



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2024

Suggested Answers

(301) FINANCIAL REPORTING (FAR)

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination - January 2024

(301) Financial Reporting

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01 - Governance Structure, Importance of Ethics in Accounting and Conceptual Framework of Financial Reporting

(a)

Comparability

Users of financial information make decisions between alternative courses of action. For example, whether to sell or hold an investment in the shares of a company. Therefore, financial information is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or date.

Verifiability

When information can be verified, it gives assurance that the information faithfully represents the economic phenomena being represented. For information to be verifiable, it means that different knowledgeable and independent parties could reach consensus (although not necessarily complete agreement) that a particular depiction is a faithful representation.

Timeliness

In general, the sooner information is available, the more useful it is. Although some information may continue to be timely for a long time (for example, information used to identify and assess trends), newer information is usually more useful than older information.

Understandability

Classifying, characterizing, and presenting information clearly and concisely makes it understandable. Some information required for financial reports is inherently complex and,

although leaving such information out may make financial reports seem easier to understand, it would also make them incomplete. This ultimately does not aid understandability. Financial reports are intended for use by users with a reasonable knowledge and the Conceptual Framework accepts that even knowledgeable users may need to seek advice to aid their understanding of more complex issues.

(03 marks)

(b)

- Financial Capital Maintenance
- Physical Capital Maintenance

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

<i>Chapter 02 (Part 1) – Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in preparing Financial Statements</i>
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(a)

- Obtaining the copies of financial statements from specified business enterprises.
- Requesting to provide information during a specified time period.
- Call for an inquiry, questioning, investigate and examine any director, officer or an auditor.

(02 marks)

(b)

- To Grant a licence to a body corporate to operate as a stock exchange and ensure the proper conduct of its business.
- To grant a licence to a managing company to operate a unit trust and to ensure the proper conduct of business of such unit trust.
- To grant compensation to any investor who suffers pecuniary loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.
- To advise the government on the development of the securities market.
- To cancel or suspend the listing of any securities or the trading of any listed securities or to suspend the trading of all listed securities for not more than three days at a time, for the protection of investors.
- To request the registrar of Companies, in the exercise of the powers conferred on it by section 227 of the Companies Act, to call upon a private limited liabilities company to become a public limited company.
- To inquire and conduct investigations into any activity of a licensed stock exchange or a licensed managing company.
- To inquire and conduct investigations into any activity of a licensed stock broker or licensed stock dealer or a trustee of a unit trust.

(03 marks)
(Total 05 marks)

Suggested Answers to Question Three:

<i>Chapter 01 - Governance Structure, Importance of Ethics in Accounting And Conceptual Framework of Financial Reporting</i>

(a)

- Integrated report
- Sustainability report
- Corporate governance report
- Management Discussion & Analysis.
- Risk Management Report
- Industry Review
- Chairman's report

(02 marks)

(b)

- Short term, mid-term, long term objectives of entity
- Market positioning structure and plan
- Resource allocation plan
- Performance evaluation against the objectives
- Relevance of Long-term strategies for the current business model
- How to measure achievement and target outcomes.

(03 marks)

(Total 05 marks)

Suggested Answers to Question Four:

<i>Chapter 02 (Part - II) - Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in preparing Financial Statements</i>

(a)

- The technical feasibility of completing the intangible asset so that will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The intangible assets will generate probable future economic benefits.

(02 marks)

(b)

1. Research cannot be recognized as intangible asset based on LKAS 38, it should be charged to Profit or loss statement.
2. Cost can be measured reliably and can be recognized an intangible asset of Rs. 300,000.
3. TV Commercial cost is not an Intangible asset and it should be recognized as an expense in profit or loss statement.

