

EXAMINER'S REPORT**LEVEL III EXAMINATION - JANUARY 2024****(301) FINANCIAL REPORTING**

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) This part of the question tested qualitative characteristics that enhance the usefulness of financial information. Most of the candidates have answered well but some candidates have explained fundamental characteristics of financial information (Relevance & Faithfull representation) which was clearly mentioned in the study text as fundamental characteristics of financial information. Some candidates have just list down the characteristics whereas the requirement of the question is to explain the characteristics. Due to this they failed to obtain full marks.
- (b) Required to state two(02) primary types of capital maintenance.

This part was very poorly attempted. Those who attempted the question gave various incorrect answers. Only a few stated financial capital maintenance and physical capital maintenance.

Question No. 02

- (a) Required to state two powers of the Sri Lanka Accounting and Auditing Standard Monitoring Board. Candidates' knowledge needs to be improved since they are unable to provide exact answers. Some candidates misinterpreted that SLAASMB is preparing accounting & auditing standards.
- (b) It was required to state three functions of Securities and Exchange Commission of Sri Lanka. Students' performance needs to be improved. Some students have written powers of the SLAASMB as functions of Securities and Exchange Commission.

Question No. 03

- (a) This part of the question was to identify non-financial reports which are included in the Annual Report of a listed entity. Majority of the candidates have not answered this part due to inadequate practical experience of an annual report. Though, it was required to identify non-financial reports, many have written components of financial reports as the answer and failed to obtain marks. Some students have just written company name, address, date of incorporation, etc. as the answer for this part which is not relevant. And some have written financial reports included in the annual report as the answer for this. This shows lack of understanding of the question.

- (b) It was requested to state key areas to be included under the strategy and resource allocation in the Integrated Report. Candidates performance is not at satisfactorily level. Candidates knowledge need to be improved since very few numbers of candidates have answered correctly. Many students have written the components of integrated reports as the answer for this part without understanding that the question was tested based on one of the components which is Strategy and Resource Allocation.

Question No. 04

- (a) It was tested conditions which should be satisfied in order to capitalize development cost as an intangible asset as per LKAS 38 - Intangible Assets. Student performance is at average level. Some candidates misinterpreted this as characteristics of intangible asset as per LKAS 38. Hence, this is associated with "*capitalize development cost as an intangible asset*" very few provide exact answers.
- (b) It was requested to explain recognition of intangible asset as per LKAS 38 - Intangible Assets for the given three scenarios. Majority of candidates answered well. But some candidates didn't explain the facts how they identify each cost as an intangible asset or not an intangible asset. Rather, they were written saying "*yes*" or "*no*". Majority of candidates obtained full marks for this part.

SECTION B

Question No. 05

The requirement of this question is to prepare cash flow statement using indirect method according to LKAS 7. The performance of the students is good, and majority of the candidates have scored minimum of 5 marks for this question. Though, some candidates have identified the movements in working capital, they failed to identify whether it should increase the cash flow or decrease by stating in a bracket or without a bracket. Also, some have stated the cash inflow and outflow in other way around due to poor understanding of cash inflow and cash outflow.

Following are the common errors made by the candidates:

- Very few have reproduced the balance sheet as the answer for this part.
- Could not arrive at Net profit before tax amount of Rs.765/- (375/- + 230/- + 160/-) correctly.
- Classification of operating activities, investments activities and finance activities were not correctly done by almost all the candidates.
- Failed to calculate the depreciation of PPE charge correctly.
- Failed to arrive at the loss on disposal correctly.
- Could not arrive at the gratuity charge for the year.
- Could not arrive at the amount spent on purchasing the land.
- Failed to correctly show the changes in working capital.
- Some candidates failed to show the workings. Marks were awarded to those candidates who failed to bring the figures to the face of the cash flow but showed correct workings.

Question No. 06

This question has 2 parts consisting of a finance lease and computation of annual depreciation charge.

- (a) The requirement of this part is to prepare extracts of Statement of comprehensive income and Statement of Financial position. However, many candidates have failed to understand the requirement and only done up to the point of preparing Lease amortization schedule. Due to this, they failed to obtain full marks for this part. Some candidates have prepared the amortization schedule using motor vehicle cost of Rs. 8 million without deducting the advance payment of Rs. 3 million. Also, some candidates wrongly mentioned Right to Use Asset in the extract as Rs. 5 million and depreciation was charged on that as Rs. 1.25 million. This shows poor understanding of LKAS 17, Leases. Further, many candidates have missed out to show depreciation in the extract of statement of comprehensive income. The performance of this question was not satisfactory.
- (b) Performance of the candidates were good for this part and majority of the candidates were able to obtain full marks. However, many candidates have not understood the requirement of the question which is to calculate annual depreciation charge for the year ended 31st March 2023 of the air craft. They have computed the deprecation for each part of the air craft and failed to show the gross amount of depreciation. Also, when calculated depreciation it was failed to deduct residual value. Thus, failed to obtain full marks.

Question No. 07

This question has 2 parts consisting of LKAS 37- Provisions, Contingent Liabilities and Contingent Assets and SLFRS 15- Revenue from contracts with customers.

