



Association of Accounting Technicians of Sri Lanka

Level III Examination – January 2026

Suggested Answers

(301) FINANCIAL REPORTING (FAR)

Association of Accounting Technicians of Sri Lanka

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Level III Examination – January 2026

(301) Financial Reporting

SUGGESTED ANSWERS

**Four (04) Compulsory Questions
(Total 20 Marks)**

SECTION - A

Suggested Answers to Question One:

Chapter 01

(a)

- To further invest, to hold the investment or divest by the investors.
- Providing or setting loan and other forms of credit
- To decide on staying or leaving the organization by the employees./To assess the ability of the entity to pay and provide other benefits to its employees.
- Exercising rights to vote on or otherwise influence management's action that affect the use of the entity's economic resources.
- To determine taxation policies.

(Only three of the above is adequate)

(03 marks)

(b)

Financial capital is the monetary value of the entity's net assets (Equity) invested in a business entity by its owners. The financial capital is maintained by generating profit. Therefore, the financial capital maintenance means generating sufficient profit for the net assets invested by the owners. The profit is basically the increase in net assets of the business after removing the impact of drawings and additional capital invested.

(02 marks)

(Total 05 marks)

Suggested Answers to Question Two:

Chapter 01

(a)

An integrated report is earned only if the financial (money) amount of the net assets at the end of period exceeds the financial amount of net assets at the beginning of the end of the period excluding any distribution to and contributions from owners during the period.

Or

Integrated report is the process that reports the total capital contribution and the total value creation process to decision makers by going beyond traditional financial capital.

(03 marks)

(b)

- Identification of specific risks and opportunities
 - Estimate on risk and opportunities
 - Assessment by the organization regarding likelihood of risk and opportunities which might arise
 - Steps taken to mitigate and manage the risks.
 - Productivity in internal controls
 - Reporting on the responsibility of the board for effectiveness of internal controls, safeguarding the interest of stakeholders and internal controls.
- (Only two of the above is adequate)

(02 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 04

(a)

Profitability ratios

- Gross profit ratio
- Operating profit ratio
- Net profit ratio
- Return on equity ratio
- Return on capital employed ratio
- Return on assets ratio

(Only two of the above is adequate)

Liquidity ratio

- Current ratio
- Quick asset ratio

(Only one of the above is adequate)

(03 marks)

(b)

- Only historical information is provided.
- Interpretations are subjective.
- Only the monetary impact is considered and social and environmental impacts are ignored.
- Ratio get's distorted when negative amounts are involved.
- Inflationary impacts are ignored.
- Proper and standard defined formula are not available.
- Ratios are not regulated.
- Dissimilarities in accounting policies of different business entities.
- Financial position is just a snap shot and it does not reflect the entire financial year.
- Financial statements can be manipulated.

(Only two of the above is adequate)

(02 marks)
(Total 05 marks)

Suggested Answers to Question Four:

Chapter 02

(a)

- If the liability is getting settled within twelve (12) months from the reporting date.
- If the liability is getting settled within the operating cycle.
- If the liability is of trading nature.
- It does not have a right at the reporting date to defer the settlement of the liability for at least 12 months after the reporting period.

(Only two of the above is adequate)

(02 marks)

(b)

Impairment Loss Calculation

Fair value less cost to sell	2,600,000	
Value in use	3,000,000	
Recoverable value		3,000,000
<u>Carrying value</u>		
Cost	6,800,000	
(-) Accumulated Depreication [6,800,000/4X2]	(3,400,000)	3,400,400
Impairment loss		400,000

(03 marks)
(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 03

(a)

(1) Yes, the purchased mobile application can be recognized as an intangible asset. It meets the definition of an intangible asset; there's a probable inflow of economic benefits as the app allows the customers to place direct orders and the cost can be measured reliably as it has been purchased.

(2) Future benefits are generated to the company. Therefore, it is an intangible asset – Should be capitalized.

(04 marks)

(b)

Borrowing cost to be capitalized.

Interest on ABC bank loan $10,000,000 \times 10\% \times 10/12$	833,333
Interest on PQR bank loan $12,000,000 \times 12\% \times 9/12$	1,080,00
(-) Interest income	(720,000)
Borrowing cost to be capitalized	1,193,333

(06 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter

Emelie (Pvt) Ltd.

