



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2024

(301) FINANCIAL REPORTING

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

10-08-2024
Morning
[08.45 – 12.00]

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

Writing : 03 hours

No. of Pages : 11

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.**

SECTION A

(Total 20 marks)

Question 01

(a) **Explain** the following concepts as per the Conceptual Framework for Financial Reporting:

(i) A Reporting Entity.

(ii) An Economic Resource.

(03 marks)

(b) **Explain** the objective of general purpose financial statements.

(02 marks)

(Total 05 marks)

Question 02

An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects in the context of its external environment lead to the creation of value over the short, medium and long-term.

You are required to:

(a) **Identify** three(03) types of capitals included in an Integrated Report.

(03 marks)

(b) **State** two(02) objectives of the Integrated Reporting.

(02 marks)

(Total 05 marks)

Question 03

The following information was extracted from **ABC Ltd.** as at 31st March 2024:

(1) Details of Property, Plant and Equipment are as follows:

(Rs.'000)

Assets	Cost	Carrying Value (Accounting Written Down Value) as at 31 st March 2024	Cumulative Depreciation as per Tax Purpose as at 31 st March 2024 (Capital Allowance)
Land	8,000	8,000	-
Motor Vehicles	12,000	6,500	9,800

(2) Deferred tax liability as at 01st April 2023 was Rs.650,000/-.

(3) **ABC Ltd.** pays income tax at the rate of 30% per annum and taxable profit for the year ended 31st March 2024 was Rs.2,600,000/-.

You are required to:

Calculate the following:

(a) Deferred Tax Asset / Liability as at 31st March 2024. (03 marks)

(b) Tax expenses for the year ended 31st March 2024. (02 marks)

(Total 05 marks)

Question 04

Sigma Ltd. acquired 75% of the share capital of **Beta Ltd.** for Rs.125 million on 01st April 2023. At the date of acquisition, the book value of net assets of **Beta Ltd.** were as follows:

	Rs.'000
Stated Capital	100,000
General Reserve	24,000
Retained Earnings	12,000
	136,000

At the date of acquisition, the fair value of the net assets of **Beta Ltd.** was 10% higher than the book value of net assets due to the market value appreciation of motor vehicles. On that date, the fair value of non-controlling interest was Rs. 40 million.

You are required to:

Calculate the goodwill arising from the acquisition.

(05 marks)

SECTION B

(Total 30 marks)

Question 05

(a) On 01st January 2023, **Sun Sola Ltd.** commenced the construction of solar power plant in Mannar and completed the construction on 30th November 2023. The management expects to identify the borrowing cost that can be capitalized in the cost of power plant.

(1) Total construction cost was Rs.400 million and the following payments were made to the constructor of the solar power plant:

Description	Date of Payment	Rs.('000)
First Bill	01.02.2023	50,000
Second Bill	31.03.2023	100,000
Third Bill	01.09.2023	140,000
Final Bill	30.11.2023	110,000
		400,000

(2) The loan from **XYZ Bank** was obtained and it was fully utilized for the construction of solar power plant. Balance amount incurred on construction was used from the loan obtained from **ABC Bank**. Details of these finance facilities are as follows:

Bank	Loan Amount (Rs. '000)	Rate of Annual Interest	Date Obtained
ABC Bank	550,000	12%	30.04.2023
XYZ Bank	200,000	13%	01.01.2023

(3) Capital repayments of both loans were started from 01st January 2024.

You are required to:

Calculate the borrowing costs to be capitalized under Solar Power Plant as at 31st December 2023 as per LKAS 23 – Borrowing Cost. (04 marks)

(b) The following events were occurred in **Lanka PLC** after the reporting period but before the authorization of financial statements for the year ended 31st March 2024:

(1) On 15th April 2024, a public announcement was made by the company to communicate the formal plan for discontinuing one of its major operations and it will cost Rs.50 million to dismantle the building and other equipment.

- (2) The company pays annual bonus of Rs. 12 million to its employees as a practice in every year. Accordingly, an annual bonus of Rs. 12 million for employees on the profit for the year ended 31st March 2024 has been approved to pay by the Board of Directors of the Company on 20th April 2024.
- (3) On 10th May 2024, investments of the company amounting to Rs.10 million at the year-end were disposed for Rs. 6 million in response to a market crash occurred during the 1st week of May 2024.
- (4) The Board of Directors has approved a final dividend of Rs.5/- per share at the meeting held on 15th May 2024 to ordinary shareholders on profit for the year.

