



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2025

(301) FINANCIAL REPORTING

26-07-2025
Morning
[08.45 – 12.00]

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

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

Writing : 03 hours

No. of Pages : 11

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

The qualitative characteristics of useful financial information apply to financial information provided in Financial Statements, as well as financial information provided in other ways.

You are required to:

(a) **Explain** the two(02) fundamental qualitative characteristics as per Conceptual Framework for Financial Reporting. (03 marks)

(b) **State** two(02) enhancing qualitative characteristics that enhance the usefulness of financial information. (02 marks)

(Total 05 marks)

Question 02

An integrated report includes eight content elements that are fundamentally linked to each other and are not mutually exclusive.

You are required to:

State five(05) key content elements of an integrated report.

(05 marks)

Question 03

Aruni PLC acquired 75% of ordinary share capital of **Sanduni PLC** for Rs.15,000,000/- on 01st April 2024. At the date of acquisition, the book value of net assets of **Sanduni PLC** was as follows:

	Rs. ('000)
Stated Capital	10,000
Retained Earnings	4,500

At the date of acquisition, the fair value of net assets of **Sanduni PLC** was Rs.16,000,000/-. The difference between carrying value and fair value was due to the revaluation of its lands. On that date, the fair value of non-controlling interest was Rs.4,500,000/-.

You are required to:

Calculate the goodwill arose from the acquisition.

(05 marks)

Question 04

- (a) Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services or for rental to others or for administration purposes.

You are required to:

State two(02) criteria to be met for recognition of the cost of an item of Property, Plant and Equipment as an asset.

(02 marks)

- (b) **Silva (Pvt) Ltd.** which is considered as a Small and Medium Size Enterprise (SME), commenced its operations in 2020. **Silva**, the Managing director of the company has approached a financial consultant to clarify the following matters:

- (1) The company anticipates to change the valuation method of inventory to First-In-First-Out (FIFO) method from Weighted Average Cost Method (WAC).
- (2) The value of the inventory at cost was Rs.250,000/- while Net Realizable Value (NRV) was Rs.275,000/-.

You are required to:

Explain how each of the above matters could be considered in the books of accounts of **Silva (Pvt) Ltd.** in compliance with SLFRS for SMEs.

(03 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

The Statements of Financial Position of **Chemiro (Pvt) Ltd.** as at 31st March 2025 and 31st March 2024 are given below:

Chemiro (Pvt) Ltd.		
Statements of Financial Position		<i>(Rs.'000)</i>
As at 31st March	2025	2024
Non-Current Assets:		
Property, Plant and Equipment	220,400	156,930
Accumulated Depreciation	(129,100)	(101,460)
Carrying Value	91,300	55,470
Current Assets:		
Inventories	106,420	157,439
Trade and Other Receivables	110,426	97,830
Cash and Cash Equivalents	15,400	8,900
	232,246	264,169
Total Assets	323,546	319,639
Equity and Liabilities:		
Equity:		
Stated Capital (12,800,000 ordinary shares)	128,000	128,000
Retained Earnings	125,596	114,939
	253,596	242,939
Non-Current Liabilities:		
Bank Loans	30,400	31,400
Employee Benefits (Provision for Gratuity)	21,480	26,700
	51,880	58,100
Current Liabilities:		
Trade Payables	5,400	420
Bank Loans	2,000	11,500
Loan Interest Payable	7,430	1,040
Income Tax Payable	3,240	5,640
	18,070	18,600
Total Equity and Liabilities	323,546	319,639

The following additional information is also provided:

- (1) Income tax expense for the year ended 31st March 2025 was Rs.3,400,000/-. Profit before tax and interest of the company was as Rs.23,437,000/- and interim dividends were paid to ordinary shareholders on 31st December 2024.

- (2) A machinery was disposed for Rs. 9.5 million on 01st October 2024. The cost of the machinery was Rs. 15 million while accumulated depreciation was Rs. 7.5 million as at 01st April 2024. Machinery are depreciated on the straight-line basis at cost over 10 years. A new machinery has been purchased on 31st March 2025 as a replacement of disposed machinery and it was capitalized on the same date.
- (3) Interest expense for the year was Rs.8,100,000/- and the company has obtained a new bank loan of Rs.10,000,000/- during the year.
- (4) Provision for gratuity for the year was Rs.1,750,000/-.

