



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2021

(301) FINANCIAL REPORTING

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

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

Writing : 03 hours

(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.**

23-10-2021  
Morning  
[08.45 – 12.00]

No. of Pages : 11

No. of Questions : 10

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**SECTION A**

(Total 20 marks)

**Question 01**

Both financial and non-financial information plays a key role in business decision making.

**You are required to:**

(a) **List** three(03) non-financial information included in an Annual Report of a listed company.

(03 marks)

(b) **State** the main objective of Integrated Reporting.

(02 marks)

(Total 05 marks)

**Question 02**

Securities and Exchange Commission of Sri Lanka was established in 1987 and it is the main regulatory body of Colombo Stock Exchange.

**You are required to:**

(a) **List** two(02) objectives for establishing the Securities and Exchange Commission of Sri Lanka.

(02 marks)

(b) **State** three(03) duties and functions of Securities and Exchange Commission of Sri Lanka.

(03 marks)

(Total 05 marks)

### Question 03

The conceptual framework of financial reporting deals with the objective of financial reporting, the qualitative characteristics of useful financial information, the definitions, recognition & measurement of the elements and concepts of capital & capital maintenance.

**You are required to:**

- (a) **Differentiate** the “Financial Capital Maintenance Concept” from the “Physical Capital Maintenance Concept”. (03 marks)
- (b) **State** the underlying assumption in preparing the financial statements. (02 marks)  
(Total 05 marks)

### Question 04

**ABC (Pvt) Ltd.**, a medium scale enterprise which follows Sri Lanka Accounting Standards for Small and Medium Sized Enterprises (SMEs) has prepared the draft financial statements for the year ended 31<sup>st</sup> March 2021.

However, the following concerns were observed in the financial statements:

- (1) Borrowing cost which is applicable for the construction of the building has been capitalized to cost of that building.
- (2) Inventories are valued at cost or Net Realizable Value whichever is less.
- (3) The useful lifetime of office equipment has been changed during the year. Impact of this has been adjusted for prior years retrospectively.

**You are required to:**

**Explain** the validity of each of the above accounting treatments as per the Sri Lanka Accounting Standards for Small and Medium Sized Enterprises (SMEs). (05 marks)

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*End of Section A*

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## **SECTION B**

(Total 30 marks)

### Question 05

The Statements of Financial Position of **Enrich Foods (Pvt) Ltd.** as at 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020 are given below:

As at 31 <sup>st</sup> March	2021	2020
<b>Assets:</b>		
<b>Non-Current Assets:</b>		
Property, Plant and Equipment	18,500	14,000
Accumulated Depreciation	(3,250)	(2,200)
<b>Carrying Value</b>	<b>15,250</b>	<b>11,800</b>
<b>Current Assets:</b>		
Inventories	3,100	3,800
Trade Receivables	2,700	2,240
Cash and Cash Equivalents	500	2,100
	<b>6,300</b>	<b>8,140</b>
<b>Total Assets:</b>	<b>21,550</b>	<b>19,940</b>
<b>Equity and Liabilities:</b>		
<b>Equity:</b>		
Stated Capital	10,000	10,000
Retained Earnings	4,200	2,700
	<b>14,200</b>	<b>12,700</b>
<b>Non-Current Liabilities:</b>		
Long Term Loans	2,050	2,450
Employee Benefits (Provision for Gratuity)	2,400	2,100
	<b>4,450</b>	<b>4,550</b>
<b>Current Liabilities:</b>		
Trade Payables	2,020	1,640
Short Term Loan	250	250
Interest Payable	220	380
Income Tax Payable	410	420
	<b>2,900</b>	<b>2,690</b>
<b>Total Equity and Liabilities</b>	<b>21,550</b>	<b>19,940</b>

The following additional information is also provided:

- (1) During the year, the company has acquired a land. Other than that no additions or disposals of Property, Plant and Equipment were taken place.
- (2) Interest expense on loans for the year was Rs.300,000/-.
- (3) During the year, the company paid an interim dividend of Rs.200,000/- to its ordinary shareholders.
- (4) Income tax expenses for the year ended 31<sup>st</sup> March 2021 was Rs.190,000/-.
- (5) No payments for gratuity were made during the year.