Assume that financial statements were authorized for issue by the Board of Directors on 20th May 2024.

You are required to:

Explain how each of the above instances would be recognized in the financial statements for the year ended 31st March 2024 of **Lanka PLC** as per LKAS 10-Events after the Reporting Period.

(06 marks)

(Total 10 marks)

Question 06

- (a) A motor vehicle was acquired for Rs.6,500,000/- on 01st April 2021 and the useful life of the motor vehicle is 5 years. Motor vehicles are depreciated on the straight-line basis at cost. On 31st March 2024, the company has carried out an impairment test and it was revealed that the fair value less cost of the disposal of the motor vehicle was Rs.2,300,000/- and value in use was Rs.2,400,000/-.

You are required to:

Calculate the impairment loss of the motor vehicle as per LKAS 36 – Impairment of Assets.

(05 marks)

- (b) **Sard Ltd.** is engaged in selling Air Conditioners and providing maintenance services. On 01st April 2023, the company has entered into a 2 year contract with a customer to supply an air conditioner with maintenance service at a monthly charge of Rs.15,000/-.

If this sells separately, the market price of an air conditioner is Rs.240,000/- and monthly maintenance service is Rs.6,000/-.

You are required to:

Identify the revenue for the years ended 31st March 2024 and 31st March 2025 on the above transaction as per SLFRS 15 – Revenue from Contracts with Customers. (05 marks)

(Total 10 marks)

Question 07

The Statements of Financial Position of **Dots (Pvt) Ltd.** as at 31st March 2024 and 31st March 2023 are given below:

Dots (Pvt) Ltd.		
Statements of Financial Position		<i>(Rs.'000)</i>
As at 31st March	2024	2023
Non-Current Assets:		
Property, Plant and Equipment	150,126	136,420
Accumulated Depreciation	(119,500)	(112,540)
Carrying Value	30,626	23,880
Current Assets:		
Inventories	125,786	118,970
Trade and Other Receivables	39,041	116,870
Cash and Cash Equivalents	13,500	12,300
	178,327	248,140
Total Assets	208,953	272,020
Equity and Liabilities:		
Equity:		
Stated Capital (13,800,000 ordinary shares)	138,000	138,000
Retained Earnings	7,262	(12,800)
	145,262	125,200
Non-Current Liabilities:		
Long-Term Loans	26,000	106,800
Employee Benefits (Provision for Gratuity)	16,300	15,900
	42,300	122,700
Current Liabilities:		
Trade Payables	12,300	15,200
Short-term Loans	5,400	5,000
Interest Payable on loans	1,450	1,600
Income Tax Payable	2,241	2,320
	21,391	24,120
Total Equity and Liabilities	208,953	272,020

The following additional information is also provided:

- (1) Profit before tax and interest for the year ended 31st March 2024 was Rs.30,300,000/-.
- (2) Income tax expense for the year ended 31st March 2024 was Rs.290,000/-.
- (3) An interim dividend payment was made on 31st January 2024.
- (4) A motor vehicle was disposed for Rs.8.5 million on 30th September 2023. The cost of the motor vehicle was Rs.5.2 million while accumulated depreciation as at 01st April 2023 was Rs. 4.2 million. Motor vehicles are depreciated on the straight-line basis at cost over 5 years. A new vehicle has been purchased on 01st October 2023 as a replacement and capitalized on the same date.
- (5) A new working capital loan of Rs. 5 million was obtained during the year and interest expense on loans for the year ended 31st March 2024 was Rs.8,075,000/-.

(6) Provision for gratuity during the year was Rs.400,000/- and there were no payments during the year as gratuity.

