SRI LANKA

Association of Accounting Technicians of Sri Lanka

Level III Examination – July 2026

Question Paper and Suggested Answers

(3801) FINANCIAL REPORTING (FAR)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination – July 2026

(3801) Financial Reporting

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01

(a)

Relevance

If an information is capable of making a difference in a decision, such information is considered as a relevant information. Relevance depends on the predictive value, confirmatory value and the materiality of an information.

Faithful representation

Financial reports must represent the economic phenomena in words and numbers. The faithful representation of an information ensures on the completeness, unbiasedness/neutral and free or errors.

(03 marks)

(b)

Financial Statements are prepared based on the Going Concern assumption that businesses will continue to operate for a foreseeable future. Therefore, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. Accordingly the assets and liabilities in the Statement of Financial Position is classified as current and non-current.

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 01

(a)

- To provide information to stakeholders on past performance of the organization and a view to the future in respect of environmental, social and governance (ESG) initiatives.
- Measuring and evaluating sustainable performance in relation to rules, standards, and performance standards
- Demonstrate how an organization influences sustainable development expectations

and how such expectations influence the organisation.

- Comparing performance over time and between different organizations.
- Communicate an organization's environmental, social & governance (ESG) impacts.
- Driving transparency and accountability.
- Managing ESG risks & opportunities.

(Only one purpose is adequate)

(02 marks)

(b)

- Reporting entity
- Connected information
- Fair presentation
- Materiality
- Sources of guidance
- Location of disclosures
- Timing of reporting
- Comparative information
- Statement of compliance
- Judgements, uncertainties, and errors
- Core consent
- Sustainability-related risks and opportunities

(Only three points are adequate)

(03 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter 06

(a)

- Recording financial information
- Maintaining general ledger
- Accounts receivable management
- Accounts payable management
- Payroll processing
- Inventory management
- Bank reconciliations
- Preparing the trial balance
- Preparing the financial statements
- Tax management
- Budgeting & forecasting
- Integration capabilities
- User access control

(Only two points are adequate)

(02 marks)

(b)

Increased efficiency

The automation of accounting and reporting will reduce the use of human resources and stationary cost. Therefore, the efficiency in genenrating financial reports will be higher.

Reduced delays

Automating will increase the preparation and presentation of financial reports. Therefore, the general delays in manual financial reporting will be reduced. This will assist the decision makers to take decisions quickly.

Reduction of human errors

Generally, in manual financial reporting process the human errors such as omissions, misstatements may occur. The automation process will eliminate these human errors, making the financial statements more accutate and reliable.

Provides real time financial information

The manual financial reporting process requires manual processing of financial information. However, the automation will assist the business to generate real time financial information.

Increased reporting quality

Automated financial reporting will maintain the standardization and consistency in preparing and presenting financial statements. This will improve the reporting quality.

Improves internal controls

The automated financial reporting process can include internal controls in accessing data and posting data. Further, seggregation of duties and general and application IT controls can be embedded.

Faster bank reconciliations

Compared to manual bank reconciliations, the automated bank reconciliation will be faster.

Engables integration

Automated financial reporting will enable the integration of transaction processing, inventory management, payroll management, banking etc.

Scalability and flexibility

Automated platforms adapt easily to increasing transaction volumes, multi-entity structures, and evolving business models. Integration with ERP systems and cloud-based solutions supports expansion and facilitates reporting across diverse frameworks and jurisdictions.
(Only two benefits are expected)

(03 marks)
(Total 05 marks)

Suggested Answers to Question Four:

Chapter 02

(a)

