Advance Business Reporting - Past papers – consolidated financial statements

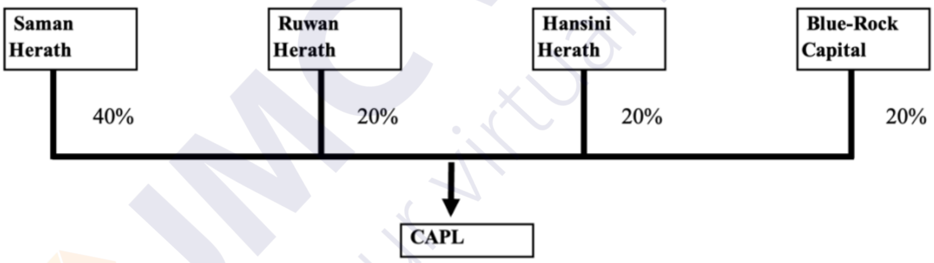
July 2022

Pre-Seen information summary

July 2022 – Pre Seen Case Study Analysis – for ABR

Key information

- Ceylon Ayurveda (Pvt) Ltd (CAPL) incorporated in 1979 by the Herath family.
- The company manufactures and sells healthcare products, ayurvedic pharmaceuticals, herbal beauty products, oils, and beverages
- Owns many agricultural lands to cultivate herbs
- Started exports in 2003
- Company is now a research oriented company
- Company is managed by Saman Herath (MD), the father. Ruwan (the son) and Hansini (the daughter) are Directors as well
- CAPL set up research and development center in FY 2021/22
- Few legal cases are pending in courts
- Blue-Rock acquired 20% from Saman n FY 2020/21
- Shareholding Structure



- CAPL hopes to issue new shares to Blue-Rock which will dilute the ownership of the Herath family
- Central Environmental Authority (CEA) audit highlighted issues related to waste disposal and has given 6 months to rectify these issues
- During FY 2021/22 PPE value increased due to construction of the R&D center
- Bank borrowings increased by Rs.440mn due to this as well
- CAPL has invested in treasury bills and also in the stock market. A few concerns were raised by the CFO on the increased volatility seen in the share prices of certain companies in which CAPL has invested.

Question 03 (based on the common pre-seen)

Hansini Herath, Executive Director who is keen on rapid market expansion proposes that the Ceylon Ayurveda (Pvt) Ltd (CAPL) gradually acquire Hela Suwa company limited (HS) which is a middle-tier ayurvedic pharmaceutical and herbal beauty product manufacturer, currently looking for an equity investor to bail out the company from its highly geared funding position.

Shown below are the facts she brought to the attention of the Board for consideration:

• HS has a well-established distribution network covering the entire western province. Those channels can be used as an alternative to the proposed opening of 13 own outlets by the company.

• HS has recently invested in high-tech machinery and currently those are underutilised. Those machinery are compatible with key products of the company.

• Specified machinery were financed through long term borrowings.

Proposal for investment:

Acquire 20% of the stake of HS as at 1 April 2022 at a cash consideration of Rs. 71 million.

Based on the current level of performance HS forecasts a profit after a tax of Rs. 75 million for the year ending 31 March 2023. While HS does not plan to pay dividends due to current liquidity conditions, experts predict 20% equity stake would fetch an exit market value of Rs. 90 million by 31 March 2023.

Acquire further stake of 50% of HS, on 31 March 2023 utilising part of the additional capital infusion from Blue-Rock Capital, which is estimated to be Rs. 500 million in cash for additional 20% stake of the company.

Based on the discussions she had with the owners of HS, she highlighted that an additional stake of 50% can be acquired under the following terms and conditions:

• Payment of upfront cash consideration of Rs. 180 million and an additional amountof Rs.68millionispayableattheendoffirstyearofacquisition,provided HS achieves its forecasted revenue for that year. Present value of Rs. 68 million computed as of the planned acquisition date would be Rs. 62 million.

• Pay a further amount of Rs. 15 million, upon HS obtaining approval from the Department of Ayurveda to mass market its new herbal energy drink, which is pending due to mere administrative delays of the Department. Based on the correspondence with the Department, issuance of the certificate will take place within the month of April 2023.

• Based on the history HS has always achieved its budgeted revenue.

• Experts forecast the fair value of the recorded net assets of HS to be 8% higher than the forecast book values of HS by 31 March 2023. The said increase is entirely attributable to the unrecognised reputed registered trademark of HS.

• As of 31 March 2022, HS disclosed a contingent liability relating to a legal case filed by a farmer against the company. No provision was made for the possible costs of Rs. 12 million as the payment was not considered probable. Based on the current status of the hearing, this assessment of the situation is expected to remain the same even as of 31 March 2023.

• CAPL has already incurred an amount of Rs. 2 million as professional and legal fees to gather required preliminary information and it is likely to incur a further cost of Rs. 1 million for acquisition related activities, if CAPL is to proceed with this proposal.

Statement of Financial Position of HS

As at 31 March	**2022**	**2023**
	(audited)	**(forecast)**
Assets	**(Rs. million)**	
Non-current assets		
Property, plant, and equipment	750	745
Intangible assets	25	23
Other financial assets	5	-
Total non-current assets	**780**	**768**
Current assets		
Inventories	110	120
Trade and other receivables	100	144
Other financial assets	1	-
Cash and cash equivalents	12	8
Total current assets	**223**	**272**
Total assets	**1,003**	**1,040**
Equity and liabilities		
Equity		
Stated capital	50	50
Revaluation reserve	22	20
Retained earnings	275	350
Total equity	**347**	**420**
Non-current liabilities		
Loans and borrowings	260	230
Retirement benefit obligation	35	32
Deferred tax liabilities	32	30
Total non-current liabilities	**327**	**292**
Current liabilities		
Trade and other payables	226	235
Loans and borrowings	95	85
Bank overdrafts	8	8
Total current liabilities	**329**	**328**
Total liabilities	**656**	**620**
Total equity and liabilities	**1,003**	**1,040**

Required:

Having considered the above proposal, the Board of CAPL required additional information and clarifications for their further consideration of the proposal.

(a) Advise the Board of CAPL on each of the following items backed with relevant SLFRSs and calculations.

(i) How would the existing 20% stake be treated in the consolidated financial statements of CAPL at the point of acquiring an additional stake of 50%. (6 marks)

(ii) How would the contingent considerations, acquisition related costs and contingent liabilities mentioned above be factored into the consolidated financial statements of CAPL (both at the point of acquisition and in the subsequent years). (8 marks)

(iii) What would be the values of NCI and goodwill/bargain purchase as at 31 March 2023, assuming the forecast of both HS and CAPL would be achieved as forecasted and CAPL's policy is to measure the non-controlling interest at its proportionate share of the fair value of HS's identifiable net assets

(6 marks)

(iv) How gearing and liquidity positions of CAPL Group would be impacted as a result of the proposed acquisition. (10 marks)

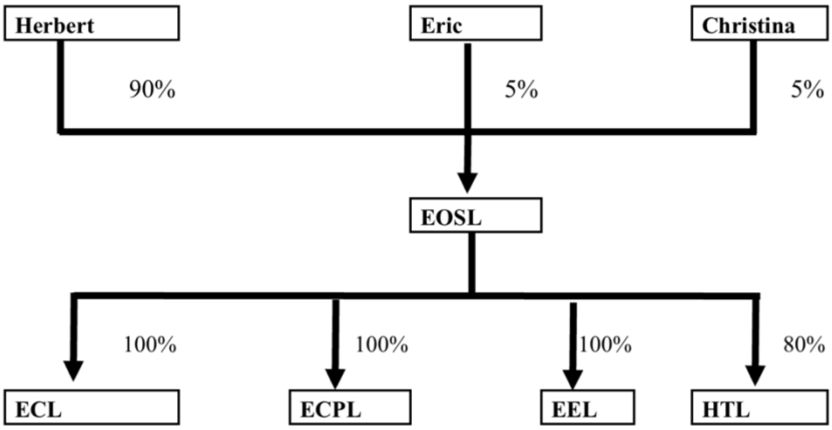
December 2021

Pre-Seen information summary

Key information

- Equip Office Solution (pvt) Ltd (EOSL) incorporated in 1966 by Henry Emmanuel
- Henry owned 80% and his brother George owned 20%
- Company provided office equipment
- Henry's children Herbert, Eric, Christina and Rehan are involved in the business
- In 1998 Equip Communications (pvt) Ltd (ECL) incorporated, fully owned by EOSL
- In 1999 Equip Computers (pvt) Ltd (ECPL) incorporated, fully owned by EOSL
- In 2008 George's ownership transferred to 4 children at 5% each
- In 2005 Equip Engineering (pvt) Ltd (EEL) incorporated
- In 2012 Henry steps down and Herbert takes over as Chairman of EOSL with the 80% ownership
- In 2018 acquired 80% of Hela Transformers (pvt) Ltd (HTL)
- In 2009 Rehan sold his shares in EOSL to Herbert
- In 2011 started his own business, Innovative Office Solutions (pvt) Ltd (IOSL)

