	UNIVERSITY OF RUHUNA FACULTY OF MANAGEMENT AND FINANCE	No of Pages : 07 No of Questions: 05 Total Marks : 70
ACC 3112 – Financial Reporting		**Date : 06.01.2016** **Time : 1.30 p.m. – 4.30 p.m.**
BACHELOR OF BUSINESS ADMINISTRATION DEGREE 3000 LEVEL **FIRST SEMESTER END EXAMINATION – DECEMBER 2015/ JANUARY 2016**		*Three Hours*

Instructions:

- Answer all questions.
- Calculators are permitted.

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1) I. Management of Galle LTD, noticed that they had failed to account for depreciation for the period ended 31st December 2014 in respect of a Motor Vehicle acquired on 1st of July 2014.

The information of the motor vehicle is given below

Cost of the motor vehicle is Rs. 28 million

Useful life is 5 years

Residual value is Rs. 8 million.

The extracts of Galle LTD's most recent financial statements are as follows,

Statement of Financial Position as at 31 December 2015		
	2015	**2014**
Non Current Assets	**Rs M**	**Rs M**
Cost	78	78
Accumulated Depreciation	19	10
	59	68

Income Statement for the year ended 31 December 2015		
Administration Expense	**2015**	**2014**
	Rs M	**Rs M**
Depreciation	9	5

Statement of Changes in Equity for the year ended 31 December 2015		
	2015	2014
Retained Earnings	**Rs.M**	**Rs.M**
Opening Reserves	54	40
Net Profit	30	24
Divident	-10	-10
Closing Reserve	74	54

You are required to;

Show the extracts of Financial Statements, after adjusting the omission of depreciation on motor vehicles.

(05 Marks)

II. On 1 April 2014, ABC Company acquired an item of plant under a five-year finance lease agreement. The plant had a cash purchase cost of Rs 25 million. The agreement had an implicit finance cost of 10% per annum and required an immediate deposit of Rs 2 million and annual rentals of Rs 6 million paid on 31 March each year for five years.

What would be the Current and Non Current Liability for the leased plant in ABC Company's statement of financial position as at 31 March 2015?

(04 Marks)

III. According to LKAS-16, what are the directly attributable cost of property plant and equipments?

(03 Marks)

IV. A machine was purchased on 1 April 2012 for Rs.120,000. It was estimated that the asset had a residual value of Rs.20,000 and a useful economic life of 10 years at this date. On 1 April 2014 (two years later) the residual value was reassessed as Rs.15,000 and the useful economic life remaining were considered to be only five years.

How the asset should be accounted for the years ending 31 March 2013, 2014 and 2015?

(02 Marks)

(Total Marks 14)

2) I. The following details relate to two items of property, plant and equipments (P and Q) owned by Asia LTD and those two items are depreciated on a straight-line basis with no estimated residual value:

	Item P	Item Q
	Rs.000	Rs.000
Estimated useful life at acquisition	10 years	5 years
Cost on 1 April 2010 (at the acquisition date)	400,000	300,000
Revaluation on 1 April 2012:		
Revalued amount	300,000	240,000
Revised estimated remaining useful life	5 years	5 years
Subsequent expenditure capitalized on 1 April 2013	Nil	8,000

At 31 March 2014 item A was still in use, but item B was sold (on that date) for Rs.170 million.

Note: Asia LTD makes an annual transfer from its revaluation surplus to retained earnings in respect of excess depreciation.

Required: Prepare extracts from:

(a) Asia LTD's Income Statements for the years ended 31 March 2013 and 2014 in respect of charges (expenses) related to property, plant and equipment;

(b) Asia LTD's Statements of Financial Position as at 31 March 2013 and 2014 for the carrying amount of property, plant and equipment and the revaluation surplus.

(06 Marks)

II. What are the fundamental and enhancing qualitative characteristics of financial statements?

(03 Marks)

III. Explain the objective of the general purpose financial reporting.

(03 Marks)

IV. What are the three levels of conceptual framework?

(02 Marks)

(Total Marks 14)

3) I. According to LKAS-19; Employee benefits, briefly explain four main types of employee benefits.

(02 Marks)

II. On 1st January 2015, ABS Company received a government grant equal to 15% of the payroll costs incurred. The payroll costs incurred was Rs. 160 million.

Show the relevant journal entries to record above transaction, under each of the two allowable methods of presentation.

(02 Marks)

III. According to LKAS-23; Borrowing Costs, define the Qualifying Assets.

(01 Marks)

IV. On 1 January 2014, P & D Company entered into a contract worth of Rs. 3.5 million, for a construction of a building. The building was completed at the end of 31 December 2014.

