SRI LANKA

Association of Accounting Technicians of Sri Lanka

July 2016 Examination - AA3 Level

Questions and Suggested Answers
Subject No : AA31

FINANCIAL ACCOUNTING AND REPORTING (FAR)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

AA3 Examination - July 2016
(31) Financial Accounting and Reporting

SUGGESTED ANSWERS

SECTION A

Four (04) compulsory questions.
(Total Marks 20)

Suggested Answers to Question No. 01

(a) Revenue to be recognized = 75 x 500
= **Rs. 37,500/-**

The balance Rs. 12,500/- to be recognized as a liability in B Ltd's books.

(b) Revenue to be recognized = (10,000 / 12) x 7 months
= **Rs. 5,833/-**

(05 marks)

Suggested Answers to Question No. 02

(a) The financial statements are normally prepared on the assumption that an entity is a **Going Concern** and will continue in operation for the forseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

(b)
- Relevance - Relevant financial information is capable of making a difference in the decision made by the user.
- Faithful representation - Financial reports represent economic phenomenal in words and numbers.

(05 marks)

Suggested Answers to Question No. 03

As identified in the Accounting and Auditing Standard Act No. 05 of 1995, the Specific Business Enterprises are as follows;

1. Companied Licensed under the Banking Act No. 30 of 1988
2. Companies authorized under the control of Insurance Act No. 25 of 1962 to carry on Insurance Business
3. Companies carrying on Leasing Business
4. Factoring Companies
5. Companies registered under the Finance Companies Act No. 78 of 1988
6. Companies licensed under the Securities and Exchange Commission Act No. 36 of 1987 to operate Unit Trusts.
7. Fund Management Companies
8. Companies licensed under the Securities and Exchange Commission Act No. 36 of 1987 to carry on business as Stock Brokers or Stock Dealers
9. Companies licensed under the Securities and Exchange Commission Act No. 36 of 1987 to operate as a Stock Exchange
10. Companies listed in a Stock Exchange licensed under the Securities and Exchange Commission Act No. 36 of 1987
11. Companies not listed in a Stock Exchange licensed under the Securities and Exchange Commission Act No. 36 of 1987

(05 marks)

Suggested Answers to Question No. 04

(a) Depreciation for the year 2016 $= \dfrac{4{,}000{,}000 - (800{,}000 \times 3) - 10{,}000}{3}$

$= \underline{\underline{\textbf{500,000}}}$

Note :- Old depreciation $= \dfrac{4{,}000{,}000}{5}$

$= 800{,}000$

(b) Carrying Value as at 31.03.2016 $= 4{,}000{,}000 - 2{,}900{,}000$

$= \underline{\underline{\textbf{1,100,000}}}$

(05 marks)

End of Section A

SECTION B

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question No. 05

(a)
- According to Sec 131, every company should deliver at least once in every year an annual return to the Registrar of Companies. The annual return shall be completed within 30 working days of the date of AGM.
- According to Sec 166, the board of every company shall within 6 months after the date of balance sheet date of the company, prepare an annual report on the affairs of the company during the accounting period ended on that date.
- According to Sec 154, a company shall at each AGM appoint an auditor or re-appoint the same auditor.

(b) i.
- Sales have been increased at a higher rate compared to Gross Profit
- Gross Profit have been reduced at a higher rate compared to sales

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- Profit earned by the company have been reduced at a higher rate compared to equity
- Interest rates are lower
- Tax rates are high

(10 marks)

Suggested Answers to Question No. 06

(a)	01.04.2015	10 x 300,000	=		3,000,000/-
	Stated Capital		=	Rs.	3,000,000/-
	Dividend		=		1 x 300,000
			=		**300,000/-**

Irredeemable preference share capital should be recognized as an equity capital in the statement of changes in equity.
Dividend of Rs. 300,000/- should be recognized in the statement of changes in equity as a deduction from retained earnings.

