ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

CURRICULUM 2020

PILOT PAPER

Level III

301 - FINANCIAL REPORTING (FAR)

A publication of the Education and Training Division

Association of Accounting Technicians of Sri Lanka

301 - Financial Reporting (FAR)

Instructions to Candidates (Please Read Carefully)

Time Allowed:

Reading	:	15 Minutes
Writing	:	03 Hours

Structure of Question Paper:

- This paper consists of three Sections; Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

Marks:

- Allocation of marks for each section:

Section	**Marks**
Section A	20
Section B	30
Section C	50
Total	**100**

- Marks for each question are shown with the question.
- The pass mark for this paper is 50%.

Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's).
- Students should answer the questions based on the definition of the verb given in the checklist.

Four (04) Compulsory Questions

(Total 20 marks)

SECTION A

Question 01

The traditional corporate reporting model plays a valuable role with respect to the stewardship of financial capital. However, the traditional corporate reporting was heavily criticized over the last decades. The Integrated Reporting aims at expanding the stewardship beyond financial capital to a broad base of capitals and promoting a more cohesive and efficient approach to corporate reporting.

You are required to:

(a) **Identify** two (02) limitations of traditional corporate reporting model. **(02 Marks)**

(b) **State** three (03) types of capitals identified by the International Integrated Reporting Framework. **(03 Marks)**

(Total 05 Marks)

Question 02

The Conceptual Framework for Financial Reporting describes the objectives and concepts for general purpose financial reporting. The 2018 Revised Conceptual Framework is effective for annual periods beginning on or after 01st January 2020.

You are required to:

(a) **Define** an asset and a liability as per the Revised Conceptual Framework. **(03 Marks)**

(b) **State** the recognition criteria for elements of financial statements as per the Revised Conceptual Framework. **(02 Marks)**

(Total 05 Marks)

Question 03

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:

(a) **List** four (04) items presented in other comprehensive income as per LKAS 1: Presentation of Financial Statements. **(02 Marks)**

(b) The following events were occurred in **Sigma PLC** after the reporting period but prior to financial statements are authorized for issue by the directors.

(i) A debtor who had a balance of Rs.400,000/- at the end of reporting period was declared as bankrupt.

(ii) A value of investment in financial assets has impaired by Rs.500,000/-.

(iii) The court verdict was received to a case filed against the company and asked to pay a claim of Rs.800,000/-. This was identified as a contingent liability at the end of reporting period.

You are required to:

Identify whether the above events are adjusting events or non-adjusting events and **recognize** in the financial statements. **(03 Marks)**

(Total 05 Marks)

Question 04

(a) **Explain** the following terms as per LKAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

(i) Retrospective application

(ii) Retrospective restatement **(03 Marks)**

(b) **Copper PLC** spent Rs.12 million as maintenance expense of plant and machinery on 01.04.2016 and it was capitalized erroneously it to cost of the asset. The company depreciates its plant and machinery over 10 years using the straight line basis. This error was detected when preparing the financial statements for the year ending 31st March 2019.

You are required to:

Explain how the rectification of the above error should be adjusted in the financial statements. **(02 Marks)**

(Total 05 Marks)

End of Section A

Three (03) Compulsory Questions

(Total 30 marks)

SECTION B

Question 05

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

You are required to:

State four (04) out of six conditions which should be satisfied in order to capitalize development cost as an intangible asset**.** **(04 Marks)**

(b) A machinery purchased on 01.04.2016 for Rs.2, 000, 000 was estimated to have a useful life time of 10 years. However, the value in use of the asset as at 01.04.2018 was Rs.1,280,000/-.

You are required to:

Calculate the impairment loss and depreciation expense of the machinery for the year ended 31st March 2019. **(03 Marks)**

(c) The following information was extracted from books of account of **Alfa PLC** for the year ended 31st March 2019.

(1) The deferred tax liability as at 31.03.2018 was Rs.400,000/-.

(2) Carrying amount and tax base of plant & machinery and office equipment on 31.03.2019 were as follows:

Item	Carrying amount (Rs.)	Tax base (Rs.)
Plant and machinery	5,000,000	1,000,000
Office equipment	1,000,000	3,000,000

(3) Corporate tax rate applicable for the **Alfa PLC** is 28%.