- Group Structure



Annexure 03
Equip Office Solution (Pvt) Ltd
Statement of financial position

	Group	Group	Company	Company
As at 31 March	**2021**	**2020**	**2021**	**2020**
Assets	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**
Non-current assets				
Property, plant and equipment	1,420,459	1,327,459	1,208,250	1,200,705
Right of use-lease asset	12,634	17,579	12,634	17,579
Capital work in progress	27,625	27,508	27,625	27,508
Goodwill	25,250	25,250	-	-
Intangible assets	11,772	14,885	8,506	9,503
Investment in subsidiaries	-	-	150,200	150,200
Investment in debentures	-	5,000	-	5,000
Loans receivable from related company	71	71	71	71
Deferred tax asset	13,374	12,315	13,375	12,315
Total non-current assets	**1,511,185**	**1,430,067**	**1,420,661**	**1,422,881**
Current assets				
Inventories	883,634	683,111	550,313	381,101
Trade and other receivables	1,180,266	1,058,786	680,250	750,257
Amounts due from related companies	-	-	183,763	148,468
Cash and cash equivalents	700,032	363,117	457,722	256,117
Total current assets	**2,763,932**	**2,105,014**	**1,872,048**	**1,535,943**
Total assets	**4,275,117**	**3,535,081**	**3,292,709**	**2,958,824**
Equity				
Stated capital	60,000	60,000	60,000	60,000
Capital reserve	85,400	85,400	85,400	85,400
Revaluation reserve	738,310	738,310	738,310	738,310
General reserve	62,383	62,383	62,383	62,383
Retained earnings	1,849,977	1,587,831	1,352,785	1,220,348
Total equity attributable to holders of the parent	**2,796,070**	**2,533,924**	**2,298,878**	**2,166,441**
Non-controlling interest	**33,701**	**30,100**	**-**	**-**
Total equity	**2,829,771**	**2,564,024**	**2,298,878**	**2,166,441**
Liabilities				
Non-current liabilities				
Lease liability	3,324	8,172	3,324	8,172
Retirement benefit obligation	104,899	129,336	82,949	76,336
Deferred tax liability	3,142	4,128	-	-
Total non-current liabilities	**111,365**	**141,636**	**86,273**	**84,508**
Current liabilities				
Trade and other payables	824,843	537,174	455,826	254,826
Amounts due to related companies	-	-	90,085	185,201
Interest bearing borrowings	339,185	155,322	225,509	145,322
Current tax payable	114,101	91,493	90,250	85,259
Lease liabilities	11,298	11,300	11,298	11,300
Bank overdrafts	44,554	34,132	34,590	25,967
Total current liabilities	**1,333,981**	**829,421**	**907,558**	**707,875**
Total liabilities	**1,445,346**	**971,057**	**993,831**	**792,383**
Total equity and liabilities	**4,275,117**	**3,535,081**	**3,292,709**	**2,958,824**

Hela Transformer (Pvt) Ltd
Statement of financial position

As at 31 March	**2021**	**2020**
Assets	**Rs. '000**	**Rs. '000**
Non-current assets		
Property, plant and equipment	80,251	65,125
Intangible assets	11,250	10,250
Total non-current assets	**91,501**	**75,375**
Current assets		
Inventories	171,892	132,275
Trade and other receivables	178,899	165,758
Cash and cash equivalents	10,776	12,520
Total current assets	**361,567**	**310,553**
Total assets	**453,068**	**385,928**
Equity		
Stated capital	55,250	55,250
Revaluation reserve	31,000	31,000
Retained earnings	82,254	64,251
Total equity attributable to owners of the company	**168,504**	**150,501**
Liabilities		
Non-current liabilities		
Deferred tax liabilities	2,318	3,152
Defined benefit obligation	15,250	14,525
Total non-current liabilities	**17,568**	**17,677**
Current liabilities		
Trade and other payables	182,971	162,500
Interest bearing borrowings	40,525	10,250
Current tax liabilities	16,250	29,750
Bank overdrafts	27,250	15,250
Total current liabilities	**266,996**	**217,750**
Total liabilities	**284,564**	**235,427**
Total equity and liabilities	**453,068**	**385,928**

Question 03 (based on the common pre-seen)

In implementing certain aspects of the investment strategy, Equip Office Solution (Pvt) Ltd (EOSL) sold 62.5% of its 80% shareholding in Hela Transformer (Pvt) Ltd (HTL) for Rs. 110 million, on 31 March 2021. With the reduction of the holding percentage in HTL, EOSL can now appoint only one Director to the Board of HTL out of total four directors. Following are the information related to the said disposal:

1. The goodwill reflected in the consolidated financial statements of EOSL as at 31 March 2021 is related to goodwill that arose from acquisition of HTL. Impairment assessment carried out as at 31 March 2021, revealed that 25% of the aforesaid goodwill has been impaired. EOSL has not made any adjustment for goodwill impairment in the consolidated financial statements for the year ended 31 March 2021.

2. The group and HTL carry land and building at revalued amounts and revaluation is performed every three to five years. Last revaluation was performed on 31 March 2020. As at 31 March 2021, fair value of land and building has increased by Rs. 1 million when compared to its carrying value. However, neither EOSL nor HTL recognised this increase in the consolidated financial statements based on the accounting policy.

3. Fair value of the non-controlling interest in HTL as at 31 March 2021 was Rs. 4 million higher than the carrying value. EOSL measures non-controlling interest at proportionate share of investee's net assets.

4. Fair value of the remaining 30% interest retained by EOSL in HTL as at 31 March 2021 was Rs. 51 million.

5. The accountant of EOSL has computed the gain from partial disposal of HTL as the difference between cash received and 50% of net assets of HTL of Rs. 84.252 million (Rs. 168.504 million* 50%). He is of the view that the resulting gain amounting to Rs. 25.748 million (i.e., Rs. 110 million – Rs. 84.252 million) should be credited directly to retained earnings and there will not be any other adjustments to the consolidated financial statements for the year ended 31 March 2021.

6. Any adjustments resulting from the information given above are yet to be made in the consolidated financial statements of EOSL for the year ended 31 March 2021.

7. Carrying values of assets and liabilities of HTL other than goodwill, recognised in the consolidated financial statements, are equal to the amounts in the separate financial statements of HTL.

Required:

(a) Advise the management of EOSL, with required calculations and explanations based on Sri Lanka Accounting Standards (full SLFRSs), on how the above partial disposal of HTL should be accounted for in the consolidated financial statements, taking into account the opinion of the accountant of EOSL. (13 marks)

(b) Prepare draft Consolidated Statement of Financial Position as at 31 March 2021, subsequent to the partial disposal of HTL. (7 marks)

EOSL has entered into a contract with a customer on 1 June 2021, to sell a multifunctional printing machine for Rs. 5 million. Under this contract, EOSL provides free installation of the machine at the customer's premises and maintenance service for a one-year period from the date of sale, at a price of Rs. 150,000. The prices given above in respect of the machine and maintenance services are similar to the prices charged by EOSL, if they were sold separately.

There are other entities in the market who provide installation and maintenance services for this type of machine. EOSL charge Rs. 20,000 for installation of a similar machine, if the installation was separately sold.

On 1 June 2021, the machine was delivered to the customer and installation was completed. On this date the customer paid Rs. 5 million for the machine and Rs. 150,000 for the maintenance services for the one-year period.

Accountant of EOSL is aware that five steps should be followed when recognising revenue from contracts with customers. However, he needs further guidance and clarity about application of the five steps, to this contract.

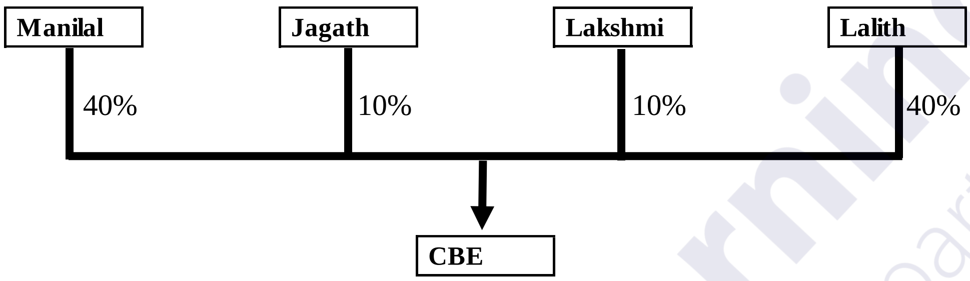
Required:

(c) Advise the accountant on application of five steps to the above contract per SLFRS 15, Revenue from Contracts with Customers, together with calculations and double entries required. (10 marks)

July 2021

Information from the Pre-seen case study

- CBE is a business education provider located in Colombo 3
- Has 7 branches
- Family managed business – Father (Manilal), son (Jagath) and daughter (Laskhmi) are shareholders owning 60% of CBE while mother (Rukmani) is involved in the business as Head of Academic Activities
- Share holding structure of CBE – 6,250,000 shares of Rs.100 each



- Lalith is looking at exiting the business
- A Chinese university has shown interest in acquiring major stake in the business
- Jagath is keen on listing the entity in the CSE under the Diri Savi Board

- 140 Staff of which 55 academic staff
- A VRS has been proposed
- When academic staff has access to Masters or Doctoral programmes with a bond to CBE
- Has a joint venture with some private sector companies to conduct and commercialize research

- Primary revenue source is course fees
- Profitability for 2019/20 & 2020/21 differed from expectations
- Chairman wanted a consultant to be appointed to advise on governance and financial issues

Question 03 (based on the common pre-seen)

With Xian Education Ltd (XE), a Chinese company holding a few subsidiary companies, expressing its interest to purchase a majority stake in the shares of College of Business Education (Pvt) Ltd (CBE), the management of CBE has come up with two proposals (given below) to jointly work with XE (which operates an educational institution in China, ranked amongst the top 10 in the Asian region).

