

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2022****(301) FINANCIAL REPORTING**

Most of the common mistakes made by the candidates have been identified. The unsuccessful candidates should identify the mistakes which they made and learn all the principles in order to be successful at the future examinations:

SECTION A**Question No. 01**

- (a) Required the candidates to state two(02) decisions that can be taken by stakeholders of the company using the general purpose financial statements.

Most candidates had mentioned two decisions that can be taken by the stakeholders and scored the allocated marks.

Performance for this part was good.

- (b) Required to explain the difference between completeness and comparability of financial information.

Even though the question required to state the difference between completeness and comparability majority of the candidates explained the two terms instead of stating the differences.

Performance for this part was at a satisfactory level.

Question No. 02

- (a) Required to show how the change in method of depreciation from reducing balance method to straight-line method could be considered in the books of accounts of a company in compliance with SLFRS for SMEs.

Even though this is a change in an accounting estimate some candidates treated it as a policy change. It is required to adjust this in the financial statement prospectively.

Performance for this part was at average level.

- (b) Required to show in the books of accounts of the given company in compliance with SLFRS for SMEs how the borrowing cost incurred up to the completion of construction of a building amounting to Rs. 1.2 million should be shown when the construction cost up to completion was Rs. 31 million and when it was financed through a term loan.

Majority of the candidates disregarded the fact that the answer should be in compliance with SLFS for SMEs. Instead they answered according to the LKAS 23 borrowing costs.

The correct answers should be the borrowing cost needs to be expensed for the relevant accounting period which it was incurred and it should not be capitalized.

Performance for this part was at average level.

- (c) Required to show in the books of accounts of the given company in compliance with SMEs when the company anticipates to change the valuation method of Raw materials from FIFO method to Weighted average method.

Only a few candidates answered correctly that it's a change in accounting policy and its required to apply retrospectively.

Performance for this part was not at a satisfactory level.

Question No. 03

- (a) Required to define the term integrated report. Only a few candidates were able to define an integrated report.

Performance for this part was at a poor level.

- (b) Required to identify 3 key elements of an integrated Report. Only a few candidates were able to identify organizational overview and external environment, business model, governance, strategy and resource allocation, risk and opportunities, performance, outlook and preparation and presentation as key content elements of an Integrated Report.

Performance for this part was at average level.

Question No. 04

- (a) Required to state 3 entities categorized under the Specified Business Enterprises. Some candidates were able to state the entities correctly and scored the allocated marks.

Performance of this part was at an average level.

- (b) Required to state 2 powers of the Sri Lanka Accounting Standards monitoring Board. Average number of candidates answered correctly.

Performance of this part was at a satisfactory level.

SECTION B

Question No. 05

Required to prepare the Statement of Cash Flows for the year ended 31st March 2022 using indirect method.

Most of the candidates answered this question well and earned full marks.

Some candidates had done the following mistakes:

- (1) Net profit before tax amount of Rs.45/- (-100+145) was not taken to the cash flow correctly. Some candidates added both figures and mentioned as Rs.245/-. There were various other calculations which were incorrect.
- (2) Cash flow statement was not classified correctly as Operating Activities, Investments Activities and Finance Activities based on the nature of the cash flows. For example, fixed assets purchasing expenses categorized under operating expenses and gratuity provision was mentioned under investment activity.
- (3) Could not calculate fixed assets depreciation charge correctly.
- (4) Profit on disposal of fixed assets was not calculated correctly. Most of the incorrect answers were noted in this calculation. However, some arrived at the correct figure. But added it to the cash flows even though a profit to be deducted in arriving at the cash inflow/(out flow) before working capital changes.
- (5) In preparing the cash flow statement, cash outflows and inflows were not differentiated. Cash Outflows were not shown as a deduction by showing within brackets and cash inflows were not shown as an addition without brackets.
- (6) Some candidates made mistakes while rounding off. It was noted that some amounts were shown rounding off to Rs.'000 while some figures were not rounded off to Rs.'000. As a result, they could not arrive at the final correct answer.
- (7) Some considered the closing date cash balance as of Rs.2,400/- as the opening cash balance in preparing the cash flows statement.

To Improve Performance: It is recommend to practice more past question papers relating to Cash Flows.

Overall performance for this question was at an average level.

Question No. 06

(A) Part (a) of the question, required to define the term “Financial Instrument” and **part (b)** requested to list 3 items categorized under financial liabilities.

- (a)** Majority of the candidates did not answer the **part (a)** of the question properly. Most of the answers were incorrect. Examples for some of the incorrect answers are given below:

- Financial instrument means the components of financial statements such as the P & L, Balance Sheet, Cash Flow Statement and Equity Statements.
- Financial instrument means the documents that are used to do the transactions in the stock market such as shares, debentures and treasury bills.
- Also mentioned that the financial instrument includes cash inflows and cash outflows of the company.

However, very few has mentioned that financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of other entity as correct definition.

- (b)** Most of the candidates answered correctly. A few mentioned as current liabilities and non-current liabilities while some others mentioned shares, treasury bills and debentures.

- (B)** Required to calculate the borrowing cost to be capitalized based on the given case according to the LKAS 23-Borrowing Cost.

Most of the candidates answered correctly. The following were the mistakes done by a few:

- Finance cost for a year was taken for calculation. Instead of 9 months.
- Interest income of Rs. 0.5 million was apportioned for 9 months and taken the answer as Rs. 0.375 million.
- Some candidates added the interest income in arriving at their final figure.
- Some took the average interest rate for this calculation.

Overall performance for this question was at an average level.

