

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2025

(301) FINANCIAL REPORTING

01-02-2025
Morning
[08.45 - 12.00]

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

(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

Accounting profession will go through remarkable changes in future periods and professional bodies including their members and educational institutions have to respond to those changes.

You are required to:

(a) **Identify** three(03) new trends in the accounting profession. (03 marks)

Elements recognized in financial statements are quantified in monetary basis and it requires the selection of a measurement basis.

(b) **State** two(02) measurement bases used for the measurement of the elements of financial statements as per the Conceptual Framework for Financial Reporting. (02 marks)

(Total 05 marks)

Question 02

Sustainability Reporting has become a very important part of the Integrated Reporting in the recent past which combines financial and non-financial parameters. The Integrated Reporting covers business values & ethics, activities of sustainability, etc.

You are required to:

(a) **State** the main purpose of the Sustainability Reporting. (02 marks)

(b) **State** three(03) guiding principles of the Integrated Reporting. (03 marks)

(Total 05 marks)

Question 03

Gross profit ratio and debtors' collection period of **XYZ Ltd.** for the years ended 31st March 2024 and 31st March 2023 were as follows:

For the Year Ended 31 st March	2024	2023
Gross Profit Ratio	28%	45%
Debtors' Collection Period	128 Days	65 Days

You are required to:

- (a) **List** a possible action each to be taken for improvement of the above ratios in subsequent years. (02 marks)
- (b) **List** three(03) limitations of Ratio Analysis. (03 marks)
- (Total 05 marks)

Question 04

The following information was extracted from the books of accounts of **Omega Ltd.** for the year ended 31st March 2024:

- (1) On 01st January 2024, the company has conducted a market research for the development of a new product and an amount of Rs. 2 million was paid to a research company for this purpose.
- (2) The patent right of the product was registered on 20th March 2024 incurring Rs.75,000/-.
- (3) During the year, the company has spent Rs. 10 million to give a training in a foreign country for managers of the company. As a result of the training, the performance of managers will be improved.

You are required to:

Explain whether each of the above costs could be recognized as an intangible asset as per LKAS 38 - Intangible Assets. (05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

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

As at 31st March	2024	2023
Non-Current Assets:		
Property, Plant and Equipment	21,500	20,100
Accumulated Depreciation	(2,900)	(2,400)
Carrying Value	18,600	17,700
Current Assets:		
Inventories	16,800	5,000
Trade and Other Receivables	5,545	18,410
Cash and Cash Equivalents	2,050	2,200
	24,395	25,610
Total Assets	42,995	43,310
Equity and Liabilities:		
Equity:		
Stated Capital (2,500,000 ordinary shares)	25,000	25,000
Retained Earnings	6,600	4,100
	31,600	29,100
Non-Current Liabilities:		
Long-Term Loans	5,400	6,000
Employee Benefits (Provision for Gratuity)	390	350
	5,790	6,350
Current Liabilities:		
Trade and Other Payables	5,170	7,590
Interest Payable on Loans	435	120
Income Tax Payable	-	150
	5,605	7,860
Total Equity and Liabilities	42,995	43,310

The following additional information is also provided:

- (1) Profit after tax for the year ended 31st March 2024 was Rs.2,730,000/- and income tax expense for the year ended 31st March 2024 was Rs.720,000/-.
- (2) During the year, the company has obtained a new long term loan of Rs.2,000,000/-. The interest expense on loans for the year ended 31st March 2024 was Rs.1,000,000/-.
- (3) On 01st April 2023, the company sold a machinery for Rs.200,000/- which was fully depreciated. Cost of this machinery was Rs.700,000/-. A new machinery was purchased on 30th April 2023 to replace the sold machinery and it was capitalized on the same date.
- (4) During the year, the company has paid interim dividends of Rs.230,000/- to its ordinary shareholders.
- (5) The provision for the gratuity made for the year was Rs.120,000/-.

You are required to:

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

Question 06

- (a) Employees benefits are all forms of consideration given by an entity in exchange for services rendered by employees or for the termination of employment.

You are required to:

Explain what is short term employee benefits with two(02) examples. (04 marks)

- (b) On 01st April 2023, **Public Leasing Ltd.** sold a motor lorry to **Singhe Ltd.** under a finance lease agreement for a 5 year period. Fair value of the motor lorry was Rs.6,800,000/- and **Singhe Ltd.** paid an advance amount of Rs.2,000,000/- on 01st April 2023. Annual lease installment is Rs.1,534,934/- and should be payable at the end of each financial year. Implied interest rate was 18% per annum. The first installment of the lease was paid on 31st March 2024 by **Singhe Ltd.**

You are required to:

Prepare the following ledger accounts for the year ended/ as at 31st March 2024 of **Public Leasing Ltd.** (lessor):

