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UNIVERSITY OF RUHUNA FACULTY OF MANAGEMENT AND FINANCE	No. of Pages : 06 No. of Questions: 04 Total Marks :70
BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE 4000 LEVEL FIRST SEMESTER END EXAMINATION – AUGUST 2022	*Three Hours*
ACC 41103 – Corporate Reporting	Academic Year 2021/2022

Instructions

- Answer (04) questions including question number one.
- Calculators are Permitted

Question No. 01.

Dissanayaka pvt (Ltd) owns two subsidiaries, acquired on 01st July 2016, 75% of Kaluwitharana Pvt (Ltd) for Rs. 4.5 Million when the carrying amount of the net assets of Kaluwitharana Pvt (Ltd) was Rs.3.2 Million on the date of acquisition and on 30 November 2020, 70% of Biyanwila Pvt (Ltd) for Rs.3.7 Million when the carrying amount of the net assets of Biyanwila Pvt (Ltd) was Rs.4.2 Million. On the date of acquisition the statements of profit or loss and other comprehensive income for the year ended 31 March 2021 of the companies were as follows.

	Dissanayaka Pvt (Ltd)	**Kaluvitharana Pvt (Ltd)**	**Biyanwila Pvt (Ltd)**
	Rs. "000"	Rs. "000"	Rs. "000"
Revenue	6,500	4,200	3,000
Cost of Sales	(3,000)	(2,300)	(2,820)
Gross Profit	**3,500**	**1,900**	**180**
Administrative Expenses	(1,000)	(500)	(150)
Other Income	330		
Finance Costs		(75)	(210)
Profit/(loss) before tax	**2,830**	**1325**	**(180)**
Income Tax expense	(370)	(50)	
Profit/(loss) for the year	**2,460**	**1,275**	**(180)**
Other Comprehensive Income net of tax	**130**	**55**	**120**
Total Comprehensive Income for the year	2,590	1,330	(60)
Dividends paid during the year	200	50	

The following additional Information is also available

a) In April 2020, Biyanwila Pvt (Ltd) issued Rs. 4 Mn 10% loan stock to Dissanayaka Pvt (Ltd). Interest is payable quarterly on 1st July, 1st October, 1st January and 1st April. Dissanayaka Pvt (Ltd) has accounted for the interest received up to 1st October 2020 (In other income).

b) In April 2020, Kaluwitharana Pvt (Ltd) sold a freehold property to Dissanayaka pvt (Ltd) for Rs. 850,000 (land value is Rs.200, 000). The property original cost was Rs. 1,000,000 (Land value is Rs. 500,000) on 1st July 2007. The property's total useful life was 25 years on 1st July 2017 and there has been no change in the useful life since. Kaluwitharana Pvt (Ltd) has not identified the profit/loss on disposal.

c) The property, plant and equipment (PPE) of Biyanwila Pvt (Ltd) on 30th November 2020 was fair valued at Rs.360, 000 (carrying amount Rs.300, 000) and was acquired in April 2020. The PPE has a total useful life of five years. Biyanwila Pvt (Ltd) has not adjusted its accounting records to reflect fair values. The group's accounting policy is to measure non-controlling interest (NCI) at the proportionate share of the fair value of net identifiable assets acquisition.

d) All companies use the straight-line method of depreciation and charge a full year's depreciation in the year of acquisition and none in the year of disposal. Depreciation on fair value adjustments is time apportioned from the date of acquisition.

e) Dissanayaka Pvt (Ltd) had accounted for its dividend received from Kaluwitharana Pvt (Ltd) in 'Other Income'.

f) Impairment test conducted at the year ended revealed recoverable amounts of Rs. 6,300, 000 for Kaluwitharana Pvt (Ltd) and Rs. 2,800,000 for Biyanwila Pvt (Ltd) versus carrying amounts of net assets of Rs. 3,850,000 and Rs. 3,300,000 in the separate financial statements of Kaluwitharana Pvt (Ltd) and Biyanwila Pvt (Ltd) respectively (Adjusted for the effects of group fair value adjustments). No impairment losses had previously been recognized.

Required

Prepare the consolidated statement of profit or loss and OCI for the year ended 31 March 2021 of Dissanayaka Group. **(Total 24 Marks)**

Question No. 02.

A) The draft statements of financial position of Perera Company, Silva Company, and Fernando Company on 30th June 2020 were as follows.

