

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2023

(301) FINANCIAL REPORTING

• **Instructions to candidates** (Please Read Carefully):

(1) **Time Allowed:** Reading : 15 minutes

Writing : 03 hours

(2) **All questions should be answered.**

(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**

(4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**

(5) **Use of Non-programmable calculators is only permitted.**

(6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

(7) **100 Marks.**

19-08-2023
Morning
[08.45 – 12.00]

No. of Pages : 11
No. of Questions : 10

SECTION A

(Total 20 marks)

Question 01

The Conceptual Framework for Financial Reporting has identified the underlying assumption made in preparing the financial statements and qualitative characteristics of financial information.

You are required to:

(a) **Explain** the two(02) fundamental qualitative characteristics as per the Conceptual Framework for Financial Reporting. (03 marks)

(b) **Explain** the underlying assumption in preparing the financial statements. (02 marks)
(Total 05 marks)

Question 02

The primary purpose of an integrated reporting is to explain the providers of financial capital as to how an organization creates value over time.

You are required to:

Explain two(02) key elements of an Integrated Report. (05 marks)

Question 03

Systech Consultancy Services (Pvt) Ltd. is engaged in rendering services for industrial constructions. **Client B** was offered a fee proposal by the company for Rs.7,500,000/- to render all the services it provides.

The fees applicable for standalone services are as follows:

	Rs.
For Soil Testing Service	500,000
For Structural Engineering Services	2,500,000
For Initial BOQ Preparation Service	3,000,000
For Mechanical, Electrical and Plumbing (MEP) Services	2,000,000

You are required to:

Assess the transaction price allocation on each services in accordance with SLFRS 15 - Revenue from Contracts with Customers. (05 marks)

Question 04

- (a) LKAS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

You are required to:

State three(03) components of other comprehensive income as per LKAS 1: Presentation of Financial Statements. (03 marks)

- (b) LKAS 19 Identifies four types of Employee Benefits and out of which, short term employee benefits are expected to be settled before twelve months after ending the reporting period.

You are required to:

Identify two(02) examples for short-term employee benefits provided to the employees for the services they rendered. (02 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

The Statements of Financial Position of **Lak (Pvt) Ltd.** as at 31st March 2023 and 31st March 2022 are given below:

Lak (Pvt) Ltd.
Statements of Financial Position *(Rs. '000)*

As at 31 st March	2023	2022
Non-Current Assets:		
Property, Plant and Equipment	20,000	13,000
Less: Accumulated Depreciation	(9,500)	(7,000)
Carrying Value	10,500	6,000
Current Assets:		
Inventories	15,670	13,670
Trade and Other Receivables	12,750	14,780
Cash and Cash Equivalents	2,800	1,900
	31,220	30,350
Total Assets	41,720	36,350
Equity and Liabilities:		
Equity:		
Stated Capital (100,000 Ordinary Shares)	10,000	10,000
Retained Earnings	2,150	1,800
	12,150	11,800
Non-Current Liabilities:		
Long-Term Loans	13,500	12,100
Employee Benefits (Provision for Gratuity)	4,650	4,400
	18,150	16,500
Current Liabilities:		
Trade Payables	7,200	4,200
Short-Term Loans	2,420	2,450
Interest Payable	500	300
Income Tax Payable	1,300	1,100
	11,420	8,050
Total Equity and Liabilities	41,720	36,350

The following additional information is also provided:

- (1) Income tax expense for the year ended 31st March 2023 was Rs.290,000/- and profit before tax and interest was recorded as Rs.1,015,000/-. Interim dividends were paid to ordinary shareholders on 31st October 2022.
- (2) Interest expense represents the loan interest and it was Rs.275,000/- for the year ended 31st March 2023.
- (3) A factory equipment was disposed for Rs.2.75 million on 01st April 2022. The cost and the accumulated depreciation at the date of disposal were Rs. 2.9 million and Rs. 1.2 million respectively. A new equipment has been purchased on 01st May 2022 as a replacement for the disposed equipment and was capitalized from the same date.
- (4) New working capital loan of Rs.1,500,000/- was obtained during the year.
- (5) Provision for gratuity for the year was Rs. 900,000/-.

You are required to:

Prepare the Statement of Cash Flows for **Lak (Pvt) Ltd.** for the year ended 31st March 2023 using indirect method. (10 marks)

Question 06

- (a) **Clove Spices (Pvt) Ltd.** which is a Small and Medium Enterprise (SME) commenced its operations in 2015. **Mr. Silva**, the Managing Director of the company has approached a financial consultant to clarify the following matters:
- (1) All the inventories of the company are valued at cost when measuring its inventories. However, a part of inventories has been sold below the cost after the reporting date.
 - (2) The company constructed a new factory building of Rs. 55 Million and it was financed through a term loan. Borrowing cost of Rs. 2.75 million was incurred up to the commencement of commercial operations of the building.
 - (3) The company has changed its method of depreciation from reducing balance method to straight line method with effect from 01st April 2022. The impact of such change to the accumulated depreciation is Rs. 5.5 million.

