

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2023

(301) FINANCIAL REPORTING

25-02-2023
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

As per the Conceptual Framework for Financial Reporting, the objective of the general purpose financial statements is to provide useful financial information to users in making decisions regarding provision of resources to the entity.

You are required to:

(a) (i) **Identify** two(02) different users who use financial information of an entity. (01 mark)

(ii) **State** two(02) examples for economic decision taken by users of an entity. (02 marks)

(b) **Explain** what is meant by reporting entity as per the Conceptual Framework for Financial Reporting. (02 marks)

(Total 05 marks)

Question 02

Sustainability reporting is known as the triple bottom line reporting and it can be used in reporting on Corporate Social Responsibility (CSR).

You are required to:

(a) **Identify** two(02) purposes of sustainability reporting. (02 marks)

(b) **Explain** what a “sustainability report” is. (03 marks)

(Total 05 marks)

Question 03

Manel PLC acquired 60% of the ordinary share capital of **Olu PLC** on 01st April 2021 for Rs.90 million. On that day, the fair value of identifiable net assets of **Olu PLC** was Rs.105 million and fair value of the non-controlling interest was Rs.30 million.

You are required to:

- (a) **Calculate** the goodwill on acquisition of **Olu PLC**. (03 marks)
- (b) **Explain** the term “Subsidiary Company”. (02 marks)
- (Total 05 marks)

Question 04

It is mandatory for entities which are incorporated under the Companies Act No. 07 of 2007 to prepare financial statements and submit them to relevant regulatory bodies.

You are required to:

Explain three(03) regulatory requirements pertaining to the preparation and presentation of financial statements of a company as per the Companies Act No. 07 of 2007. (05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

(A) The following information was extracted from **Sigma Exports Ltd.’s** books of accounts for the year ended 31st March 2022:

- (1) Taxable profit for the year ended 31st March 2022 was Rs.800,000/-.
- (2) Differed tax asset as at 01st April 2021 was Rs.150,000/-.
- (3) Carrying value and tax base of non-current assets are as follows:

Assets	Carrying Value (Accounting Written Down Value) as at 31 st March 2022 (Rs.)	Tax Base (Rs.)
Machinery	10,000,000	9,000,000
Motor Vehicles	6,000,000	5,500,000

- (4) Provision for Gratuity as at 31st March 2022 was Rs.500,000/-.
- (5) Corporate Tax Rate is 14%.

You are required to:

Compute the following:

- (a) Deferred tax asset / liability as at 31st March 2022. (03 marks)
- (b) Tax expenses for the year ended 31st March 2022. (02 marks)

(B) **ABC (Pvt) Ltd.** is in the business of selling computer accessories. The following transactions/events were occurred after the reporting period, but before the authorization of financial statements for the year ended 31st March 2022.

- (1) The board of directors has approved a final dividend of Rs.6/- per share on profit for the year to ordinary shareholders on 24th April 2022 and there were 100,000 shares in issue.
- (2) A litigation against the company had been lodged by three (3) former employees in the labour tribunal two years ago. The decision was declared on 26th April 2022 to make a compensation worth of Rs. 2.5 million for each employee.
- (3) Due to the arrival of modern version of laptops, existing laptops were sold with a discount of 50% for Rs.55,000/- per laptop. The cost per laptop was Rs.80,000/-. There were 100 laptops remaining as at 31st March 2022. All these laptops were sold during the first week of April 2022.
- (4) On 09th April 2022, there was a fire due to an electrical shock in Avissawella warehouse. Cost of stock loss was Rs. 2.8 million.
- (5) A fraud of Rs.75,000/- relating to cash collection of the year was discovered on 5th April 2022.

You are required to:

Explain how each of the above instances would be recognized in the financial statements for the year ended 31st March 2022 as per LKAS 10-Events after the reporting period.

(05 marks)

(Total 10 marks)

Question 06

(A) **ABC Leasing Ltd.** sold a machinery to **XYZ Ltd** under a finance lease agreement for a 3 year period on 01st April 2021. Fair value of the machinery was Rs.2,400,000/-. Annual lease installment was Rs.1,205,375/- and it should be paid on 31st March each year. Implied interest rate was 24% per annum. **XYZ Ltd** has paid its 1st lease installment on 31st March 2022.

You are required to:

Prepare the following ledger accounts for the year ended/ as at 31st March 2022 of **ABC Leasing Ltd.** (lessor):

- (a) Lease Receivable Account (04 marks)
- (b) Unearned Finance Income Account (02 marks)

(B) Carrying value of a motor vehicle as at 31st March 2022 of **Sam Ltd** was Rs.3,600,000/- and this motor vehicle was purchased for Rs.4,800,000/- on 1st April 2019. The company carried out an impairment test on 31st March 2022 and it was found that the fair value less cost of disposal of the motor vehicle was Rs.2.8 million and the value in use was Rs.3 million.

You are required to:

Calculate the impairment loss of the motor vehicle as per LKAS 36.