(03 marks)
(Total 05 marks)



End of Section A

Suggested Answers to Question Five:

Chapter 03 (Part II) – Financial Statements for a Limited Liability Company for Publication Purpose

Vinco (Pvt) Ltd.
Cash flow statement for the year ended 31st March 2023

		(Rs.'000)
Profit before tax		765
<u>Adjustments for</u>		
Depreciation	800	
Disposal Loss	100	
Interest Expenses	250	
Gratuity Expenses	70	1,220
Profit before working capital changes		1,985
(-) Income tax paid		(120)
		1,865
Changes in working capital		
Decrease in inventory	350	
Increase in trade receivables	(410)	
Increase in trade payables	1520	1,460
Net cash flows generated from operating activities		3,325
<u>Cash flows from investing activities</u>		
Cash received from disposal of a motor vehicle	600	
Cash paid to acquire PPE	(3,200)	
Net cash flows used in investing activities		(2,600)
<u>Cash flows from financing activities</u>		
Paid dividends	(160)	
Loans obtained	500	
Payment of loans	(380)	
Interest paid	(250)	
Net cash flows used in financing activities		(290)
Net increase/decrease of cash & cash equivalents		435
Cash & Cash Equivalents at the beginning of the period		1,680
Cash & Cash Equivalents as at 31st March 2023		<u>2,115</u>

Workings

Income tax payable A/C

Cash	120	B/B/F	210
B/C/D	320	P&L	230
	440		440

Property Plant & Equipment

B/B/F	6 500	Disposal	1 200
Cash	3 200	B/C/D	8 500
	9 700		9 700

Accumulated Depreciation

Disposal	500	B/B/F	1 000
B/C/D	1 300	P&L	800
	1 800		1 800

Disposal A/C

PPE	1 200	Acc. Depreciation	500
		Cash	600
		P&L	100
	1 200		1 200

Profit before tax calculation

	Retained Earnings
B/B/F	560
PAT	535
Paid dividend	(160)
Closing balance	935

PBT	765
Income tax	(230)
PAT	<u>535</u>

(Total 10 marks)

Suggested Answers to Question Six:

(A)

Chapter 03 (Part I) – Financial Statements for a Limited Liability Company for Publication Purpose

Sunshine Ltd.
Extract of Statement of Financial Position
As at 31 March 2023

Non - Current Assets	
Right to use Assets (W – 2)	6,000,000
Non- Current Liabilities	
Lease Liability (W – 1)	2,909,956
Current Liabilities	
Lease Liability (W – 1)	1,131,308

Sunshine Ltd.
Extract of Comprehensive Income Statement
for the year ended 31st March 2023

Administration Expenses	
Depreciation (W – 2)	2,000,000
Finance Expenses	
Lease Interest (W – 1)	900,000

Workings

W - 1

Calculation – PV of outstanding lease payments

	Year 1	Year 2	Year 3	Year 4
B/B/F	5,000,000	4,041,264	2,909,956	1,575,012
Interest	900,000	727,428	523,792	283,502
Lease Installment	1,858,736	1,858,736	1,858,736	1,858,736
Capital	958,736	1,131,308	1,334,944	1,575,234
B/C/F	4,401,264	2,909,956	1,575,012	-

W - 2

Right of Use Asset Value

Down payment	3,000,000
PV of outstanding lease payments	5,000,000
Total Value	8,000,000
(-) Depreciation (8000/4)	2,000,000
Carrying value as at 31 March 2023	6,000,000

(06 marks)

(b)

Chapter 02 (Part - II) - Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in preparing Financial Statements

Engine (600-100) /10	= 50
Landing Gear (240 – 40) /5	= 40
Air Frame (360 – 60) /20	= <u>15</u>
Total Depreciation	= <u>105</u>

(04 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

(a)

Chapter 02 (Part - II) - Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in preparing Financial Statements

1. Rs.3 million should be provided in the financial statements as it is probable that this compensation will have to be made by the company.
2. Rs.9 million should be disclosed as a contingent asset in the financial statement.
3. Should be provided Rs.100 million as a provision, as there is a contractual obligation to incur this cost after completing the project.

(05 marks)

(b)

Chapter 02 (Part - II) - Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in preparing Financial Statements

- Identify the contract with customers.
- Identify performance obligations.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations.
- Recognize revenue when the entity satisfies a performance obligation.

