

**EXAMINER'S REPORT****LEVEL III EXAMINATION - JANUARY 2023****(301) FINANCIAL REPORTING**

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Most of the common mistakes made by the candidates have been identified. The unsuccessful candidates should identify the mistakes which they made and learn all the principles in order to be successful at the future examinations:

**SECTION A****Question No. 01**

- (a) (i) It was required the candidates to identify 2 different users who use financial information of an entity.  
Almost all the candidates answered this part correctly.
- (ii) It was required to state two examples of economic decisions taken by the users of an entity.  
This part was answered correctly by majority of the candidates.
- (b) Required to explain the meaning of reporting entity.  
Most of the candidates could not answer this part due to lack of knowledge on this part.

**Question No. 02**

- (a) It was required to Identify two (02) purposes of sustainability reporting.  
Considerable number of candidates have answered correctly. Some mixed up integrated reporting with sustainability reporting.
- (b) It was required to explain what a “sustainability report” is. However most of the candidates were unable to answer correctly.

**Question No. 03**

- (a) It was required to calculate the goodwill on acquisition. Most of the candidates obtained full marks to this part. However, handful of candidates forgot to adjust the Non-controlling interest.
- (b) It was required to explain the term “Subsidiary Company”. Considerable number of candidates answered this part correctly. However, there were few candidates who could not explain the given term correctly.

#### Question No. 04

It was required to explain 3 regulatory requirements pertaining to the preparation and presentation of financial statements of a company as per the Companies Act No. 17 of 2017.

Only a very few candidates answered this part correctly. Most of the candidates stated about Accounting Standards, without referring to specific provisions contained in the Companies Act.

### SECTION B

#### Question No. 05

##### Part (A)

It was required to compute the differed tax asset / liability as at 31<sup>st</sup> March 2022 and tax expenses for the year ended 31<sup>st</sup> March 2022.

Most of the candidates could not answer this question correctly.

Following mistakes were done by many candidates:

- Differed tax was not calculated on gratuity provision, instead it was deducted from the taxable income.
- Tax rate was not applied in computing the differed tax asset and differed tax liability.
- Failed to arrive at the year-end differed tax balance liability.
- As a result, could not arrive at the tax expenses for the year.

##### (Part B)

It was required to explain how the given events should be recognized in the Financial Statements as per LKAS 10.

Most of the candidates did not give any explanation, instead stated either those events are adjusting or non-adjusting or yes or no.

Some candidates gave the double entry

**Areas to be improved:** Application of LKAS 12 & LKAS 10

#### Question No. 06

##### Part (A)

**Part (a)** was required to prepare Lease Receivable Ledger Account and **part (b)** Unearned Finance Income ledger account for the year ended / as at 31<sup>st</sup> March 2022 of Lessor.

Only a very few answered this part correctly. Most candidates could not prepare the lease repayment schedule correctly. As a result they failed to answer both parts **(a)** & **(b)** correctly. Many candidates showed the Lease amount receivable as a credit balance.

## Part (B)

It was required to calculate the impairment loss as per LKAS 36.

Only a few answered this part correctly. Most of them could not calculate the impairment loss by deducting the recoverable amount from the carrying value. They failed to arrive at the recoverable amount correctly by choosing the higher of the fair value less cost of disposal and the value in use.

**Areas to be improved:** Application of SLFRS 16 & LKAS 36.

## Question No. 07

It was required to prepare the Statement of cash Flow for the year ended 31<sup>st</sup> March 2022 using indirect method.

Most of the candidates performed well and scored above 6 marks. Some even obtained total marks allocated.

Following are the common mistakes made by candidates:

- Was unable to arrive at the Net profit before tax amount of Rs.560 ((150+110+300).
- Has not classify the cash flow statement as operating activities, investments activities and finance activities based on the nature of the cash flow. However, For example, fixed assets purchasing expense was categorized under operating expenses category and gratuity provision was shown under investment category or finance category.
- Was unable to correctly calculate the fixed assets depreciation expenses correctly.
- Many failed to arrive at the Profit on disposal of fixed assets correctly. Even though some arrived at the correct figure, did not deduct it from the profit before tax and showed it before working capital changes.
- Many failed to show cash inflows without brackets and outflows within brackets.
- Was unable to show changes in the working capital by showing the changes in stocks, debtors and creditors.
- Some used the closing cash balance of Rs.1,110/- as the opening cash balance in preparing the cash flow statement.

**Areas to be improved:** Preparation of cash flow statements using indirect method.

## SECTION C

### **Question No. 08**

It was required to prepare Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Depreciation Schedule of a Listed Company.

