



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2024

(301) FINANCIAL REPORTING

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

10-02-2024
Morning
[08.45 – 12.00]

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

Writing : 03 hours

No. of Pages : 11

No. of Questions : 10

(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.**

SECTION A

(Total 20 marks)

Question 01

- (a) The objective of general purpose financial statements is to provide financial information about the reporting entity that is useful for stakeholders in making decisions relating to providing resources to the entity. There are qualitative characteristics that enhance the usefulness of financial information.

You are required to:

Explain two(02) qualitative characteristics that enhance the usefulness of financial information. (03 marks)

- (b) The selection of appropriate concept of capital by entity should be based on the needs of the users of its financial statements.

You are required to:

State the two(02) primary types of capital maintenance.

(02 marks)
(Total 05 marks)

Question 02

Sri Lanka Accounting and Auditing Standards Monitoring Board and Securities and Exchange Commission were established to monitor the activities of Specified Business Entities.

You are required to:

- (a) **State** two(02) powers of the Sri Lanka Accounting and Auditing Standards Monitoring Board. (02 marks)
- (b) **State** three(03) functions of Securities and Exchange Commission of Sri Lanka. (03 marks)
(Total 05 marks)

Question 03

In the current business world, the financial information as well as non-financial information are crucial in evaluating the decisions by its stakeholders. Risks & opportunities and strategy & resource allocation are two key elements which are essential in sustaining the business continuity and it is required to disclose in integrated reporting.

You are required to:

- (a) **Identify** two(02) non-financial reports which are included in the Annual Report of a listed entity. (02 marks)
- (b) **State** three(03) key areas to be included under the strategy & resource allocation in the Integrated Report. (03 marks)
(Total 05 marks)

Question 04

- (a) An intangible asset arising from development shall be recognized, if and only an entity can demonstrate the stipulated conditions.

You are required to:

State two(02) conditions which should be satisfied in order to capitalize development cost as an intangible asset as per LKAS 38 - Intangible Assets. (02 marks)

- (b) **Enrich Ltd.** has developed a new instant beverage to the local market during the year ended 31st March 2023 and started commercial operation in April 2023. Cost incurred for the new product during the year 2022/23 were as follows:

- (1) A market research was conducted for the new product and incurred an amount of Rs.500,000/-.
- (2) The company obtained the patent right for the new product during the year by incurring Rs.300,000/-.
- (3) Costs of Rs.300,000/- for TV commercials were spent on the new product.

You are required to:

Explain whether each of the above costs could be recognized as intangible assets as per LKAS 38 - Intangible Assets. (03 marks)

(Total 05 marks)

SECTION B

(Total 30 marks)

Question 05

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

As at 31 st March	2023	2022
Non-Current Assets:		
Property, Plant and Equipment	8,500	6,500
Less: Accumulated Depreciation	(1,300)	(1,000)
Carrying Value	7,200	5,500
Current Assets:		
Inventories	1,950	2,300
Trade and Other Receivables	2,090	1,680
Cash and Cash Equivalents	2,115	1,680
	6,155	5,660
Total Assets	13,355	11,160
Equity and Liabilities:		
Equity:		
Stated Capital (80,000 Ordinary Shares)	8,000	8,000
Retained Earnings	935	560
	8,935	8,560
Non-Current Liabilities:		
Long-Term Loans	900	780
Employee Benefits (Provision for Gratuity)	490	420
	1,390	1,200
Current Liabilities:		
Trade Payables	2,530	1,010
Short-Term Loans	180	180
Income Tax Payable	320	210
	3,030	1,400
Total Equity and Liabilities	13,355	11,160

The following additional information is also provided:

- (1) Income tax expenses for the year ended 31st March 2023 was Rs.230,000/-.
- (2) The company has disposed one of its motor vehicles costing Rs.1,200,000/- on 01st April 2022 for Rs.600,000/-. The accumulated depreciation as at the date of disposal was Rs.500,000/-. In addition to this transaction, the difference in Property, Plant and Equipment represents the acquisition of a land during the year ended 31st March 2023.
- (3) Interest expense on loans for the year was Rs.250,000/- and it was paid during the year.
- (4) During the year, the company paid final dividend of Rs.160,000/- to its ordinary shareholders.

(5) On 31st March 2023, **ABC Bank** has given a long term loan of Rs.500,000/- to the company.

(6) No gratuity payments were made during the year.

You are required to:

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

Question 06

(a) **Sunshine Ltd.** purchased a motor vehicle at a cost of Rs.8 million on 01st April 2022 paying an advance amount of Rs.3 million and obtained a finance leasing facility for the balance amount from **ABC Bank** on the same day. You are provided the following information with reference to the finance lease:

Lease Term	4 years
Implicit Interest Rate	18% per annum
Annual Lease Installment	Rs.1,858,736/-

Lease installment is paid at the end of each year and ownership of the asset is transferred to **Sunshine Ltd.** at the end of lease term. First installment of the lease was paid by the company on 31st March 2023. Useful life of the motor vehicle is 4 years.