As the financial consultant of the company,

You are required to:

Explain how each of the above matters are considered as per the SLFRS for SMEs. (05 marks)

- (b) **XYZ Ltd.** has prepared its financial statements for the year ended 31st March 2023 and you have been appointed as the accountant of the company with effect from 01st April 2023.

You have observed the following instances when reviewing the Financial Statements

- (1) The machinery of the company was purchased at cost of Rs.4 million on 01st April 2021 and useful life of the machinery was 5 years. Useful life time of machinery has been re-assessed on 01st April 2022 and it was revealed that remaining useful life time as at 01st April 2022 is 8 years. This has not been considered in the financial statements for the year ended 31st March 2023.
- (2) A computer purchased for office use on 01st March 2023 was charged in office maintenance account. Cost of the computer was Rs.300,000/- and its useful life time is 4 years.

You are required to:

Explain the impact of the above two instances to the financial statements of **XYZ Ltd.** as per LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. (05 marks)
(Total 10 marks)

Question 07

- (a) **Vision (Pvt) Ltd.** has started to construct a new building on 01st May 2022. It was finished on 31st March 2023 and the following loans have been obtained on 01st April 2022 to finance the cost of construction:

Bank	Loan Amount (Rs.)	Rate of Interest per Annum
ABC Bank	40 million	16%
PQR Bank	15 million	18%

Total cost incurred on construction was Rs.50 million. An interest income of Rs.1.1 million was generated for the financial year ended 31st March 2023 from the investment of loan received until such loans were utilized. Capital repayments of the loans were made from 01st April 2023.

You are required to:

Calculate the borrowing cost to be capitalized on the building as at 31st March 2023 as per LKAS 23 - Borrowing Cost. (06 marks)

- (b) **Explain** the following terms as per LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets:
- (i) An obligating event.
- (ii) A provision. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

The following trial balance was extracted from the books of accounts of **Richard PLC** as at 31st March 2023:

	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land	70,000	
Building	45,000	
Machinery	44,000	
Motor Vehicles	17,000	
Accumulated Depreciation as at 01st April 2022:		
Building		16,000
Machinery		8,500
Motor Vehicles		6,000
Inventory as at 31 st March 2023 at Cost	47,000	
Trade Receivables / Trade Payables	16,500	6,500
Cash in Hand and at Bank	20,975	
Allowance for Trade Receivables as at 01 st April 2022		1,400
Employee Benefits (Gratuity Provision)		9,100
Pre-payments	12,000	
Cost of Sales / Sales	134,000	295,000
Other Income		7,100
Income Tax Paid	12,400	
Income Tax Payable as at 01 st April 2022		3,250
Administration Expenses	35,000	
Distribution Expenses	27,000	
Finance Expenses	8,500	
Lease Payment	2,975	
Stated Capital (12,000,000 Ordinary Shares)		120,000
Retained Earnings as at 01 st April 2022		19,500
	492,350	492,350

The following additional information is also provided:

- (1) On 31st March 2023, the land of company was revalued to Rs.75 million and no entries were recorded on this regard.

(2) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets are as follows:

Building	:	50 years
Machinery	:	05 years
Motor vehicles	:	05 years

(3) On 01st April 2022, the company acquired a new truck at a cost of Rs. 15 million. The company paid Rs. 7 million from their own funds which was recorded under the motor vehicle account and obtained a lease facility for the balance amount. Lease installments are paid annually at the end of the year and annual lease rental is Rs.2,975,000/-. Lease period is 05 years and the implicit interest rate is 25% per annum. The ownership of the truck will be transferred to the company at the end of the lease term. The lease rental payment made is recorded under "Lease Payment Account" and no any other accounting entries were made in the books of accounts in this regard.

(4) It was revealed that the inventory costing Rs.3,800,000/- which consists of 1,000 units was found to be slow moving and it was included in the inventory balance as at 31st March 2023. This inventory was sold in April 2023 at a 50% discount on selling price. Selling price is Rs.6,000/- per unit.

(5) During the year, the company has recovered Rs.800,000/- which was written off as bad debt in the last financial year. This amount has been debited to cash account and credited to trade receivables account. Further, it was decided by the management to maintain the allowance for trade receivable at 4% of the trade receivables balance as at 31st March 2023.

(6) Accrued income tax liability as at 01st April 2022 was Rs.3,250,000/- and the total income tax liability for the year of assessment 2022/2023 is estimated to be Rs.6,250,000/-. All income tax payments made during the year of assessment 2022/2023 were charged to the "income tax paid" account.

(7) Audit fee of Rs.500,000/- related to the financial year 2022/2023 has not been accounted and pre-payment account represents rates paid for the entire calendar year of 2023.