- (a) The performance on this part is poor due to lack of the knowledge on accounting standard. They just explained in ethical point of view such as company should have to pay this compensation since this incident happened to the employee while at work. Some have just mentioned that "*company has to provide the amount*" without quantifying the amount due to lack of technical knowledge. Many candidates have not understood the criteria to identify whether it is a provision or contingent asset or a contingent liability and just answered. Most of the candidates have not explained the impact of the scenarios which is requirement of the question. Rather, they just mentioned as whether it is a Provision or Contingent Asset, etc. Some have repeated the scenario as the answer.
- (b) This part is to identify the steps in the 5 steps model which should be followed in recognizing revenue as per SLFRS 15-Revenue from Contracts with Customers. Most of the candidates have not attempted this which shows lack of understanding of this standard. It also noted that most of the candidates did not have an understanding of 5 step model but rather just memorized. This is highlighted from the answering patterns of candidates.

SECTION C

Question No. 08

This question was tested candidates' knowledge on the preparation of Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Notes to the financial statement for the publication. The main areas tested are knowledge on LKAS 2 -Inventory, LKAS 36 Knowledge on impairment, recognition of subsequent revaluation, LKAS 23 -Borrowing Cost and recovery of bad debts, etc.

Common Mistakes that were made by the candidates relating to given adjustments are as follows:

- (1) Many students have subtracted Rs.1,200,000/- from sales figure and Rs.800,000/- from cost of sales without adding the difference ($1,200 - 800 = 400$) to cost of sales and deducted Rs.800,000/- from year-end inventory balance and shown as Rs.23,200,000/- as inventory figure. While some others reduced Rs.1,200,000/- from year-end inventory balance shown Rs.22,800,000/- as the value of inventory.
- (2) Most of the candidates have computed this accurately and obtained marks.
- (3) Performance is very poor regarding impairment adjustment. Many have identified impairment loss as Rs.9,000,000/- and deducted from the cost of the machinery. Some have considered Rs.600,000/- as impairment loss by comparing Value in Use and Fair Value less Costs to sell (Rs.8,400,000/- - Rs.9,000,000/-) without comparing carrying amount against recoverable amount of the asset.
- (4) Many candidates have taken Rs.35,000,000/- as opening balance of land and added Rs.8,000,000/- as the revaluation during the year. Thus, showed Rs.8,000,000/- as revaluation gain in the Statement of Other Comprehensive Income. However, candidates have correctly identified the closing balance at the year end.
- (5) Classification of bank loan is correctly done by the candidates considering the grace period. However, poor performance in the borrowing cost capitalization due to poor technical knowledge. Some candidates have ignored this adjustment while others have incorrectly computed the borrowing cost which is from the date of obtaining the loan. Thus, failed to consider the date of commencement of the construction. Some candidates have reduced the borrowing cost from capital work in progress rather than adding borrowing cost to the capital work in progress.
- (6) With regard to recovery of bad debt of Rs.600,000/- which was previously written off to distribution expenses was not adjusted to the trade receivable accounts by majority of the candidates. While few other have deducted Rs.600,000/- from trade receivable balance due to poor knowledge on recovery of bad debts.

The performance of this question was at a satisfactory level.

Question No. 09

Part (a) required to compute **(i)** Net Profit Ratio, **(ii)** Stock Residence period , **(iii)** Debtors' Collection period **(iv)** creditors settlement period **(v)** Earnings per share (EPS), **(vi)** Price earnings (Per ratio).

There were candidates who could not calculate even the net profit ratio. A few candidates showed Stock Residence period and Debtors' collection period as a percentage instead of days.

Majority of the candidates did not attempt the calculation of EPS. Similarly, most of the candidates did not attempt PE ratio. Some showed the EPS as PE ratio.

Part (b) Required to prepare a summary report comparing the given ratios of the industry with performance of **Jaya Lanka PLC**.

There was hardly any candidate who prepared a report. Action verb was completely disregarded.

Most candidates could not give possible reasons for variances. When commenting on the variances in the performance, some commented on the performance of the industry instead of the company performance, when compared with the industry.

Almost all the candidates attempted this question and majority obtained an average marks allocated to the question.

Areas to be improved: Computation of ratios and to be able to explain the significance of the variations.

Question No. 10

The examiner tests the consolidated statement of financial position with basic consolidation adjustments such as goodwill computation using Fair Value method, recognition and elimination of inter-company transactions etc. A small number of candidates have got more than average marks allocated to the question by adding both company figures only. Very few have full understanding of the question and obtained full marks. However, goodwill computation is correctly done by many candidates and obtained full marks. Most of the candidates have not performed workings for consolidated reserves account and just shown the given trial balance figure in the consolidation accounts.

Following were the mistakes made by some candidates:

- (1) Unrealized profit of Rs.500,000/- was not eliminated from the inventories.
- (2) 20% of Unrealized profit was shared to the subsidiary.
- (3) Unrealized profit was calculated incorrectly as Rs.600,000/- instead of Rs.500,000/-.
- (4) Failed to increase the PPE by Rs. 5 million.
- (5) Failed to eliminate the intercompany debentures of Rs. 40 million.
- (6) Failed to adjust for the goodwill impairment.

Most candidates have run out of time when they attempted this question since they answered in the order of the question paper. Most of the candidates have not recorded the basic consolidation entries correctly. Lack of time management also cause candidates to not answer all the questions within the allotted time. Also, it is evidenced that lack of practices on consolidation related questions. The performance of this question was at a satisfactory level.

- - -

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.

- * * * -