UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level I - Semester II) Repeat Examination 2017

ACT 1200 – Advanced Financial Accounting

Two (02) Hours

Answer Any Four (04) Questions

Use of calculators is permitted
Show all your workings clearly
Assumptions (if any) should be clearly stated

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1. i. Distinguish the two main types of Lease Agreements as per the LKAS 17.

(06 Marks)

ii. Sanken Ltd leased a Machinery which has a useful lifetime of 8 years on 1st January 2016, from Lido Finance Company. Lido is willing to transfer the legal ownership of the machinery to Sanken Ltd at the end of the lease term. The agreement has following terms:

Lease Term	5 years
Annual Rental	Rs. 60,000
Guaranteed Residual Value	Nil
Interest Rate	15%
Fair Value (at the beginning)	Rs. 250,000

You are required to;

a. Determine the lease type and justify your answer.

(02 Marks)

b. Determine the Cost to be recognized in Sanken Ltd's books.

(03 Marks)

c. Find the Total Interest and Capital Amounts of the lease.

(04 Marks)

d. Write- down the following journal entries for the year ended 31st December 2016, to be recorded in Sanken Ltd's books;

- Initial recognition of the lease,
- Rental payment (use straight-line method of interest calculation), and
- Depreciation charge (if applicable).

(10 Marks)

(Total 25 marks)

2. i. State the conditions applicable to commence and cease the capitalization of borrowing costs as per LKAS 23.

(05 Marks)

ii. List two (02) examples each for qualifying assets and not-qualifying assets as per the LKAS 23.

(04 Marks)

iii. Differentiate between two main types of construction contracts, according to the LKAS 11.

(04 Marks)

iv. List down four (04) components each of Contract cost and Contract revenue.

(04 Marks)

v. Maarga Plc is a construction contractor whose financial year ending 31st December each year. One of the Maarga Plc's contracts is to construct a Bridge in a three (3) years' time. Construction was implemented on 1st January 2014 and the contract price and total contract cost was estimated at the beginning as Rs.400 Mn and Rs. 250 Mn, respectively.

The cumulative actual costs incurred for each year end are as follows:

31.12.2014	Rs 50 Mn
31.12.2015	Rs 150 Mn
31.12.2016	Rs 250 Mn

Using the above information, calculate the profit from the contract for each year, using percentage of completion method.

(08 Marks)

(Total 25 marks)

3. i. State the criteria which consider in the recognition of Investment Property as an asset.

(04 Marks)

ii. Briefly describe the elements which can be included and which can not be included in the measurement of the cost of an Investment Property.

(06 Marks)

iii. Tecno (Pvt) Ltd leased a building which is owned by them to a third party on 31st December 2016. At that date, the building's carrying value was Rs. 1,900,000. At first time, the company valued this building under the fair value measurement, which was Rs. 2,200,000. If the company decided to adopt the fair value model for its Investment Property, how should the difference between the fair value and carrying value be recognized?

(06 Marks)

iv. Define Intangible Assets providing relevant examples.

(03 Marks)

v. Cellular Enterprises sells mobile phones with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after the purchase. If minor defects were detected in all products sold, repair cost would be Rs. 800,000. If major defects were identified in all products sold, repair costs of Rs. 1,600,000 would occur. The past experience of the entity and future expectations indicate that for the year 2018, 80% of the products sold will have no defects. 15% will have minor defects and 5% will have major defects. Calculate the expected value of the cost of repairs.

(06 Marks)
(Total 25 marks)

4. i. Omega Ltd acquired 60% of the ordinary shares of Sigma Ltd on 1st of January 2016. The Statements of comprehensive income of two companies for the year ended 31st December 2016 are given below**.**

	Omega Ltd (Rs.)	**Sigma Ltd (Rs.)**
Sales	8,500,000	2,000,000
Cost of Sales	(5,125,000)	(875,000)
Gross Profit	**3,375,000**	**1,125,000**
Other Income	475,000	200,000
Administrative Expense	(1,120,000)	(215,000)
Finance Expense	(980,000)	(45,000)
Profit Before Tax	**1,750,000**	**1,065,000**
Tax Expense	(210,000)	(127,800)
Profit for the year	**1,540,000**	**937,200**
Dividend Expense	(487,500)	(352,200)
Retained Profit for the year	**1,052,500**	**585,000**

Additional information:

1. Total sales made by Sigma Ltd to Omega Ltd during the year was Rs. 1,000,000. Sigma Ltd sets the selling price with a markup of 20% on cost. At the end of year, Omega Ltd has 60% of these goods unsold.
2. During the year Sigma Ltd has granted a short-term loan to Omega Ltd and received Rs.30,000 of interest by 31st December 2016.
3. On 1st January 2016, Sigma Ltd sold a motor vehicle to Omega Ltd for Rs1,800,000. On this date the carrying amount of Motor vehicle was Rs.1,500,000.
4. On 1st June 2016, Omega Ltd sold a machine to Sigma Ltd for Rs.700,000. On this date the carrying amount of the machine was Rs.550,000.
5. Assume the depreciation rate of the group is 15% per annum for both motor vehicle and machine.
6. Other income of Omega Ltd includes dividend received from Sigma Ltd during the year.

Using the above information, prepare the Consolidated Statement of Comprehensive Income of Omega Group for the year ended 31st December 2016.

(12 Marks)

ii. Given below are the separate Statements of Financial Position of Nelna (Pvt) Ltd and Sunshine (Pvt) Ltd as at 31st December 2016.

	Nelna (Pvt) Ltd (Rs.)	**Sunshine (Pvt) Ltd (Rs.)**
Non-Current Assets	4,375,000	3,100,000
Investment in Sunshine (Pvt) Ltd	8,500,000	-
Current Assets		
Inventory	2,100,000	1,600,000
Receivables	2,600,000	1,400,000
Prepayments	1,100,000	1,300,000
Cash	1,900,000	1,850,000
Total assets	**20,575,000**	**9,250,000**
Equity		
Share capital	11,475,000	5,300,000
Retained earnings	6,400,000	1,500,000
Liabilities		
Payables	2,700,000	1,200,000
Short term loan	-	1,250,000
Equity and Total liabilities	**20,575,000**	**9,250,000**

Additional information:

1. Nelna (Pvt) Ltd has acquired 70% of shares of Sunshine (Pvt) Ltd on 1st January 2016 for Rs.8,500,000. At the date of acquisition, fair value of a building of Sunshine (Pvt) Ltd has been increased by Rs.500,000. Non controling interest was valued proportionately to the net assets of Sunshine (Pvt) Ltd.

2. During the year 2016, Sunshine (Pvt) Ltd made a profit of Rs. 500,000.

3. During the year Nelna (Pvt) Ltd sold goods to Sunshine (Pvt) Ltd for Rs. 800,000 making a mark-up of 25% on cost. As at 31st December 2016, inventory of Sunshine (Pvt) Ltd included 40% of these goods unsold.

4. Sunshine (Pvt) Ltd Ltd settled a payment to a supplier amounting to Rs.35,000 on behalf of Nelna (Pvt) Ltd. Both companies have shown this in their financial statements under receivables and payables respectively.

5. An impairment test of the goodwill was carried out during the year and found that it has been impaired by Rs.30,000.

6. On 1st January 2016, Nelna (Pvt) Ltd sold a motor vehicle to Sunshine (Pvt) Ltd at a price of Rs. 1,200,000. On this date, carrying value of the motor vehicle was Rs. 950,000. The group depreciates its motor vehicles at 20% per annum.

You are required to prepare the Consolidated Statement of Financial Position as at 31st December 2016 for Nelna Group.

(13 Marks)
(Total 25 marks)

5. i. Briefly explain the terms, 'Goodwill' and 'Gain on a bargain purchase' which can be arisen in a consolidation, and state the respective accounting treatments for each.

(06 Marks)

ii. On 31.12.2016 A Ltd acquires 60% of B Ltd for Rs 1,000,000. Fair value of the identifiable net assets of B Ltd as at the date of acquisition was Rs. 1,500,000 whereas the Carrying amount of those was Rs. 1,200,000. The fair value of the non-controlling interest (NCI) was Rs. 650,000.

You are required to calculate the Goodwill,

a. If NCI was measured at fair value, *and*
b. If NCI was measured at the proportionate interest in net assets recognized.

(07 Marks)

iii. Write short notes on the following contemporary accounting concepts:
   a. Corporate Social Responsibility Reporting
   b. Corporate Governance Practices
   c. Integrated Reporting

(04 Marks*3= 12 Marks)

(Total 25 marks)