

**EXAMINER'S REPORT****LEVEL III EXAMINATION - JANUARY 2022****(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) Required to explain two qualitative characteristics that enhance the usefulness of financial information.

Most of the candidates had mentioned two qualitative characteristics but only a few explained the qualitative characteristics.

**Performance for this part was good.**

- (b) Required to state two different measurement bases used for the measurement of the elements of financial statements.

Most of the candidates failed to name two different measurement bases correctly. Many of them named accounting policies, accounting standards, etc.

**Performance for this part was not satisfactory level.**

**Question No. 02**

- (a) Required to explain the term Sustainability Reporting. Very few have answered this part correctly.

**Performance for this part was at average level.**

- (b) Required to state two key areas included in the business model of an integrated report. Only a very few have answered this part correctly.

**Performance for this part was poor.**

### **Question No. 03**

- (a) Required to state three reasons as to why the financial ratios analysis is important for an organization. Most of the candidates had produced acceptable answer for this part and hence obtained full marks.

**Performance for this part was at a satisfactory level.**

- (b) Required to state two limitations of ratio analysis. Majority had obtained full marks for this part by presenting correct answers.

**Performance for this part was good.**

### **Question No. 04**

Required to explain three instances, whether each expense incurred could be recognized as an Intangible Asset as per LKAS 38.

Most of the candidates had presented the criteria in recognizing an Intangible Asset.

They correctly identified each item of cost incurred as an intangible asset or an expense with reasons.

**Performance of this question was at a satisfactory level.**

## **SECTION B**

### **Question No. 05**

Required to prepare a Statement of Cash Flows for the year ended 31<sup>st</sup> March 2021 using indirect method.

Most of the candidates answered this question well and scored higher marks. However, a very few candidates have made the following mistakes;

- (1) Net profit before tax amount was taken incorrectly.
- (2) Fixed assets depreciation amounts were not calculated correctly.
- (3) Incorrect classification of Operational, Investing and finance activities.
- (4) Incorrect application of cash flows where cash inflows shown as negative value while cash out flows shown as positive values.
- (5) Some figures were rounded off to Rs.'000 while the other figures were not rounded off.

**Overall performance for this question was at a satisfactory level.**

### Question No. 06

- (A) Required to calculate the differed tax asset or liability as of 31<sup>st</sup> March based on the given information.

Only a few candidates answered this question correctly and obtained the full marks. Most of them were not able to calculate the tax base correctly. Therefore, they could not arrive at differed tax asset as required.

**Common mistakes made:** Wrong tax rates, wrong identification of differed tax assets and differed tax liability.

- (B) Required to calculate the differed tax expenses for the year ended 31st March 2021.

Majority failed to calculate and identify the differed tax amount which needs to be charged to Income Statement.

**Overall performance for this question was poor.**

### Question No. 07

- (a) Required to calculate the accumulated depreciation and carrying value of the building as at 31<sup>st</sup> March 2021 based on the given information. Majority of the candidates calculated depreciation correctly. Majority had calculated depreciation considering the useful life as 32 years (without considering the remaining life time of 28 years.)
- (b) Required to prepare the extracts of the Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2021 and Statement of Financial Position as at 31<sup>st</sup> March 2021 of **Sigma Ltd.** based on information provided on lease transaction.

A few candidates answered correctly. Majority of the candidates made following mistakes:

- (1) Added the advance payment amount of Rs. 1 million when calculating the lease value.
- (2) Not segregated long term and current portion of the lease liability.
- (3) Incorrect calculation of depreciation amount and interest expense amount.

**Overall performance for this question was at an average level.**

## SECTION C

### **Question No. 08**

Required to prepare the Statement of Comprehensive Income Statement, Statement of Financial Position, Statement of Changes in Equity and Depreciation Schedule of a Company.

Majority had attempted this question and some of them had reached higher marks for this question.

#### **Common Mistakes identified:**

- (1) Provided Rs.1,000,000/- compensation expenses instead of Rs.750,000/-.
- (2) Borrowing cost was calculated for the full year instead of 11 months.
- (3) Incorrectly shown the rent expenses and prepayment amount.
- (4) Interest was debited to finance cost instead of crediting finance cost and debiting capital work in progress.
- (5) Calculated depreciation on reducing balance method.
- (6) Failed to arrive at the carrying value of 4.5 million in determining the impairment loss.
- (7) Not work out the impairment loss.
- (8) Completely ignored the current and noncurrent portion of the loan.
- (9) Showed the revaluation reserve in the other comprehensive Income.
- (10) Rent expenses was shown as 900,000 instead of Rs.300,000/-.
- (11) Mixed up the current portion of the bank loan as non-current and non- current portion as current.
- (12) Depreciated the land at 5%.

**Performance of this question was at a satisfactory level.**

### **Question No. 09**

- (a) Required to compute gross profit ratio, Quick Assets ratio, Stock Residence period, creditor's settlement period, Earnings per share based on the information of given.

Most of candidates had calculated the above ratios correctly and scored allocated marks for calculation part.

Following mistakes were done by some when computing ratios:

- (1) Inventory had not removed when calculating the Quick Assets Ratio.
- (2) Gross profit ratio was calculated dividing profit by sales and by dividing gross profit by cost of sales.
- (3) Profit had divided by the share capital instead of number of shares when calculating the Earnings Per Share (EPS).

**Performance for this part was good.**

**(b)** Required to analyze the performance.

Following are the common mistakes made by some candidates:

- (1) Most of the candidates stated the ratio has increased or decreased and without citing the proper reason
- (2) Compared the ratios with previous year instead of comparing with the Industry ratios.

**Performance for this part was at an average level.**

### **Question No. 10**

**(a)** Requirement: To calculate goodwill arising from consolidation.

Majority had correctly calculated the goodwill and scored full marks.

**(b)** Requirement: To prepare the Consolidated Comprehensive Income Statement as of 31<sup>st</sup> March 2021.

Majority had scored more than 5 marks for this part and following common mistakes identified:

- (1) PPE balance was not adjusted by adding the over charged depreciation of Rs.600,000/-.
- (2) 80 % of over depreciation amount was not credited to consolidated retained earning account and 20 % of over depreciation amount was not credited to non-controlling interest account.
- (3) Inventory balance was not adjusted by deducting the unrealized profit.
- (4) 80 % of unrealized profit was not debited to consolidated retained earnings and 20 % of unrealized profit was not debited to the non-controlling interest account.
- (5) Intercompany transaction of 12m was not eliminated from trade receivable and trade payable accounts.
- (6) Profit on disposal of Rs. 3 million was not credited to consolidated retained earnings account.

**Overall performance for 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.

- \* \* \* -