Proposal 1

On 1 September 2021, XE will buy half of the shares held by Lalith (which amounts to 20% of the shares of CBE), for Rs. 400 million in cash (herein after referred to as the 'first 20%'). With that, it will get one position on the board of CBE.

On 31 March 2022, XE will buy the balance 20% held by Lalith (herein after referred to as the 'balance 20%'). The purchase price will consist of the following.

- Rs. 500 million of cash to be paid immediately
- Rs. 200 million of cash to be paid in two years
- On 31 March 2022, Lalith will be issued 2 million ordinary shares of XE. The market value of a share of XE as at 31 March 2021 was Rs. 170. However, the market value of a share is expected to be Rs. 230 as at 31 March 2022.

On the date of buying the balance 20%, a contractual arrangement will be entered into between the other shareholders of CBE and XE. This contractual arrangement will ensure that XE will be able to direct enough other vote holders on how to vote, to enable XE to make decisions about the main activities that significantly affect CBE's profit or loss. The contract will have the following terms.

- The CEO of XE will be appointed as the CEO of CBE.
- Majority of the board members of CBE will be appointed by XE in order to align the educational programmes offered by CBE with those of XE.

The projected net assets of CBE as at 1 September 2021 and 31 March 2022 are given below.

	1 September 2021 (Rs.)	**31 March 2022 (Rs.)**
Stated capital	625,000,000	625,000,000
Revaluation reserve	750,000,000	750,000,000
Retained earnings	1,304,567,284	1,665,467,284
	2,679,567,284	**3,040,467,284**

Additional information relevant for XE when buying the balance 20%

- It was revealed that net assets as at 31 March 2022 include a deferred tax asset amounting to Rs. 163 million recognised by CBE on tax losses carried forward that cannot be utilised against the future taxable profits.

- CBE's existing franchise agreement with a foreign university has a remaining 3-year period. The annual fees payable under the contract are favourable when compared to the current market terms, and its fair value as at 31 March 2022 is estimated to be Rs. 10 million.

- Subsequent to buying the balance 20%, XE will announce its plans to restructure certain activities of CBE. The present value of estimated costs expected to be incurred in this respect is Rs. 150 million.

- The fair value of the first 20% as at 31 March 2022 is expected to be Rs. 425 million.

- The fair value of the remaining 60% holding in CBE as at 31 March 2022 is expected to be Rs. 1,400 million. Fair values of the assets and liabilities of CBE are equivalent to their carrying values as at 31 March 2022 unless stated otherwise.

- Assume that on the date of buying the first 20%, there is no intention or contractual arrangement for the purchase of the balance 20%.

- Use 10% as the discount rate for any calculations required.

Proposal 2

CBE and XE will form a new company Xian College of Business Education (Pvt) Ltd (XCBE) in Sri Lanka to operate a business school that offers internationally accepted business and management qualifications targeting students in the South Asian region. CBE will provide the property and equipment required for the business school, while XE will bring the know-how required to operate the business school at a globally accepted level. Each party will own 50% each of the share capital of the XCBE and enter into an agreement that has the following terms.

- Each party will have voting rights equivalent to their shareholding. At least 51% of the voting rights are required to make decisions about the main activities of the business school.

- All the assets and obligations for liabilities of the business school (whether they are transferred at the formation of the company or subsequently acquired by XCBE) are of XCBE.

- Each party is entitled to a share of profits or losses of XCBE equivalent to their ownership interest in the company.

- CBE will provide the required guarantees to the bank if XCBE requires additional financing.

The investment by each party is equivalent to the rupee value of the share ownership of XCBE. The carrying value of the property and equipment that will be transferred to XCBE is Rs. 500 million and the revaluation surplus recognised by CBE for the transferred property is Rs. 30 million.

XCBE will commence its operations on 1 October 2021. The net assets of XCBE as at 1 October 2021 and as at 31 March 2022 will be as follows.

	1 October 2021 (Rs.)	**31 March 2022 (Rs.)**
Stated capital	1,000,000,000	1,000,000,000
Retained earnings	-	702,900,000
	1,000,000,000	**1,702,900,000**

Under this proposal, CBE will also buy back Lalith's entire shareholding for Rs. 925 million using the excess cash of the company. Thereafter, such shares will be cancelled.

It is assumed that CBE, XE and XCBE apply Sri Lanka Accounting Standards (full SLFRSs).

Required

(a) Advise the management of XE on the following under Proposal 1.

- Financial reporting implications to the consolidated financial statements together with the analysis of the arrangement, referring to the relevant accounting standards.

- Impact on the consolidated financial statements of XE for the year ending 31 March 2022.

(15 marks)

(b) Advise the management of XE on the following under Proposal 2.

- Financial reporting implications to the consolidated financial statements together with the analysis of the arrangement, referring to the relevant accounting standards.

- Impact on the consolidated financial statements of XE for the year ending 31 March 2022. (11 marks)

(c) Recommend the accounting treatment to be applied by CBE with regard to the share buy-back and transfer of property and equipment to XCBE under Proposal 2. (4 marks)

December 2020

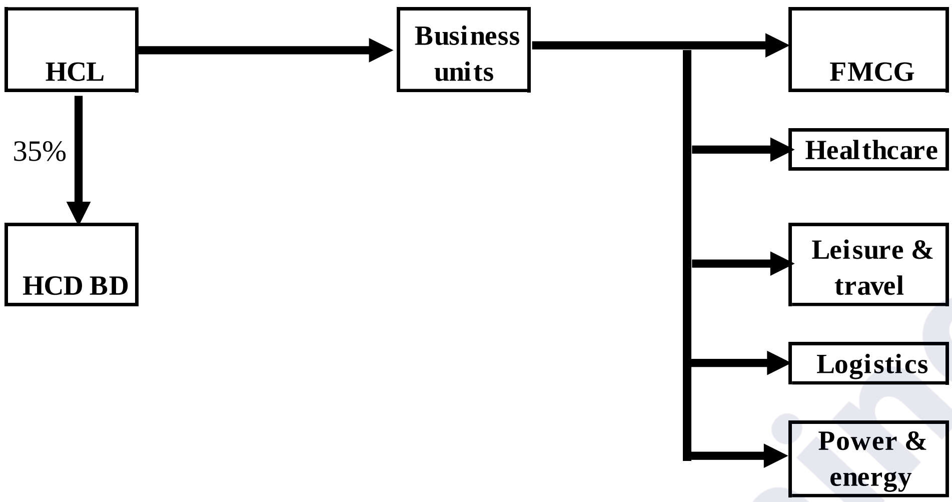
Information from the Pre-seen case study

Healthcare & Leisure (Pvt) Ltd (HCL) is one of the largest companies in Sri Lanka. It is well established both in the health and leisure sectors, and has its own company philosophy, which has grown since its inception. HCL's founder Edward De Silva is a gentleman with high ethical standards and solid business values. He is very well respected in the Sri Lankan community for his high ethical values, and these values have greatly assisted HCL to achieve its current level of growth and acceptance by the Sri Lankan and international communities.

Summary of information from the case study

Period	Key highlight
1969	Incorporated as Health Care Drugs (Pvt) Ltd by Edward
1978	Friend George joins in with new capital Sets up first pharmaceutical and veterinary products manufacturing facility
1985	Entered FMCG sector by commencing manufacturing toiletries and personal care products Pharmaceutical business line headed by Kamal Dias FMCG business line headed by Wasana DeSilva (Edward's wife)
2004	Established first hospital in Nugegoda
2008	Restructured and renamed to Healthcare & Leisure (Pvt) Ltd (HCL) Introduced vision and mission statements
2009	Entered leisure sector by starting an inbound and outbound travel agency Buwenka (10% shareholder) heads this business line
2010	Entered Logistic sector by building warehouses in Seeduwa and Katunayake Headed by Kusal Perera
2012	Its first hotel, HCL Coral Gardens Hikkaduwa, opened with 100 rooms Target to open two new hotels in Mullaitivu and Pasikuda in 2022
2014	Enters power and energy sector Initial 2 wind power plant set up in Mannar at a cost of Rs. 450mn
2016	3 more wind power plants added with an investment of Rs. 700mn
December 2019	Purchased 35% of Healthcare Drugs (Bangladesh) Ltd (HCD (BD)) with Indian and Bangladeshi investors Investment value – In Bangladeshi Taka – 450mn In USD – 5.5mn In LKR – 984.5mn Acquisition date net assets – Share capital – in Tk – 750mn Retained earnings – in Tk - ?

HCL Company structure



Question 3 from 2020 December

(a) In order to expand the overseas business operations and achieve its vision for the future, on 1 December 2019 HCL acquired 35% of the ordinary shares of HCD (BD). HCD (BD) had acquired 80% of the ordinary shares of Healthcare India Ltd (HIL) on 1 January 2017 for LKR 55 million.

The following transactions took place on 30 September 2020.