You are required to:

Prepare the Statement of Cash Flows of **Dots (Pvt) Ltd.** for the year ended 31st March 2024 using indirect method. (10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

The following trial balance was extracted from the books of accounts of **Printing Solutions PLC** as at 31st March 2024:

Printing Solutions PLC
Trial Balance as at 31st March 2024 (Rs.'000)

	Dr.	Cr.
Stated Capital (10,000,000 ordinary Shares)		125,000
Retained Earnings as at 01 st April 2023		30,000
Revaluation Reserve as at 01 st April 2023		8,000
Property, Plant and Equipment at Cost / Revalued Amount:		
Land at revalued amount (Cost - Rs.17 million)	25,000	
Building	27,000	
Machinery	22,000	
Accumulated Depreciation as at 01st April 2023:		
Building		15,000
Machinery		8,800
Disposal Account		3,000
Capital Work-In-Progress	38,400	
Lease Payment	3,344	
Inventory as at 31 st March 2024 at Cost	63,000	
Trade Receivables / Trade Payables	56,000	41,000
Cash in Hand and at Banks	22,356	
Allowance for Trade Receivables as at 01 st April 2023		4,000
Cost of Sales / Sales	124,000	255,000
Other Income		8,300
Income Tax Payable as at 01 st April 2023		4,300
Income Tax Paid	9,500	
Administration Expenses	51,600	
Distribution Expenses	35,100	
Finance Expenses	25,100	
	502,400	502,400

The following additional information is also provided:

- On 01st January 2024, the company sold one of its printing machinery for Rs. 5 million. Cost and the accumulated depreciation at the date of disposal related to this machinery were Rs. 6 million and 1.8 million respectively. On the same date the buyer has paid Rs. 3 million and this has been credited to the disposal account. The balance amount was paid in April 2024 by the buyer. Other than recording cash received, no entries have been made in the books of accounts.

- (2) On 01st April 2023, the company acquired a new Printing Machinery at a cost of Rs. 10 million on 100% finance lease facility. Lease installment is paid annually at the end of the year and annual lease rental is Rs3,344,000/-. Lease period is 05 years and the implicit interest rate is 20% per annum. The ownership of the machinery will be transferred to the company at the end of the lease term. The lease rental made during the year is recorded under lease payment account and no any other accounting entries were made in this regard.
- (3) As per the company's policy, the land is revalued in every 3 year. Accordingly, it was valued again on 31st March 2024 to Rs.28,000,000/-. But this was not recorded in the books of accounts.
- (4) The company completed the construction of its new administration building and used for its operation from 01st January 2024. Total construction cost incurred on this building was recorded under the capital work-in-progress account.
- (5) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of Property, Plant and Equipment are as follows:
- | | |
|-----------|------------|
| Buildings | : 50 years |
| Machinery | : 05 years |
- (6) Allowance for Trade Receivables balance on 01st April 2023 included a specific provision of Rs.2,000,000/- receivable from **Sahana book shop**. Now it has been confirmed that this amount is irrecoverable and has to be written off as a bad debt. Further, it was also decided by the management to maintain the Allowance for Trade Receivables at 5% of the balance trade receivables as at 31st March 2024.
- (7) Accrued income tax liability as at 01st April 2023 was Rs.4,300,000/- and the total income tax liability for the year of assessment 2023/24 is estimated to be Rs.5,600,000/-. Income tax payments made during the year ended 31st March 2024 was charged to "Income Tax Paid" account.
- (8) The board of directors of the company approved the financial statements for issue on 31st May 2024.

You are required to:

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2024. (09 marks)
- (b) Statement of Financial Position as at 31st March 2024. (08 marks)
- (c) Statement of Changes in Equity for the year ended 31st March 2024. (03 marks)
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2024. (05 marks)
- (Total 25 marks)

Question 09

Extract of Statements of Comprehensive Income of **Sun PLC** for the years ended 31st March 2024 and 31st March 2023 and Statements of Financial Position as at 31st March 2024 and 31st March 2023 are as follows:

Sun PLC
Extract from the Statements of Income (Rs.'000)

For the years ended 31 st March	2024	2023
Sales	210,000	99,500
Cost of Sales	(125,500)	(66,100)
Gross Profit	84,500	33,400
Profit Before Interest and Tax	71,600	19,500
Interest Expense	(11,200)	(8,700)
Profit Before Tax	60,400	10,800
Profit After Tax	42,150	8,100

Sun PLC
Statements of Financial Position (Rs.'000)