(05 marks)
(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 03 (Part I) – Financial Statements for a Limited Liability Company for Publication Purpose

(a)

Global PLC
Statement of Profit / Loss and Other Comprehensive Income
for the year ended 31st March 2023

			(Rs.'000)
Sales			206,000
(-) Cost of sales (16,000+400)			(116,400)
Gross profit			89,600
Other Income	01		7,400
			97,000
Admin Expenses		46,700	
Distribution Expenses		34,880	
Finance Expenses		560	
Other Expenses – Impairment loss		1,400	(83,540)
Profit before tax	02		13,460
Income tax expenses			(9,250)
Profit after tax			4,210
<u>Other comprehensive income</u>			
Revaluation gain on land			3,000
Total comprehensive income			7,210

Global PLC
Statement of Changes in Equity
for the year ended 31st March 2023

				(Rs.'000)
	Stated Capital	Retained Earnings	Revaluation Reserves	Total
Opening Balance	95,000	12,500	5,000	112,500
Revaluation Gain	-	-	3,000	3,000
Profit After Tax	-	4,210	-	4,210
Closing Balance	95,000	16,710	8,000	119,710

(10 marks)

(b)

Global PLC
Statement of Financial Position
As at 31st March 2023

(Rs.'000)

<u>Assets</u>			
<u>Non-Current Assets</u>			
Property Plant & Equipment	04		91,900
Capital work in progress (14,000+540)			14,540
			106,440
<u>Current Assets</u>			
Inventory		23,600	
Debtors (10,600+600-250-530)		10,070	
Interest Income		400	
Investment income receivable		16,150	50,220
Total Assets			156,660
<u>Equity</u>			
Stated capital		95,000	
Retained Earnings		16,710	
Revaluation Reserve		8,000	119,710
<u>Non-Current Liability</u>			
Gratuity provision		8,500	
Bank Loan		9,000	17,500
<u>Current Liability</u>			
Trade payables		6,500	
Income tax payable		4,950	
Accrued expenses		8,000	19,450
Total Equity & Liabilities			156,660

Note 01 - Other Income

Investment Income (6,400 + 400)	6,800
Bad Debt Recovered	600
	<u>7,400</u>

Note 02 - Following expenses have been considered to arrive for the profit before tax calculation

Stock Loss	400
Impairment Loss	1,400
Finance Expenses	560

Note 03 - Income Tax

Current year tax expense	9,250
Under/(over) tax provision	-
	<u>9,250</u>

Note 04 - Property Plant & Equipment

Cost / Value	Land	Building	Machines	Total
Opening Balance	40,000	55,000	28,000	123,000
Additions	-	-	-	-
Revaluation	3,000	-	-	3,000
Disposal	-	-	-	-
Closing Balance	43,000	55,000	28,000	126,000
Accumulated Depreciation				
Opening Balance	-	14,000	12,000	26,000
Annual Depreciation	-	1,100	5,600	6,700
Impairment loss provision	-	-	1,400	1,400
Disposal Depreciation	-	-	-	-
Closing Balance	-	15,100	19,000	34,100
Carrying Value	43,000	39,900	9,000	91,900

Working 01

	Admin Expenses	Distribution Expenses	Finance Expenses	Other Expenses
Building depreciation	1,100			
Machinery depreciation	5,600			
Impairment loss				1,400
Borrowing cost to be capitalized (W 02)			(540)	
Over provision of bad debts		(2,370)		
Bad debts		250		
Admin expenses	40,000			
Distribution expenses		37,000		
Finance expenses			1,100	
	46,700	34,880	560	1,400

Working 02

Borrowing cost to be capitalized

$$9\,000 \times \frac{8}{100} \times \frac{9}{12} = 540$$

(Total 25 marks)

Suggested Answers to Question Nine:

Chapter 04 - Interpretation of Financial and Non-Financial Data and Information

(a)

$$\begin{aligned} \text{01. Net Profit Ratio} &= \frac{\text{Net Profit}}{\text{Sales}} \times 100\% \\ &= \frac{36,450}{683,700} \times 100\% = \mathbf{5.33\%} \end{aligned}$$

$$\begin{aligned} \text{02. Stock residence Period} &= \frac{\text{Avg. inventory}}{\text{Cost of Sales}} \times 365 \text{ days} \\ &= \frac{80,500}{321,800} \times 365 = \mathbf{91 \text{ days}} \end{aligned}$$

$$\begin{aligned} \text{03. Debtors collection Period} &= \frac{\text{Avg. debtors}}{\text{Credit sales}} \times 365 \text{ days} \\ &= \frac{130,650}{410,220} \times 365 = \mathbf{116 \text{ days}} \end{aligned}$$