You are required to:

Calculate the deferred tax liability/ asset as at 31st March 2019. **(03 Marks)**

(Total 10 Marks)

Question 06

(a) **List** two (02) 'Specified Business Entities' specified in Sri Lanka Accounting and Auditing Standard Act No 15 of 1995. **(02 Marks)**

(b) **Vinus PLC** is selling electrical equipment under the warranty of 6 months. Past experience of the company indicates that 20% of goods sold are major defects and the company repairs those. Repair costs of those damaged equipment are equal to 20% of sales value. 15% are minor defects and 5% on sale value is required to repair under warranties. Sales for the year ended 31st March 2019 were 80 million.

You are required to:

Calculate the warranty provision to be estimated in the finance statements as at 31st March 2019.

(03 Marks)

(c) The followings information is relevant to borrowings of **Neptune PLC**:

	Interest rate per annum	**Amount obtained on 01.04.2018 (Rs.'000)**	**Investment income for the year 2018/19 (Rs.'000)**
Loan –ABC Bank PLC	14%	15,000	360
Loan –XYZ Bank PLC	15%	10,000	
Debentures – Rs.200/- per debenture	18%	15,000	

Additional information:

The construction of a building was commenced on 01.05.2018 and completed on 01.07.2019. Rs.25 million was utilized for construction of this building during the year. The loan obtained from ABC Bank PLC was fully utilized for this purpose. The balance amount was funded from the other financing sources (XYZ bank loan and debentures)

You are required to:

Calculate the borrowing cost to be capitalized to the cost of building for the year ended 31st March 2019. **(05 Marks)**

(Total 10 Marks)

Question 07

The Statements of Financial Position of **Beta PLC** as at 31st March 2018 and 31st March 2019 are given below:

Beta PLC

Statements of Financial Position

(Rs.'000)

	As at 31stMarch 2019		**As at 31stMarch 2018**	
Assets:				
Non-Current Assets:				
Property, Plant & Equipment (at cost)	24,000		28,000	
Accumulated Depreciation	(12,000)		(10,000)	
Carrying value		12,000		18,000
Current Assets:				
Inventories	7,000		2,900	
Trade Receivables	16,750		14,700	
Cash and Cash Equivalents	1,750	25,500	2,500	20,100
Total Assets		**37,500**		**38,100**
Equity and Liabilities:				
Equity:				
Ordinary Share Capital	25,000		25,000	
Retained Earnings	3,000		2,000	
General Reserves	1,600	29,600	1,000	28,000
Current Liabilities:				
Trade and Other Payables	7,850		9,900	
Income Tax Payable	50	7,900	200	10,100
Total Equity and Liabilities		**37,500**		**38,100**

The following additional information is also provided:

(1) During the year, the company paid interim dividend of Rs.1,000,000/- to its ordinary shareholders.

(2) On 31st March 2019, the company sold a machinery for Rs.2.5 million which was purchased on 01st April 2016 at a cost of Rs.4 million. The useful life time of the machinery is 5 years.

(3) The income tax expense of the company for the year of assessment 2018/19 was estimated to be Rs.450,000/-.

Using the above information:

You are required to:

Prepare the Statement of Cash Flows of **Beta PLC** for the year ended 31st March 2019 using indirect method.

(10 Marks)

End of Section B

Three (03) Compulsory Questions

(Total 50 Marks)

SECTION C

Question 08

The following information has been extracted from the financial statements of **Jupiter PLC** for years 2017/18 and 2018/19:

For the year ending 31st March	2019 (Rs.'000)	2018 (Rs.'000)
Revenue	3,750,000	3,200,000
Cost of sales	1,500,000	1,344,000
Administration and distribution expenses	950,000	650,000
Finance expenses	200,000	180,000

As at 31st March	2019 (Rs.'000)	2018 (Rs.'000)
Inventories	300,000	189,000
Trade receivables	450,000	300,000
Cash and bank balances	50,000	21,000
Trade Payables	375,000	170,000
Stated capital – ordinary shares	1,200,000	800,000

Additional information:

(1) Income tax expense for the year is equal to 25% of the profit before tax of each year.

(2) The following balances were available as at 31.03.2017:

	Rs.000
Inventories	211,000
Trade receivables	400,000
Trade payables	190,000

(3) All purchases and sales are made on credit basis.

You are required to:

Calculate the following ratios for the years 2018/19 and 2017/18 and **analyze** the profitability, liquidity and efficiency of the business:

(a) Gross profit ratio.

(b) Net profit ratio.

(c) Current ratio.

(d) Quick assets ratio.

(e) Debtor's collection period.