- (i) Lease Receivable Account. (04 marks)
 - (ii) Unearned Finance Income Account. (02 marks)
- (Total 10 marks)

Question 07

- (a) The financial statements of **Beta Ltd.** for the year ended 31st March 2024 were authorized for issue on 30th June 2024. Subsequently it was noted by Finance Manager that the following instances were occurred after the year end and were not considered in preparing the financial statements:
- (1) On 31st March 2024, a customer of **Beta Ltd.** filed a case against the company claiming Rs.1,000,000/- as compensation for health deterioration after using a product sold by the company. Based on its evidences, up to the date of authorization of financial statements for the year ended 31st March 2024, the company's lawyer believes that there is a less probability to pay compensation.
 - (2) The Board of Directors of **Beta Ltd.** has declared a final dividend on profit for the year ended 31st March 2024 on 10th April 2024.
 - (3) An assessment was raised by the Inland Revenue Department disallowing some expenses of Rs. 2 million which were considered as allowable expenses by the company when calculating income tax liability. After the several discussions, the Department of Inland Revenue has agreed to disallow expenses of Rs.1.5 million on 30th April 2024.

You are required to:

Explain how each of the above scenario could be recognized in the financial statements of **Beta Ltd.** for the year ended 31st March 2024 as per the LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets. (05 marks)

- (b) Borrowing cost incurred on qualifying assets can be capitalized as per LKAS-23 Borrowing Cost.

You are required to:

- (i) **Explain** the term a "Qualifying Asset" as per LKAS 23 - Borrowing Cost with an example. (03 marks)
 - (ii) **State** a condition that is to be met for commencing the capitalization of borrowing cost as per LKAS 23. (02 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 accounts of **Safe Wheel PLC** as at 31st March 2024:

Safe Wheel PLC	<i>(Rs. '000)</i>	
Trial Balance as at 31st March 2024	Dr.	Cr.
Stated Capital (30,000,000 Ordinary Shares)		300,000
Retained Earnings as at 01 st April 2023		51,000
Property, Plant and Equipment at Cost:		
Land and Buildings (Land cost - Rs.90 million)	126,000	
Machinery	60,000	
Motor vehicles	12,000	
Accumulated Depreciation as at 01st April 2023:		
Buildings		15,000
Machinery		18,000
Motor vehicles		5,000
Assets Disposal Account		5,500
Capital Work-In-Progress	95,000	
Inventory as at 31 st March 2024 at Cost	94,000	
Trade Receivables / Trade Payables	91,000	24,000
Cash in Hand and at Banks / Bank Overdraft	38,000	12,000
Allowance for Trade Receivables as at 01 st April 2023		16,500
Long Term Loan		50,000
Income Tax Paid	10,000	
Cost of Sales / Sales	161,000	317,000
Other Income		1,500
Pre-Payments	3,600	
Interim Dividends Paid	15,000	
Administration Expenses	68,500	
Distribution Expenses	33,400	
Finance Expenses	8,000	
	815,500	815,500

The following additional information is also provided:

- (1) On 31st March 2024, a Motor Vehicle which was purchased on 01st October 2021 at Rs.6,000,000/- was disposed for Rs.5,500,000/-. Sales proceed was debited to cash account and credited to assets disposal account and no any other entries were recorded in the books of accounts in this regard.
- (2) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of Property, Plant and Equipment is as follows:

Buildings	:	50 years
Machinery	:	10 years
Motor vehicles	:	04 years

- (3) The company carried out an impairment test for machinery on 31st March 2024 and it was revealed that the fair value less cost of disposal of a machinery was Rs.30,000,000/- and value in use of the machinery was Rs.34,000,000/-. No adjustments were made in the books of accounts regarding the impairment.
- (4) The company has started the construction of its new factory building on 01st June 2023 and expected to complete and occupy the building on 30th June 2024. Cost incurred on construction has been recorded under the capital work-in-progress account. On 01st July 2023, the company has borrowed Rs. 50 million from a local bank at a rate of 15% per annum and the entire loan was used for this construction. The loan will be repaid in 60 equal installments and the capital repayments of the loan were started from 01st April 2024. Interest relevant for the year on this loan was included in finance expenses.
- (5) During the year, the company recovered a bad debt of Rs.1,400,000/- which was written off to administration expenses in previous financial year. This amount has been credited to Trade Receivables Account. 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.
- (6) Audit and Tax consultation fees related to the financial year 2023/2024 were Rs.800,000/- and Rs.500,000/- respectively and were paid in June 2024. However, these have not been accounted for year ended 31st March 2024. Pre-payment account represents rent payment made for entire calendar year of 2024.
- (7) Interest income of Rs.250,000/- on a fixed deposit for the year ended 31st March 2024 was received on 02nd April 2024 and was not recorded for the year ended 31st March 2024.
- (8) There were no accrued or pre-paid income tax liability as at 31st March 2023 and the total income tax liability for the year of assessment 2023/24 was estimated to be Rs.12,450,000/-. Income tax payments made during the year ended 31st March 2024 was charged to "Income Tax Paid" account.
- (9) An interim dividend of Rs.15,000,000/- was paid to ordinary shareholders on 01st January 2024. Further, the Board of Directors of the company has approved a final dividend of 50 cents per share at the board meeting held on 21st May 2024. The financial statements were authorized for issue by the Board of Directors on 30th June 2024.