(i) Edward had a 10% direct shareholding in HCD (BD). He transferred his 10% direct shareholding in HCD (BD) to HCL with the agreement of the other shareholders of HCD (BD). The consideration provided to Edward comprised of an immediate cash payment of LKR 250 million, 1 new share of HCL for every 5 shares held in HCD (BD) and LKR 150 million payable after 3 years if HCD (BD) achieves at least a 10% growth in net profit at the end of 3rd year. However, there is only a 70% probability of achieving this growth target due to the prolonged COVID-19 pandemic.

(ii) HCL invested in the entire 60,000 convertible bonds issued by HCD (BD) to manage the financial stress caused by the COVID-19 pandemic. These bonds have a face value of LKR 10,000 each with a 3-year term. Interest is payable at 8% per annum. The entire investment is convertible at any time up to maturity into ordinary shares of HCD (BD) at a conversion price of LKR 60 per share at the option of HCL. The exercise price of this option is in the money and is expected to remain the same over the term of the bonds.

(iii) HCL acquired 25% of the 80% interest held by HCD (BD) and 20% of the 20% interest held by the non-controlling interest (NCI) in HIL at a cost of LKR 30 million.

The following tables summarise the equity bases of HCD (BD) and HIL.

HCD (BD)

	LKR million			
	Group		**Company**	
	As at 1 December 2019	**As at 30 September 2020**	**As at 1 December 2019**	**As at 30 September 2020**
Stated capital – voting (75 million ordinary shares)	1,485	1,485	1,485	1,485
Foreign exchange reserves	322	444	320	440
Reserves and retained earnings	1,581	1,858	1,587	1,850
NCI	18	20	-	-
Total	**3,406**	**3,807**	**3,392**	**3,775**

HIL

	LKR million	
	As at 1 January 2017	**As at 30 September 2020**
Stated capital – voting (5 million ordinary shares)	50	50
Retained earnings	23	63
Revaluation surplus	-	10
Total	**73**	**123**

Additional information

- The fair values of a share of HCL, HCD (BD) and HIL as at 30 September 2020 were estimated as LKR 70, LKR 53 and LKR 25 respectively.

- In September 2020 the head office of HCD (BD) was shifted to a building provided under a lease by the Bangladeshi investor at a relatively low rent. The value of the right-of-use asset per the terms of the agreement amounted to LKR 250 million as at 30 September 2020, and the present value of future market rentals of a similar lease amounted to LKR 375 million. This leasing arrangement is not recognised in the financial statements of HCD (BD).

- Considering the current COVID-19 impact on the business, the directors of HCL are planning to terminate some of the employees of HCD (BD) and HIL. The estimated redundancy cost is LKR 50 million for HCD (BD) and LKR 25 million for HIL. The directors of HCL are planning to announce this officially to the employees in end-December 2020.

- HCL group's policy is to measure NCI at fair value at the date of acquisition.
- Use a discount rate of 10% for relevant calculations.
- The income tax rate of all three companies is 28%.
- The group adopts Sri Lanka Accounting Standards (LKASs/SLFRSs) when preparing its financial statements.

Required:

Prepare a briefing note to the board of directors of HCL that includes an analysis of the financial reporting implications of the transactions given above in the consolidated financial statements of HCL, in accordance with the applicable accounting standards. (25 marks)

December 2019

Information from the Pre-seen case study

Jerad and his only son Gayan now own a majority stake in a plantation company called Upcountry Estates (Pvt) Ltd (UEL). Jerad is the chairman and managing director of the company, whilst Gayan is the sales director. UEL owns tea and rubber estates in the Nuwara Eliya and Ratnapura districts. The company was acquired when the estates were privatised by the government.

Company overview

Shareholding structure (40,000,000 shares at Rs. 15 per share)

Shareholders	Percentage holding as at 31 March 2019
Jerad De Silva	40%
Gayan De Silva	20%
Mahen Zoysa	30%
Secretary to the Treasury	10%
Total	**100%**

Financial information

Income statements of UEL

	Rs. '000		
For the year ended 31 March	**2019 Unaudited**	**2018**	**2017**
Revenue	3,885,068	3,998,405	4,056,529
Cost of sales	(3,157,686)	(3,198,724)	(3,164,093)
Gross profit/(loss)	**727,382**	**799,681**	**892,436**
Fair value gain/(loss) on consumable biological assets	88,767	142,535	90,454
Other operating income	247,967	241,846	216,615
Administrative expenses	(386,546)	(366,543)	(349,348)
Net finance costs	(498,646)	(578,621)	(365,343)
Profit/(loss) before income tax	**178,924**	**238,898**	**484,814**
Income tax	(20,086)	(56,079)	(48,233)
Profit for the year	**158,838**	**182,819**	**436,581**
Other comprehensive income/(expense)			
Actuarial gain/(loss) on retirement benefit obligations	(213)	(42,320)	31,918
Tax effect on other comprehensive income	44	8,989	(5,069)
Other comprehensive income/(expense) for the year, net of tax	**(169)**	**(33,331)**	**26,849**
Total comprehensive income/(expense) for the year	**158,669**	**149,488**	**463,430**

Statements of financial position of UEL

	Rs. '000		
As at 31 March	**2019 Unaudited**	**2018**	**2017**
Assets			
Non-current assets			
Leasehold right to bare land of JEDB/SLSPC estates	195,000	200,500	210,000
Immovable leased assets of JEDB/SLSPC estates (other than bare land)	125,000	139,000	160,000
Tangible assets (other than mature/immature plantations)	919,000	935,000	899,500
Intangible assets	414,000	410,000	455,000
Investment property	125,000	105,000	92,500
Biological assets	3,857,575	3,600,545	3,500,000
Investments in subsidiaries	1,500,000	1,500,000	1,500,000
Financial assets at Amortised Cost	680,691	724,142	784,835
Total non-current assets	**7,816,266**	**7,614,187**	**7,601,835**
Current assets			
Inventory	445,000	440,500	400,500
Trade and other receivables	270,898	220,554	200,500
Amounts due from related parties	950,000	1,500,450	1,300,000
Cash and cash equivalents	374,873	495,363	750,005
Total current assets	**2,040,771**	**2,656,867**	**2,651,005**
Total assets	**9,857,037**	**10,271,054**	**10,252,840**
Equity and liabilities			
Capital and reserves			
Stated capital	600,000	600,000	300,000
General reserve	250,000	250,000	250,000
Retained earnings	2,848,100	2,689,431	2,539,943
Total equity	**3,698,100**	**3,539,431**	**3,089,943**
Non-current liabilities			
Interest bearing borrowings	2,200,303	1,495,676	1,850,555
Retirement benefit obligations	760,565	690,888	610,857
Grants and subsidies	345,000	320,565	310,000

Net obligation to lessor of JEDB/SLSPC	333,352	340,146	344,445
Deferred tax liability	270,565	405,676	360,656
Total non-current liabilities	**3,909,785**	**3,252,951**	**3,476,513**
Current liabilities			
Interest bearing borrowings	925,433	1,157,310	2,041,277
Net obligation to lessor of JEDB/SLSPC	52,345	55,454	60,555
Trade and other payables	694,243	1,205,010	672,563
Amounts due to related parties	121,456	265,444	15,434
Bank overdraft	455,675	795,454	896,555
Total current liabilities	**2,249,152**	**3,478,672**	**3,686,384**
Total liabilities	**6,158,937**	**6,731,623**	**7,162,897**
Total equity and liabilities	**9,857,037**	**10,271,054**	**10,252,840**

Question 03 (based on the common pre-seen)

During a recent management meeting of Upcountry Estates (Pvt) Ltd (UEL) it was decided to dispose some holdings in one of its subsidiaries, Bingo (Pvt) Ltd (BPL), due to a change in business focus for the future. UEL currently holds 80% of BPL and it will sell 50% of BPL to a third party. UEL acquired BPL on 1 June 2010.

As at 31 March 2019, UEL's consolidated financial statements for the year ended 31 March 2019 showed goodwill of Rs. 23 million that resulted from the acquisition of BPL. UEL measured the non-controlling interest (NCI) at the time of acquisition at fair value. The NCI of BPL had a carrying value of Rs. 70 million as at 31 March 2019.

BPL has the following net assets balance as at 31 March 2019

	Rs.'000
Stated capital	120,000
Retained earnings	192,300
Fair value reserve	3,000
Net assets	**315,300**

BPL's statement of comprehensive income for the period ended 30 September 2019 is given below.

	Rs.'000
Revenue	332,100
Cost of sales	(265,680)
Gross profit	**66,420**
Administrative expenses	(23,100)
Distribution expenses	(4,300)
Finance cost	(1,200)
Profit before taxation	**37,820**
Taxation	(2,400)
Profit after taxation	**35,420**

You have also been given the following additional information.

1. UEL will receive cash consideration of Rs. 200 million immediately and additional cash annually over the next three years based on a percentage of BPL's annual earnings above an agreed upon target. It is certain that BPL can achieve the agreed target. Additional cash will be received as follows.

Year 1: Rs. 15 million

Year 2: Rs. 10 million

Year 3: Rs. 8 million

2. With the remaining 30% holding in BPL, UEL will be able to appoint one director to BPL's board. BPL currently has 4 directors on its board.

3. The remaining 30% in BPL will have a fair value of Rs. 107 million as at 30 September 2019.

4. Use the discount rate of 12% for any calculations required.

5. There has been no change in stated capital and the fair value reserve since 31 March 2019

Required:

(a)Advise the management of UEL on the following, assuming that the disposal of shares took place on 30 September 2019.

