



**ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**LEVEL III EXAMINATION - JULY 2022**

**(301) FINANCIAL REPORTING**

20-08-2022  
Morning  
[08.45 – 12.00]

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

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

Writing : 03 hours

No. of Pages : 10

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.**

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**SECTION A**

(Total 20 marks)

**Question 01**

(a) One of the main objectives of general purpose financial statements is to enable users to make various economic decisions.

**You are required to:**

**State** two(02) decisions that can be taken by stakeholders of the company using the general purpose financial statements. (02 marks)

(b) Information in the financial statements is subject to the risk of not giving a faithful representation about the phenomena that it purports to represent.

**You are required to:**

**Explain** the difference between completeness and comparability of financial information.

(03 marks)  
(Total 05 marks)

## Question 02

**ABC (Pvt) Ltd.** commenced its operations in 2018 and the entity is classified as a Small and Medium sized entity. **Perera**, a Financial Consultant has been approached by the company to clarify on the following matters.

- (a) The company has changed its method of depreciation from reducing balance method to straight-line method with effect from 01<sup>st</sup> April 2021. Impact of such change to the accumulated depreciation was Rs. 1.2 Million.
- (b) The company constructed a new factory building of Rs. 31 Million and it was financed through a term loan. Borrowing cost up to the completion of construction of the building was Rs. 1.2 Million.
- (c) The company anticipates to change the valuation method of raw materials to First-In-First-Out (FIFO) method from Weighted Average Method (WAM).

**You are required to:**

**Explain** how each of the above matters could be considered in the books of accounts of **ABC (Pvt) Ltd.** in compliance with the SLFRS for SMEs. (05 marks)

## Question 03

Integrated Reporting (IR) has widely recognized as a process of creating corporate value and sustainability to a business.

**You are required to:**

- (a) **Define** the term “Integrated Report”. (02 marks)
  - (b) **Identify** three(03) key content elements of an Integrated Report. (03 marks)
- (Total 05 marks)

## Question 04

After the enactment of the Accounting and Auditing Standards Act No. 15 of 1995, adhering to the Sri Lanka Accounting Standards has become a legal requirement and that is applicable for the specific business enterprises.

**You are required to:**

- (a) **State** three(03) entities categorized under the Specific Business Enterprises. (03 marks)
- (b) **State** two(02) powers of the Sri Lanka Accounting and Auditing Standards Monitoring Board. (02 marks)

(Total 05 marks)

\_\_\_\_\_ *End of Section A* \_\_\_\_\_

## **SECTION B**

(Total 30 marks)

### **Question 05**

The Statements of Financial Position of **Manel (Pvt) Ltd.** as at 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2021 are given below:

As at 31 <sup>st</sup> March	2022	2021
<b>Non-Current Assets:</b>		
Property, Plant and Equipment	7,200	6,000
Accumulated Depreciation	(4,100)	(3,500)
<b>Carrying Value</b>	<b>3,100</b>	<b>2,500</b>
<b>Current Assets:</b>		
Inventories	3,120	4,360
Trade and Other Receivables	1,980	2,930
Cash and Cash Equivalents	2,400	860
	<b>7,500</b>	<b>8,150</b>
<b>Total Assets</b>	<b>10,600</b>	<b>10,650</b>
<b>Equity and Liabilities:</b>		
<b>Equity:</b>		
Stated Capital	2,000	2,000
Retained Earnings	2,690	2,790
	<b>4,690</b>	<b>4,790</b>
<b>Non-Current Liabilities:</b>		
Long Term Loans	2,200	2,050
Employee Benefits (Provision for Gratuity)	1,750	1,250
	<b>3,950</b>	<b>3,300</b>
<b>Current Liabilities:</b>		
Short-Term Loans	210	150
Trade Payables	1,390	2,140
Interest Payable	150	120
Income Tax Payable	210	150
	<b>1,960</b>	<b>2,560</b>
<b>Total Equity and Liabilities</b>	<b>10,600</b>	<b>10,650</b>

The following additional information is also provided:

- (1) Income tax expense for the year ended 31<sup>st</sup> March 2022 was Rs.145,000/-.
- (2) A machinery purchased at Rs.1.1 million was disposed on 01<sup>st</sup> April 2021 for Rs. 1.5 million. Accumulated depreciation of this machinery as at 01<sup>st</sup> April 2021 was Rs.500,000/-. A new machinery has been purchased on 31<sup>st</sup> March 2022 as a replacement.
- (3) Interest expense for the year was Rs.350,000/- and a new loan of Rs.900,000/- was obtained during the year.
- (4) Provision for gratuity for the year ended 31<sup>st</sup> March 2022 was Rs.600,000/-.
- (5) No dividends were paid to the ordinary shareholders during the year ended 31<sup>st</sup> March 2022.

**You are required to:**

**Prepare** the Statement of Cash Flows for **Manel (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2022 using indirect method.

(10 marks)

## Question 06

- (A) Financial Instruments are becoming complex with the recent developments in the financial market across the globe.

**You are required to:**

- (a) **Define** the term “Financial Instrument”. (02 marks)  
(b) **List** three(03) items categorized under financial liabilities. (03 marks)

- (B) **Sakwithi (Pvt) Ltd.**, has started construction of the new factory building on 01<sup>st</sup> April 2021 and it was completed on 31<sup>st</sup> December 2021. Total cost incurred on this building was Rs.50 million. This construction project was totally financed through a project loan of Rs.40 million and another term loan of Rs.10 million. These facilities were obtained on 01<sup>st</sup> April 2021 and those were fully utilized for this construction during the year. Interest rates per annum for the project loan and term loan are 10% and 9% respectively. In addition, the company generated an interest income of Rs.0.5 million during the financial year from the investment of money market instruments out of the proceeds received from project loan until such is being utilized. Interest on loans was paid by the company during the year 2021/22, and capital repayments of loans are made from the year 2022/23.

**You are required to:**

**Calculate** the borrowing cost to be capitalized for the year ended 31<sup>st</sup> March 2022 as per LKAS 23-Borrowing Cost. (05 marks)

(Total 10 marks)

## Question 07

- (a) **Digicell Ltd.** is a telecommunication company engaged in selling of brand new laptops and providing internet facilities. On 01<sup>st</sup> April 2021, the company entered into a two year contract with a customer to supply a laptop and internet facilities for a monthly rental of Rs.10,000/-.

If this sells separately, the market price of a laptop is Rs.100,000/- and internet charge per month is Rs.7,000/-.

**You are required to:**

**Prepare** accounting entries relevant for years ended 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2023 of **Digicell Ltd.** for the recognition of revenue as per SLFRS -15 - Revenue from Contracts with Customers. (06 marks)

- (b) The accountant of **Rusiru Ltd.** has found the following incidents occurred during the year ended 31<sup>st</sup> March 2022:

- (1) With the installation of new machinery with the advance technology and production capacity, one of the machinery used in the production department has not been continuously using for the production. This machinery was impaired by Rs.7.5 million as at 31<sup>st</sup> March 2022. It was noticed that this impairment loss has not been adjusted in the financial statements of financial year 2021/22 of **Rusiru Ltd.**

- (2) Accountant further identified that depreciation during the financial year ended 31<sup>st</sup> March 2022 on a newly purchased motor vehicle was not accounted and depreciation amount for the year was Rs.750,000/-.

**You are required to:**

**Explain** the impact of the above scenarios on the financial statements for the year ended 31<sup>st</sup> March 2022 of **Rusiru Ltd.** as per LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

(04 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 **Jackson PLC** as at 31<sup>st</sup> March 2022:

<b>Jackson PLC</b>		<i>(Rs.'000)</i>
<b>Trial Balance as at 31<sup>st</sup> March 2022</b>		
	<b>Dr.</b>	<b>Cr.</b>
Stated Capital (10,000,000 Ordinary Shares)		100,000
Retained Earnings as at 01 <sup>st</sup> April 2021		14,500
<b>Property, Plant and Equipment at Cost:</b>		
Land & Building (Land value - Rs.20 million)	38,000	
Machinery	14,000	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2021:</b>		
Building		9,000
Machinery		8,000
Inventory as at 31 <sup>st</sup> March 2022 at Cost	41,000	
Trade Receivables / Trade Payables	37,000	17,900
Cash in Hand and at Bank	7,200	
Fixed Deposits - Matured in 6 months	20,000	
Allowance for Trade Receivables as at 31 <sup>st</sup> March 2022		6,200
Pre-payments	12,000	
Income Tax Paid	6,100	
Cost of Sales / Sales	102,800	168,000
Interest Income Received		2,800
Advance Lease Payment	1,988	
Income Tax Payable as at 01 <sup>st</sup> April 2021		4,300
Administration Expenses	17,700	
Distribution Expenses	29,912	
Finance Expenses	3,000	
	<b>330,700</b>	<b>330,700</b>

The following additional information is also provided:

- (1) Net Realizable Value (NRV) of the inventory as at 31<sup>st</sup> March 2022 was Rs.39,400,000/-.
- (2) As at 31<sup>st</sup> March 2022, the company has revalued its land to Rs.25,000,000/- and it was not recorded in the books of accounts.
- (3) A new motor vehicle was purchased under a finance lease on 01<sup>st</sup> April 2021. Fair value of the leased motor vehicle was Rs. 4 million and the lease term was 4 years. Annual lease Installment of Rs.988,000/- should be settled on 31<sup>st</sup> March of each year. Implicit interest rate is 12% per annum. The ownership of the motor vehicle is transferred to **Jackson PLC** at the end of the lease term. Down payment made on the motor vehicle of Rs.1 million and 01<sup>st</sup> installment of Rs.988,000/- have been recorded under the Advance Lease Payment Account. Other than that no entries were made in the books of accounts in this regard.
- (4) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

Building	:	50 years
Machinery	:	05 years
Motor vehicle	:	04 years
- (5) Audit fee of Rs.400,000/- related to the financial year ended 31<sup>st</sup> March 2022 has not been accounted and Pre-payments account represents insurance payment made for entire calendar year of 2022.
- (6) The total income tax liability for the year of assessment 2020/21 was Rs.4,300,000/- which was paid during the year of assessment 2021/22 and the amount paid has been charged to the income tax paid account. The total income tax liability for the year of assessment 2021/22 is estimated to be Rs.7,300,000/-.
- (7) A customer of the company has filed a case against the company during the year 2021/22. As per the judgment on 25<sup>th</sup> April 2022, the company has to pay Rs.375,000/- as a compensation.
- (8) Interest income of Rs.250,000/- for the month of March 2022 on fixed deposits was received on 02<sup>nd</sup> April 2022.
- (9) The board of directors of the company approved the financial statements for issue on 31<sup>st</sup> May 2022.

**You are required to:**

**Prepare** the following, for **Jackson PLC** in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2022. (09 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2022. (09 marks)
  - (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2022. (02 marks)
  - (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2022. (05 marks)
- (Total 25 marks)

## Question 09

The following Financial Statements have been extracted from the books of **Kaison Ltd.** as at / for the year ended 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2021:

**Kaison Ltd.**  
**Extract from the Statement of Income**  
**For the Year Ended 31<sup>st</sup> March 2022**

	Rs.'000
Sales	76,000
Cost of Sales	(49,400)
Gross Profit	26,600
Profit Before Interest and Tax	11,000
Interest Expenses	(2,600)
Profit Before Tax	8,400
Profit After Tax	7,140

**Kaison Ltd.**  
**Statements of Financial Position** (Rs.'000)

	As at 31 <sup>st</sup> March 2022		As at 31 <sup>st</sup> March 2021	
<b>Assets:</b>				
<b>Non-Current Assets:</b>				
Property, Plant and Equipments at carrying value		140,000		132,000
<b>Current Assets:</b>				
Inventories	41,000		40,000	
Trade Receivables	27,000		22,000	
Cash and Cash Equivalents	7,200	75,200	6,400	68,400
<b>Total Assets:</b>		<b>215,200</b>		<b>200,400</b>
<b>Equity and Liabilities:</b>				
<b>Equity:</b>				
Stated Capital		100,000		100,000
Retained Earnings		45,000		37,860
<b>Non-Current Liabilities:</b>				
Long Term Loan		18,000		24,000
<b>Current Liabilities:</b>				
Trade Payables	35,700		27,000	
Income Tax Payable	4,500		5,500	
Accrued Expenses	12,000	52,200	6,040	38,540
<b>Total Equity and Liabilities</b>		<b>215,200</b>		<b>200,400</b>

Assume all sales and purchases are on credit basis.

