit for the year</b>		<b>1,240</b>
Other comprehensive income		-
<b>Total Comprehensive Income for the year</b>		<b>1,240</b>

The following additional information is also provided:

- (1) The market value of an ordinary share as at 31<sup>st</sup> March 2013 and as at 31<sup>st</sup> March 2014 were Rs.20.50 and Rs.21/- respectively.
- (2) Profit before interest & tax and profit after tax for the year ended 31<sup>st</sup> March 2013 were Rs.1,380,000/- and Rs.850,000/- respectively.
- (3) During the year, the company has paid dividends of Rs.350,000/- on ordinary shares.
- (4) The gross profit ratio and the net profit ratio of the company for the year ended 31<sup>st</sup> March 2013 were 35% and 5% respectively.

Using the above information, **You are required to,**

- (a) Calculate the following ratios of the **Black Bolt Company Ltd.** for the year ended 31<sup>st</sup> March 2013 and 31<sup>st</sup> March 2014:
  - (i) Gross Profit Ratio (only for the year ended 31<sup>st</sup> March 2014).
  - (ii) Net Profit Ratio (only for the year ended 31<sup>st</sup> March 2014).
  - (iii) Dividend Cover Ratio for ordinary shares (only for the year ended 31<sup>st</sup> March 2014)
  - (iv) Current Ratio.
  - (v) Quick Asset Ratio.
  - (vi) Earning Per Share.
  - (vii) Earning Yield Ratio.
  - (viii) Return on Total Capital Employed Ratio. (08 marks)
  
- (b) Draft a report to the management of the company advising about the above ratios. (07 marks)  
(Total 15 marks)

06. The Statements of Financial Position and the Statement of Comprehensive Income of the **Red Parrot Company Ltd.** are given below:

**Red Parrot Company Ltd.**  
**Statements of Financial Position**

(Rs.'000)

	as at 31 <sup>st</sup> March 2014		as at 31 <sup>st</sup> March 2013	
<b>Assets</b>				
<b>Non Current Assets</b>				
Plant and Machinery	4,200		3,600	
Less: Accumulated Depreciation	(3,150)	1,050	(1,800)	1,800
Motor vehicle	2,800		2,800	
Less: Accumulated Depreciation	(1,120)	1,680	(560)	2,240
Office Equipment, Furniture and Fittings	820		1,100	
Less: Accumulated Depreciation	(242)	578	(440)	660
		3,308		4,700
Investments		1,500		600
		4,808		5,300
<b>Current Assets</b>				
Inventories		565		730
Trade Receivables		2,640		1,260
Investment Income Receivables		20		10
Cash & Cash Equivalents		28		32
		3,253		2,032
<b>Total Assets</b>		<b>8,061</b>		<b>7,332</b>
<b>Equity &amp; Liabilities</b>				
<b>Equity</b>				
Stated Capital - Ordinary Share Capital		3,200		2,000
Retained Earnings		1,085		180
		4,285		2,180
<b>Non Current Liabilities</b>				
Bank Loan		358		780
Debentures		-		1,100
		358		1,880
<b>Current Liabilities</b>				
Trade Payables		3,155		3,100
Accrued Expenses		207		131
Income tax payable		46		35
Bank Loan Interest Payable		10		6
		3,418		3,272
<b>Total Equity and Liabilities</b>		<b>8,061</b>		<b>7,332</b>



**Red Parrot Company Ltd.**  
**Statement of Comprehensive Income**  
**for the year ended 31<sup>st</sup> March 2014**

	Rs.'000	Rs.'000
Sales		21,500
Cost of Sales		(16,500)
<b>Gross Profit</b>		<b>5,000</b>
<u>Other Income</u>		
Investment Income	180	
Profit on Disposal of Office Equipment	55	235
		5,235
<b><u>Expenses:</u></b>		
Distribution Expenses	1,570	
Administration Expenses	2,450	
Finance Expenses	185	(4,205)
<b>Profit Before Tax</b>		<b>1,030</b>
Income Tax		(125)
<b>Profit for the year</b>		<b>905</b>
Other Comprehensive Income		-
<b>Total Comprehensive Income for the year</b>		<b>905</b>

The following additional information is also provided:

- (1) 50% of the sales and 40% of the purchases are on cash basis.
- (2) Finance expenses represent the Bank Loan Interest and the premium paid on redemption of debentures. Debentures were redeemed with a 10% premium on its face value.
- (3) During the year, the company disposed of an office equipment which was purchased for Rs.280,000/-. The asset had been fully depreciated as at the date of disposal.
- (4) Depreciation charge for the current year on Property, Plant and Equipment is Rs.1,992,000/-.

**You are required to prepare,** the Cash Flow Statement of **Red Parrot Company Ltd.** for the year ended 31<sup>st</sup> March 2014 using direct method.

(15 marks)