	Perera Co. Rs. "000"	Silva Co. Rs. "000"	Fernando Co. Rs. "000"
Non-Current Asset			
Tangible Assets	105,000	125,000	180,000
Investment at cost			
80000 shares in Silva co	120,000	-	-
60000 shares in Fernando co	-	110,000	
Current Assets	80,000	70,000	60,000
	305,000	**305,000**	**240,000**
Equity			
Share Capital (Rs.1)	80,000	100,000	100,000
Retained Earnings	195,000	170,000	115,000
Current Liabilities	30,000	35,000	25,000
	305,000	**305,000**	**240,000**

i. Perera Co. acquired its shares in Silva Co. on 1st July 2017 when the reserve of Silva Co. stood at Rs. 40,000,000 and Silva Co. acquired its shares in Fernando Co. on 1st July 2018 when the reserves of Fernando Co. stood at Rs.50, 000,000. It is the group policy to measure the NCI at acquisition at its proportionate share of the fair value of the subsidiary's net assets.

ii. Assume that Perera aslo going to be invested in Dasun Co. at the beginning of the accounting period and Perera is going to acquire 1,500 shares out of 3,000 shares for Rs. 90,000,000. However this investment will impaire by Rs.10, 000, 000 at the end of year. The share capital and the retained earnings of Dasun Co. stood at Rs.100, 000, 000 and Rs.25, 000, 000 respectively. At the year-end retained earnings of Dasun Co. was Rs. 75, 000, 000

Required

I. Prepare the consolidated statement of financial position as at 30th June 2020 of Perera Group. **(09 Marks)**

II. Calculate the premium of the acquisition of Fernando Co. and the yearend value of investment in Dasun Co. **(04 Marks)**

B) On 1st April 2019, Ceylon Biscuit Limited acquired a mixing and drying machine by way of a lease. The remaining useful life of the machine at this date was 10 years. In accordance with SLFRS 16 Ceylon Biscuit Limited identified the lease liability at Rs. 5,686,180 at the commencement of the lease. The agreement required the payment of a Rs. 1,500,000 deposit before the commencement of the lease with the balance being settled in five equal annual instalments of Rs. 1,500,000, commencing on 31st March 2020. The interest rate implicit in the lease is 10% per annum. Ceylon Biscuit Limited's financial year end is 31st March in each year. The lessor retains ownership of the machine throughout the lease term and there is no purchase option.

Required:

Calculate amounts to be recognised in the financial statements for the year ended 31st March 2022.

(05 Marks)

(Total 18 Marks)

Question No. 03.

A). Mvivo (Pvt) Ltd. is a leading company which operates in the construction industry. They finalized their financial statements for the year ended 31st December 2021 and following decisions have been made.

It is their policy to pay annual bonus of Rs. 7,500 each to all of its 650 workers, after three months of closure of the financial year. On 1st of December, 2021 the company announced a scheme whereby each worker was given the option to purchase 750 shares of Mvivo (Pvt) Ltd on a payment of Rs. 10 per share, instead the cash bonus for the year ended 31st December 2021.The fair value of the company's share is Rs. 15 each.

However, company decided the last date to exercise the option is at 31st January 2022. Following information has been given.

1. 40% of the employees exercised the option by 31st December 2021. The market price on that date is Rs.30 and the fair value per share is Rs. 28.
2. By 31st January 2022, further 20% employees had accepted this option. The market price and the fair value per share is Rs. 36 and Rs. 33 respectively.
3. The shares were issued on 1st March 2022.
4. The company decided that the workers who exercise the option are required to retain the shares up to 31st December 2023 before being eligible to sell them.

Required:

I. Pass the journal entries for the above transactions and adjustments for the years ended 31st December 2021 and 2022. **(04 Marks)**

II. Define the meaning of the term "Vesting Condition" and briefly explain the vesting condition of this scenario. **(02 Marks)**

B) As a result of the evolution of accounting, the information provided through financial statements has been expanded addressing all stakeholder needs. Discuss the role of sustainability reporting in the process of accounting. **(08 Marks)**

(Total 14 Marks)

Question No. 04.

A). On 1st January 2021, Texas (Pvt) Ltd calculated that the present value of the defined benefit obligation at Rs.2,350,000 and the fair value of the assets of a defined benefit plan at Rs. 3,200,000. On 31St December 2021, the plan received contributions from the Texas (Pvt) Ltd of Rs. 520,000 and paid out benefits of Rs. 210,000. The current service cost for the year was Rs.485, 000 and a discount rate of 8% is to be applied to both net liability and asset. After these transactions, Texas (Pvt) Ltd found that the FV of the plan's assets at 31st December 2021 was Rs. 2.5Million where the Present Value of the defined benefit obligation was Rs. 1.3Million lesser than that it was at the beginning.

Required

I. Calculate the gains or losses on re-measurement through OCI and the return on plan assets by Texas (Pvt) Ltd. **(02 Marks)**

II. Illustrate how its pension plan will be treated in the statement of profit or loss and OCI and statement of financial position for the year ended 31st December 2021. **(02 Marks)**

III. Large entities produce a wide range of products and services, often in several different countries. Disclosing information about these product or geographical areas and how they contribute to overall results will help the users of the financial statements. However, not all operating segments are reportable. Explain what it means by operating segments and how does that differ from reportable segments. **(02 Marks)**

B) Integrated Reporting (IR) is fundamentally concerned with reporting on the value created by the organisation's resources. Briefly explain the classification of the capitals in the IR framework and the main aspects of the IR. How do that capitals create sustainable value? Explain through an example. **(08 Marks)**

(Total 14 Marks)

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