(f) Inventory residence period. **(12 Marks)**

Question 09

Gagana PLC acquired 80% of the ordinary share capital of **Mahee PLC** on 1 April 2018 for Rs. 18 million. The Statements of Financial Position as at 31 March 2019 were as follow:

Rs.'000

	Gagana PLC	Mahee PLC
Non-current assets:		
Property, Plant and Equipment	27,000	25,000
Investment in **Mahee PLC**	18,000	-
Current assets:		
Inventory	5,000	4,000
Trade Receivables	8,000	3,500
Cash & Cash equivalents	2,000	1,000
Total assets	**60,000**	**33,500**
Equity:		
Ordinary share capital	35,000	12,000
Retained earnings	15,000	8,000
Non-current liabilities:		
12% Debentures	7,000	11,000
Current liabilities:		
Trade Payables	3,000	2,500
Total Equity and liabilities	**60,000**	**33,500**

The Additional information is also provided:

1) At the date of acquisition all the assets and liabilities of **Mahee PLC** were reflected at fair value except building. Fair value of the building was higher than by Rs.5,000,000/- from its carrying amount. The remaining useful life of the building was estimated to be 10 years.

2) The retained earnings of **Mahee PLC** at the date of acquisition was Rs.3,000,000/-.

3) **Gagana Group** measures the Non-Controlling Interest (NCI) at fair value. At the date of acquisition, the fair value of the NCI was Rs. 5,000,000.

4) During the year ended 31 March 2019, **Mahee PLC** purchased Rs.3,000,000/- worth of goods from **Gagana PLC**. Out of these goods half (½) of them remained unsold at the premises of **Mahee PLC**. The sales policy of **Gagana PLC** is to add 25% of mark up to its cost.

5) During the year ended 31st March 2019, **Gagana PLC** purchased Rs.4,500,000/- worth of goods from **Mahee PLC**. Out of these goods one third (1/3) of them remained unsold in the premises of **Gagana PLC**. The sales policy of **Mahee PLC** is to keep 25% margin on selling price.

6) On 1 April 2018, **Mahee PLC** sold a motor vehicle to **Gagana PLC** for Rs.8,000,000/- and the carrying amount of the motor vehicle at the date of sale was Rs.5,000,000. The remaining useful life of motor vehicle at the date of sale was 5 years.

7) As at 31st March 2019, the intra group receivables stood at Rs.2,300,000/- and group payables stood at Rs.2,000,000. The difference was due to the cash in transit.

8) As at 31st March 2019, goodwill had impaired by Rs.800,000/-.

You are required to:

Prepare the Consolidated Statement of Financial Position as at 31st March 2019. **(13 Marks)**

Question 10

The following trial balance was extracted from the records of **Manahara PLC** as at 31 March 2019:

(Rs.'000)

	Debit	**Credit**
Stated Capital (250,000 ordinary shares)		37,500
Retained earnings as at 1 April 2018		12,000
Dividend Paid	6,750	
12% Debentures		24,000
Land and buildings at cost (land Rs.50 million)	70,000	
Motor vehicle at cost	65,000	
Capital work-in-progress	9,000	
Leasehold Equipment	3,500	
Accumulated depreciation as at 1 April 2018:		
Buildings		12,000
Motor vehicle		21,000
Inventory as at 31 March 2019	30,000	
Trade receivables	18,000	
Allowance for trade receivables as at 1 April 2018		1,500
Cash in hand and at bank	4,300	
Income tax paid	2,900	
Revenue		428,550
Cost of sales	291,285	
Distribution expenses	29,100	
Administrative expenses	10,000	
Audit fees	2,000	
Director fees	20,000	
Salaries	10,000	
Debenture interest paid	1,440	
Trade payables		33,500
Income tax provision as at 1 April 2018		3,225
	573,275	**573,275**

The following information is also provided:

(1) Closing inventory was counted and valued at its cost as at 31 March 2019. Some items of inventory which had a cost of Rs.3,000,000 had become obsolete and expected to be sold at Rs.2,700,000 after incurring sales commission of Rs.200,000

(2) One of its customers who owed Rs.1,500,000 to the business was declared bankrupt on 20 May 2019 thus the amount in due became irrecoverable. Following a final review of the trade receivables as at 31 March 2019, it was decided to maintain the allowance for receivables at 10% of the remaining balance.

(3) Property, Plant and Equipment (PPE) items are depreciated on the straight-line basis at cost. The original estimates of useful life of PPE were as follows:

	Useful life (Years)
Buildings	20
Motor vehicle	10

All depreciation should be charged to administrative expenses.