You are required to:

Prepare the Statement of Cash Flows of **Chemiro (Pvt) Ltd.** for the year ended 31st March 2025 using indirect method. (10 marks)

Question 06

- (a) The following information is extracted from **ABC Ltd.** a company engaged in selling air conditioners and providing maintenance services.

ABC Ltd. entered into an agreement on 01st April 2024 for a 2 year period with **Ranga Ltd.** to sell an air conditioner with maintenance services at a monthly charge of Rs.22,000/-. If this sells separately, the market price of an air conditioner is Rs.360,000/- and monthly maintenance service is Rs.8,000/-.

You are required to:

Identify the revenue for the years ended 31st March 2025 and 31st March 2026 on the above transaction as per SLFRS 15 – Revenue from Contracts with Customers. (04 marks)

- (b) On 01st April 2024, **Lak Ltd.** (Lessee) entered into a lease agreement with **XYZ Finance Ltd.** (lessor) to purchase a new machinery. You are given the following information with reference to the lease agreement:

Cost of the Machinery	Rs.7,000,000/-
Down Payment Made at the Commencement of the Lease	Rs.1,000,000/-
Lease Term	4 Years
Implicit Interest Rate	14% per annum
Annual Lease Installment	Rs.2,059,229/-

The first annual installment of the lease was paid on 31st March 2025 and as per the lease agreement, the ownership of the machinery will be transferred to **Lak Ltd.** at the end of the lease term. The company depreciates the right to use asset on the straight-line basis over the lease term.

You are required to:

Prepare the extracts of the Statement of Comprehensive Income for the year ended 31st March 2025 and Statement of Financial Position as at 31st March 2025 of **Lak Ltd.** regarding the above lease transaction. (06 marks)

(Total 10 marks)

Question 07

(A) Financial Statements of **Salma Ltd.** for the year ended 31st March 2025 were authorized to issue on 30th June 2025. Subsequently, it was noted by Finance Manager that the following events which were not considered in preparing financial statements were occurred after the reporting period:

- (1) It was revealed on 15th June 2025 that there had been a fraud in inventories taken place, which was committed by Financial Accountant and Stores Manager. It was estimated that a loss of Rs.30 million was incurred due to this incidence and the inventory value as at 31st March 2025 has been overstated by this amount due to this fraud.
- (2) The value of short-term investments declined by Rs.500,000/- on 10th April 2025 due to the market collapse.
- (3) The Board of Directors approved a final dividend of Rs.2/- per share to ordinary shareholders on profit for the year ended 31st March 2025 at the meeting held on 10th April 2025.

You are required to:

Explain how each of the above instances would be recognized in the financial statements for the year ended 31st March 2025 of **Salma Ltd.** as per LKAS 10-Events after the Reporting Period. (05 marks)

(B) The following information was extracted from books of **Beta Ltd.** for the year ended 31st March 2025:

	Rs. ('000)
Profit before tax for the year ended 31 st March 2025	12,400
Taxable Profit for the year ended 31 st March 2025	20,000
Deferred Tax Liability as at 01 st April 2024	3,500

Details of Property, Plant and Equipment are as follows:

(Rs.'000)

Assets	Cost	Carrying Value (Accounting Written Down Value) As at 31 st March 2025	Cumulative Depreciation as per Tax Purpose (Capital Allowance) As at 31 st March 2025
Land	10,000	10,000	-
Buildings	54,000	38,500	22,500

Corporate Income Tax Rate is 30%.