(b) (i) **Financial Assets:**

1. Trade receivable of Rs. 50,000/- from Perera
2. Cash balance of Rs. 325,000/-
3. FD of Rs. 1 million in BOC
4. Rs. 5 million investment in a subsidiary company share

(ii)
1. There is a contractual right to receive cash or financial asset from another company.
2. When it is cash

(10 marks)

Suggested Answers to Question No. 07

(a) **Goodwill on Consolidation**

Fair value of consideration	3,500,000
Fair value of NCI (50,000 x 20)	1,000,000
Total	4,500,000
(-) Fair value of Net Assets	(4,300,000)
Goodwill on Consolidation	**200,000**

(b)

Non- controlling interest Account

		Fair value on date of acquisition	1,000,000
B/C/F	1,080,000	Share of post-acquisition profit (960,000 - 640,000) @ 25%	80,000
	1,080,000		**1,080,000**

(c)

Consolidated Retained Earnings Account

		Para PLC	9,200,000
B/C/F	9,440,000	Sara Ltd. - post-acquisition (960,000 - 640,000) @ 75%	240,000
	9,440,000		**9,440,000**

(d) **Value of PPE to be shown in the statement of consolidated financial position on 31st March 2016**

Para PLC	12,000,000
Sara Ltd. (book value)	4,200,000
Fair value adjustment [4,300,000 - (2,100,000 + 640,000)]	1,560,000
	17,760,000

(10 marks)

End of Section B

SECTION C

Two (02) compulsory questions.
(Total 50 marks)

Suggested Answers to Question No. 08

(a) **Lenin PLC**

Statement of Comprehensive Income

For the year ended 31.03.2016

	Note		Rs. ('000)
Sales (W3)			47,500
Cost of sales (W5)			(23,000)
Gross Profit			24,500
Other Income	02		500
			25,000
Distribution expenses (W1)		(4,683)	
Administrative expenses (W1)		(6,270)	
Finance expenses (W1)	01	(550)	
Other expenses		(11,750)	(23,253)
Profit before taxation	03		1,747
Taxation	04		(5,600)
Profit after tax			(3,853)
<u>Other comprehensive income</u>			
Revaluation of land		2,000	2,000
Total comprehensive income for the year			(1,853)

(b) **Lenin PLC**

Statement of Financial Position

As at 31.03.2016 **(Rs. '000)**

	Notes		
<u>Assets</u>			
<u>Non-current assets</u>			
Property, Plant and Equipment	05		35,980
Investment - listed shares			4,500
			40,480
<u>Current Assets</u>			
Inventory		5,000	
Trade receivables	06	4,617	
Cash at bank		1,000	
Cash in hand		400	11,017
			51,497
Equity and Liabilities			
Equity			
Stated capital	08	25,000	
Revaluation Reserve		4,500	
Retained earnings		8,547	
Total Equity			38,047
<u>Liabilities</u>			
Non-current liability			
Bank loan		6,000	6,000
<u>Current Liabilities</u>			
Trade Payables	09	4,000	
Other payables	10	350	
Current portion of the bank loan	09	2,000	
Income tax payable		1,100	7,450
			51,497

(c) **Lenin PLC**

Statement of Changes in Equity

For the year ended 31.03.2016

(Rs. '000)

	Stated Capital	Retained Earnings	Revaluation Reserve	Total
Balance as at 01/04	25,000	13,000	2,500	40,500
Revaluation	-	-	2,000	2,000
Dividend paid	-	(600)	-	(600)
Profit / Loss	-	(3,853)		(3,853)
	25,000	**8,547**	**4,500**	**38,047**

(d) **Note 05 - Cost / Valuation**

(Rs. '000)

	Land	Building	Delivery Van	Furniture & Fittings	Total
Balance as at 01.04.2015	16,000	19,000	15,000	2,000	52,000
Addition	-	-	-	-	-
Revaluation	2,000	-	-	-	2,000
Disposal	-	-	(2,000)	-	(2,000)
Balance as at 31.03.2016	**18,000**	**19,000**	**13,000**	**2,000**	**52,000**
Opening Balance	-	5,000	8,000	500	13,500
Charged	-	950	1,492	320	2,762
Removal	-	-	(242)	-	(242)
Balance as at 31.03.2016	**-**	**5,950**	**9,250**	**820**	**16,020**
Carrying value as at 31.03.2016	18,000	13,050	3,750	1,180	**35,980**