(8) The board of directors of the company approved the financial statements for issue on 31st May 2023.

You are required to:

Prepare the following, for **Richard PLC** in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2023. (10 marks)
- (b) Statement of Financial Position as at 31st March 2023. (08 marks)
- (c) Statement of Changes in Equity for the year ended 31st March 2023. (03 marks)
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2023. (04 marks)

(Total 25 marks)

Question 09

The following information has been extracted from the Financial Statements of **Rajarata Ltd.** as at / for the year ended 31st March 2023 and 31st March 2022:

Rajarata Ltd.
Extract from the Statement of Income (Rs.'000)

For the Year Ended 31st March	2023
Sales	360,000
Cost of Sales	(223,200)
Gross Profit	136,800
Profit Before Interest & Tax	36,000
Interest Expenses	(12,500)
Profit Before Tax	23,500
Profit After Tax	18,095

Rajarata Ltd.
Extract from Statements of Financial Position (Rs.'000)

As at 31st March	2023	2022
Current Assets:		
Inventories	48,000	40,000
Trade Receivables	27,000	26,000
Cash and cash Equivalents	7,200	6,400
Equity:		
Stated Capital (10 million ordinary shares)	100,000	100,000
Retained Earnings	48,880	33,785
Non-Current Liabilities:		
Long Term Loan	16,000	24,000
Current Liabilities:		
Trade Payables	42,000	31,000
Income Tax Payable	7,200	5,700

The following industry averages have also been computed:

Current Ratio	2 Times
Quick Assets Ratio	0.9 Times
Stock Residence Period	55 days
Debtors' Collection Period	30 days

Assume 80% of sales and all purchases are on credit basis.

You are required to:

(a) **Calculate** the following ratios of **Rajarata Ltd.** based on the above information for the year ended / as at 31st March 2023:

- | | |
|----------------------------------|-----------------------------------|
| (i) Gross Profit Ratio. | (v) Stock Residence Period. |
| (ii) Current Ratio. | (vi) Gearing Ratio. |
| (iii) Quick Assets Ratio. | (vii) Interest Cover. |
| (iv) Debtors' Collection Period. | (viii) Dividend Cover. (08 marks) |

(b) **Analyze** the efficiency and liquidity of **Rajarata Ltd.** for the year ended / as at 31st March 2023 with industry averages. (04 marks)

(Total 12 marks)

Question 10

Amitha PLC acquired 80% of the ordinary share capital of **Samitha PLC** on 01st April 2022 for Rs.500 million. On that day, the fair value of identifiable net assets of **Samitha PLC** was Rs.600 million and fair value of the non-controlling interest was Rs.140 million.

The Statements of Comprehensive Income of **Amitha PLC** and **Samitha PLC** for the year ended 31st March 2023 were as follows:

Statements of Comprehensive Income
for the year ended 31st March 2023 (Rs.'000)

	Amitha PLC	Samitha PLC
Sales	1,050,000	550,000
Cost of Sales	(651,000)	(330,000)
Gross Profit	399,000	220,000
Other Income:		
Management Fee	24,000	
Interest Income	25,000	-
Profits on Disposal of Motor Vehicles	42,000	14,500
Expenses:		
Distribution Expenses	(109,000)	(79,000)
Administration Expenses	(135,000)	(95,000)
Finance Expenses	(45,000)	(6,000)
Profit Before Tax	201,000	54,500
Income Tax	(12,500)	(8,400)
Profit for the Year	188,500	46,100
Other Comprehensive Income	14,000	16,000
Total Comprehensive Income	202,500	62,100

The following additional information is also provided:

- (1) During the year, **Samitha PLC** has sold goods costing of Rs.120 million to **Amitha PLC** at a profit margin of 20 % on cost. As at 31st March 2023, inventory worth of Rs.45 million purchased from **Samitha PLC** was remained unsold at the store of **Amitha PLC**.
- (2) During the year, **Samitha PLC** has paid a monthly management fee of Rs.2,000,000/- to **Amitha PLC** on providing the management consultancy services.
- (3) On 01st April 2022, **Amitha PLC** sold a delivery vehicle to **Samitha PLC** for Rs.10,000,000/-, which had a carrying value of Rs.8,000,000/- in the books of accounts of **Amitha PLC** on the date of disposal. The remaining useful life of the delivery vehicle as at 01st April 2022 was 5 years.
- (4) Interest income includes the interest received of Rs.5 million from **Samitha PLC** on loan given by **Amitha PLC** for working capital requirement of **Samitha PLC**.

You are required to:

- (a) **Calculate** the goodwill on acquisition of **Samitha PLC**. (03 marks)
- (b) **Prepare** the Consolidated Comprehensive Income Statement for the year ended 31st March 2023. (10 marks)
(Total 13 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.