You are required to:

- (a) **Calculate** the deferred tax asset / liability as at 31st March 2025. (03 marks)
- (b) **Calculate** the tax expense for the year ended 31st March 2025. (02 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

The following trial balance was extracted from the books of accounts of **Zigma PLC** as at 31st March 2025:

Zigma PLC		
Trial Balance as at 31st March 2025		
	<i>(Rs.'000)</i>	
	Dr.	Cr.
Stated Capital (50,000,000 Ordinary Shares)		50,000
Retained Earnings as at 01 st April 2024		8,400
Revaluation Surplus		3,000
Property, Plant and Equipment at Cost:		
Land at Revalued Amount (Cost – Rs.25,000,000/-)	28,000	
Buildings	23,000	
Motor vehicles	14,000	
Accumulated Depreciation as at 01st April 2024:		
Buildings		13,500
Motor vehicles		6,500
Assets Disposal Account		5,000
Capital Work-In-Progress	14,550	
Inventory as at 31 st March 2025 at Cost	63,000	
Trade Receivables / Trade Payables	41,000	20,725
Cash in Hand and at Banks	55,525	
Bank Loan		6,000
Income Tax Paid	6,500	
Cost of Sales / Sales	151,200	354,000
Other Income		8,100
Income Tax Payable as at 01 st April 2024		4,500
Administration Expenses	39,750	
Distribution Expenses	28,700	
Finance Expenses	14,500	
	479,725	479,725

The following additional information is also provided:

- (1) On 01st April 2024, the company sold one of its motor vehicles for Rs. 5 million. The cost of this vehicle was Rs. 6 million and accumulated depreciation at the date of disposal was Rs. 1.5 million. The cash received on disposal of motor vehicle has been credited to Assets Disposal Account. Other than recording cash received, no any entries have been made in the books of accounts.

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

Buildings : 50 years

Motor vehicles : 05 years

- (3) On 01st April 2024, the company obtained a bank loan of Rs.6,000,000/- at an interest of 10% per annum for construction of a building. Construction of the building was started on 01st April 2024 and it was completed on 31st December 2024. This building has been used for operations from 01st January 2025. Cost incurred on construction was recorded under the capital working progress account and loan interest for the year was recorded under finance expenses. Capital repayments on this loan were started from 01st April 2025 and $\frac{1}{4}$ of the loan should be settled in the next financial year (2025/26).
- (4) As per the company's policy, the land is revalued in every 2 years. Accordingly the land was valued again on 31st March 2025, to Rs.30,000,000/-. But, this was not recorded in the books of accounts.
- (5) One of its customers who owed Rs.1,500,000/- to the business was declared bankrupt on 25th May 2025. Now it has been confirmed that this is irrecoverable and has to be written-off as a bad debt. No provision has been made in the books of accounts in this regard. Further, it was decided to maintain the allowance for receivables at 10% of the remaining trade receivables' balance as at 31st March 2025.
- (6) Income tax liability of Rs.4,500,000/- for the year of assessment 2023/2024 which was paid during the year of assessment 2024/25, has been recorded under the Income Tax Paid Account. The income tax liability for the year of assessment 2024/2025 is estimated as Rs.9,750,000/-.
- (7) On 15th March 2025, one of the ex-employees of the company has filed a case against the company to claim Rs.2,000,000/- on dismissal from the company due to a fraud. Due to non-availability of evidences, the company's lawyers confirmed that there is a high probability to pay the full claim as a compensation. No provision was made in this regard.
- (8) Accrued audit fee for the year 2024/25 of Rs.150,000/- is to be made in the books of accounts.
- (9) The board of directors of the company approved the financial statements for issue on 31st May 2025.

You are required to:

Prepare the following, for **Zigma PLC** 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 2025. (10 marks)
- (b) Statement of Financial Position as at 31st March 2025. (07 marks)
- (c) Statement of Changes in Equity for the year ended 31st March 2025. (03 marks)
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2025. (05 marks)
- (Total 25 marks)

Question 09

Vikash PLC acquired 90% of the ordinary share capital of **Prakash PLC** on 01st April 2024 for Rs.105 million. The goodwill arising from the acquisition was Rs. 17 million.