You are required to:

Prepare the extracts of Statement of Comprehensive Income for the year ended 31st March 2023 and the Statement of Financial Position as at 31st March 2023 with reference to this lease. (06 marks)

(b) **Space Air Ltd.** is a newly established airline company and bought a passenger air craft for its commercial operation. The cost of the air craft purchased on 01st April 2022 was Rs.1,200 million. The air craft consists of 03 main parts namely Engines, Landing Gear and Airframe.

The cost, residual value at the end of useful life and the useful life of each part are as follows:

Component	% of Total Cost	Residual Value (Rs. million)	Useful Life (Years)
Engines	50%	100	10
Landing Gear	20%	40	5
Airframe	30%	60	20

You are required to:

Calculate the annual depreciation charge for the year ended 31st March 2023 of the air craft. (04 marks)

(Total 10 marks)

Question 07

- (a) **Sino Ltd.** is a mineral extraction company. The accountant of **Sino Ltd.** has found the following incidents occurred during the year ended 31st March 2023 and these were not considered in the financial statements prepared for the year ended 31st March 2023:
- (1) An employee of the company was injured while at work in May 2022 due to a failure in an equipment. He sued the company claiming compensation of Rs.5 million for the damage caused to him. The lawyers of the company were in the view that there is a high probability that the company will be found liable to pay compensation in full. Finally the court ordered to pay Rs. 3 million on 31st May 2023.
 - (2) At the same time, **Sino Ltd.** has sued against the equipment supplier to claim Rs. 9 million as compensation. The company lawyers believe that there is a high probability to succeed and receive Rs.9 million as compensation. Final decision was not given by the court till 15th June 2023.
 - (3) At the end of March 2023, **Sino Ltd.** has started operations at a new mineral site. As part of obtaining permission to start the operation, the company has a legal obligation to remove the site preparations and landfilling of extracted area. This obligation has a present value of Rs.100 million.

Assuming that the Financial Statements are authorized on 15th June 2023;

You are required to:

Explain the impact of the above scenarios on the financial statements for the year ended 31st March 2023 of **Sino Ltd.** as per LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets. (05 marks)

- (b) **Identify** the steps in the five steps model that should be followed in recognizing revenue as per SLFRS 15- Revenue from Contracts with Customers. (05 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 **Global PLC** as at 31st March 2023:

	Dr.	Cr.
Global PLC		
Trial Balance as at 31st March 2023		
<i>(Rs.'000)</i>		
Property, Plant and Equipment at Cost / Revalued Amount:		
Land at Revalued amount (cost - Rs.35 million)	40,000	
Building	55,000	
Machinery	28,000	
Capital Work-In-Progress	14,000	
Accumulated Depreciation as at 01st April 2022:		
Building		14,000
Machinery		12,000
Inventory as at 31 st March 2023 at Cost	24,000	
Trade Receivables / Trade Payables	10,250	6,500
Cash in Hand and at Banks	16,150	
Allowance for Trade Receivables as at 01 st April 2022		2,900
Employee Benefits (Gratuity Provision)		8,500
Accrued Expenses		8,000
Income Tax Paid	12,400	
Cost of Sales / Sales	116,000	206,000
Other Income		6,400
Income Tax Payable as at 31 st March 2022		8,100
Bank Loan		9,000
Administration Expenses	40,000	
Distribution Expenses	37,000	
Finance Expenses	1,100	
Stated Capital (10,000,000 Ordinary Shares)		95,000
Revaluation Surplus		5,000
Retained Earnings as at 01 st April 2022		12,500
	393,900	393,900

The following additional information is also provided:

- (1) The physical inventory count at the year-end revealed that the year-end inventory included slow moving inventories costing of Rs.1,200,000/-. This inventory was sold for Rs.800,000/- to a customer on 12th April 2023.
- (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

- (3) On 31st March 2023, the company carried out an impairment test for machinery and it was found that value in use and the fair value less cost of disposal were Rs.8,400,000/- and Rs.9,000,000/- respectively. There were no adjustments made in the books of accounts regarding the impairment.
- (4) The land was initially revalued during the year 2020/21 and it was revalued again to Rs.43,000,000/- on 31st March 2023 by the company. But this was not recorded in the books of accounts.
- (5) On 01st June 2022, the company obtained a bank loan of Rs.9,000,000/- at an interest rate of 8% per annum for construction of food processing factory. Construction of the factory was started on 01st July 2022 and it was progress as at 31st March 2023. Cost incurred during the year on construction was recorded under capital working progress account. Interest on loan for the year was recorded under finance expenses. The bank has given 2 years grace period to settle the capital repayments.
- (6) During the year, the company recovered a bad debt of Rs.600,000/- which was previously written off to distribution expenses in March 2021. The amount received has been credited to Trade Receivables Account. Another customer of the company has gone into liquidation and the company decided to write-off Rs.250,000/- receivable from him as bad debt. But it was not recorded in the books of accounts. Further, it was also decided by the management to maintain the allowance for trade receivables at 5% of the balance trade receivables as at 31st March 2023.
- (7) Investment income of Rs.1,200,000/- which was received during the year 2022/23 was recorded under other income. Investment income relevant for the month of March 2023 of Rs.400,000/- was received in April 2023 and it was not recorded in the books of accounts.
- (8) Accrued income tax liability as at 31st March 2022 was Rs.8,100,000/- and the total income tax liability for the year of assessment 2022/23 is estimated to be Rs.9,250,000/-. Income tax payments made during the year ended 31st March 2023 was charged to "Income Tax Paid" account.
- (9) 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 **Global 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