**You are required to:**

**Prepare** the Statement of Cash Flows for **Enrich Foods (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2021 using indirect method. (10 marks)

### Question 06

- (a) **Macro Technologies Ltd. (MTL)**, is engaged in selling of all-purpose softwares and providing service maintenance. On 01<sup>st</sup> April 2020, **MTL** entered into a contract with **ABC (Pvt) Ltd.** to supply an inventory management software with maintenance service of 2 years for Rs.600,000/-. The market price of the software is Rs.300,000/- and service maintenance charge is Rs.10,000/- per month, if it sells separately.

**You are required to:**

**Prepare** accounting entries relevant for years ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2022 of **MTL** for the recognition of revenue as per SLFRS 15 - Revenue from Contracts with Customers. (06 marks)

- (b) The following balances were appeared in the books of **Sanka Ltd.** as at 01<sup>st</sup> April 2020:

	Rs.
Machinery Account	10,000,000
Accumulated Depreciation - Machinery	4,000,000

The above machinery account consists of one machinery. It was estimated that the useful life of the machinery as 10 years at the time of acquisition of the machinery. However, following a review of the useful life of the machinery on 01<sup>st</sup> April 2020, it was revealed that the remaining useful life of the machinery as 8 years as at 01<sup>st</sup> April 2020. **Sanka Ltd.** depreciates the machinery on the straight line basis at cost.

**You are required to:**

**Calculate** the depreciation charge of the machinery for the year ended 31<sup>st</sup> March 2021 as per LKAS-08: Accounting Policies, Changes in Accounting estimates and errors. (04 marks)  
(Total 10 marks)

## Question 07

- (a) **Explain** the term “a Qualifying Asset” as per LKAS 23 - Borrowing Cost with two(02) examples for qualifying assets. (04 marks)
- (b) On 01<sup>st</sup> July 2020, **Salma Ltd.** started construction of a new factory building. For this purpose, the company issued 100,000 debentures at Rs.100/- each on 01<sup>st</sup> April 2020. Interest is to be paid annually at the rate of 10% per annum on debentures.

In addition, on 01<sup>st</sup> April 2020, the company obtained a long term loan of Rs.5 million for construction of this building from **ABC bank**, at the interest rate of 12% per annum which is payable in 10 years with one-year grace period for repayment of capital.

During the year ended 31<sup>st</sup> March 2021, the company has utilized Rs.12,000,000/- for the construction of the building and the construction was in progress as at 31<sup>st</sup> March 2021. Balance amount from loan and debentures have been invested temporary on a fixed deposit and earned an interest of Rs.160,000/- during the year.

**You are required to:**

**Calculate** the borrowing cost to be capitalized under the Work-in-Progress (WIP) of the building as at 31<sup>st</sup> March 2021. (06 marks)

(Total 10 marks)

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*End of Section B*

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## SECTION C

(Total 50 marks)

### Question 08

The following trial balance was extracted from the books of **Nazeen Ltd.** as at 31<sup>st</sup> March 2021:

<b>Nazeen Ltd.</b>		
<b>Trial Balance as at 31<sup>st</sup> March 2021</b>		<i>(Rs.'000)</i>
	<b>Dr.</b>	<b>Cr.</b>
<b>Property, Plant and Equipment at Cost:</b>		
Land & Building (Cost of land - Rs.25 million)	37,500	
Plant and Machinery	6,250	
Motor vehicle	9,600	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2020:</b>		
Building		7,500
Plant & Machinery		3,750
Motor vehicle		5,000
Inventory as at 31 <sup>st</sup> March 2021	8,920	
Trade Receivables	14,180	
Advance Account	2,806	
Pre-payments	1,200	
Cash in Hand and at Bank	805	
Bank Loan		3,600
Employee Benefits (Provision for Gratuity)		1,250
Trade Payables		6,800
Income Tax Payable as at 01 <sup>st</sup> April 2020		720
Allowance for Trade Receivables		3,000
Cash Received on disposal of Motor vehicle		4,500
Cost of Sales / Sales	67,760	100,400
Directors' Fees	1,200	
Audit Fees	270	
Other Administration Expenses	10,240	
Distribution Expenses	7,210	
Interest Expenses	718	
Income Tax paid	2,000	
Interim Dividend Paid	1,000	
Stated Capital (700,000 Ordinary Shares)		7,000
Retained Earnings as at 01 <sup>st</sup> April 2020		28,139
	<b>171,659</b>	<b>171,659</b>