Common Mistakes that were made by the candidates are as follows:

#### **Statement of Comprehensive Income:**

- (1) Revaluation Surplus of Rs. 5 million was taken to other comprehensive Income instead of statement of changes in equity.
- (2) Profit on disposal of motor vehicle Rs. 2.4 million was taken to other comprehensive Income instead of other income.
- (3) Borrowing cost of Rs. 917 million was taken as a Finance Expense without capitalizing borrowing cost to capital WIP.
- (4) Provision of debtors was calculated without considering the bad debt of Rs. 5 million.
- (5) Borrowing cost was calculated for the full year instead of 11 months.
- (6) Incorrectly showed the insurance expenses as Rs. 9 million and insurance prepayment amount as Rs. 3 million.
- (7) Calculated depreciation on reducing balance method.
- (8) Depreciated the land together with the building.
- (9) Full year's depreciation was calculated on disposed asset and some did not workout the depreciation during the year of sale.
- (10) Sale proceeds of Rs. 5.4 million on asset disposal was recognized as profit on disposal in the other income.
- (11) Unrecoverable debtor balance of Rs. 0.5 million which had been already provided was erroneously recognized as bad debts in the income statement.
- (12) Some candidates, failed to consider the bad debt amounting to Rs.500,000/- when arriving at the closing bad debt provision.
- (13) Entire insurance payment of Rs.12mn was taken to income statement as insurance expense.
- (14) Failed to bring in the calculated depreciation expenditure from the movement of Property Plant & Equipment schedule to the income statement as expenditure.
- (15) Failed to bring in the under provision of doubtful debt (Rs.1,950 million) to the distribution expenditure.
- (16) Most of the candidates could not calculate the depreciation on motor vehicles correctly. They failed to identify the yearly depreciation on disposed motor vehicle (Rs. 0.6 million) and other motor vehicles (Rs. 0.8 million) correctly.

- (17) Some candidates calculated depreciation of motor vehicle based on sales proceeds (Rs. 5.4 million \*20%\*2.5 years) rather on cost.

**Statement of Financial Position:**

- (1) Capital WIP balance Rs 1.4 million was added to the inventory /building
- (2) Capital WIP was shown under current Assets.
- (3) Provision for Debtors Rs.2.95 million taken as a current liability.
- (4) Failed to identify the tax liability of Rs. 7.75 million even though this was clearly given in the question. Mixed up the paid and payable amounts.

**Statement of Changes in Equity:**

Considerable number of candidates scored full marks.

**Movement of Property plant & Equipment**

- (1) Motor vehicle Sales proceed of Rs 5.4 million has taken as the cost of disposal in the movement of Property Plant & Equipment.
- (2) Failed to bring in the calculated depreciation expenditure from the movement of Property Plant & Equipment schedule to the income statement as expenditure.

**Areas to be improved:**

Knowledge on relevant LKASs and SLFRSs and preparation of Financial Statements. (Es LKAS 12 income tax, LKAS 16 Property plant & equipment, LKAS 20 borrowing cost, LKAS 1 Presentation of financial statements)

This question was answered well by majority of the candidates. Performance of this question was at a satisfactory level.

**Question No. 09**

**Part (a) It was required to compute (a) Gross Profit Ratio, (b) Quick Asset Ratio, (c) Inventory Residence days, (d) Debtors' Collection Days (e) Earnings per Share**

Most candidates were able to compute the GP ratio, Quick Assets Ratio , Inventory Residence days and Debtors' collection days correctly.

Many could not compute the Earnings Per Share correctly. Most of the candidates divided the equity by the number of shares, instead of dividing the profit after tax by the number of shares.

Almost all the candidates attempted this question.

**Part (b) It was required to compare the given ratios with the industry averages and to explain possible reasons for the variances**

Some candidates compared the ratios with the previous year instead of the industry averages. Most of candidates scored considerable marks for this part. A few scored full marks for this part.

**Areas to be improved:** Computation of ratios and to be able to explain the reasons for variances

### **Question No. 10**

**It was required to prepare the Consolidated Income Statement for the year ended 31<sup>st</sup> March 2022.**

Many candidates did not have an understanding of the adjustments between the parent and the subsidiary.

Following are the mistakes made by some candidates:

- Did not remove inter-company sales of Rs. 60 million from the sales and the cost of sales.
- Unrealized profit of Rs.5 million was not adjusted from the cost of sales.
- Intercompany rent of Rs. 1 million was not removed from rent income and administrative expenses.
- Profit on inter-company asset sale was not removed from consolidated comprehensive income statement.
- Did not remove Rs.200,000/- of over depreciation from the administrative expenses.
- Goodwill impairment of Rs. 2 million was not shown as an expense, instead removed from other income.

Overall performance of this question was satisfactory. Most candidates scored more than 50 % and a few scored full marks.

**Areas to be improved:** Preparation of Consolidates Comprehensive Income Statement.

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**General points to be considered in developing the level of Understanding of candidates:**

- (1) Studying well the contents of the entire syllabus and develop a thorough understanding of the level of knowledge expected for each chapter or area.
- (2) Candidates should read the questions carefully and provide answers to the question asked.
- (3) Should show all the workings for the figures arrived at.
- (4) Should state all the assumptions if there are any.
- (5) Should start each question on a new sheet of paper and question number should be clearly stated.
- (6) Hand writing should be legible.
- (7) Practising past questions many times will help sharpening knowledge, skills and gaining speed. This will also be advantageous as similar types of questions may be repeated in the future examinations.
- (8) Reference to Accounting Standards, Suggested Answers, Articles related to subject area will definitely improve your knowledge.
- (9) Time management is crucial at the examination. In answering questions, candidates should spend time based on the marks allocated to each question.
- (10) Should sit at the examination with due preparation and with firm determination of passing the examination.

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