(04 marks)

(Total 10 marks)

Question 07

The Statements of Financial Position of **Chula Trading Ltd.** as at 31st March 2022 and 31st March 2021 are given below:

As at 31 st March	2022	2021
Non-Current Assets:		
Property, Plant and Equipment	7,500	6,500
Accumulated Depreciation	(1,200)	(1,000)
Carrying Value	6,300	5,500
Current Assets:		
Inventories	1,100	1,500
Trade and Other Receivables	1,380	2,020
Cash and Cash Equivalents	1,110	700
	3,590	4,220
Total Assets	9,890	9,720
Equity and Liabilities:		
Equity:		
Stated Capital	6,500	6,500
Retained Earnings	750	600
	7,250	7,100
Non-Current Liabilities:		
Long Term Loans	1,000	1,200
Employee Benefits (Provision for Gratuity)	480	420
	1,480	1,620
Current Liabilities:		
Trade Payables	800	650
Short-Term Loans	120	120
Interest Payable	150	100
Income Tax Payable	90	130
	1,160	1,000
Total Equity and Liabilities	9,890	9,720

The following additional information is also provided:

- (1) Income tax expenses for the year ended 31st March 2022 was Rs.110,000/-.
- (2) A machinery was disposed for Rs.1,500,000/- on 01st April 2021. The cost of the machinery was Rs.1,600,000/- and accumulated depreciation as at 01st April 2021 was Rs.350,000/-. In addition to the this transaction, the difference in Property, plant and equipment represents an acquisition of a land during the year ended 31st March 2022.
- (3) Interest expense on loans for the year was Rs.125,000/-.
- (4) During the year, the company paid interim dividend of Rs.300,000/- to its ordinary shareholders.
- (5) Gratuity provision for the year was Rs.100,000/-

You are required to:

Prepare the Statement of Cash Flows for **Chula Trading Ltd.** for the year ended 31st March 2022 using indirect method.

(10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

The following trial balance was extracted from the books of **Nido Lanka Ltd.** as at 31st March 2022:

Nido Lanka Ltd.		<i>(Rs.'000)</i>
Trial Balance as at 31st March 2022		
	Dr.	Cr.
Stated Capital (12,000,000 Ordinary Shares)		120,000
Revaluation Reserve		5,000
Retained Earnings as at 01 st April 2021		10,000
Property, Plant and Equipment at Cost / Revalued Amount:		
Land & Building (Land at revalued amount - Rs.50 million)	80,000	
Machinery	20,000	
Motor Vehicles	10,000	
Accumulated Depreciation as at 01st April 2021:		
Building		12,000
Machinery		8,000
Motor Vehicles		4,000
Capital Work-In-Progress	14,000	
Inventory as at 31 st March 2022 at Cost	35,000	
Trade Receivables / Trade Payables	30,000	34,000
Cash in Hand and at Bank	26,000	
Allowance for Trade Receivables as at 01 st April 2021		1,500
Insurance Expenses	12,000	
Cost of Sales / Sales	135,000	239,500
Other Income		9,000
Income Tax Paid	10,500	
Income Tax Payable as at 01 st April 2021		8,500
Other Administration Expenses	32,000	
Distribution Expenses	34,000	
Finance Expenses	23,000	
Long Term Loan		10,000
	461,500	461,500

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 are as follows:

Building	:	50 years
Machinery	:	10 years (<i>at initial recognition</i>)
Motor vehicles	:	05 years

- (2) Machinery account consists of one machinery which was purchased on 01st April 2018. 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 01st April 2021, it was revealed that the remaining useful life of the machinery is 4 years as at 01st April 2021.
- (3) A motor vehicle which was purchased on 01st April 2019 at Rs.6 million was sold on 30th September 2021 for Rs.5.4 million and was credited to sales account as a sale of the year. Only the sales proceed received has been recorded in the books of accounts with respect to disposal of the motor vehicle.
- (4) On 01st April 2021, the company obtained a bank loan of Rs. 10 million at the interest rate of 10% per annum to construct its showroom. Construction of the building was started on 01st May 2021 and it was in progress as at 31st March 2022. Cost incurred during the year on construction was recorded under the Capital Work-in-Progress account and the interest on loan for the year was charged to Finance Expenses Account. The bank has given two year grace period to start the repayment of capital and the bank loan is required to be fully paid in 36 monthly installments.
- (5) One of its customers who owed Rs.500,000/- to the business was declared bankrupt on 20th May 2022, thus the amount due became irrecoverable. This was already provided as allowance for receivables as at 31st March 2021. Further, the management of the company decided to maintain the allowance for trade receivables at 10% of the remaining balance as at 31st March 2022.
- (6) The total income tax liability for the year 2020/21 was Rs.8,500,000/- which was paid during the year ended 31st March 2022 and the amount paid has been charged to the income tax paid account. The total income tax liability for the year of assessment 2021/22 is estimated to be Rs.9,750,000/-
- (7) Electricity and water bill for the month of March 2022 were Rs.75,000/- and Rs.35,000/- respectively and were paid in May 2022. These have not been recorded in the books of accounts for the financial year 2021/22.
- (8) Insurance premium paid for the entire calendar year of 2022 was recorded under Insurance Expense Account.
- (9) The board of directors of the company approved the financial statements for issue on 05th June 2022.