(4) On 31 March 2019, land and motor vehicle were revalued for Rs. 55,000,000 and Rs.42,000,000 respectively. No records have been made with this regard.

(5) **Manahara PLC** enters into a leasing agreement with Commercial Leasing PLC on 1 April 2018, to acquire a equipment. The lease requires a payment of Rs.2,000,000 at the commencement of the lease and four annual rentals of Rs.1,500,000 which is payable in arrears starting from 31st March 2019. The implicit interest rate of the lease is 15%. As per the lease agreement, the ownership of the asset is transferred to lessee at the end of the lease period. The lessee believes that the equipment will last for 6 years and will have a scrap value of Rs.282,500.

However, as at 31 March 2019, **Manahara PLC** had only recorded the cash payment of Rs.3,500,000 made during the period in the leasehold equipment account due to the lack of knowledge on *SLFRS 16- Leases*.

(6) On 1 July 2018, the company started construction of a new office building. For the purpose, the company issued 240,000 debentures Rs.100 each on 1 April 2018.The interest on debentures is to be paid biannually, interest paid during the year has been charged to the debenture interest.

During the year ended 31 March 2019, the company utilized Rs.9,000,000 for the constructions and the cost incurred were recorded under capital work in progress. As at 31 March 2019, the construction was in progress.

(7) The accrued and prepaid expenses as at 31 March 2019 were as follows:

Accrued sales commission	Rs.1,600,000
Prepaid insurance	Rs.400,000

(8) The total income tax liability for the year 2017/2018 was Rs. 2,900,000 which was paid during the year ended 31 March 2019 and the amount paid has been charged to the income tax paid. The total income tax liability for the year 2018/2019 is estimated as Rs. 3,200,000.

(9) The directors of the company approved the financial statements for publication on 30th May 2019.

You are required to:

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

(a) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2019.

(10 Marks)

(b) Statement of Changes in Equity for the year ended 31 March 2019. **(03 Marks)**

(c) Statement of Financial Position as at 31 March 2019 (including notes). **(12 Marks)**

(Total 25 Marks)

End of Section C

Action Verbs Check List

Analysis (4)	Draws Connections Among Ideas and Solve Problems	**Analyze**	Examine in details to find the solution or outcome
		Differentiate	Constitute a difference that distinguishes something
		Discuss	Examine in detail by arguments
		Compare	Examine to discover similarities
		Contrast	Examine to show differences
		Outline	Make a summary of significant features
		Communicate	Share or exchange information
Application (3)	Uses and Adapts Knowledge in New Situations	**Apply**	Put to practical use
		Calculate	Ascertain or reckon with mathematical computation
		Demonstrate	Prove or exhibit with examples
		Prepare	Make or get ready for particular purpose
		Solve	Find solutions through calculations and/or explanation
		Assess	Determine the value, nature, ability or quality
		Graph	Represent by graphs
		Reconcile	Make consistent/compatible with another
Comprehension (2)	Explains Ideas and Information	**Define**	Give the exact nature, scope or meaning
		Explain	Make a clear description in detail using relevant facts
		Describe	Write and communicate the key features
		Interpret	Translate in to understandable or familiar terms
		Recognize	Show validity or otherwise using knowledge or contextual experience
Knowledge (1)	Recalls Facts and Basic Concepts	**List**	Write the connected items
		Identify	Recognize, establish or select after consideration
		State	Express details definitely or clearly
		Relate	Establish logical or causal connections
		Draw	Produce a picture or diagram
Level of competency	**Description**	**Action Verbs**	**Verb Definitions**

ASSOCIATION OF ACCOUNTING TECHNICIANS

OF SRI LANKA

CURRICULUM 2020

SUGGESTED ANSWERS

Level III

301 - FINANCIAL REPORTING (FAR)

A publication of the Education and Training Division

Four [04] Compulsory Questions

[Total 20 Marks]

SECTION - A

Suggested Answers to Question 01:

Unit 01 – Governance Structure, importance of ethics in Accounting and Conceptual Framework of Financial Reporting
Learning outcome – Explain the Governance structure of Organisation and non-financial data and information in the Annual report

(a)

- Sole reliance of financial performance
- Exclusion of non-financial performance
- Narrow focus of Value Creation

[02 marks]

(b)

- Financial Capital
- Manufactured Capital
- Human Capital
- Intellectual Capital
- Social and Relationship Capital
- Natural Capital