The Statements of Comprehensive income of **Vikash PLC** and **Prakash PLC** for the year ended 31st March 2025 were as follows:

Statements of Comprehensive Income for the year ended 31st March 2025 (Rs.'000)

	Vikash PLC	Prakash PLC
Sales	1,035,200	624,000
Cost of Sales	(703,900)	(443,000)
Gross Profit	331,300	181,000
Other Income:		
Other Income	3,600	900
Profit on Disposal of Assets	200	620
Expenses:		
Distribution Expenses	(64,000)	(34,000)
Administration Expenses	(116,000)	(67,000)
Finance Expenses	(18,500)	(23,400)
Profit Before Tax	136,600	58,120
Income Tax	(40,980)	(16,564)
Profit for the Year	95,620	41,556
Other Comprehensive Income	355	-
Total Comprehensive Income	95,975	41,556

The following additional information is also provided:

- (1) During the year, **Vikash PLC** has sold goods costing of Rs.60,000,000/- to **Prakash PLC** at a profit margin of 25% on cost. As at 31st March 2025, inventory worth of Rs.5,000,000/- remained unsold at the store of **Prakash PLC** which was purchased from **Vikash PLC**.
- (2) Other income of **Vikash PLC** includes management fee of Rs.3,000,000/- paid by **Prakash PLC** on consultancy services provided to **Prakash PLC**.
- (3) **Prakash PLC** has obtained a loan of Rs.2,000,000/- on 01st October 2024 from **Vikash PLC** at a rate of 10% per annum. The Interest for the year 2024/25 has been fully paid by **Prakash PLC** to **Vikash PLC**.
- (4) On 01st April 2024, **Prakash PLC** sold a machinery to **Vikash PLC** at a price of Rs.10,000,000/-, which had a carrying value of Rs.9,500,000/- in the books of **Prakash PLC** on that date. The useful life of this machinery as at 01st April 2024 was 5 years.

You are required to:

Prepare the Consolidated Comprehensive Income Statement for the year ended 31st March 2025. (10 marks)

Question 10

Extract of Statements of Comprehensive Income of **Rex PLC** for the years ended 31st March 2025 and 31st March 2024 and the Statements of Financial Position as at 31st March 2025 and 31st March 2024 are as follows:

Rex PLC
Extract from the Statements of Income *(Rs.'000)*

For the years ended 31st March	2025	2024
Sales	410,000	320,000
Cost of Sales	(264,000)	(212,500)
Gross Profit	146,000	107,500
Profit Before Interest and Tax	71,600	37,600
Interest Expense	(9,737)	(9,100)
Profit Before Tax	61,863	28,500
Profit After Tax	42,884	20,093

Rex PLC
Statements of Financial Position *(Rs.'000)*

As at 31st March	2025	2024
Assets:		
Non-Current Assets:		
Property, Plant and Equipment – at Carrying Value	320,000	280,000
Current Assets:		
Inventories	82,000	75,000
Trade Receivables	54,000	42,000
Cash and Cash Equivalents	12,000	9,000
	148,000	126,000
Total Assets	468,000	406,000
Equity:		
Stated Capital (20 million Ordinary Shares)	200,000	200,000
Retained Earnings	79,400	55,500
Long Term Liabilities:		
Long Term Loan	110,000	80,000
Current Liabilities:		
Trade Payables	61,500	55,000
Income Tax Payable	9,600	6,500
Accrued Expenses	7,500	9,000
	78,600	70,500
Total Equity and Liabilities	468,000	406,000

Consider the following additional information:

- (1) Trade receivables and inventory as at 31st March 2023 were Rs.32,000,000/- and Rs.20,000,000/- respectively.
- (2) Assume that all sales and purchases are made on credit basis.

You are required to:

- (a) **Calculate** the following ratios of **Rex PLC** based on the above information for the years ended / as at 31st March 2025 and 31st March 2024:
 - (i) Gross Profit Ratio.
 - (ii) Net Profit Ratio.
 - (iii) Debtors' Collection Period.
 - (iv) Stock Residence Period.
 - (v) Earning Per Share. (10 marks)
- (b) **Prepare** a summary report to the management of **Rex PLC** comparing the above two years while explaining possible reasons for variances. (05 marks)
(Total 15 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.