Note 01

Finance Expenses

Accrued loan interest	550
T/ balance	50
	550

Note 02

Other Finance Income

Fair value gain	**500**
(IAS 37 AG 14 / IAS 35.55 (a) guidelines)	
	1,825,000

Note 03 **Profit Before Tax**

Profit before tax is arrived after charging;

Depreciation	2,762
Disposal loss	258

Note 04 **Taxation**

Current year provision	5,100
Under provision	500
	5,600

Note 06 **Trade receivables**

Net receivables (W4)	4,617

Note 07 **Other receivables**

Note 08 **Stated capital**

2,000 no of shares	25,000

Note 09 **Trade payable**

T/balance	4,000

Note 10 **Other payable**

Accrued loan interest	50
T/Balance	300
	350

Workings

(W 1)

	Distribution	Administration	Other
Depreciation - building		950	
Depreciation - Furniture & Fittings		320	
Depreciation - delivery van	1,500		
Disposal loss			750
Research expenses			10,000
Bad debts	85		
Allowance charged on debtors	98		
Reported from T/B	3,000	5,000	1,500
	4,683	**6,270**	**1,758**

(W 2) Depreciation

Building	19,000 x 5%	=	950	
Furniture & Fittings	(2,000 - 400) x 20%	=	320	
Delivery Van	13,000 x 10%	=	1,300	1,500
	$\frac{2,000}{100}$	=	200	

(W 3) Sales

Reported from T/B	49,000
Adjusted for disposal	(1,200)
	47,500

(W 4) Trade receivable

Reported from T/B	5,000
Bad debts	(85)
Specific provision written off - Meera	(55)
	4,860
Allowance for receivable (5%)	(243)
	4,617

(W 5) Cost of Sales

Opening inventries	4,000
Purchases	24,000
Closing inventories	(5,000)
	23,000

(25 marks)

Suggested Answers to Question No. 09

(a) **MCS Ltd**

Statement of Cashflow

For the year ended 31.03.2016

		(Rs. '000)
Profit before tax		4,000
Adjustment for :		
Depreciation	1,000	
Disposal loss	50	1,050
		5,050
Operating profit before working capital changes		
Increase in inventories	(1,900)	
Increase in trade receivable	(600)	
Increase in pre payment	(500)	
Increase in accrued expenses	250	
Increase in trade payable	250	(2,500)
		2,550
Cash generated from operating activities		
Tax paid	(800)	(800)
Net cashflow from operating activities		1,750
<u>Cashflow from investing activities</u>		
Acquisition of PPE	(5,580)	
Proceeds from PPE	30	
Net cashflow from investing activities		(5,550)
<u>Cashflow from financing activity</u>		
Proceed from borrowings	2,000	
Net cashflow from financing activity		2,000
Net cash increase during the period		(1,800)
Cash and cash equivalent at the beginning		3,300
		1,500

(b)

						2016	2015
i.	Gross Profit Ratio	=	$\frac{GP}{Sales}$ x 100	=		$\frac{7,000 \times 100}{12,000}$	
				=		**58.3%**	
ii.	Net Profit Ratio	=	$\frac{NP}{Sales}$ x 100	=		$\frac{3,000 \times 100}{12,000}$	
				=		**25%**	

					2016	2015
iii.	Assets Turnover Ratio	=	$\frac{\text{Sales}}{\text{Avg. Total Assets}}$ x 100	=	$\frac{12,000}{21,475}$ x 100	$\frac{13,500}{17,025}$
				=	**0.54 Times**	**0.79 Times**

			2016		2015
iv.	Current Ratio	=	$\frac{12,650}{4,000}$	=	$\frac{11,300}{3,150}$
	CA : CL				
		=	**3.1625 : 1**	=	**3.59 : 1**

			2016		2015
v.	Quick Assets Ratio	=	$\frac{4,500}{4,000}$	=	$\frac{5,050}{3,150}$
	CA - Inv : CL				
		=	**1.125 : 1**	=	**1,603 : 1**

(25 marks)

End of Section C

Notice :

These answers complied and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the "Only" answers, or, for that matter even as "Model Answers".

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.