[03 marks]
[Total 05 marks]

Suggested Answers to Question 02:

Unit 01 – Governance Structure, importance of Ethics in Accounting and Conceptual Framework of Financial Reporting
Learning outcome – Discuss the Conceptual Framework of Financial Reporting

(a)

- **Asset**
  A present economic resource controlled by the entity as a result of past events
  [1 ½ marks]
- **Liability**
  A present obligation of the entity to transfer an economic resource as a result of past events
  [1 ½ marks]

(b) Recognition is appropriate if it results in both **relevant** information about assets, liabilities, equity, income and expenses and a **faithful representation** of those items. **[02 marks]**

[Total 05 marks]

Suggested Answers to Question 03:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting standards in preparing financial statements Learning outcome – Apply the Accounting treatments and disclosure requirements prescribed in the Sri Lanka Accounting Standards

(a)

- Changes in revaluation surplus.
- Gains or losses arising from translating the Financial Statements of a foreign operation.
- Gains or losses on re-measuring available-for-sale financial assets.
- The effective portion of gains and losses on hedging instruments in a cash flow hedge.
- Actuarial gains and losses on defined benefit plans. **[02 marks]**

(b) (i) Adjusting Events:
Rs.400,000 should be recognized as an expense and charge to the income statement.

(ii) Non-adjusting Event – Only the disclosure is required.

(iii) Adjusting Event - A provision of Rs.800,000 has to be recognized in the statement of financial position and charge to the same in the income statement. **[03 marks]**

(Total 05 marks)

Suggested Answers to Question 04:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting Standards in preparing financial statements Learning outcome – Apply the Accounting treatments and disclosure requirements prescribed in the Sri Lanka Accounting Standards

(a) (i) Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

(ii) Retrospective restatement is correcting the recognition, measurement and disclosure of the amounts of the elements of financial statements as if a prior period error has never occurred.

[03 marks]

(b) Rectification of this error should be accounted using retrospective restatement as per LKAS 8. Accordingly, comparative information should be restarted and total impact on profit prior to that should be adjusted by restating the retained earnings brought forward balance and non-current assets. (Reducing Rs.8.4 million) **[02 marks]**

[Total 05 marks]

End of Section B

Four [03] Compulsory Questions

[Total 30 Marks]

SECTION - B

Suggested Answers to Question 05:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting Standards in preparing financial statements

Learning outcome – Apply the Accounting treatments and disclosure requirements prescribed in the Sri Lanka Accounting Standards

(a)
- Technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Intention to complete intangible asset and use or sell it.
- Ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of technical, financial and other resources to complete the development and use or sell intangible asset.
- The ability to measure reliably expenditure attributable to the intangible asset during its development.

[04 marks]

(b)

	Rs.'000
Carrying amount as at 01st April 2018, 2,000 - (2,000/2 × 2)	1,600
Recoverable amount	1,280
Impairment loss	**320**
Depreciation Expenses (1,280/8)	160

[03 marks]

(c)

	Rs.'000
Plant and Machinery	
Carrying amount	5,000
Tax base	1,000
Taxable temporary difference	4,000
Deferred tax liability as at 31.03.2019 (4000 × 28 %)	**1,120**
Office equipment	Rs.000
Carrying amount	1,000
Tax base	3,000
Deductible temporary difference	(2,000)
Deferred tax asset as at 31.03.2019 (2000 × 28 %)	**560**

Deferred Tax Liability A/C

Office Equipment	560,000	B/B/F	400,000
B/C/F	960,000	Plant & Machinery	1,120,000
	1,520,000		1,520,000

[03 Marks]
[Total 10 Marks]

Suggested Answers to Question 06:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting standards in preparing financial statement

Learning outcome – Apply the Accounting treatment and disclosure requirements prescribed in the Sri Lanka Accounting Standards

(a)

(1) Companies licensed under Banking Act, No 30 of 1988.

(2) Companies authorized under control of insurance Act, No 25 of 1962.

(3) Companies carrying on leasing business.

(4) Factoring Companies.

(5) Companies registered under Finance Companies Act, No 78 of 1988.

(6) Companies licensed under SCE to operate Trusts.

(7) Fund management companies.

(8) Companies licensed under SCE to carry on business as stock brokers or stock dealers.

(9) Companies licensed under SCE to operate Stock Exchanges.

(10) Companies listed in the Stock Exchange.