Statement of Cash Flows

For the Year Ended 31st March 2025

		Rs. 000'
Net Profit Before Tax (25,500-2,000)		23,500
Adjustments for		
Profit of Disposal of the assets (W-1)		(3,850)
Depreciation [127,930-(109,730+4,350)]		22,550
Gratuity Provision		1,100
Interest on Loans		2,000
Gratuity Paid		(90)
Income Tax Paid (W-3)		(3,690)
		41,520
Changes in Working Capital		
(Increase) in Inventories	(49,990)	
Decrease in Trade and Other Receivables	94,030	
Increase in Trade Payables	22,976	67,016

Net Cash Flow from Operating Activities		108,536
Cash Flow from Investing Activities:		
Disposal of Assets	5,500	
Purchase of Assets [136,420-6,000]-138,690]	(8,270)	
Net Cash Flow incurred for Investment Activities		(2,770)
Cash Flow from Financing Activities:		
Loan Obtained	7,500	
Share Capital Issued	50,000	
Loan Repayments	(44,310)	
Interest Paid on Loans (W-2)	(10,330)	
Net Cash Flow from Financing Activities:		2,860
Net Movement of Cash & Cash Equivalents During the Period		108,626
Cash & Cash Equivalents at the beginning of the Period		161,083
Cash & Cash Equivalents at the End of the Period		269,709

Workings

W1 – Profit on Disposal Account

Cost	6,000	Cash	5,500
Profit	3,850	Acc. Depreciation	3,750
		Depreciation	600
	9,850		9,850

W2 – Interest Payable Account

Cash	10,330	B/B/F	13,800
B/C/D	5,470	P & L	2,000
	15,800		15,800

W3 – Income Tax Payable Account

Cash	3,690	B/B/F	4,220
B/C/D	3,780	P & L	3,250
	7,470		7,470

(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 02

(a)

- (1) The case filed by a customer claiming compensation on alleging food poisoning can be considered as a contingent liability as per LKAS 37 Provisions, Contingent Liabilities and Contingent Assets standard. The reason for the conclusion is based on lawyers advice as to the liability may not be probable. However, it can be a possible obligation. Further, the case was filed on 30th March 2025 and the court proceedings just started and future of the case is uncertain. Since it's contingent liability, it cannot be recognized, however a disclosure on nature and financial impacts shall be made in the financial statements.

- (2) A provision is required for the tax impact of the disallowed expenses. As per the information given Rs. 500,000 was disallowed by the inland revenue department before the authorization of financial statements. For these disallowed expenses there will be a tax payable for the tax impact of the disallowed expenses. Therefore, a provision is required as per LKAS 37.
- (3) A provision of Rs. 800,000/= needs to be recognized. The court decision has been received to pay Rs. 800,000/= as a compensation prior to financials being authorized by the board of directors. Lawyers were in the opinion that liability is highly probable and later it was confirmed by the court decision. Therefore, a provision is required as per LKAS 37 and LKAS 10 Events after the reporting period standard.

(06 marks)

(b)

Depreciation as per revised useful life

	Rs'.000
Cost of the machines	8,000,000
(-) Accumulated depreciation	(3,000,000)
Net book value as at 01/04/2024	5,000,000
Remaining useful life revised	4
Depreciation	1,250,000

(04 marks)
(Total 10 marks)

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End of Section B

Suggested Answers to Question Eight:

Chapter 03

(a)

Ultra PLC

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st March 2025

	Notes	Rs. 000
Revenue		459,955
Cost of Sales		(285,200)
Gross Profit		174,755
Other Income	1	2,500
Administration Expenses		(62,798)
Distribution Expenses		(52,273.4)
Finance Expenses		(12,309.4)
Other Expenses		(4,100)
Profit Before Tax	2	45,774.2
Tax Expense	3	(10,500)
Profit After Tax		35,274.2
Other Comprehensive Income		2,000
Total Comprehensive Income		37,274.2

(09 marks)

(b)

Ultra PLC

Statement of Financial Position

As at 31st March 2025

	Notes	Rs. 000	
Non-Current Assets			
Property Plant and Equipment		83,600	91,470.1
Right of Use Asset		7,870.1	
Current Assets			
Inventory (43,000-4,100)		38,900	133,250
Trade Receivables	4	33,750	
Other Receivables	5	4,300	
Cash and Cash Equivalents		56,300	
Total Assets			224,720.1

Equity			
Stated Capital		100,000	
Retained Earnings		66,774.2	
Revaluation Reserve		5,000	171,774.2
Non-Current Liabilities			
Lease Liability	7	4,883.3	4,883.3
Current Liabilities			
Trade Payables		45,819	
Tax Payable	8	100	
Lease Liability	7	2,143.6	48,062.6
Total Equity and Liabilities			224,720.1

