



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2020

(301) FINANCIAL REPORTING

03-10-2020
Morning
[08.45 – 12.00]

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

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

Writing : 03 hours

No. of Pages : 10

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

Sustainability report and integrated report are parts of the annual report. While a sustainability report contains mainly non-financial data, an integrated report contains both financial and non-financial data.

You are required to:

(a) **State** the main purpose of the sustainability report. (03 marks)

(b) **List** two(02) key components in an integrated report. (02 marks)

(Total 05 marks)

Question 02

Over the years, accounting profession is changing with the dynamic environment. Therefore, professional bodies and their members have to respond to the challenges for the survival and development of the profession.

You are required to:

Explain three(03) challenges faced by the accounting profession.

(05 marks)

Question 03

An entity shall apply LKAS 01 - Presentation of Financial Statements in preparing and presenting general purpose financial statements.

You are required to:

- (a) **State** three(03) criteria to classify an asset as an current asset. (03 marks)
- (b) **List** two(02) components included in other comprehensive income. (02 marks)
- (Total 05 marks)

Question 04

- (a) As per LKAS 36 - Impairment of Assets, there are indications that an asset may be impaired.

You are required to:

State two(02) indications to identify that an asset may be impaired as per LKAS 36. (02 marks)

- (b) Cost of the machinery of a company is Rs. 6 million and carrying value of this machinery as at 31st March 2020 was Rs.3.5 million. The company carried out an impairment test on 31st March 2020 and it was revealed that the fair value less cost of disposal and value in use of the machinery are Rs.2 million and Rs. 2.5 million respectively.

You are required to:

Calculate the impairment loss of the machinery for the year ended 31st March 2020. (03 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

The statements of financial position of **Royal (Pvt) Ltd.** as at 31st March 2020 and 31st March 2019 are given below:

As at 31 st March	2020	2019
Assets:		
Non-Current Assets:		
Property, Plant and Equipment	4,205	3,838
Accumulated Depreciation	(2,090)	(1,810)
Carrying Value	2,115	2,028
Current Assets:		
Inventories	1,320	920
Trade Receivables	1,723	1,905
Cash and Cash Equivalents	397	457
	3,440	3,282
Total Assets:	5,555	5,310
Equity and Liabilities:		
Equity:		
Stated Capital	1,000	1,000
Retained Earnings	960	820
	1,960	1,820
Non-Current Liabilities:		
Long Term Loans	1,300	1,200
	1,300	1,200
Current Liabilities:		
Short Term Loans	200	150
Trade Payables	1,695	1,590
Interest Payable on loans	180	100
Income Tax Payable	220	450
	2,295	2,290
Total Equity and Liabilities	5,555	5,310

The following additional information is also provided:

- (1) Income tax expense for the year ended 31st March 2020 was Rs.205,000/-.
- (2) A motor vehicle has been disposed on 31st March 2020 for Rs.1,800,000/- by the company. The cost of the motor vehicle and accumulated depreciation as at 31st March 2020 were Rs.2,500,000/- and Rs.1,250,000/- respectively. Further, on the same day, the company has purchased a motor lorry.

- (3) Interest expense on loans for the year ended 31st March 2020 was Rs.295,000/-.
- (4) An interim dividend of Rs.100,000/- had been paid during the year to its ordinary shareholders.
- (5) The company has obtained a bank loan of Rs.800,000/- during the year.

You are required to:

Prepare the Statement of Cash Flows of **Royal (Pvt) Ltd.** for the year ended 31st March 2020 using indirect method. (10 marks)

Question 06

- (a) **Tokyo Auto (Pvt) Ltd. (TAL)** is in the business of importing and selling of motor vehicles spare parts in Sri Lanka. The financial statements for the year ended 31st March 2020 of **TAL** were authorized for issue by the Board of Directors on 20th May 2020:

The following information is relevant to **TAL**:

- (1) On 30th April 2020, one of the customers of **TAL** who owes Rs. 7 million as at 31st March 2020 has been declared as bankrupt. This was not considered in preparing the financial statements of **TAL**.
- (2) **TAL** pays annual bonus of Rs. 12 million to its employees as a practice in every year. Accordingly, annual bonus for employees of Rs. 12 million has been approved to pay out of the profits for the year ended 31st March 2020 by the Board of Directors of **TAL** on 15th April 2020. This was not considered in preparing the financial statements for the year ended 31st March 2020.