The following additional information is also provided:

- (1) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

Buildings	:	50 years
Plant and Machinery	:	05 years
Motor vehicles	:	05 years

- (2) Motor vehicle recorded in the ledger for Rs.9.6 million at cost had been disposed for Rs.4.5 million on 31<sup>st</sup> December 2020, but it is not updated in the ledger accounts yet except the entry on cash received on disposal. The sale proceeds of this vehicle is recorded in the cash received on disposal of motor vehicle account.
- (3) A new motor vehicle was purchased during the year under a finance lease on 01<sup>st</sup> April 2020. Fair value of the leased motor vehicle was Rs. 5 million and the lease term is 5 years. Annual lease Installment of Rs.806,000/- should be settled on 31<sup>st</sup> March each year. Implicit interest rate is 11% per annum. The ownership of the Motor vehicle is transferred to **Nazeen Ltd.** at the end of lease term. Down payment made on the motor vehicle of Rs.2 million and 01<sup>st</sup> installment of Rs.806,000/- have been recorded in the advance account. Other than that no entries were made in the books of account in this regard.
- (4) Pre-payment account consists of the rent paid in advance for the calendar year 2021. Monthly rent is Rs.100,000/-.
- (5) The following expenses have not been accrued / provided as at 31<sup>st</sup> March 2021 in the books of accounts:
- Internet and telephone bills for the month of March 2021 - Rs.55,000/-
  - Gratuity Provision for the year of Rs.500,000/-
- (6) ½ of the bank loan balance as at 31<sup>st</sup> March 2021 should be settled in the year 2021/22.
- (7) As at 31<sup>st</sup> March 2021, there was a customer who had an outstanding balance of Rs.2.5 million was overdue for more than 360 days. This amount was already provided in the accounts. However, an amount of Rs.2.2 million was settled by the customer in April 2021 and the balance was decided to write-off as bad debts during the year ended 31<sup>st</sup> March 2021.
- (8) Tax liability for the year of assessment 2020/21 was estimated as Rs.1.5 million.
- (9) The board of directors of the company approved the financial statements for issue on 30<sup>th</sup> May 2021.

**You are required to:**

**Prepare** the following, for **Nazeen Ltd.** in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2021. (10 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2021. (09 marks)
- (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2021. (02 marks)
- (d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2021. (04 marks)

(Total 25 marks)

## Question 09

The following statements of Comprehensive Income were extracted from **Sindu Ltd. (SDL)** and **Bindu Ltd. (BDL)** for the year ended 31<sup>st</sup> March 2021:

	<b>SDL</b>	<b>BDL</b>
Sales	57,400	13,602
Cost of Sales	(36,200)	(7,248)
<b>Gross Profit</b>	<b>21,200</b>	<b>6,354</b>
<b>Other Income:</b>		
Consultancy Service Income	300	-
Other Income	1,200	1,000
<b>Expenses:</b>		
Distribution Expenses	(7,200)	(1,170)
Administration Expenses	(4,680)	(2,580)
Finance Expenses	(690)	(210)
<b>Profit Before Tax</b>	<b>10,130</b>	<b>3,394</b>
Income Tax	(180)	(30)
<b>Profit for the Year</b>	<b>9,950</b>	<b>3,364</b>

The following additional information is also provided:

- (1) **SDL** acquired 80% of the ordinary share capital of **BDL** on 01<sup>st</sup> April 2020 for Rs.42 million. On that day, the fair value of the identifiable net assets of **BDL** was Rs.45 million, and fair value of the non-controlling interest was Rs.6 million.
- (2) During the year, **BDL** has sold goods costing of Rs.8 million to **SDL** at a profit margin of 25% on cost. As at 31<sup>st</sup> March 2021, inventory worth of Rs.4 million remained unsold at the store of **SDL**.
- (3) During the year, **SDL** has provided consultancy services to **BDL** at Rs.25,000/- per month.
- (4) On 01<sup>st</sup> April 2020, **BDL** sold a machinery to **SDL** for Rs.4,000,000/-, which had a carrying value of Rs.3,000,000/- in **BDL's** books on that date. The remaining useful life of the machinery as at 01<sup>st</sup> April 2020 was 5 years.

**You are required to:**

- (a) **Calculate** the goodwill arising from the consolidation. (04 marks)
- (b) **Prepare** the Consolidated Comprehensive Income Statement for the year ended 31<sup>st</sup> March 2021. (09 marks)  
(Total 13 marks)

## Question 10

The following Financial Statements have been extracted from the books of **Alex PLC** for the years 2020/21 and 2019/20:

**Alex PLC**  
**Statement of Comprehensive Income**  
**For the year ended 31<sup>st</sup> March 2021**

	Rs.'000
Sales	378,500
Cost of Sales	(265,900)
<b>Gross Profit</b>	<b>112,600</b>
Other Income	14,650
	127,250
<b>Expenses:</b>	
Distribution Expenses	(24,780)
Administration Expenses	(49,540)
Finance Expenses - Interest on Loans	(8,200)
<b>Profit Before Tax</b>	<b>44,730</b>
Income Tax	(950)
<b>Profit for the Year</b>	<b>43,780</b>

**Alex PLC**  
**Statements of Financial Position**

(Rs.'000)

	As at 31 <sup>st</sup> March 2021		As at 31 <sup>st</sup> March 2020	
<b>Assets:</b>				
<b>Non-Current Assets:</b>				
Property, Plant and Equipment at carrying value		169,800		100,500
<b>Current Assets:</b>				
Inventory	29,000		32,500	
Trade Receivables	39,000		38,200	
Other Receivables	2,500		3,000	
Cash and Cash Equivalent	4,200	74,700	18,500	92,200
<b>Total Assets:</b>		<b>244,500</b>		<b>192,700</b>
<b>Equity and Liabilities:</b>				
<b>Equity:</b>				
Stated Capital	90,000		90,000	
Retained Earnings	78,000	168,000	39,500	129,500
<b>Non-Current Liabilities:</b>				
Long Term Loan	18,000		12,000	
Employee Benefits	16,500	34,500	20,500	32,500
<b>Current Liabilities:</b>				
Trade Payables	34,000		29,600	
Income Tax Payable	500		400	
Accrued Expenses	7,500	42,000	700	30,700
<b>Total Equity and Liabilities</b>		<b>244,500</b>		<b>192,700</b>

The following industry averages for the year 2020/21 have also been identified:

Gross Profit Ratio	35%
Net Profit Ratio	12%
Current Ratio	2.5 : 1
Debtors' Collection Period	45 Days
Inventory Residence Period	40 Days
Interest Cover	5 Times

Assume that all sales are made on credit basis.

**You are required to:**

(a) **Compute** the following ratios based on the above information for the financial year ended / as at 31<sup>st</sup> March 2021:

(i) Gross Profit Ratio.

(ii) Net Profit Ratio.

(iii) Current Ratio.

(iv) Debtors' Collection Period.

(v) Inventory Residence Period.

(vi) Interest Cover.

(06 marks)

(b) **Analyze** the performance of **Alex PLC** for the year ended / as at 31<sup>st</sup> March 2021 considering the industry averages identified above.

(06 marks)

(Total 12 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.