-How the share disposal should be reflected in the consolidated financial statements of UEL for the year ending 31 March 2020.

-The disclosures that are required to be made in the consolidated financial statements for the year ending 31 March 2020. (18 marks) (b)Assume that UEL will have one of the following right/options mentioned in (i) and (ii) below subsequent to the disposal of its 50% stake in BPL.

(i)UEL will have the right to approve capital expenditure of BPL that is greater than Rs. 50 million. Capital expenditure less than Rs. 50 million is approved in the ordinary course of the business. It is not very frequent that BPL has capital expenditure over Rs. 50 million.

(ii)UEL will buy call options from the third party to whom the 50% stake in BPL is sold. The call options will be exercisable anytime at the fair value of BPL's shares. If exercised UEL will have voting rights equivalent to the percentage holding in BPL. Information relevant for exercising the rights is to be obtained from the third party to whom the 50% stake is sold.

Evaluate the above right/options (in isolation) to determine whether any changes are required when accounting for the share disposal suggested in (a) above by applying the principles set out in SLFRS 10 Consolidated Financial Statements. (7 marks)

(c)The leasehold right to the bare land of JEDB/SLSPC estates reflected in the financial statements of UEL are lands obtained from the government for a 99-year lease term.

Comment on the accounting treatment for the above lease under the new accounting standard SLFRS 16 Leases. (3 marks)

June 2019 - Question 03 (based on the common pre-seen)

Harain Fernando, the chairman of Colombo Beverage and Confectionery (Pvt) Ltd (CBC) had a series of discussions with the directors and shareholders of the company, regarding the automation of the factory, and increasing its capacity, in order to improve the profitability of the company. Harain mentioned that his friend Ravi and Ravi's wife own 30% and 70% of Juizie (Pvt) Ltd (Juizie) respectively, and that Juizie uses new machineries in its business operations which are similar to CBC. They have decided to sell the shares of Ravi's wife in Juizie, or to sell its machineries. Now CBC has the option of either buying 70% of Juizie, or buying its machineries without any of the processes. CBC will first opt for an IPO and generate new equity capital of Rs. 500 million for this new investment.

The statement of financial position of Juizie as at 31 March 2019 is as follows

	Rs.'000
Non-current assets	
Machineries	450,800
Equipment	332,100
Motor vehicles	350,250
	1,133,150
Current assets	
Inventories	11,540
Receivables	9,120
Cash and cash equivalents	2,100
	22,760
Total assets	**1,155,910**
Equity and liabilities	
Equity	
Stated capital	700,000
Retained earnings	(209,290)
	490,710
Non-current liabilities	
Borrowings	500,200
Current liabilities	
Borrowings	142,000
Payables	23,000
	165,000
Total equity and liabilities	**1,155,910**

Additional information has been given assuming the purchase under either option would be taking place on 31 March 2019.

1. The fair value of machineries has been estimated as Rs. 630 million as at 31 March 2019. The cash price of machineries is equivalent to the fair value.

2. CBC has to pay the fair value of machineries of Juizie, if the machineries are purchased. CBC has agreed with the following payment plan.

- Rs. 500 million should be paid immediately

- Rs. 150 million on 31 March 2020

3. If 70% shares of Juizie are purchased, CBC has to pay a total consideration of Rs. 540 million, out of which Rs. 500 million should be paid immediately. The balance will be paid one year from the acquisition date, if Juizie achieves 10% revenue growth. It is highly likely that this growth will be achieved.

4. Acquisition related costs include professional fees for machineries amounting to Rs. 1.2 million, which would have to be incurred by CBC. Professional fees should be paid to a technician to certify the proper functioning of machineries. CBC has to incur Rs. 3.1 million as expenses in addition to the above fee to facilitate the acquisition.

5. On 31 March 2019, Ravi's shareholding in Juizie will be recognised, at proportionate share of net assets.

6. Juizie has a 'brand name' and CBC seeks an independent valuation for it. The valuation could not be completed before authorisation of financial statements for the year ended 31 March 2019 for issue. The brand has a provisional fair value of Rs. 28 million. CBC will receive the results of independent valuation before the next financial year end.

7. Juizie had appointed a CEO under a 10 year contract. The contract requires Juizie to pay Rs. 5 million to the CEO, if Juizie is acquired before the contract expires. The contract has another 2 years to expire from 31 March 2019. The management of CBC wants to know whether this would have any impact, if CBC acquires 70% shares of Juizie.

8. Use 15% as the discount rate and 28% as income tax rate, for any calculations required.

Required:

(a)Compile a briefing note to the board of directors of CBC to include the impact on the financial statements of CBC for the year ended 31 March 2019:

(i)if CBC acquires machineries of Juizie

(ii)if CBC acquires 70% shares of Juizie (20 marks)

(b)Assuming that CBC selects the option (ii) above, advise the board of directors of CBC on how the results of the independent valuation of the brand name, should be considered, in the consolidated financial statements of CBC, for the year ending 31 March 2020. (5 marks)

(c)Assume CBC has decided to go ahead with buying 70% of Juizie. You have been provided with the following additional information.

1.As a result of discussions with David Scott (foreign shareholder who owns 36% of the total stated capital of CBC), CBC decided to buy back David's shares by paying Rs. 3.7 billion. Rs. 1 billion of this will be financed by realising existing short term investments and the balance by a long term loan. The bank has agreed to offer the interest rate charged on existing long term loans of CBC, with a one year grace period.

2.Review of documentation relating to the property, plant and equipment (PPE), and inventories, by Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) revealed that the PPE revaluation had been overstated by Rs. 100 million, and that inventory had not been reduced to net realisable value by Rs. 700 million, as at 31 March 2019.

Evaluate how the gearing and liquidity positions of CBC will be impacted comparing;

- the positions before acquisition of Juizie and

- the positions after considering the acquisition and the above information.

(You are required to consider all interest bearing loans and borrowings in assessing the gearing. Ignore any tax implications from 1 to 2 above) (15 marks)

Colombo Beverage and Confectionery (Pvt) Ltd

Statement of financial position	Unaudited	Audited
As at 31 March	2019	2018
	Rs. '000	Rs. '000
Assets		
Non-current assets		
Property, plant and equipment	8,296,034	8,092,886
Lease rental paid in advance	157,263	164,703
Investment property	218,402	197,042
Intangible assets	153,852	154,256
Non-current financial assets	251,264	160,253
Other non-current assets	876,365	667,229
	9,953,180	**9,436,369**
Current assets		
Inventories	3,892,670	3,564,063
Trade and other receivables	2,335,629	1,627,914
Other current assets	1,706,375	755,368
Short-term investments	1,023,276	715,660
Cash and cash equivalents	652,073	303,236
	9,610,023	**6,966,241**
Total assets	**19,563,203**	**16,402,610**

Equity and liabilities		
Stated capital	850,000	850,000
Revaluation reserve	402,250	150,000
Retained earnings	8,843,982	7,860,562
Total equity	**10,096,232**	**8,860,562**
Non-current liabilities		
Interest bearing loans and borrowings	750,525	159,525
Deferred tax liabilities	1,134,306	982,308
Employee benefit liabilities	361,866	571,353
Other non-current liabilities	176,921	183,465
	2,423,618	**1,896,651**
Current liabilities		
Trade and other payables	4,512,688	3,238,077
Income tax liabilities	197,504	542,130
Interest bearing loans and borrowings	400,000	152,667
Other current liabilities	1,108,161	1,185,919
Bank overdraft	825,000	526,604
	7,043,353	**5,645,397**
Total equity and liabilities	**19,563,203**	**16,402,610**

December 2018 - Question 1

(a) Food (Pvt) Ltd acquired 25% of Chips (Pvt) Ltd's equity on 1 April 2015 and accounted it as an investment in associate based on the existence of significant influence. Food (Pvt) Ltd does not have a parent or any subsidiaries. Subsequent to the initial recognition the investment in associate has been measured at cost of Rs. 13 million in the consolidated financial statements since Food (Pvt) Ltd has not listed its debt or equity. You have been asked to check the appropriateness of this accounting treatment as at 31 March 2018.

The following information has been extracted from Chips (Pvt) Ltd's books.

For the year ended	31 March 18	31 March 17	31 March 16
	Rs.'000	Rs.'000	Rs.'000
Profit/(loss) for the year	(24,500)	(18,700)	(14,000)

Required:

Advise Food (Pvt) Ltd on the accounting treatment used for subsequent measurement of the investment in Chips (Pvt) Ltd in the consolidated financial statements for the year ended 31 March 2018.

(9 marks)

Question 3

Nihal Fernando, the chairman of TWPL attended the international film festival held in February 2018 in Beijing, China. There he met Yoshikava, chief executive officer of Bangwa Entertainment and Theatre Ltd (BET), a Thailand based theatre and entertainment company. Yoshikava expressed his interest in entering the Sri Lankan entertainment market due to the fact that Sri Lanka is gradually becoming a hub for the regional entertainment sector. Hence, he seeks a partner to enter the market as the first-mover to bring the new technology into the industry. Nihal Fernando also mentioned that his company is seeking investors to expand the operations of TWPL. Following an in depth discussion with BET, the following agreement was reached.