(11) Public corporations engaged in sale of goods or provision of services.

[02 marks]

(b) **Rs. '000**

Major defects $= \dfrac{80{,}000 \times 6 \times 20\% \times 20\%}{12}$

= 1,600

Minor defects $= \dfrac{80{,}000 \times 6 \times 15\% \times 5\%}{12}$

= 300

Warrant Provision = 1,600 + 300

= 1,900

[03 marks]

(c)

Borrowing cost capitalized	**Rs.000**
From Specific Borrowings	
Interest on Loan-ABC BANK(15,000 × 14% × 11/12)	1,925
(-) Investment income	(360)
	1,565
From General Borrowings (10,000 × 16.8% × 11/12)	**1,540**
Total borrowing cost to be capitalized	**3,105**

Working:

	Amount (Rs.000)	**Interest (Rs.000)**
Loan -XYZ	10,000	1,500
Debenture	15,000	2,700
Total	25,000	4,200
WACC	16.80%	

[5 marks]
[Total 10 marks]

Suggested Answers to Question 07:

Unit 03 – Financial Statements for a limited liability company

Learning outcome – Prepare statement of Cash flows for a single entity

Beta PLC

Statement of Cash Flows for the year ending 31.03.2019

Cash flows from operating activities		
Profit before taxation (workings - 01)	3,050	
Adjustments for:		
Depreciation (workings - 02)	4,400	
Profit on sales of PPE (workings - 03)	(900)	
	6,550	
(Increase) in trade receivables	(2,050)	
(Increase) in inventories	(4,100)	
(Decrease) in trade and other payables	(2,050)	
	(1,650)	
Income taxes paid (workings - 04)	(600)	
Net cash flow from operating activities		(2,250)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	2,500	
Net cash flows from investing activities		2,500
Cash flows from financing activities		
Dividends paid	(1,000)	
Net cash flows from financing activities		(1,000)
Net decrease in cash and cash equivalents		(750)
Cash and cash equivalents as at 01.04.2018		2,500
Cash and cash equivalents as at 31.03.2019		1,750

[10 marks]

Workings - 01

	Rs.000
Retained Earnings -01.04.2018	2,000
Profit for the year	**2,600**
Dividend paid	(1,000)
Transfer to General reserves	(600)
Retained Earnings -31.03.2019	3,000
Profit for the year	2,600
Income tax expense	450
Profit before tax	**3,050**

Workings - 02

<u>Accumulated Depreciation</u>	
Balance as at -01.04.2018	10,000
Depreciation for the year	**4,400**
Disposal	(2,400)
Balance as at -31.03.2019	**12,000**

Workings - 03

Disposal A/C

Cost	4,000	ACC. Depreciation	2,400
Profit	900	Sale proceed	2,500
	4,900		4,900

Workings - 04

Income Tax

Cash	600	B/B/F	200
		P & L	450
B/C/F	50		
	650		650

End of Section B

Four [03] Compulsory Questions

[Total 50 Marks]

SECTION - C

Suggested Answers to Question 08:

Unit 04 – Interpretation of Financial & Non-Financial Data & Information

Learning outcome – Assess Performance of an organization though financial ratios

		2019	2018	Change	Favorable/Unfavorable
(i)	GPR	60%	58%	Increase	Favorable
(ii)	NPR	22%	24%	Decrease	Un-favorable
(iii)	CR	2.13	3.00	Decrease	Favorable
(iv)	QAR	1.33	1.89	Decrease	Favorable
(v)	DCP	36.50	39.92	Decrease	Favorable
(vi)	IRP	59.50	54.32	Increase	Un-favorable

		2019	**2018**
Gross profit ratio	=	$\frac{2{,}250{,}000}{3{,}750{,}000} \times 100\%$	$\frac{1{,}856{,}000}{3{,}200{,}000} \times 100\%$
	=	60%	58%
Net profit ratio	=	$\frac{825{,}000}{3{,}750{,}000} \times 100\%$	$\frac{769{,}500}{3{,}200{,}000} \times 100\%$
	=	22%	24%
Current ratio	=	800,000 : 375,000	510,000 : 170,000
	=	2.13	3
Quick asset ratio	=	800,000 – 300,000 : 375,000	510,000 – 189,000 : 170,000
	=	1.33	1.89
Debtors' Collection Period	=	$\frac{375{,}000}{3{,}750{,}000} \times 365$	$\frac{350{,}000}{3{,}200{,}000} \times 365$
	=	36.5 days	40 days
Inventory Residence Period		$\frac{244{,}500}{1{,}500{,}000} \times 365$	$\frac{200{,}000}{1{,}344{,}000} \times 365$
	=	59.5 days	54.32 days

[06 marks]

Profitability

The Company recorded a gross profit ratio of 60% in 2019 while it was 58% in 2018. This may be due to increase in sales in 2019. But net profit ratio decreased compared with 2018. It was 22% in 2019 and 24% in 2018. This may be due to increase in expenses.