(08 marks)

(c)

Ultra PLC

Statement of Changes in Equity

For the Year Ended 31st March 2025

	Rs. 000			
	Stated Capital	Retained Earnings	Revaluation Reserve	Total
Balance as at 1/4/2024	100,000	31,500	3,000	134,500
Total Comprehensive Income		35,274.2	2,000	37,274.2
Balance as at 31/3/2025	100,000	66,774.2	5,000	171,774.2

(03 marks)

(d) Property Plant and Equipment

	Land	Buildings	Motor Vehicles	Right to Use Asset	Total
Cost/Revaluation:					
B/B/F	58,000	36,000	18,000	-	112,000
Disposal	-	-	(6,000)	-	(6,000)
Additions	-	-	-	10,493.50	10,493.50
Revaluation	2,000	-	-	-	2,000
As at 31.03.2025	60,000	36,000	12,000	10,493.50	118,493.50
Depreciation:					
B/B/F	-	16,000	9,000	-	25,000
Disposal	-	-	(6,000)	-	(6,000)
Depreciation	-	900	4,500	2,623.375	8,023.375
As at 31.03.2025	-	16,900	7,500	2,623.375	27,023.375
Carrying value as at 31.03.2025					91,470.125

(05 marks)

Note 01 Other Income

	Rs. 000
Motor vehicle disposal gain	2,500
	2,500

Note 02 Following Expenses were deducted at Profit before Tax

	Rs. 000
Depreciation of right of use asset	2,623.4
Depreciation	5,400
Lease interest	809.4
Net realizable value loss	4,100

Note 03 Taxation

	Rs. 000
Current year tax expense	10,500
Prior year under/over provision	-
Total tax expense	10,500

Note 04 Trade Receivables

	Rs. 000	
Trade receivable balance	41,000	
(-) Bad debts	(3,500)	
Trade receivable balance after bad debts		37,500
(-) Allowance for Receivables	4,200	
Carrying value of the allowance for receivables	(3,500)	
	700	
(-) Allowance for receivables	3,050	(3,750)
Trade receivables balance carrying value		33,750

Note 05 Other Receivables

	Rs. 000
Insurance receivable	2,500
Rent prepayments	1,800
	4,300

Rent prepayment

	Rs. 000
Rent prepayment carrying value	2,400
(-) Rent for current year [2,400/12X3]	(600)
Rent prepaid amount	1,800

Workings

W1 Detail Expenditure Statement

Description	Cost of Sales	Administration	Distribution	Finance	Other
Inventory net realizable value loss					4,100
Depreciation of right to use asset			2,623.4		
Depreciation of building		900			
Depreciation of motor vehicles			4,500		
Allowance for trade receivables			3,050		
Lease interest				809.4	
Rent		600			
As per trial balance	285,200	61,298	42,100	11,500	
	285,200	62,798	52,273.4	12,309.4	4,100

W 2 Allowance for Receivables

	Rs. 000
Trade receivable balance after bad debt	37,500
Allowance for receivables at 10%	3,750
Carrying value of allowance for receivables after bad debts	700
Under provision of allowance for receivables	3,050

W 3 Inventory Net Realizable Value Loss

		Rs. 000
Cost of inventory		9,000
Net realizable value		
Estimated selling price 1,000 units X 10,000 X 50%	5,000	
(-) Estimated selling cost	(100)	4,900
Net realizable value loss		4,100

Disposal of Motor Vehicle Gain or Loss

Motor vehicle	6,000	Accumulated motor vehicle dep.	6,000
Profit or loss	2,500	Insurance receivable	2,500
	<u>8,500</u>		<u>8,500</u>

Accumulated depreciation of the condemned motor lorry

	Rs. 000
Cost	6,000
Period used	4
Useful life	4
Accumulated depreciation 6,000/4X4	6,000

Working 04 Land Revaluation

	Rs. 000
Revalued Amount	60,000
Land Carrying Value	58,000
Revaluation Gain	2,000

Working 05 Depreciation

Asset	Building	Motor Vehicle
Cost	36,000	18,000
Useful life	40	4
Depreciation	900	4,500

Working 06 Prior Year Tax

	Rs. 000
Prior year actual tax expense	6,100
Prior year tax provision	(6,100)
Under or over provision	-

Working 07 Lease Liability

	Rs. 000	Rs. 000
Initial lease liability		8,993.5
Lease interest [8,993.5X9%]		809.4
(-) Lease installment		(2,776)
Closing lease liability		7,026.9
Current portion of the lease liability		
Next lease installment	2,776	
(-) Interest in the next installment [7,026.9X9%]	(632.4)	2,143.6
Non-current portion of the lease liability		4,883.3