- Companies licensed under the Banking Act, No. 30 of 1988.
- Companies authorized under the Control of Insurance Act, No. 25 of 1962, to carry on insurance business.
- Companies carrying on leasing business.
- Factoring companies.
- Companies registered under the Finance Companies Act, No. 78 of 1988.
- Companies licensed under the Securities and Exchange Commission Act, No. 19 of 2021, to operate unit trusts.
- Fund Management Companies.
- Companies licensed under the Securities and Exchange Commission Act, No. 19 of 2021, to carry on business as stockbrokers or stock dealers.
- Companies licensed under the Securities and Exchange Commission Act, No. 19 of 2021, to operate a Stock exchange.
- Companies listed in a Stock Exchange licensed under the Securities and Exchange Commission Act, No. 19 of 2021.
- Listed companies which exceeds certain limits.
- Companies which have an annual turnover in excess of Rs. 500 Million.
- Companies which had shareholders equity in excess of Rs. 100 Million at the end of the previous financial year.
- Companies which had gross assets in excess of Rs. 300 Million at the end of previous financial year.
- Companies which had liabilities to banks and other financial institutions in excess of Rs. 100 Million at the end of previous year.
- Companies which have a staff in excess of 1,000 employees
- Public corporations engaged in the sale of goods or the provision of services.

(Only three categories will be adequate)

(03 marks)

(b)

- Increased comparability
- Increased reliability
- Increased accuracy with less room for manipulations
- Assist the stakeholders for better decision making
- To resolve accounting issues
- Increased consistency and uniformity in financial reporting
- Assist the financial statements preparers
- Easy to prepare the consolidated financial statements.

- Assist the auditors
- Improve transparency
- Improve investor confidence

(Only two importances are expected)

(02 marks)
(Total 05 marks)

End of Section A

Three (03) Compulsory Questions
(Total 30 Marks)

SECTION - B

Suggested Answers to Question Five:

Chapter 03

Sun (Pvt) Ltd.
Statement of Cash Flows
For the year ended 31st March 2026
Rs. 000'

Operating Activities		
Profit before tax (PAT 1,200 + Tax 450)		1,650
+/- Adjustments		
Machine Disposal Loss **W2**		300
Interest Expense		175
Gratuity Expense **W3**		320
Depreciation **W2**		3,100
Operating Cash Flow before Working Capital Changes		5,545
(-) Gratuity Paid		(250)
(-) Tax Paid **W1**		(400)
		4,895
Working Capital Changes		
Increase in Inventory	(700)	
Increase in Trade and Other Receivables	(400)	
Increase in Trade and Other Payables	280	(820)
Net Cash Flow from Operating Activities		4,075
Cash flows from Investment Activities		
Machine Disposal Proceed	1,800	
Machine Purchased **W 2**	(6,500)	
Net Cash Flow used in Investing Activities		(4,700)
Cash flows from Financing Activities		
Loans Obtained	1,200	
Dividend Paid	(200)	
Interest Paid	(175)	
Net Cash Flow from Financing Activities		825
Net Cash Flow for the Year		**200**
Opening Cash and Cash Equivalents		1,900
Closing Cash and Cash Equivalents		**2,100**

Workings

W1 – Tax Expense for the year

Tax Payable

Cash	400	Balance B/F	900
Balance C/D	950	Tax Expense	450
	1,350		1,350

Retained Earnings

Dividend	200	Balance B/F	3,200
Balance C/D	4,200	Profit After Tax	1,200
	4,400		4,400

W2 – Disposal of Machinery

Property Plant and Equipment

Balance B/F	22,400	Disposal Gain/Loss	4,000
Cash	6,500	Balance C/D	24,900
	28,900		28,900

Accumulated Depreciation

Disposal Gain/Loss	1,900	Balance B/F	4,200
Balance C/D	5,400	Depreciation	3,100
	7,300		7,300

Disposal Gain or Loss

Machine	4,000	Accumulated Dep.	1,900
		Cash	1,800
		Profit or Loss	300
	4,000		4,000

W3 – Gratuity Expense

Gratuity Provision

Cash	250	Balance B/F	380
Balance C/D	450	Gratuity Expense	320
	700		700

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 02

(A)

Rs. 000'

Performance Obligations	Standalone Prices	Transaction Price Allocation	Contract Price	Revenue for the year 2025/26	Revenue for the year 2026/27
Customized Software (Distinct)	2,700	2,700/3,600 X 3,000 = 2,250	2,250	Revenue recognized at the point of installation 2,250	N/A
Support Services	25 X 36 = 900	900/3,600 X 3,000 = 750	750	Service income over the 03 years (750/3) 250	Service income over the 03 years (750/3) 250
Total	3,600	3,000	3,000	2,500	250