You are required to:

Prepare the following, for Safe Wheels 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. (10 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. (04 marks)
- (Total 25 marks)

Question 09

The following information was extracted from **Shakthi PLC** for the years ended / as at 31st March 2024 and 31st March 2023:

For the year ended 31 st March	2024 (Rs.'000)	2023 (Rs.'000)
Sales	1,683,700	1,487,900
Cost of Sales	(1,321,800)	(1,286,700)
Gross Profit	361,900	201,200
Interest Expense	(17,540)	(16,280)
Income Tax	(13,800)	(14,250)
Net Profit After Tax	136,450	119,820
As at 31st March	2024	2023
Current Assets	899,500	1,149,200
Current Liabilities	121,900	119,800
Trade Receivables	541,500	419,800
Trade Payables	115,720	110,910
Inventory	111,400	109,600
Interest Bearing Loans	51,470	56,420
Shareholders' Equity	167,850	31,400
Number of Shares Issued ('000)	19,500	19,500

Credit sales consist of 60% on total sales and 90% of purchases are made on credit terms.

You are required to:

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

- (i) Gross Profit Ratio.
- (ii) Net Profit Ratio.
- (iii) Debtors' Collection Period.
- (iv) Creditors' Settlement Period.
- (v) Earning Per Share.

(05 marks)

(b) The following are the industry average ratios of the sector where **Shakthi PLC** operates in:

Gross Profit Ratio	44%
Net Profit Ratio	12%
Debtors' Collection Period	105 days
Creditors' Settlement Period	65 days
Earnings Per Share	Rs.7.50

Prepare a summary report comparing the above ratios of **Shakthi PLC** with the industry averages while explaining the possible reasons for the variances.

(05 marks)

(Total 10 marks)

Question 10

Enrich PLC (EN) acquired 80% of the ordinary share capital of Kanrich PLC (KN) on 01st April 2023 for Rs.65 million. The Statements of Financial Position of EN and KN as at 31st March 2024 were as follows:

Statements of Financial Position

(Rs.'000)

As at 31 st March 2024	Enrich PLC	Kanrich PLC
Non-Current Assets:		
Property, Plant and Equipment at Carrying Value	90,000	60,000
Investment in KN	65,000	-
Current Assets:		
Inventories	12,000	18,000
Trade and Other Receivables	18,000	17,000
Amount due from KN	2,000	-
Cash and Cash Equivalents	6,000	2,500
	38,000	37,500
Total Assets	193,000	97,500
Equity and Liabilities:		
Equity:		
Stated Capital	120,000	70,000
Retained Earnings	26,900	12,000
	146,900	82,000
Non-Current Liabilities:		
Employee Benefits	7,500	3,100
Current Liabilities:		
Trade Payables	32,000	9,050
Amount due to EN	-	2,000
Income Tax Payable	6,600	1,350
	38,600	12,400
Total Equity and Liabilities	193,000	97,500

The following additional information is also provided:

- (1) Fair value of the Non-Controlling Interest (NCI) on the date of acquisition was Rs. 20 million and fair value of identifiable net assets of **KN** was equal to its book value. At the date of acquisition, the retained earnings of **KN** was Rs.4,500,000/-.
- (2) On 01st April 2023, **EN** sold a machinery to **KN** for Rs.3,000,000/-, which had a carrying value of Rs.2,000,000/- in the books of **EN** on that date. The remaining useful life of the machinery as at 01st April 2023 was 5 years. Profit on disposal of machinery has been included in other income of **EN**.
- (3) During the year, **KN** purchased goods worth of Rs.6,000,000/- from **EN**. Out of these goods, one fifth (1/5) of them remained unsold in the premises of **KN**. The sales policy of **EN** is to keep a profit of 20% on Cost. Further, an amount of Rs.2 million payable on this transaction was included in receivables of **EN** and payables of **KN** as at 31st March 2024.
- (4) The impairment test carried out on 31st March 2024 was revealed that goodwill on acquisition has been impaired by Rs.6,000,000/-.

You are required to:

- (a) **Calculate** the goodwill arising on acquisition of **Kanrich PLC**. (04 marks)
 - (b) **Prepare** the Consolidated Statement of Financial Position as at 31st March 2024. (11 marks)
- (Total 15 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.