Liquidity

Accepted current ratio is 2 : 1. Comparing with year 2018 it is good in 2019. In 2018, it was 3:1 .There was additional working capital which was idling in the business. Quick asset ratio was also good comparing with 2018. Accepted quick asset ratio is 1.1 but it was high in both years. The company should improve the liquidity while maintaining profit.

Efficiency

Debtor's collection period in 2019 was good comparing with year 2018. But inventory residing period has increase. Debtors' collection period evaluates the efficiency of converting debts into cash. Increase in stock residence period in 2018 shows improvement in stock holding comparing with 2019. This ratio is a measure of how vigorously a business is trading. **[06 marks]**

Workings: ***(Rs.'000)***

For the year ending 31.03.	**2019**	**2018**
Sales revenue	3,750,000	3,200,000
Cost of sales	(1,500,000)	(1,344,000)
Gross Profit	2,250,000	1,856,000
Administrative and distribution expenses	(950,000)	(650,000)
Finance expenses	(200,000)	(180,000)
Profit Before Tax	1,100,000	1,026,000
Income tax	(275,000)	(256,500)
Profit for the year	**825,000**	**769,500**

(Rs.'000)

As at 31st March	**2019**	**2018**	**2017**
Inventories	300,000	189,000	211,000
Trade receivables	450,000	300,000	400,000
Cash and bank	50,000	21,000	
Total current assets	**800,000**	**510,000**	
Trade payables	375,000	170,000	180,000
Total current liabilities	**375,000**	**170,000**	180,000
Stated capital –ordinary shares	1,200,000	800,000	
Average Trade receivables	**375,000**	**350,000**	
Average inventories	**244,500**	**200,000**	

[Total 12marks]

Suggested Answers to Question 09:

Unit 05 – Consolidated Financial Statements

Learning outcome – Prepare Consolidated statements of Financial Position

RS.'000

Gagana PLC				
Consolidated Statement of Financial Position As at 31 March 2019				
	Gagana PLC	**Mahee PLC**	**Adjustments**	**Group**
Non-current assets:				
Property, plant and equipment	27,000	25,000	2,100	54,100
Investment in **Mahee PLC**	18,000	-	-18,000	
Goodwill (3000 – 800)			2200	2,200
Current assets:				
Inventory	5,000	4,000	-675	8,325
Trade Receivables	8,000	3,500	-2,300	9,200
Cash and Cash Equivalents	2,000	1,000	300	3,300
Total assets	**60,000**	**33,500**		**77,125**
Equity:				
Ordinary share capital	35,000	12,000	-12,000	35,000
Retained earnings	15,000	8,000	-7,560	15,440
NCI			5,185	5,185
Non-current liabilities:				
12% Debentures	7,000	11,000		18,000
Current liabilities:				
Trade Payables	3,000	2,500	-2,000	3,500
Total Equity and liabilities	**60,000**	**33,500**		**77,125**

Workings:

Goodwill computation

Investment		18,000
NCI		5,000
		23,000
Share capital		-12000
Retained earnings		-3000
Fair value change reserve		-5000
Goodwill		3,000

Ganga - Mahee

Unrealized Profit = $\frac{3000}{2} \times \frac{25}{125}$ = 300

Profit on Disposal = 80000 – 5000 – 3000

Depreciation = 3000/5 = 600

Mahee - Ganga

Unrealized Profit = $\frac{4500}{3} \times 25\%$ = 375

Consolidated Retained Earnings			
Unrealized Profit	300	B/B/F	15,000
Unrealized Profit	300	M. Profit	4,000
Goodwill impairment	640		
Building Depreciation	400		
Unrealized Profit from PPE (2400× 80%)	1,920		
B/C/F	15,440		
	19,000		19,000

NCI			
Unrealized Profit	75	Fair value	5,000
Goodwill	160	M. Profit	1,000
Building Depreciation	100		
Unrealized Profit from PPE	480		
B/C/F	5,185		
	6,000		6,000

[13 marks]

Suggested Answers to Question 10:

Unit 03 – Financial statement for a limited liability company Learning outcome – Prepare and Communicate financial statements for publication purpose.