Agreement with BET

BET is willing to contribute to the equity of Providence Holdings (Pvt) Ltd (PHPL) through which it wishes to take part in the operations of TWPL. For this purpose, at the board meeting held on 1 March 2018, it was decided that the PHPL will issue new shares to BET. Further BET requested that it needs a minimum of 40% of the shareholding in PHPL. It was agreed that Nihal Fernando will transfer the total number of shares owned by him in TWPL to PHPL for a consideration of shares in PHPL. For this purpose, the shares owned by Nihal Fernando in TWPL was valued at Rs. 250 million and hence, the shares of PHPL (at Rs. 10.00 each) were issued to Nihal Fernando. Further, BET confirmed that they can invest Rs. 400 million (40 million shares) in PHPL and PHPL will continue to control TWPL. The above share issue and the share transfers were completed as at 31 March 2018.

Expansion to North & East

In order to expand to the Northern and Eastern provinces, TWPL decided to acquire Tilko Theatres (Pvt) Ltd (TTL), which owns and operates five theatres in the North and East of the country. On 31 March 2018, TWPL decided to purchase 60% of the share capital of TTL for a consideration of Rs. 60 million. At the time of acquisition, the value of non-controlling interest is estimated to have a fair value of Rs. 40 million. The above money was transferred to TWPL by PHPL as an inter-company loan.

The statement of financial position of TTL as at 31 March 2018 is as follows:

Assets	**Rs. '000**
Non-current assets	
Property, plant and equipment	60,758
Intangible assets	5,500
Total non-current assets	**66,258**
Current assets	43,742
Total assets	**110,000**
Equity and liabilities	
Equity	
Stated capital	70,000
Retained earnings	12,956
Total equity	**82,956**
Non-current liabilities	15,500
Current liabilities	11,544
Total equity and liabilities	**110,000**

The statement of financial position of PHPL as at 31 March 2018, prior to adjusting the above share issue transaction is as follows:

Assets	Rs. '000
Non-current assets	
Property, plant and equipment	165,350
Investment in TWPL	200,000
Deferred tax assets	50,500
Total non-current assets	**415,850**
Current assets	
Loans to TWPL (to invest in TTL)	60,000
Other current assets	55,258
Total current assets	**115,258**
Total assets	**531,108**
Equity and liabilities	
Equity	
Stated capital (issued at Rs.10 per share)	300,000
Retained earnings	112,852
Total equity	**412,852**
Non-current liabilities	
Loans from TWPL	41,178
Other non-current liabilities	12,528
Total non-current liabilities	**53,706**
Current liabilities	
Amounts due to TWPL	41,354
Other current liabilities	23,196
Total current liabilities	**64,550**
Total equity and liabilities	**531,108**

The following information was also noted for the year ended 31 March 2018.

(i) When PHPL started to control TWPL in 2015, the retained earnings of TWPL were Rs. 175 million and there were no other reserves maintained by TWPL.

(ii) The non-controlling interest at the time of acquisition of TWPL was measured as a proportion of net assets.

(iii) The group adopts Sri Lanka Accounting Standards (LKASs/SLFRSs) in preparing its financial statements.

Required:

(a) Compile a briefing note to the board of PHPL, clearly indicating the implications of the above proposed transactions on the group structure and the group financial statements of PHPL as at 31 March 2018. (25 marks)

Information from the pre seen case study

Shareholders of TWPL as at 31 March 2018

Name of shareholder	Percentage of shares held
Nihal Fernando	35%
Charith Perera	25%
Providence Holdings (Pvt) Ltd	40%
Total	**100%**

TWPL is currently owned by Providence Holdings (Pvt) Ltd (PHPL), Nihal Fernando and his best friend Charith Perera. Nihal and Charith met at the University of Kelaniya where they studied Arts and Theatre. Prior to founding the company Nihal worked for a leading film and theatre company in Sri Lanka for 10 years. Charith worked as an intern and executive for 15 years at the Universal Studios in California, USA.

PHPL, which has a 40% shareholding in TWPL, is owned by three shareholders. Charith Perera who is a director of PHPL owns 60% of PHPL. The balance shares are equally held by Saman Nanayakkara (an engineer) and Krishan Pathirage (an architect). PHPL is currently facing working capital issues and TWPL has given loans to PHPL at below market rates. Saman Nanayakkara and Krishan Pathirage of PHPL have shown an interest in divesting fully or partially their current stake in the company.

Theatre World (Pvt) Ltd
Statements of financial position

As at 31 March	2016	2017	2018
	(Unaudited)	(Unaudited)	(Unaudited)
		Rs.'000	
Assets			
Non-current assets			
Property, plant and equipment	778,323	885,765	1,011,289
Intangible assets	2,500	2,250	2,000
Investment property	3,500	3,500	3,500
Investments	20,000	22,568	25,464
Loans to PHPL	15,500	13,500	41,178
	819,823	**927,583**	**1,083,431**
Current assets			
Inventories	7,506	10,534	8,764
Trade and other receivables	85,051	95,738	91,834
Investments	35,001	52,852	60,765
Amount due from related companies	62,599	52,336	41,354
Cash and cash equivalents	15,055	29,485	35,645
	205,212	**240,945**	**238,362**
Total assets	**1,025,035**	**1,168,528**	**1,321,793**
Equity and liabilities			
Equity			
Stated capital	150,000	150,000	150,000
Revaluation reserve	200,304	200,304	200,304
Retained earnings	233,873	285,597	287,603
Total equity	**584,177**	**635,901**	**637,907**
Non-current liabilities			
Loans and borrowings	178,432	225,565	325,000
Employee benefits	6,549	6,017	7,769
Deferred tax liabilities	27,654	35,646	37,645
	212,635	**267,228**	**370,414**
Current liabilities			
Trade and other creditors	46,049	60,731	76,098
Accrued expenses and other payables	111,998	112,867	119,943
Loans and borrowings	44,608	80,433	101,465
Taxes payable	-	2,577	3,501
Bank overdraft	25,568	8,791	12,465
	228,223	**265,399**	**313,472**
Total equity and liabilities	**1,025,035**	**1,168,528**	**1,321,793**

June 2018

Question 03 (based on the common pre-seen)

The current liabilities of ET City Developer (Pvt) Ltd (ETCD), a joint venture (JV) of ETD PLC consist of bank loans and debentures due within the next 6 – 8 months. Due to severe cash constraints of the JV, ETD PLC has agreed to contribute Rs. 1 billion to the JV, thereby increasing its stake. Along with this contribution, the JV will be managed by ETD PLC, with majority board member representation.

Equity and reserves of ETCD as at 31 March 2018 are as follows:

	Rs.
Stated capital: Hex Shang Ltd (40%)	1,200,000,000
ETD PLC (60%)	1,800,000,000
Reserves	734,789,582
Total equity and reserves	**3,734,789,582**

The fair values of the JV assets and liabilities as at 31 March 2018 are as follows:

Summarised statement of financial position	**Fair value**
	Rs.'000
Non-current assets	4,500,000
Current assets	3,750,405
Non-current liabilities	(280,291)
Current liabilities	(3,568,534)
Equity	**4,401,580**

Required:

(a)**Advise** the board of ETD PLC on the following:

(i) How the above capital infusion will be accounted for in the ETD Group's financial statements. (9 marks)

(ii) How will the following items in the consolidated statement of financial position of ETD PLC be affected if the transaction goes through as of 31 March 2018. (necessary calculations need to be provided to support the advise)

- Non-current assets
- Equity and reserves (11 marks)

(b) In order to bring efficiencies and reduce staff, one of the directors has proposed to merge ET Engineering (Pvt) Ltd and ET Electricals (Pvt) Ltd. This will bring in significant savings on overhead costs.

Advise the board on the principles relating to the accounting requirements of such a merger.

(6 marks)

Electro Techno Distributors PLC
Statement of financial position

	Group		Company	
As at 31 March	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
	Rs. '000			
ASSETS				
Non-current assets				
Property, plant and equipment	1,274,810	1,016,732	950,460	814,235
Leasehold land payments	254,250	257,350	254,250	257,350
Investment properties	22,461	23,851	22,452	23,851
Lease rentals receivable and stock out on hire	915,711	872,280	-	-
Intangible assets	64,140	56,670	38,630	37,490
Investments in subsidiaries	-	-	1,238,518	1,238,518
Investments in a joint venture	2,241,551	2,075,169	2,423,593	2,198,216
Other financial assets	452,390	367,870	46,350	46,350
Deferred tax assets	393,700	374,250	-	-
Trade and other receivables	1,702,850	1,872,460	-	-
	7,321,863	**6,916,632**	**4,974,253**	**4,616,010**
Current assets				
Inventories	2,130,841	2,258,329	1,572,200	1,510,965
Trade and other receivables	1,869,335	2,232,601	1,220,635	1,772,192
Lease rentals receivable and stock out on hire	833,800	823,720	-	-
Income tax receivables	20,591	458	14,285	-
Other financial assets	644,900	398,816	1,465	1,222
Securities purchased under repurchase agreement	25,081	63,015	-	-
Cash and short term deposits	108,687	178,437	98,513	66,370
	5,633,235	**5,955,376**	**2,907,098**	**3,350,749**
Total assets	**12,955,098**	**12,872,008**	**7,881,351**	**7,966,759**