During the period, the following payments were made to the contractor:

1 January 2014 Rs.300,000

31 March 2014 Rs.800,000

30 June 2014 Rs.2,200,000

30 September 2014 Rs.200,000

P & D Company's borrowings as at its year end of 31 December 2014 were as follows:

1. 10% four-year note with simple interest payable annually, which relates specifically to the project; debt outstanding at 31 December 2014 amounted to Rs.1,000,000. Interest of Rs.75,000 was incurred on these borrowings during the year, and interest income of Rs.25,000 was earned on these funds while they were held in anticipation of payments.
2. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1 January 2014 amounted to Rs.2,000,000 and remained unchanged during the year.
3. 10% 10-year note with simple interest payable annually; debt outstanding at 1 January 2014 amounted to Rs.3,000,000 and remained unchanged during the year.

Assume for the purpose of this example that the interest expenses equals to the borrowing costs.

How much interest is included in the cost of the building?

(09 Marks)

(14 Marks)

4) I. On 1 April 2014, Matara LTD had Rs.5 million of equity shares of Rs. 1/= each in issue. No new shares were issued during the year ended 31 March 2015, but on that date there were outstanding share options to purchase 2 million equity shares at Rs.1·20 each. The average market value of Matara LTD'S equity shares during the year ended 31 March 2015 was Rs.3 per share.

Matara LTD'S profit after tax for the year ended 31 March 2015 was Rs.1, 550,000.

In accordance with LKAS – 33; Earnings per Share, what is the Matara LTD'S diluted earnings per share for the year ended 31 March 2015?

(03 Marks)

II. Lanka LTD acquired a non-current asset on 1 October 2010 at a cost of Rs.110,000 which had a useful economic life of ten years and a nil residual value. The asset had been correctly depreciated up to 30 September 2015. At that date the asset was damaged and an impairment review was performed. On 30 September 2015, the fair value of the asset less costs to sell was Rs.3 0,000 and the expected future cash flows were Rs.8,900 per annum for the next five years. The current cost of capital is 10% and a five year annuity of Rs.1 per annum at 10% would have a present value of Rs.3·79

What amount would be charged to profit or loss for the impairment of this asset for the year ended 30 September 2015?

(04 Marks)

III. An entity sells refrigerators with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first nine months after purchase. They do know that if defects were detected in all products sold, repair costs would range from Rs 5 million for minor repairs to Rs. 10 million for major repairs.

The entity is able to perform an analysis on the historical data of returns and estimates (based on historical data), found that 80% of the goods sold will have no defects, 16% of the goods sold will have minor defects and 4% of the goods sold will have major defects.

According to LKAS-37; Provisions, Contingent Liabilities and Contingent Assets, Show the required journal entries.

(03 Marks)

IV. JKH commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 2015. Expenditure of Rs.60, 000 per month was incurred until the project was completed on 30 October 2015 when the drug went into immediate production. The directors became confident of the project's success on 1 July 2015. The drug has an estimated life span of five years.

Note : JKH'S year end is 31 December 2015

a. What amount will JKH charge to profit or loss for development costs?

b. What amount will JKH charge to profit or loss for amortization of intangible assets for the year ended 31 December 2015?

(04 Marks)

(Total Marks 14)

05) I. CTB LTD holds a building for its investment potential. This building originally cost Rs.2,500,000. The fair value at 31 December 2014 was Rs.5,000,000. At 31 December 2015 the fair value has risen to Rs.6,000,000. The property was purchased on 1 January 2011 . Assume a useful economic life of 25 years.

Show how the property would be presented in the financial statements as at 31 December 2015 if CTB LTD adopts the:

(i) Cost Model; and

(ii) Fair Value Model

(02 Marks)

II. ABC construction contractor's has a fixed price contract for Rs 36,000,000 to construct a Building complex. The initial amount of revenue agreed in the contract is Rs. 36,000,000. The contractor's initial estimate of contract cost is Rs.32,000,000. It will take 3 years to construct the building. By the end of year 1, the contractor's estimate of contract cost has been increased to 32,200,000. In year 2, the customer approves a variation resulting in an increase in contract revenue of Rs.800,000 and estimated additional contract cost of Rs.600,000. At the end of year 2, costs incurred include Rs.400,000 for standard materials stored at the site to be used in year 3 to complete the project. The contractor determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs.

Contract cost incurred in each year are as follows

Year	Rs.
Year 01	8,372,000
Year 02	16,300,000
Year 03	8,128,000

Calculate the amounts of revenue, expenses and profit recognized in the Statement of Comprehensive Income in each year.

(07 Marks)

III. Big Corp. acquires 80% share in Small Ltd. for the cash payment of Rs. 150,000.

On the acquisition date, the aggregate value of small's identifiable assets and liabilities in line with SLFRS 3 is Rs. 180,000.

The fair value of non-controlling interest (the remaining 20% share) is Rs. 40,000. This amount was determined with the reference of market price of Small's ordinary shares before the acquisition date.

Calculate goodwill and non-controlling interest using

1. Fair Value Method
2. The NCI's Proportionate Share Method.

(02 Marks)

IV. Define following terms According to LKAS-24; Related party Transaction,

- Jointly Control
- Key Management Personnel
- Significant Influence

(03 Marks)

(Total Marks 14)

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