Extract of Statements of Comprehensive Income of **Jayalanka PLC** for the years ended 31st March 2023 and 31st March 2022 and extract of Statements of Financial Position as at 31st March 2023 and 31st March 2022 are as follows:

Jayalanka PLC		
Extract from the Statements of Income (Rs.'000)		
For the year ended 31st March	2023	2022
Turnover	683,700	487,900
Cost of Sales	(321,800)	(286,700)
Interest Expense	(7,540)	(6,280)
Income Tax for the Year	(3,800)	(4,250)
Profit After Tax	36,450	19,820

Jayalanka PLC		
Extract from the Statements of Financial Position (Rs.'000)		
As at 31st March	2023	2022
Trade Receivables	141,500	119,800
Trade Payables	45,720	110,910
Inventory	81,400	79,600
Weighted Average No. of shares in issue ('000)	8,500	8,500

Consider the following additional information:

- (1) 60% of the total turnover is made of credit sales.
- (2) 90% of the purchases are on credit terms.
- (3) The market price per share is Rs.20/-.

You are required to:

- (a) **Calculate** the following ratios based on the above information for the year ended / as at 31st March 2023:
 - (i) Net Profit Ratio.
 - (ii) Stock Residence Period.
 - (iii) Debtors' Collection Period.
 - (iv) Creditors' Settlement Period.
 - (v) Earnings Per Share.
 - (vi) Price Earning Ratio.

(06 marks)

(b) Following are the industry averages of the sector where **Jayalanka PLC** operates in:

Net Profit Ratio	10%
Inventory Residence Period	90 Days
Debtors' Collection Period	65 Days
Creditors' Settlement Period	73 Days
Earnings Per Share	Rs.7.50
Price Earnings Ratio	2.67 Times

Prepare a summary report comparing above ratios of **Jayalanka PLC** with the industry averages while explaining the possible reasons for the variances.

(06 marks)

(Total 12 marks)

Question 10

Thomas PLC acquired 80% of the ordinary share capital of **Gomes PLC** on 01st April 2022 for Rs.350 million.

The Statements of Financial Position of **Thomas PLC** and **Gomes PLC** as at 31st March 2023 were as follows:

Statements of Financial Position

(Rs.'000)

	Thomas PLC	Gomes PLC
Non-Current Assets:		
Property, Plant and Equipment at Carrying Value	540,000	240,000
Investment in Gomes PLC	350,000	-
Investment in Debentures of Gomes PLC	40,000	-
Current Assets:		
Inventories	117,000	150,000
Trade and Other Receivables	180,000	90,000
Cash and Cash Equivalentents	18,000	90,000
Total Assets	1,245,000	570,000
Equity and Liabilities:		
Equity:		
Stated Capital	700,000	300,000
Retained Earnings	225,000	90,000
Non-Current Liabilities:		
Bank Loan	125,000	44,000
Debentures	-	100,000
Current Liabilities:		
Trade and Other Payables	135,000	25,200
Bank Overdrafts	60,000	10,800
Total Equity and Liabilities	1,245,000	570,000

The following additional information is also provided:

- (1) At the date of acquisition, the book value of net assets except the land of **Gomes PLC** was reflected at fair value. Fair value of the land was higher by Rs.5,000,000/- than its carrying amount.
- (2) At the date of acquisition, the fair value of the Non-Controlling Interest (NCI) was Rs.100 million and the retained earnings of **Gomes PLC** was stood at Rs.75,000,000/-.
- (3) During the year ended 31st March 2023, **Gomes PLC** purchased Rs.9,000,000/- worth of goods from **Thomas PLC**. Out of these goods, one third (1/3) of them remained unsold in the premises of **Gomes PLC** as at 31st March 2023. The sales policy of **Thomas PLC** is to keep 20% profit on cost.
- (4) Investment in debentures by **Thomas PLC** includes the debentures issued by **Gomes PLC**.
- (5) Impairment test carried out on 31st March 2023 revealed that the Goodwill on acquisition of **Gomes PLC** has been impaired by Rs. 10 million.

You are required to:

- (a) **Calculate** the goodwill on acquisition of **Gomes PLC**. (04 marks)
- (b) **Prepare** the Consolidated Statement of Financial Position as at 31st March 2023. (09 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.