Revenue to be recognized for the year ended 31.03.2026 = 2,500,000
Revenue to be recognized for the year ended 31.03.2027 = 250,000

(05 marks)

(B)

Borrowing cost to be capitalized

	Rs.000'	Rs.000'
Loan A (Specified Loan)		
Loan amount	20,000	
Interest rate	10%	
Period (1/7/25 – 31/3/26)	9/12	
Interest expense (20,000 X 10% X 9/12)	1,500	
(-) Interest income	(400)	
Net interest from specified loan		1,100
Loan B (Pool of Funds)		
Loan amount	40,000	
Interest rate	12%	
Period (1/7/25 – 31/3/26)	9/12	
Gross Interest expense from pool of funds (40,000 X 12% X 9/12)		3,600
Borrowing cost to be Capitalized		4,700

(05 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 02

(A)

Rs. 000'

Description	Land	Motor Vehicle	Gratuity	Total
Accounting carrying value (-) Tax base **W1 and W2**	120,000 (120,000)	60,000 (50,000)	(12,000) -	168,000 (170,000)
(a) Temporary difference Taxable/Deductible temporary difference	- N/A	10,000 Taxable TD	(12,000) Deductible TD	(2,000) Deductible TD
Tax Rate				30%
(b) Closing Deferred Tax Asset				600

W1 – Tax Base of Land and Motor Vehicles

Description	Land	Motor Vehicle
Cost (-) Accumulated capital allowances	120,000 -	90,000 (40,000)
Tax base	120,000	50,000

W2 – Tax Base of Gratuity

Description	Gratuity
Carrying Value (-) Amount deductible for tax purpose when the liability get's settled	12,000 (12,000)
Tax base	-

(05 marks)

(B)

1) Adjusting event
   The bonus is paid from the profits for the year ended 31st March 2026 and the company has beein paying the bonus as a practice. Therefore, a constructive obligation has been created as of 31st March 2026. Accordingly, the bonus payment approved by directors on 5th April 2026 is an adjusting event.

2) Adjusting event
   The fraud was occurred during the year ended 31st March 2026. It was revealed on 10th May 2026, which is before the financials being authorised by the board of directors. Thefore, the circumstances prevailed as of the reporting period. Accordingly, it's an adjusting event and inventory overstatement shall be adjusted for the financials ended 31st March 2026.

(05 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 03

(a)

Oceanic Cement PLC
The Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2026

(Rs,000)

Sales		720,000
Less: Cost of sales (520,000 + 3,600)		(523,600)
Gross Profit		**196,400**
Other income (W-2)		5,625
Less Expenses:		
Distribution Expenses (W-3)	37,950	
Administration Expenses (W-4)	75,850	
Finance Expenses (W-5)	6,540	(120,340)
Profit Before Tax		**81,685**
Income Tax		(9,250)
Profit After Tax		**72,435**
Other Comprehensive Income		-
Total Comprehensive Income		**72,435**

(09marks)

(b)

Oceanic Cement PLC
Statement of Financial Position
As at 31st March 2026

(Rs. '000)

Assets:		
Non-Current Assets:		
Property, Plant and Equipment		183,200
Current Assets:		
Inventory	91,400	
Trade Receivables (88,000 – 1,500 - 8,650)	77,850	
Interest Receivables	125	
Cash and Cash Equivalents	19,357	188,732
Total Assets		**371,932**
Equity & Liabilities:		
Equity:		
Stated Capital	250,000	
Retained Earnings	75,435	325,435
Non-Current Liabilities:		

Lease Creditors (W-6)	3,903.73	3,903.73
Current Liabilities:		
Trade Payables	33,000	
Lease Creditors (W-6)	1,093.27	
Income Tax Payable (W-1)	8,250	
Accrued Expenses	250	42,593.27
Total Equity & Liabilities		**371,932**

(c)

Oceanic Cement PLC
Statement of Changes in Equity
For the year ended 31st March 2026

(Rs. '000)

	Stated Capital	**Retained Earnings**	**Total**
Balanced as at 01.04.2025	250,000	15,000	265,000
Dividend Paid	-	(12,000)	(12,000)
Profit for the year	-	72,435	72,435
	250,000	**75,435**	**325,435**