(a)

Manahara PLC's
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2019

	Notes	
Revenue		428,550
Cost of Sales (291,285 + 500)		(291,785)
Gross profit		136,765
Distribution Cost		(32,350)
Administrative Expenses		(50,100)
Finance Cost		(1,362.38)
Profit Before Tax	1	52,952.62
Income Tax	2	(2,875)
Profit for the Period		50,077.62
Other Comprehensive Income		
Gain on revaluation of PPE	3	9,500
Total Comprehensive Income		59,577.62

Note 1

Following expenses were deducted when calculating profit

Inventory written off	500
Debenture interest	720
PPE Deprecation	8,500
Audit fees	2,000
Bad debts	1,650
Employee salaries	10,000
Director fees	20,000
Finance charges on lease	642.38

Note 2

Income tax overprovision	-325
Income tax for the period	3,200
	2,875

Note 3

Revaluation of PPE

Gain on revaluation of Land	5,000
Gain on revaluation of MV	4,500
	9,500

Workings:			
	Administration	**Distribution**	**Finance**
Distribution cost		29,100	
Administrative ex.	10,000		
Salaries	10,000		
Director fees	20,000		
Debenture interest			720
Audit fees	2,000		
Bad debts (1,500 + 150)		1,650	
Sales commission		1,600	
Insurance	-400		
Building Dep	1,000		
Mv Dep	6,500		
Finance charges on lease			642.38
Right to use asset depreciation	1,000		
	50,100	32,350	1362.38

(b)

Lease Liability

Leasehold Eq.	1,500		4,282.5
B/C/F	3,424.88	Interest	642.38
	4,924.88		4,924.88

(03 marks)

$1,500/1.15$ = 1,304.4
$1,500/1.15^2$ = 1,134.2
$1,500/1.15^3$ = 986.3
$1,500/1.15^4$ =857.6
= 4,282.5

[10 marks]

(b) **Manahara PLC's**

Changes of Equity statement for the year ended 31st March 2019 **Rs.000**

	Capital	Retained Earnings	Revaluation Reserve	Total
Balance as at 01st April 2018	37,500	12000		49,500
Total comprehensive income		50,077.62	9,500	59,577.62
Dividend paid		(6,750)		(6,750)
Balance as at 31st March 2019	37,500	55,327.62	9,500	102,327.62

(3 Marks)

(c)

Manahara PLC's

Statement of Financial Position as at 31 March 2020 (Rs'000)

Non-Current Assets	***Notes***		
Property, Plant and Equipment	*4*		*120,442.50*
Current Assets			
Inventory (30000 – 500)		*29,500*	
Trade receivables (16,500 – 1,650)		*14,850*	
Prepaid insurance		*400*	
Cash and cash equivalents		*4,300*	*49,050*
Total assets			***169,492.50***
Equity & Liabilities			
Stated Capital		*37,500*	
Retained earnings		*55,327.62*	
Revaluation reserve		*9,500*	*102,327.62*
Non-Current Liabilities			
12% Debentures		*24,000*	
Lease liability		*2,438.61*	*2 6,438.61*
Current Liabilities			
Trade payables		*33,500*	
Lease liability		*986.27*	
Provision for income tax		*3,200*	
Other Payables	*5*	*3,040*	*40,726.27*
Total Equity & Liabilities			***169,492.50***

Note 4

	Land and Buildings	Motor Vehicles	Right to Use Asset	Capital work in progress	Total
Balance as at 1 April 2018	70,000	65,000			135,000
Aditions			6,282.5	11,160	17,442.5
Revaluations	5,000	4,500			9,500
Disposals/ Eliminations		(27,500)			(27,500)
Balance as at 31 March 2019	75,000	42,000	6,282.5	11,160	134,442.5
Accumulated Depreciation					-
Balance as at 1 April 2018	12,000	21,000			33,000
Depreciation	1,000	6,500	1,000		8,500
Disposals/ Eliminations		(27,500)			(27,500)
Balance as at 31 March 2019	13,000	-	1,000	-	14,000
Carrying amount as at 31 March 2019	62,000	42,000	5,282.5	11,160	120,442.5

Note 5

Accrued debenture interest	1,440
Accrued sales commission	1,600
	3,040

[12 marks]

[Total 25 marks]

End of Section C