You are required to:

Explain how each of the above instances would be recognized in the financial statements for the year ended 31st March 2020 of **TAL** as per LKAS 10 – Events After the Reporting Period. (04 marks)

- (b) **Zeena PLC** (lessee) entered into a leasing agreement with **ABC PLC** (lessor) on 01st April 2019 to acquire a motor vehicle for a 3 year lease term. As per the lease agreement, **Zeena PLC** paid Rs.400,000/- at the commencement date of the lease and balance should be paid as an annual lease installment of Rs.1,413,600/- on 31st March each year. Implicit interest rate is 14%. As per the lease agreement, the ownership of the motor vehicle is transferred to **Zeena PLC** at the end of lease period.

(Note: Assume that lease rental was paid on due date.)

You are required to:

Prepare the extract of the Statement of Financial Position as at 31st March 2020 of the lessee in respect of the above transaction. (06 marks)

(Total 10 marks)

Question 07

The following information was extracted from **P Ltd.**'s books of accounts as at 31st March 2020:

(1) Details of non-current assets are as follows: (Rs.'000)

Asset	Cost	Carrying Value (Accounting written down value) as at 31 st March 2020	Cumulative Depreciation for tax purpose (capital allowance)
Land	10,000	-	-
Plant & Equipment	40,000	32,500	16,300

(2) The provision for gratuity as at 31st March 2020 was Rs.12,000,000/-.

(3) Deferred Tax Liability as at 01st April 2019 was Rs.810,000/-.

(4) **P Ltd.** pays income tax at the rate of 14% per annum.

You are required to:

(a) **Identify** the temporary differences as at 31st March 2020. (06 marks)

(b) **Calculate** the deferred Tax Asset / Liability as at 31st March 2020. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

The following information has been extracted from the Financial Statements of **Delta Ltd.** as at / for the year ended 31st March 2020 and 31st March 2019:

Extract from Statement of Comprehensive Income

(Rs.'000)

For the Year Ended	31 st March 2020
Sales	92,500
Cost of Sales	62,900
Gross Profit	29,600
Profit Before Interest and Tax	10,700
Interest Expenses	2,200
Profit After Tax	5,500

Extract of Statements of Financial Position (Rs.'000)

As at	31 st March 2020	31 st March 2019
Inventories	15,000	16,500
Trade Receivables	11,700	12,700
Current Assets	31,300	34,000
Current Liabilities	19,000	17,500
Equity	16,500	11,000
Long-term loan	4,500	6,000

The following ratios have been computed for **Delta Ltd.** for the year ended 31st March 2019:

Gross Profit Ratio	30%
Net Profit Ratio	10%
Debtors' Collection Period	45 days
Inventory Residence Period	85 days
Current Ratio	1.94 : 1
Interest Cover	4 times

You may assume that all sales are made on credit basis.

You are required to:

(a) **Calculate** the following ratios based on the above information for the year ended / as at 31st March 2020:

(i) Gross Profit Ratio.

(ii) Net Profit Ratio.

(iii) Debtors' Collection Period.

(iv) Inventory Residence Period.

(v) Current ratio.

(vi) Interest Cover.

(06 marks)

(b) **Analyze** the performance of **Delta Ltd.** for the year ended /as at 31st March 2020 considering the computed ratios for the previous year.

(06 marks)

(Total 12 marks)

Question 09

The Statements of Financial Position of **SUN PLC** and **MOON PLC** as at 31st March 2020 are as follows:

Statements of Financial Position as at 31st March 2020

(Rs.'000)

	Sun PLC	Moon PLC
Assets:		
Non-Current Assets:		
Property, Plant and Equipment - at cost	80,000	42,000
Accumulated Depreciation	(34,000)	(6,000)
Carrying Value	46,000	36,000
Investment in Moon PLC	40,000	-
Current Assets:		
Inventories	12,000	13,500
Trade Receivables	8,000	9,000
Cash & Cash Equivalents	2,000	2,500
Total Assets	108,000	61,000
Equity and Liabilities:		
Equity:		
Stated Capital - Ordinary Shares	70,000	40,000
Retained Earnings	16,700	8,000
Current Liabilities:		
Trade and Other Payables	21,300	13,000
Total Equity and Liabilities	108,000	61,000

The following additional information is also provided:

- (1) **Sun PLC** acquired 80% of ordinary share capital of **Moon PLC** on 01st April 2019.
- (2) Fair value of the non-controlling interest on the date of acquisition was Rs. 10 million. As at the date of acquisition, **Moon PLC's** retained earnings was Rs. 5 million and the fair value of identifiable net assets of **Moon PLC** was equal to its book value.
- (3) On 01st April 2019, **Sun PLC** sold one of its motor vehicle purchased on 01st April 2018 at a cost of Rs. 4 million to **MOON PLC** for Rs. 5 million. Both companies depreciate their motor vehicles over 5 years on the straight-line basis at cost.
- (4) During the month of March 2020, **Moon PLC** sold an inventory costing Rs. 3 million with a 20% profit margin on cost to **Sun PLC**. Of that, 50% of the stocks remained unsold at the warehouse of **Sun PLC** as at 31st March 2020. Further, the full amount on this transaction was recorded in trade receivables of **Moon PLC** and trade payables of **Sun PLC**.