(d)

Oceanic Cement PLC
Statement of Movements of PPE for the Year Ended 31st March 2026

(Rs. '000)

	Land	**Buildings**	**Machinery**	**Motor Vehicles**	**Right to Use Asset**	**Total**
Cost / Revaluation:						
As at 01.04.2025	80,000	60,000	90,000	22,000	-	252,000
Disposal	-	-	(20,000)	-	-	(20,000)
Additions	-	-	-	-	7,000	7,000
	80,000	**60,000**	**70,000**	**22,000**	**7,000**	**239,000**
Depreciation:						
As at 01.04.2025	**-**	**14,000**	**30,000**	**2,000**	**-**	**46,000**
Disposal	-	-	(20,000)	-	-	(20,000)
Depreciation	-	1,500	22,500	4,400	1,400	29,800
	-	**15,500**	**32,500**	**6,400**	**1,400**	**55,800**
Carrying value as at 31.03.2026						**183,200**

Workings

(W-1) Asset Disposal Account

Cost	20,000
P & L	2,000
	22,000
Cash	2,000
Acc. Depreciation	20,000
	22,000

(W-2) Other Income Account

TB	3,500
Profit on Disposal (W-1)	2,000
Interest Income	125
	5,625

(W-3) Distribution Expenses Account

TB	28,000
Depreciation – Right to use Asset	1,400
Depreciation – Motor vehicle	4,400
Bad Debt	1,500
Bad Debt Provision (8,650 – 6,000)	2,650
	37,950

(W-4) Administration Expenses Account

TB	51,600
Depreciation – Machinery	22,500
Depreciation – Building	1,500
Audit Fee	250
	75,850

(W-5) Finance & Other Expenses Account

TB	6,000
Lease Interest	540
	6,540

(W-6) Lease Creditors

Year	B/B/F	Installment	Interest	Capital	O/S
1	6,000,000	1,543,000	540,000	1,003,000	**4,997,000**
2	4,997,000	1,543,000	449,730	1,093,270	3,903,730
3	3,903,730	1,543,000	351,336	1,191,664	2,712,066
4	2,712,066	1,543,000	244,086	1,298,914	1,413,152
5	1,413,152	1,543,000	127,184	1,415,816	-

(W-7) Income Tax Payable Account

Cash	7,500	B/B/F	6,500
B/C/F	8,250	P & L	9,250
	15,750		**15,750**

Suggested Answers to Question Nine:

Chapter 04

(*a*)

Ratio	Formula	Y/E 31/3/2026
(i)Current Ratio	Current Assets : Current Liabilities	= 425,000:200,000 = **2.125 : 1**
(ii)Gross Profit Margin	Gross Profit/Sales X 100	= 400,000/1,000,000 X 100 = **40%**
(iii)Net Profit Margin	Profit after Tax/Sales X 100	= 125,000/1,000,000 X 100 = **12.5%**
(iv)Inventory Residence Period	Average Inventory/Cost of Sales X 365	= [(150,000 + 120,000)/2]/600,000 X 365 **= 82 Days**
(v)Debtors' Collection Period	Average Trade Receivables/Credit Sales X 365	= [(200,000 +180,000)/2]/1,000,000 X 365 **= 69 Days**

(05 marks)

(b)

Summary report on ratio analysis of Moon PLC vs the Industry Averages for the Year ended 31st March 2026

Current Ratio

Moon PLC's current ratio of 2.125:1 is better than the industry average of 1.8:1. This shows that Moon PLC is maintaininig a good liquidity level compared to other entities in the industry. General norm of 2:1 current ratio is maintained by Moon PLC and this will help them to manage their short term financial commitments.

Gross Profit Margin and Net Profit Margin

Moon PLC's gross profit margin of 40% is better than the industry gross profit margin of 35%. This shows that Moon PLC is either charging a premium price from the customers or their efficiency in managing the cost of sales is better. However, the net profit margin of Moon PLC is 12.5% which is lower than the 15% net profit margin of industry. This shows that eventhough the gross margins are better company is having higher operational expenses such as administrative, distribution, finance, other and tax expenses resulting in lower net margins.