Working 08 Current Year Tax

	Rs. 000
Current year tax expense	10,500
Current year tax paid [16,500 – 6,100]	10,400
Income tax payable for the current year	100

(Total 25 marks)

Suggested Answers to Question Nine:

Chapter 04

Ratio	Formula	Y/E 31/3/2025
Gross Profit Margin	Gross Profit/Sales X 100	=420,800 / 1,921,310 X 100 =21.9%
Net Profit Margin	Profit after Tax/Sales X 100	=128,790 / 1,921,310 X 100 =6.7%
Inventory Residence Period	365/Cost of Sales X Average Inventory	=365 / 1,500,520 X (110,700 + 108,400)/2 =27 Days
Debtors' Collection Period	365/Credit Sales X Average Debtors	=365 / 60% X 1,921,320 X (587,200 + 420,680)/2 =160 Days
Creditors' Period	365/Credit Purchases X Average Creditors	=365 / 75% X 1,500,520 X 90% X (116,800 + 112,100)/2 =41 Days

(10 marks)

Suggested Answers to Question Ten:

Chapter 05

(a)

Goodwill Calculation

	Rs. 000	
Fair value of the investment	160,000	
Non-controlling interest at fair value	35,000	
Total investment		195,000
(-) Fair value of the net assets		
Stated capital	150,000	
Retained earnings	25,000	
Fair value gain on land W 1	8,000	(183,000)
Good value		12,000

(04 marks)

(b)
Seedevi Group
Consolidated Statement of Financial Position
As at 31st March 2025

Rs. 000

Non-Current Assets		
Property Plant and Equipment [350,000+165,000+ + 8,000 – 1,500 + 300]	521,800	
Goodwill [+ 160,000 - 8,000 + 35,000 – 175,000]	12,000	
Investment in Devi PLC [- 160,000]	-	
Investment in Debentures of Devi PL [- 30,000]	-	533,800
Current Assets		
Inventory [85,000+45,000- 1,000]	129,000	
Trade Receivables [60,000+34,200- 20,000]	74,200	
Cash and Cash Equivalents	91,700	294,900
Total Assets		828,700
Equity		
Stated Capital	400,000	
Retained Earnings [210,000 – 900 – 1,500 + 11,070]	218,670	
Equity attributable to Parent’s Shareholders	618,670	
Non-Controlling Interest [+ 35,000 +1,200 – 100 + 30]	36,130	654,800
Non-Current Liabilities		
Debentures [100,000 - 30,000]	70,000	70,000
Current Liabilities		
Trade Payables [93,700+25,200 - 20,000]	98,900	
Other Payables	5,000	103,900
Total Equity and Liabilities		828,700

Working 01 Land Fair Value Gain

	Rs. 000
Fair value of the land	53,000
Book value of the land	(45,000)
Land fair value gain	8,000

Working 02 Subsidiary Net Assets

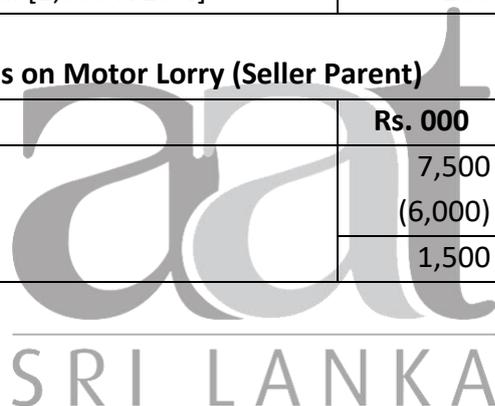
	Pre-Acq.	Post Acq.	Reporting Date
Stated capital	150,000	-	150,000
Retained earnings	25,000	12,000	37,000
	175,000	12,000	187,000
NCI share of post acquisition net assets [12,000 X 10%]		1,200	

Working 03 Unrealized Profits on Inventory (Seller Subsidiary)

	Rs. 000
Inventory	6,000
Profit markup	20%
Unrealized profit [6,000/120X20]	1,000
Unrealized profit belong to parent [1,000 X 90%]	900
Unrealized profit belong to NCI [1,000 X 10%]	100

Working 04 Unrealized Profits on Motor Lorry (Seller Parent)

	Rs. 000
Disposal value	7,500
Carrying value	(6,000)
Unrealized profit	1,500



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(11 marks)
 (Total 15 marks)

End of Section C

Notice:

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