You are required to:

- (a) **Calculate** the Goodwill arising from consolidation. (03 marks)
 - (b) **Prepare** the Consolidated Statement of Financial Position as at 31st March 2020. (10 marks)
- (Total 13 marks)

Question 10

The following trial balance was extracted from the books of **Diana Ltd.** as at 31st March 2020:

Diana Ltd.		<i>(Rs.'000)</i>
Trial Balance as at 31st March 2020		
	Dr.	Cr.
Stated Capital (5,000,000 ordinary shares)		50,000
Retained Earnings as at 01 st April 2019		17,000
Property, Plant and Equipment at Cost:		
Land & Buildings (cost of land is Rs.20 million)	32,000	
Motor Vehicles	7,300	
Computer Software	12,000	
Capital Work-in-Progress	8,200	
Accumulated Depreciation as at 01st April 2019:		
Buildings		4,800
Motor Vehicles		3,200
Computer Software		3,000
Inventory as at 31 st March 2020	39,400	
Trade Receivables / Trade Payables	28,100	29,100
Cash in Hand and Cash at Bank	10,700	
Allowance for Trade Receivables as at 01 st April 2019		3,400
Income Tax Paid	1,300	
Interim Dividend Paid - Ordinary Shares	5,000	
Cost of Sales / Sales	198,500	281,900
Other Income		3,000
12% Bank Loan		4,000
Income Tax Payable as at 01 st April 2019		750
Administration Expenses	30,350	
Distribution Expenses	23,400	
Finance Expenses	8,400	
Employee Benefits (Provision for gratuity)		4,500
	404,650	404,650

The following additional information is also provided:

- (1) Part of the inventory costing Rs.800,000/- held as at 31st March 2020, was found to be obsolete and this was sold on 30th April 2020 for Rs.400,000/- by incurring an additional transport cost of Rs.100,000/- .
- (2) On 01st October 2019, the company acquired a new computer software for Rs.7,000,000/- and this was recorded under computer software account. On the same day, the company had to incur a further cost of Rs.2,000,000/- to develop it to make it suitable for their business. This development cost of the computer software has been charged to administration expenses.

(3) The company obtained a bank loan of Rs. 5 million on 30th June 2019 at an interest rate of 12% per annum to construct a new building and construction of the building was started on 01st July 2019. As at 31st March 2020 construction is in progress and it will be expected to finish by end of October 2020. Cost incurred during the year for the construction of the building was debited to capital work-in-progress account. Interest on loan for the year of Rs.450,000/- has been recorded under finance expenses account. $\frac{1}{4}$ th of the bank loan balance as at 31st March 2020 should be settled during the next year.

(4) On 31st March 2020, the land was revalued to Rs.23,700,000/- and this has not been recorded in the books of accounts.

(5) Depreciation is calculated on the straight line basis at cost. The useful life of Property, Plant and Equipment is as follows:

Buildings	:	50 years
Motor Vehicles	:	04 years
Computer Software	:	05 years

(6) During the year, the company has recovered Rs.1,500,000/- from a debtor who had been written-off as a bad debt in the previous year and this amount was credited to trade receivables account. Further, a general provision of 10% has to be made from the trade receivables balance as at 31st March 2020.

(7) Insurance payment of Rs.1,200,000/- which was paid for the entire calendar year of 2020, was recorded under administration expenses.

(8) The following expenses are required to be accrued as at 31st March 2020:

	Rs.
Electricity	300,000
Water	150,000

(9) The Income Tax Liability of the company for the year of assessment 2019/20 is estimated to be Rs.2,300,000/-.

(10) The financial statements were authorized for issue by the Board of Directors on 05th June 2020.

Considering the above information,

You are required to:

Prepare the following, for **Diana Ltd.** 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 2020. (10 marks)
- (b) Statement of Financial Position as at 31st March 2020. (08 marks)
- (c) Statement of Changes in Equity for the year ended 31st March 2020. (03 marks)
- (d) Statement showing movement of Property, Plant and Equipment for the year ended 31st March 2020. (04 marks)

(Total 25 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.