**You are required to:**

(a) **Calculate** the following ratios of **Kaison Ltd.** based on the above information for the financial year ended / as at 31<sup>st</sup> March 2022:

- |                                   |                                 |
|-----------------------------------|---------------------------------|
| (i) Gross Profit Ratio.           | (v) Creditor' Settlement Period |
| (ii) Current Ratio.               | (vi) Gearing Ratio.             |
| (iii) Debtors' Collection Period. | (vii) Interest Cover.           |
| (iv) Stock Residence Period.      | (viii) Assets Turnover Ratio.   |
- (08 marks)

(b) **State** two(02) possible ways of improving below ratios of **Kaison Ltd.:**

- |                         |                              |
|-------------------------|------------------------------|
| (i) Gross Profit Ratio. | (ii) Stock Residence Period. |
|-------------------------|------------------------------|
- (04 marks)

(Total 12 marks)

### Question 10

The following Statements of Financial Position were extracted from **Astro Ltd. (AL)** and **Bestro Ltd. (BL)** as at 31<sup>st</sup> March 2022:

**Statements of Financial Position**  
as at 31<sup>st</sup> March 2022

(Rs.'000)

	AL	BL
<b>Non-Current Assets:</b>		
Property, Plant and Equipment at Cost	50,000	15,000
Accumulated Depreciation	(15,400)	(3,750)
Carrying Value	34,600	11,250
Investment in <b>BL</b>	50,000	-
<b>Current Assets:</b>		
Inventories	12,300	15,000
Trade Receivables	30,200	10,900
Balance Due from <b>AL</b>	-	2,000
Cash and Cash Equivalents	2,750	1,550
<b>Total Assets</b>	<b>129,850</b>	<b>40,700</b>
<b>Equity:</b>		
Stated Capital	60,000	25,000
Retained Earnings	27,800	9,900
	<b>87,800</b>	<b>34,900</b>
<b>Non-Current Liabilities:</b>		
Bank Loan	16,000	-
<b>Current Liabilities:</b>		
Trade Payables	20,350	5,140
Balance Due to <b>BL</b>	2,000	-
Bank Overdraft	3,700	660
<b>Total Equity and Liabilities</b>	<b>129,850</b>	<b>40,700</b>



The following additional information is also provided:

- (1) **AL** acquired 80% of ordinary share capital of **BL** on 01<sup>st</sup> April 2021. Fair value of the non-controlling interest on the date of acquisition was Rs.6,000,000/- and fair value of the identical net assets of **BL** was equal to its book value. As at the date of acquisition, the retained earnings of **BL** was stood at Rs.7,000,000/-.
- (2) During the year, **BL** has sold goods to **AL** with a mark-up of 25%. As at 31<sup>st</sup> March 2022, an unsold inventory worth of Rs.3.5 million, which was purchased from **BL** was included in the inventory of **AL**. Further, Rs.2 million payable on this transaction was included in the receivables of **BL** and payables of **AL** as at 31<sup>st</sup> March 2022.
- (3) During the year, a land purchased for Rs.5 million by **BL** was disposed for Rs.10 million to **AL**.
- (4) The impairment review on goodwill was carried out on 31<sup>st</sup> March 2022 and it was revealed that goodwill was impaired by Rs.300,000/-.

**You are required to:**

- (a) **Calculate** the goodwill arising from the consolidation. (03 marks)
- (b) **Prepare** Consolidated Statement of Financial Position as at 31<sup>st</sup> March 2022. (10 marks)  
(Total 13 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.