You are required to:

Prepare the following, for **Nido Lanka 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 2022. (10 marks)
 - (b) Statement of Financial Position as at 31st March 2022. (09 marks)
 - (c) Statement of Changes in Equity for the year ended 31st March 2022. (02 marks)
 - (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2022. (04 marks)
- (Total 25 marks)

Question 09

- (A) Extract of Statements of Comprehensive Income of **Lanka Bio PLC** for the year ended 31st March 2022 and 31st March 2021 and extract of Statements of Financial Position as at 31st March 2022 and 31st March 2021 are as follows:

Lanka Bio PLC
Extract from the Statements of Income (Rs.'000)

For the Year Ended 31 st March	2022	2021
Sales	568,900	402,850
Cost of Sales	(315,240)	(282,450)
Gross Profit	253,660	120,400
Interest Expense	(6,280)	(5,840)
Income Tax	(3,500)	(4,000)
Profit After Tax	26,750	18,200

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

As at 31 st March	2022	2021
Current Assets	182,400	139,500
Current Liabilities	17,250	14,500
Trade Receivables	121,500	109,500
Inventory	90,000	84,500
Shareholders' Equity	54,010	24,760
No. of shares in issue ('000)	7,500	7,500

Assume that credit sales consist of 75% on total sales. Further, 85% of cost of sales consists of purchases.

You are required to:

Compute the following ratios based on the above information for the financial year ended / as at 31st March 2022 of **Lanka Bio PLC**:

- (a) Gross Profit Ratio.
- (b) Quick Assets Ratio.
- (c) Inventory Residence Days.
- (d) Debtors' Collection Days.
- (e) Earnings Per Share.

(05 marks)

(B) Following are the industry averages of the sector where **Lanka Bio PLC** operates in:

Gross Profit Ratio	44%
Quick Assets Ratio	1.1 : 1
Inventory Residence Period	60 days
Debtors' Collection Period	45 days
Earnings Per Share	Rs.4.50

You are required to:

Prepare a summary report comparing the above ratios of **Lanka Bio PLC** with the industry averages while explaining the possible reasons for the variances. (10 marks)

(Total 15 marks)

Question 10

Ganga PLC acquired 80% of the ordinary share capital of **Yamuna PLC** on 01st April 2021 for Rs.90 million. The goodwill arising from the acquisition was Rs.5 million.

The Statements of Comprehensive income of **Ganga PLC** and **Yamuna PLC** for the year ended 31st March 2022 were as follows:

Statements of Comprehensive Income for the year ended 31st March 2022

(Rs.'000)

	Ganga PLC	Yamuna PLC
Sales	435,000	245,000
Cost of Sales	(269,700)	(147,000)
Gross Profit	165,300	98,000
Other Income:		
Rent Income	1,200	6,000
Dividend Income	600	-
Profit on Disposal of Property, Plant and Equipment	2,400	1,320
Expenses:		
Distribution Expenses	(27,500)	(16,000)
Administration Expenses	(56,000)	(36,500)
Finance Expenses	(11,500)	(16,500)
Profit Before Tax	74,500	36,320
Income Tax	(12,500)	(8,400)
Profit for the Year	62,000	27,920
Other Comprehensive Income	1,200	(1,300)
Total Comprehensive Income	63,200	26,620

The following additional information is also provided:

- (1) During the year, **Yamuna PLC** has sold goods costing of Rs.50 million to **Ganga PLC** at a profit margin of 20% on cost. As at 31st March 2022, inventory worth of Rs.30 million remained unsold at the store of **Ganga PLC** which was purchased from **Yamuna PLC**.
- (2) During the year, **Ganga PLC** has paid annual rent of Rs.1,000,000/- to **Yamuna PLC** for using of their warehouse and this has been recorded as other income of **Yamuna PLC's** books of accounts.
- (3) Dividend income of **Ganga PLC** includes only the dividend received from **Yamuna PLC**.
- (4) On 01st April 2021, **Ganga PLC** sold a machinery to **Yamuna PLC** for Rs.6,000,000/-, which had a carrying value of Rs.5,000,000/- in the books of **Ganga PLC** on that date. The remaining useful life of the machinery as at 01st April 2021 was 5 years. Profit on disposal of machinery has been included in other income of **Ganga PLC**.
- (5) Impairment Test was carried out on 31st March 2022 and it was revealed that Goodwill on acquisition of the company has been impaired by Rs.2 million.

You are required to:

Prepare the Consolidated Comprehensive Income Statement for the year ended 31st March 2022. (10 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.