$$\begin{aligned} \text{04. Creditors settlement period} &= \frac{\text{Avg creditors}}{\text{Credit purchases}} \times 365 \text{ days} \\ &= \frac{78,315}{291,240} \times 365 = \mathbf{98 \text{ days}} \end{aligned}$$

$$\begin{aligned} \text{05. Earning per share} &= \frac{\text{PAT}}{\text{No of ordinary shares}} \\ &= \frac{36,450}{8,500} = \mathbf{Rs. 4.29 \text{ Per share}} \end{aligned}$$

$$\begin{aligned} \text{06. Price earning ratio} &= \frac{\text{Share price}}{\text{EPS}} \\ &= \frac{20}{4.29} = \mathbf{4.66 \text{ Times}} \end{aligned}$$

(06 marks)

(b)

Net Profit Ratio

Company's net profit ratio is just 5.33% while the industry is having a net profit ratio of 10%. Reasons for variances can be recognized as follows.

- ❖ Lack of sales of the company compared to industry sales value.
- ❖ Increase in expenses.

Stock Residence period

Industry inventory residence period is 90 days and company inventory residence period is 91 days. So it is also unfavorable position for the company. However, there is no any significant variance in inventory residence period.

Debtors collection period

Industry collect cash from debtors within average of 65 days while company takes 116 days to collect cash from debtors. So it is adverse occurrence of company, compared to industry debtor's collection period. This can be occurred due to the bad credit policy management.

Creditors collection period

Company takes longer period to settle the creditors balances compared to industry balances compared to industry creditors settlement period. Company may have found suppliers who provide more credit period, or due to the liquidity issues company may have delayed.

Earnings per share

Earnings per share is less than the industry rates and this might have occurred due to the less net profit compared to industry net profit ratio.

Price Earnings Ratio

Price earnings ratio of the company is 4.66 times while it was 2.67 times in industry. If it is low, investor can cover the initial investment in a shorter period of time from the profit earned.

(06 marks)
(Total 12 marks)

Suggested Answers to Question Ten:

Chapter 05 (Part I) Consolidated Financial Statements (SLFRS-10)
Chapter 05 (Part II) Consolidated Financial Statements (SLFRS-10)

(a)

Cost of Control A/C		(Rs.'000)	
Investment	350,000	R/ Earnings	75,000
NCI	100,000	Revaluation	5,000
		Stated capital	300,000
		Goodwill	70,000
	<u>450,000</u>		<u>450,000</u>

(04 marks)

(b)

Gomes PLC

Consolidated Statements of Comprehensive Income

For the year ended 31st March 2023

(Rs.'000)

Net current assets		
Property plant & Equipment (540,000+240,000+5,000)		785,000
Goodwill (70,000-10,000)		60,000
		845,000
Current Assets		
Inventories (117,000+150,000-500)	266,500	
Trade receivables (180,000+90,000)	270,000	
Cash & Cash Equivalents (18,000+90,000)	108,000	644,500
Total Assets		1,489,500
Equity & Liabilities		
Equity		
Stated capital	700,000	
Retained Earnings	228,500	928,500
Non – Controlling Interest (NCI)		101,000
Non- Current Liability		
Bank loan (125,000+44,000)	169,000	
Debentures (100,000+40,000)	60,000	229,000
Current Liability		
Trade payable (135,000+25,200)	160,200	
Bank Overdraft (60,000+10,800)	70,800	231,000
Total Equity & Liability		1,489,500

Workings

Retained Earnings – Gomas

COC	75,000	B/B/F	90,000
NCI	3,000		
Parent	12,000		
	90,000		90,000

Retained earnings - Thomas

Realized profit	500	B/B/F	225,000
Goodwill	8,000	Retained Earnings	12,000
B/C/F	228,500		
	237,000		237,000

NCI

I/ Loss	2,000	CBC	100,000
B/C/F	101,000	Retained earnings	3,000
	103,000		103,000

Unrealized profit of unsold goods

Unsold goods value $9000 * \frac{1}{3} = 3,000$

Unrealized profit = $3000/120 * 20 = 500$

(09 marks)
(Total 13 marks)

End of Section C

Notice:

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”. The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



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