Question No. 07

- (a)** Based on the given case, required to prepare the accounting entries relevant for the years ended 31st March 2022 and 31st March 2023 for the recognition of revenue as per SLFRS 15 - Revenue from contractors with Customers.

Average number of candidates answered this question correctly. While the others did not allocate the turnover proportionately for the two years according to the performance.

- (b)** Required to explain the impact of the two given scenarios on the financial statements as per LKAS 8 - Accounting policies, Changes in Accounting Estimates and Errors:
- Majority answered this question correctly and earned average 3 marks out of 4.
 - For **part (i)** as per the question the machinery had not been in use continuously for the production. Therefore, some candidates mentioned that it does not have any impact and no need to adjust in the financial statements. Marks were given for this answer too.

Overall performance for this question was at an average level.

SECTION C

Question No. 08

This question tested the knowledge on preparation of Statement of Comprehensive Income Statement, Statement of Financial Position, Statement of Changes in Equity and Depreciation Schedule of a Listed Company.

Common Mistakes that were made by the candidates are as follows:

Statement of Comprehensive Income:

- (1) Stock written off Rs.1.6 million was taken to Selling & Distribution Expenses without adjusting the Cost of Sales.
- (2) Revaluation Surplus of Rs. 5 million taken to Other Income instead of Other Comprehensive Income.
- (3) Entire balance in Revaluation Reserve of 25 million taken to Other Comprehensive Income instead of 5 million.
- (4) Lease rental of Rs.988,000/- was taken as Finance Expenses.
- (5) Lease Advance payment of Rs. 1 million was taken as Finance Expenses.
- (6) Provision of debtors Rs.6.2 million shown as Selling & Distribution Expenses.
- (7) Compensation was not taken as an expense.
- (8) B/F Income Tax balance was taken as Income Tax Expense for the year.

Statement of Financial Position:

- (1) Failed to calculate the lease liability amount correctly.
- (2) Provision for Debtors Rs.6.2 million taken as a current liability.
- (3) Failed to identify the current portion of the lease liability under current liabilities and noncurrent portion of it under non-current liabilities.
- (4) Down payment of Rs.1 million on RTU asset was recognized as an advance payment under current assets.
- (5) RTU asset was not taken to asset schedule.
- (6) Compensation payable was not provided in the Statement of Financial Position.

Statement of Changes in Equity:

Considerable number of candidates took the total comprehensive income or profit before tax of the year to the retained earnings instead of taking the profit after tax.

Areas to be improved: Knowledge on relevant LKASs and SLFRSs and preparation of Financial Statements.

This question was answered well by majority of the candidates.

Performance of this question was at a satisfactory level.

Question No. 09

- (a) Required to calculate basic ratios from the Financial Statements. Gross profit ratio, current ratio, debtors collection period, Stock residence period, Creditor's settlement period, gearing ratio, interest cover & Asset turnover ratio.
- (b) Required to state 2 possible ways of improving Gross Profit ratio and Stock Residence period.

Few candidates scored full marks for this question. Average number of the candidates could not calculate assets turnover ratio and the gearing ratio correctly. Majority of the candidates failed to give 2 possible ways to improve stock residency period.

Following were the mistakes made by some of the candidates:

- When computing the GP ratio, Gross Profit was divided by Cost of Sales, instead of the Sales.
- Debtors Collection Period, Creditor's Settlement Period and Stock Residence Period were shown as percentages instead of days / months.
- Many candidates failed to calculate Gearing ratio and Asset Turnover Ratio correctly.
- Some showed the Interest Cover as a percentage instead of number of times.
- Many failed to give two correct ways to improve stock residence period.

Areas to be improved: Calculation of ratios and their interpretation

Performance for this part was at a satisfactory level.

Question No. 10

- (a) Required to calculate goodwill arising from consolidation. Majority of candidates calculated the goodwill on acquisition correctly. Some of them failed to take the goodwill amount to the Statement of Financial Position.
- (b) Required to prepare the Consolidated Statement of Financial Position as at 31st March 2022.

Following were the common mistakes made by the candidates:

- Majority of the candidates calculated the margin of 25 % instead of 25 % mark up when calculating the unrealized profits of unsold inventory.
- Profit of Rs. 5 million from disposal of land was not removed from the PPE of consolidated Statement of Financial Position.
- Profit on land disposal was not debited to retained earnings of Parent and the NCI based on the acquisition ratio
- Post-acquisition profits of BL were not shared between Consolidated retained earnings and NCI.

- Unrealized profit on unsold inventory was not debited to the consolidated retained earnings and NCI based on the acquisition ratio.
- Average number of the candidates failed to pass the goodwill impairment entry by debiting consolidated retained earnings and crediting goodwill.

To improve performance: Preparation of Consolidated Statement of Financial Position

Overall performance for this question was at an average level.

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General points to be considered in developing the level of Understanding of candidates:

- (1) Studying well the contents of the entire syllabus and develop a thorough understanding of the level of knowledge expected for each chapter or area.
- (2) Candidates should read the questions carefully and provide answers to the question asked.
- (3) Should show all the workings for the figures arrived at.
- (4) Should state all the assumptions if there are any.
- (5) Should start each question on a new sheet of paper and question number should be clearly stated.
- (6) Hand writing should be legible.
- (7) Practising past questions many times will help sharpening knowledge, skills and gaining speed. This will also be advantageous as similar types of questions may be repeated in the future examinations.
- (8) Reference to Accounting Standards, Suggested Answers, Articles related to subject area will definitely improve your knowledge.
- (9) Time management is crucial at the examination. In answering questions, candidates should spend time based on the marks allocated to each question.
- (10) Should sit at the examination with due preparation and with firm determination of passing the examination.

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