EQUITY AND LIABILITIES				
Equity				
Stated capital	218,500	218,500	218,500	218,500
Other components of equity	457,150	457,150	399,040	399,040
Retained earnings	6,461,127	6,363,500	4,689,708	4,571,760
Equity attributable to equity holders of the parent	7,136,777	7,039,150	5,307,248	5,189,300
Non-controlling interest	141,341	133,916	-	-
Total equity	**7,278,118**	**7,173,066**	**5,307,248**	**5,189,300**
Non-current liabilities				
Interest bearing borrowings	950,000	720,250	750,250	650,250
Employee benefits liabilities	258,670	236,790	159,340	149,770
Trade and other payables	1,220,360	1,697,850	-	-
	2,429,030	**2,654,890**	**909,590**	**800,020**
	9,707,148	**9,827,956**	**6,216,838**	**5,989,320**
Current liabilities				
Trade and other payables	1,847,020	1,582,046	828,954	941,474
Warranty provision	355,327	313,860	15,226	26,565
Income tax liabilities	12,520	40,342	-	25,650
Interest bearing borrowings	1,033,083	1,107,804	820,333	983,750
	3,247,950	**3,044,052**	**1,664,513**	**1,977,439**
Total equity and liabilities	**12,955,098**	**12,872,008**	**7,881,351**	**7,966,759**

Annexure-6
Investments in a joint venture

	2018	2017
	(Unaudited)	
	Rs.	Rs.
Summarised statement of profit or loss		
Revenue	-	-
Operating expenses	(126,604,000)	(88,161,924)
Finance income	45,096,807	51,630,697
Finance cost	(16,817,464)	(55,895,439)
Profit for the year	(98,324,657)	(92,426,666)
Group's share of profit for the year	**(58,994,794)**	**(55,456,000)**
Summarised statement of financial position		
Non-current assets	3,833,209,908	2,506,496,456
Current assets	3,750,405,231	3,521,315,334
Non-current liabilities	(280,291,065)	(931,590,484)
Current liabilities	(3,568,534,492)	(1,250,640,315)
Equity	3,734,789,582	3,845,580,991
Group's carrying amount of the investment	**2,241,551,196**	**2,075,168,990**
Equity reconciliation		
Carrying value as at 1 April	2,075,168,990	1,736,208,070
Investment made during the year	225,377,000	394,416,920
Share of loss	(58,994,794)	(55,456,000)
Carrying value as at 31 March	**2,241,551,196**	**2,075,168,990**

Annexure-5
Investments in subsidiaries

	% holding	Value	
		2018	2017
		Rs.'000	
ET Engineering (Pvt) Ltd	100	125,000	125,000
ET Electricals (Pvt) Ltd	100	575,250	575,250
ET Finance PLC	70	538,268	538,268
		1,238,518	**1,238,518**

	ETD PLC		ET Engineering		ET Electricals		ET Finance	
Year ended 31 March	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Rs.'000							
Assets and liabilities								
Non-current assets	4,974,253	4,616,010	209,303	230,105	755,810	762,847	2,803,057	2,669,235
Current assets	2,907,098	3,350,749	723,229	739,532	760,658	850,142	1,242,250	1,014,953
Total assets	**7,881,351**	**7,966,759**	**932,532**	**969,637**	**1,516,468**	**1,612,989**	**4,045,307**	**3,684,188**
Non-current liabilities	909,590	800,020	41,222	38,853	133,065	150,108	1,345,153	1,665,909
Current liabilities	1,664,513	1,977,439	340,282	148,189	452,950	243,782	790,205	674,642
Total liabilities	**2,574,103**	**2,777,459**	**381,504**	**187,042**	**586,015**	**393,890**	**2,135,358**	**2,340,551**

December 2017

Question 03 (based on the common pre-seen)

(a) Malik Fernando was able to convince Lasantha Fernando on the expansion plan that would take place during the next five years, which is to open 16 new standalone shops in order to further strengthen the geographic footprint of QPL. How the financing of the expansion plan should be done was discussed and a few suggestions were given by the directors at the recent board meeting.

However, before making any conclusion on the financing strategy, Lasantha wanted to first evaluate the plan's implications on the financial statements as well as the controlling power of QPL among other things. The total investment required for 16 standalone shops was estimated to be Rs. 250 million, which will be spent per the expansion plan. Directors of QPL also indicated the possibility of issuing convertible debentures if further financing is required in the future. QPL pays corporate tax at 28%.

The suggested financing strategies are as follows. Note that for both strategies, the size of the voting interest will be equal to the size of the shareholdings.

(i) QPL will issue 25 million ordinary shares for Rs. 250 million on 1 January 2018. As Gayan (the major shareholder of Transasia Holdings PLC (THP)) has already indicated to increase his shareholding in the company, 50% of this share issue will be made to THP. Malik and Lasantha will buy 30% and 20% of the 25 million shares respectively.

(ii) On 1 January 2018, QPL will issue 25 million of ordinary shares at Rs. 10 each to THP. THP will make a cash payment of Rs. 125 million immediately. A further sum of Rs. 75 million in cash and 2 million shares of THP, will be paid/issued in 3 years' time (assume that the market price of a THP share on 1 January 2018 will be Rs. 60). Based on the historical behaviour of the market price, the best estimate of THP's share price in three years' time is Rs. 72. The discount rate applicable is 15%.

Silva & Co, a firm of chartered accountants, where you are a manager, has been appointed by QPL and THP for the following initial tasks:

Task A – Evaluate the impact on the controlling power of QPL arising from each of the above suggested financing strategies, together with any other factors/information to be considered, per the relevant Sri Lanka Accounting Standards (LKAS/SLFRS).

Task B – Explain the financial reporting treatment resulting from the above strategies in the books of THP.

You may assume the carrying amounts of assets and liabilities of QPL reflected in the statement of financial position as at 31 March 2017 are equal to their fair values as at 1 January 2018, except as indicated below.

- QPL expects to generate a profit of Rs. 3 million for the 9 months ended 31 December 2017.

- THP can sell its existing shareholding of 29% in QPL if required for Rs. 22 million on 1 January 2018.

- On 1 January 2018, the fair value of the non-controlling interest is expected to be Rs. 43 million.

- QPL has a list of corporate customers who have contractually agreed to purchase certain drugs from QPL for the next two years. These contracts prohibit QPL from selling, leasing or otherwise exchanging information about these customers with another party. The fair value of the said customer list on 1 January 2018 is expected to be Rs. 12 million.

- QPL has rented out one of its buildings to another party under an operating lease. QPL earns annual rental income of Rs. 2 million. However, the annual market rent for a similar building is less than this amount. The best estimate of the fair value of the favourable lease terms on 1

January 2018 is Rs. 4.5 million. The said building's fair value on 1 January 2018 is expected to exceed its carrying value by Rs. 4 million.

You are not required to recommend the best strategy as the final evaluation will be done by the board of directors considering other aspects as well.

Required:

Compile a document that contains the following tasks requested from you, by QPL and THP.

(i) Evaluation of the impact on the controlling power of QPL arising from the above financing strategies. You should clearly state any further factors/information to be considered for this evaluation per relevant Sri Lanka Accounting Standards (LKAS/SLFRS).

(ii) Explanation of the financial reporting treatment resulting from the above financing strategies in the books of THP. You may use the figures in the financial statements of QPL for the year ended 31 March 2017 for any calculations required. (25 marks)

Pre seen information

2.1 Shareholding structure (1,500,000 shares at Rs. 10)

Shareholders	**Percentage holding as at 30 September 2017**
Malik Fernando	51%
Lasantha Fernando	20%
Transasia Holdings PLC	29%
Total	**100%**

Gayan who owns 29% of the shares of QPL through his family company Transasia Holdings PLC has indicated that he would like to increase his shareholding by another 22%. This may be possible if the other shareholders decide to sell or reduce their stake in the business.

Annexure 3: Financial information of QPL

Income statement

	Rs.		
For the year ended 31 March	**2017**	**2016**	**2015**
	(Un-audited)	**(Audited)**	**(Audited)**
Revenue	262,073,635	145,000,000	105,000,000
Cost of sales	(146,056,707)	(98,605,800)	(73,500,015)
Gross profit	**116,016,928**	**46,394,200**	**31,499,985**
Other income	7,700,000	5,400,000	2,700,000
Administrative expenses	(65,440,000)	(45,000,000)	(45,000,505)
Selling and distribution expenses	(23,001,099)	(10,006,000)	(8,989,646)
Other operating expenses	(11,507,747)	(4,344,892)	-
Profit/(loss) from operations	23,768,082	(7,556,692)	(19,790,166)
Finance cost	(17,456,000)	(4,080,655)	(1,676,555)
Profit before tax	**6,312,082**	**(11,637,347)**	**(21,466,721)**
Income tax expense	(1,767,382)	-	-
Net profit/(loss) for the year	**4,544,700**	**(11,637,347)**	**(21,466,721)**

Statement of financial position

	Rs.	
As at 31 March	**2017**	**2016**
	(Un-audited)	**(Audited)**
Assets		
Non-current assets		
Property, plant and equipment	119,295,904	61,147,050
Intangible asset	3,500,000	-
Investments in unquoted equity securities	16,999,541	16,946,353
Deferred tax assets	4,814,882	4,057,249
Total non-current assets	**144,610,327**	**82,150,652**
Current assets		
Inventories	39,876,555	19,767,555
Trade and other receivables	25,005,065	12,453,944
Cash and cash equivalents	8,909,888	3,566,666
Total current assets	**73,791,508**	**35,788,165**
Total assets	**218,401,835**	**117,938,817**
Equity and liabilities		
Capital and reserves		
Stated capital	15,000,000	15,000,000
Retained earnings	40,259,178	35,714,478
Total equity	**55,259,178**	**50,714,478**
Non-current liabilities		
Retirement benefit obligation	15,034,889	15,604,191
Interest bearing loans and borrowings	65,700,000	13,231,728
Total non-current liabilities	**80,734,889**	**28,835,919**
Current liabilities		
Trade payables	43,908,014	27,865,432
Interest bearing loans and borrowings	19,898,765	4,578,766
Income tax payable	2,500,990	343,233
Other liabilities	3,500,000	-
Bank overdraft	12,599,999	5,600,989
Total current liabilities	**82,407,768**	**38,388,420**
Total liabilities	**163,142,657**	**67,224,339**
Total equity and liabilities	**218,401,835**	**117,938,817**

June 2017

Question 03 (based on the common pre-seen)

(a) You are Thilak Fernando, the newly recruited financial accountant of SSPL group. Kamal Somachandra, the group finance director, after having a fruitful meeting with Charlee Lee, briefed the following to you.