As at 31 st March	2024	2023
Assets:		
Non-Current Assets:		
Property, Plant and Equipments – at Carrying Value	155,000	140,000
Current Assets:		
Inventories	65,000	35,000
Trade Receivables	35,000	26,000
Cash and Cash Equivalents	41,000	15,400
	141,000	76,400
Total Assets	296,000	216,400
Equity:		
Stated Capital	125,000	125,000
Retained Earnings	74,750	45,100
	199,750	170,100
Long Term Liabilities:		
Long Term Loan	29,000	21,000
Current Liabilities:		
Trade Payables	55,100	8,700
Income Tax Payable	5,500	4,600
Accrued Expenses	6,650	12,000
	67,250	25,300
Total Equity and Liabilities	296,000	216,400

Consider the following additional information:

- (1) Trade receivables and inventory as at 31st March 2022 were Rs.30,000,000/- and 40,000,000/- respectively.

(2) Information relating to ordinary shares are as follows:

As at 31 st March	2024	2023
Weighted Average No. of Shares in Issue	1,250,000	1,250,000
Market Value of a Share	Rs.32/-	Rs.15/-

(3) Assume that all sales and purchases are made on credit basis.

You are required to:

(a) **Calculate** the following ratios of **Sun PLC** based on the above information for the year ended / as at 31st March 2024 and 31st March 2023:

- | | |
|---------------------------|----------------------------------|
| (i) Gross Profit Ratio. | (iv) Debtors' Collection Period. |
| (ii) Net Profit Ratio. | (v) Stock Residence Period. |
| (iii) Quick Assets Ratio. | (vi) Earning Per Share. |

(10 marks)

(b) **Prepare** a summary report to the management of **Sun PLC** about the above ratios comparing the above two years with possible reasons for variances.

(05 marks)

(Total 15 marks)

Question 10

Rama Ltd. acquired 80% of the ordinary share capital of **Seetha Ltd.** on 01st April 2023 for Rs. 100 million. The goodwill arising from the acquisition was Rs. 18 million. The Statements of Comprehensive Income of **Rama Ltd.** and **Seetha Ltd.** for the year ended 31st March 2024 were as follows:

Statements of Comprehensive Income for the year ended 31st March 2024

(Rs.'000)

	Rama Ltd.	Seetha Ltd.
Sales	800,000	500,000
Cost of Sales	(465,000)	(225,000)
Gross Profit	335,000	275,000
Other Income:		
Management Fee and Interest Income	3,600	1,200
Profit on Disposal of Property, Plant and Equipment	9,500	1,900
Expenses:		
Distribution Expenses	(64,000)	(134,000)
Administration Expenses	(114,000)	(98,000)
Finance Expenses	(12,000)	(21,000)
Profit Before Tax	158,100	25,100
Income Tax	(41,000)	(5,100)
Profit for the Year	117,100	20,000
Other Comprehensive Income	(1,400)	3,200
Total Comprehensive Income	115,700	23,200

The following additional information is also provided:

- (1) During the year, **Rama Ltd.** has sold goods costing Rs.120 million to **Seetha Ltd.** at a profit margin of 20 % on cost. As at 31st March 2024, inventory worth of Rs.45 million purchased from **Rama Ltd.** was remained unsold at the store of **Seetha Ltd.**
- (2) A monthly management fee of Rs.300,000/- has been charged by **Rama Ltd.** from **Seetha Ltd.** on providing management consultation services.
- (3) On 01st April 2023, **Seetha Ltd.** sold a machinery to **Rama Ltd.** for Rs.8,000,000/-. On that date, the carrying value of this machinery was Rs.7,200,000/- . The remaining useful life of the machinery as at 01st April 2023 was 5 years.
- (4) **Rama Ltd.** obtained a short-term loan of Rs.25 million from **Seetha Ltd.** and interest for the year on the loan was Rs.1.2 million and it was paid by **Rama Ltd.** during the year.
- (5) Impairment test was carried out on 31st March 2024 and it was revealed that the Goodwill on acquisition has been impaired by Rs. 2 million.

You are required to:

Prepare the Consolidated Comprehensive Income Statement for the year ended 31st March 2024. (10 marks)

End of Section C

ACTION VERBS CHECK LIST

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

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

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

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