Inventory Residence Period and Debtors' Collection Period

Moon PLC's inventory residence period of 82 days is higher than industry ratio of 75 days. This shows that the inventory at Moon PLC is holding for extra week. This shows weak inventory management, risk of non moving and slow moving inventory and cash tied up in inventory.

The debtor's collection period of Moon PLC is 69 days, which is higher than the industry ratio of 60 days. This shows the company's debtor recoveries are passive than the industry. This will result in risk of irrecoverable debtors and debtor impairments.

(05 marks)

(Total 10 marks)

Suggested Answers to Question Ten:

Chapter 05

(a)

Goodwill Calculation

	Rs. 000	Rs. 000
Fair value of the investment	90,000	
Non-controlling interest at fair value	18,000	
Total investment		108,000
(-) Fair value of the net assets		
Stated capital	60,000	
Retained earnings	10,000	
Fair value gain on land	7,000	77,000
Goodwill value		31,000

(04 marks)

(b)

Galaxy PLC

Statement of Financial Position

As at 31st March 2025

Rs. 000

	Rs. 000	Rs. 000
Non-Current Assets		
Property Plant and Equipment **W1**	202,000	
Goodwill (+90,000-7,000+18,000-70,000-7,000)	24,000	
Investment in Star PLC (-90,000)	-	226,000
Current Assets		
Inventory (+2,000-400)	41,600	
Trade Receivables	38,000	
Amount Due from Galaxy PLC (-2,000+ 5,000)	-	
Cash and Cash Equivalents	21,000	100,600
Total Assets		326,600

Equity		
Stated Capital (-60,000)	150,000	
Retained Earnings **W 7**	20,680	
Equity attributable to Parent's Shareholders	170,680	
Non-Controlling Interest **W 8**	16,920	187,600
Non-Current Liabilities		
Long Term Loan	79,500	79,500
Current Liabilities		
Trade Payables	52,000	
Amount Due to Star PLC (-3,000)	-	
Income Tax Payable	7,500	59,500
Total Equity and Liabilities		326,600

Working 01 Land Fair Value Gain

	Rs. 000
Fair value of the land	75,000
Book value of the land	(68,000)
Land fair value gain	7,000

Working 02 Subsidiary Net Assets

	Pre-Acq.	**Post Acq.**	**Reporting Date**
Stated capital	60,000	-	60,000
Retained earnings	10,000	2,000	12,000
	70,000	2,000	72,000
NCI share of post acquisition net assets (2,000 X 20%)	-	400	-

Working 03 Intercompany Balance Elimination

	Rs. 000
Amount Due from Galaxy PLC	5,000
Amount Due to Star PLC	3,000
Goods in Transit	2,000

Working 04 Unrealized Profits on Inventory (Seller Subsidiary)

	Rs. 000
Inventory	2,000
Profit markup (Selling Price 125 = Cost 100 + Profit 25)	25%
Unrealized profit (2,000/125 X 25)	400
Unrealized profit belong to parent (400 X 80%)	320
Unrealized profit belong to NCI (400 X 20%)	80

Working 05 Goodwill Impairment (NCI at Fair Value)

	Rs. 000
Goodwill Impairment	7,000
Goodwill Impairment Parent's Share (7,000 X 80%)	5,600
Goodwill Impairment NCI's Share (7,000 X 20%)	1,400

Working 06 Unrealized Profits on Disposal of Land (Seller Parent)

	Rs. 000
Disposal Value	15,000
Carrying Value	10,000
Unrealized profit	5,000

Working 07 Consolidated Retained Earnings

Unrealized Profit (400×80%)	320	B/B/F	30,000
Profit of Land	5,000	Post Profit (2,000×80%)	1,600
Goodwill	5,600		
B/C/F	20,680		
	31,600		**31,600**

Working 08 Non-Controlling Interest

Unrealized Profit (400×25%)	80	B/B/F	18,000
Goodwill	1,400		
B/C/F	16,920	Post Profit (2,000×20%)	400
	18,400		**18,400**

(11 marks)

(Total 15 marks)

End of Section C

Notice:

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