"Lee agreed to invest with us to start up the production of instant noodles. Initial investment required to start the production and distribution of instant noodles was estimated to be Rs. 500 million. He proposed two options. We need to evaluate these two options and inform him of the preferred one within two weeks. Therefore I want you to carefully study the two options and prepare a briefing note on the financial reporting implications arising from each option separately".

The two options are as follows:

Option 1

SSPL and SFP(HK) to set up a separate legal entity for the purpose of manufacturing and distributing instant noodles to the local and international markets. The main contractual terms would be as follows:

- SSPL and SFP(HK) would equally invest in the new entity.
- The new entity will own the manufacturing plant and all other assets that will be purchased using the funds invested by the two parties.
- SSPL and SFP(HK) would not be liable for debts, liabilities or obligations of the new entity. If the new entity is unable to pay any of its debts or other liabilities to third parties, the liabilities of SSPL and SFP(HK) will be limited to the unpaid amount of each party's capital contribution.
- If SSPL or SFP(HK) want to exit from the investment, they can do so by selling their interest in the new entity.
- The profit or loss generated by the new entity will be shared between the two parties in accordance with each party's interest in the new entity.

Option 2

A separate company will be established and SSPL will own 60% of the ordinary share capital of this entity while SFP(HK) will hold the balance. A total investment of Rs. 500 million will be paid by each party as follows:

- Rs. 330 million immediately upon signing the contract (50% will be paid by each party).
- SSPL will pay Rs. 120 million of cash after one year from the date of signing the contract.
- SSPL will pay Rs. 50 million of cash after two years from the date of signing the contract depending on a range of contingent events. It is highly likely that this amount will be paid.

- As tentatively agreed, SFP(HK) is responsible for major operating and capital decisions of the new entity due to the specialist knowledge it possesses. Therefore, SFP(HK) can appoint or approve the majority of key management personnel of the new entity. SSPL can appoint one director to the board enabling participation in policy making decisions.

(Assume the contract will be signed on 1 July 2017 and the discount rate is 13% for any calculations required).

Required:

Prepare a briefing note that includes an analysis of the arrangements given in the two options, together with the financial reporting implications in accordance with applicable financial reporting standards.

(25 marks)

December 2016

Question 03 (based on the common pre-seen)

You are Sumith Ranawaka, the recently appointed group finance manager of Alpha (Pvt) Ltd. You are working on the finalisation of the year-end financial statements. You have just received the following email from Mahen.

Subject: Matters to be addressed before finalising the year-end financial statements.

Dear Sumith,

Investment in Ceylon Sugar (Pvt) Ltd (Ceylon Sugar)

As you may be aware, during my stay in Sri Lanka, I managed to have successful discussions with the directors of Ceylon Sugar, who represented the government and Beta (Pvt) Ltd. Finally the following terms were agreed by both parties, in February 2016.

- Beta (Pvt) Ltd to sell its stake in Ceylon Sugar to Alpha (Pvt) Ltd on 31 March 2016.
- Alpha (Pvt) Ltd to pay Rs. 50 million in cash and issue 12% debentures for Rs. 20 million to Beta (Pvt) Ltd on 31 March 2016. The issue cost of debenture is Rs. 1 million. Legal costs relating to the acquisition is Rs. 1.5 million.
- Alpha (Pvt) Ltd is responsible for making decisions with respect to the funding structure of Ceylon Sugar, researching and developing new processes to utilise full capacity and increase sugar production, replacement, acquisition and disposal of assets and the establishment of a good governance structure. These in turn will help to maximise investors' returns (i.e. dividends)
- I will be appointed as the Chief Executive Officer (CEO) of Ceylon Sugar, as the current CEO is to retire in the next month.

Some of the background information of Ceylon Sugar together with its recent financial statements have already been provided to you. I believe you have studied these in detail. The following information has been derived from the due diligence carried out on 31 March 2016 for Ceylon Sugar.

1. The buildings have a fair value of Rs. 20 million.

2. Factory plant and machinery have been impaired by Rs. 65 million.

3. The right to use land represents the present value of future lease rentals payable for the remaining lease period of 30 years, relating to 4,000 ha of land. The lease had been granted at a very low rate. The present value of future market rentals for a similar lease amounts to Rs. 611 million.

4. The fair value of molasses was Rs. 500 million on 31 March 2016.

5. The fair value of all the other assets and liabilities were equal to their carrying values.

6. Carried forward tax losses disclosed in the financial statements for the year ended 31 March 2016 were Rs. 270 million.

7. The fair value of the government held stake in Ceylon Sugar was Rs. 30 million.

8. Assume Ceylon Sugar pays income tax at 28%.

I would like you to draft a memorandum explaining and quantifying the required financial reporting treatments based on all the information provided to you.

Regards,

Mahen.

Required:

(a)Compile the memorandum requested by Mahen, by considering all the information provided to you. It should include the following:

(i)A comprehensive explanation on how the investment in Ceylon Sugar should be treated in the financial statements of Alpha (Pvt) Ltd.

(ii)An explanation and quantification of the financial impact resulting from the above investment.

(22 marks)

Pre Seen information

Background

Alpha (Pvt) Ltd is jointly owned by the Fernando brothers, Mahen and Ajith. They both own 50% of the company.

Ceylon Sugar (Pvt) Ltd

Ceylon Sugar (Pvt) Ltd is a company involved in the growing and milling of sugar. It is currently owned by the government and Beta (Pvt) Ltd. The current shareholding of Ceylon Sugar is given below.

Shareholders	No of shares (million)	Percentage holding
Government of Sri Lanka	51	51%
Beta (Pvt) Ltd	49	49%

Beta wishes to sell its stake and the government has agreed to this

Property, plant and equipment (PPE) – Extract of key items

As at 31 March 2016	Cost (Rs. million)	NBV (Rs. million)
Buildings	40.05	30.00
Harvesting equipment	55.00	9.00
Factory plant and machinery	950.09	565.09
Water tanks	48.00	25.00

The factory plant and machinery were installed many years ago. They are now technologically obsolete and require urgent replacement if production is to be increased. The factory buildings also require refurbishment. The water tanks were constructed in FY 2015/16.

Inventories

As at 31 March	2016 (Rs. million)	2015 (Rs. million)
Molasses	355	38
Sugar	45	40
Sugarcane	40	35
Others	10	32
Total	**450**	**145**

Annexure 3

Ceylon Sugar (Pvt) Ltd

Statement of financial position

As at 31 March	2016	2015	2014
	Rs. million	Rs. million	Rs. million
Assets			
Non - current assets			
Property, plant and equipment	980	1,010	1,130
Infrastructure improvements	77	97	100
Right to use land	329	340	350
Capital work in progress	165	60	5
AFS investment in Candy PLC (15%)	30	-	-
Loans given to farmers - amount fall due after one year	210	97	91
Total non - current assets	1,791	1,604	1,676
Current assets			
Biological assets at fair value	35	19	17
Inventories	450	145	95
Loans given to farmers - amount fall due within one year	239	150	225
Trade and other receivables	571	396	285
Amounts due from related parties	3	2	9
Income tax receivable	6	1	2
Cash and cash equivalents	2	2	2
Total current assets	1,306	715	635
Total assets	3,097	2,319	2,311
Equity and liabilities			
Equity			
Stated capital	1,000	1,000	1,000
Retained earnings	(3,127)	(3,366)	(3,035)
Total equity	(2,127)	(2,366)	(2,035)
Non - current liabilities			
Interest bearing liabilities	1,461	547	900
Retirement benefit obligations	30	27	20
Finance lease obligations	25	32	43
Total non - current liabilities	1,516	606	963
Current liabilities			
Trade and other payables	62	42	73
Amounts due to related parties	375	1,251	925
Interest bearing liabilities	2,967	2,478	2,235
Finance lease obligations	16	31	20
Income tax payable	-	2	-
Bank overdrafts	288	275	130
Total current liabilities	3,708	4,079	3,383
Total equity and liabilities	3,097	2,319	2,311