

## ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

### LEVEL III EXAMINATION - JANUARY 2026

#### (301) FINANCIAL REPORTING

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

07-02-2026

Morning

[08.45 – 12.00]

(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.**

#### **SECTION A**

(Total 20 marks)

#### **Question 01**

The primary objective of the general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing & potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

**You are required to:**

(a) **State** three(03) economic decisions that stakeholders can make using information from general-purpose financial reporting. (03 marks)

(b) **Explain** the concept of “Financial Capital Maintenance”. (02 marks)  
(Total 05 marks)

#### **Question 02**

Integrated Reporting is a process that combines financial and non-financial information into a single report to show how a company creates value over time.

**You are required to:**

(a) **Define** the term “Integrated Report”. (03 marks)

(b) **State** two(02) key areas to be included under the “Risks and Opportunities” in the Integrated Report. (02 marks)  
(Total 05 marks)

## Question 03

Financial performance analysis involves examining and interpreting financial statements to assess a company's financial stability and operational efficiency. In this process, financial ratios play a crucial role in evaluating key metrics and identifying trends.

**You are required to:**

(a) **State** two(02) profitability ratios and one(01) liquidity ratio. (03 marks)

(b) **State** two(02) limitations of ratio analysis. (02 marks)

(Total 05 marks)

## Question 04

(a) LKAS 1-Presentation of Financial Statements - prescribes the basis for presentation of the general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

**You are required to:**

**State** two(02) criteria to be met to classify a Liability as a Current Liability. (02 marks)

(b) **ABC Ltd.** acquired a machinery for Rs.6,800,000/- on 01<sup>st</sup> April 2023 and the useful life of the machinery is 4 years. Machinery is depreciated on the straight-line basis at cost. On 31<sup>st</sup> March 2025, the company carried out an impairment test and it was revalued that fair value less cost of the disposal and value in use of the machinery were Rs.2,600,000/- and Rs.3,000,000/- respectively.

**You are required to:**

**Calculate** the impairment loss of the machinery as per LKAS 36 – Impairment of Assets.

(03 marks)

(Total 05 marks)

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## **SECTION B**

(Total 30 marks)

## Question 05

(a) The following information was extracted from the books of **Sweet Ltd.** for the year ended 31<sup>st</sup> March 2025:

- (1) **Sweet Ltd.** purchased an already developed mobile app from another tech company for Rs. 4 million. The app allows customers to place cake orders directly.
- (2) The company registered “**Sweet Ltd.**” as a trade mark incurring Rs.500,000/-.

**You are required to:**

**Explain** whether each of the above costs could be recognized as intangible assets as per LKAS 38 - Intangible Assets. (04 marks)

(b) **Star Ltd.** borrowed a loan of Rs.10,000,000/- from **ABC bank** at an interest rate of 10% per annum on 01<sup>st</sup> April 2024 for the construction of a new building. On the same day, the company started the construction and used this loan of Rs.10,000,000/- for contractor's payments. On 01<sup>st</sup> May 2024, the company obtained another loan of Rs.12,000,000/- from **PQR bank** at an interest rate of 12% per annum for the same construction. This amount was deposited in a fixed deposit and earned investment income of Rs.720,000/- until this loan was utilized. Full amount of this loan was used to settle the final bill of the contractor on 31<sup>st</sup> January 2025. Total construction cost was Rs.25,000,000/- and this building was used for operation on 01<sup>st</sup> February 2025. Capital repayments of the above two loans were started from 01<sup>st</sup> April 2025.

**You are required to:**

**Calculate** the borrowing cost to be capitalized on the building as at 31<sup>st</sup> March 2025 as per LKAS 23 – Borrowing Cost.

(06 marks)

(Total 10 marks)

## Question 06

The Statements of Financial Position of **Emelie (Pvt) Ltd.** as at 31<sup>st</sup> March 2025 and 31<sup>st</sup> March 2024 are given below:

<b>Emelie (Pvt) Ltd.</b> <b>Statements of Financial Position</b>		
<b>As at 31<sup>st</sup> March</b>	<b>2025</b>	<b>2024</b>
<b>Non-Current Assets:</b>		
Property, Plant and Equipment	138,690	136,420
Accumulated Depreciation	(127,930)	(109,730)
<b>Carrying Value</b>	<b>10,760</b>	<b>26,690</b>
<b>Current Assets:</b>		
Inventories	258,700	208,710
Trade and Other Receivables	54,730	148,760
Cash and Cash Equivalents	269,709	161,083
	<b>583,139</b>	<b>518,553</b>
<b>Total Assets</b>	<b>593,899</b>	<b>545,243</b>
<b>Equity and Liabilities:</b>		
<b>Equity:</b>		
Stated Capital	300,000	250,000
Retained Earnings	49,013	28,763
	<b>349,013</b>	<b>278,763</b>
<b>Non-Current Liabilities:</b>		
Bank Loans	90,790	127,600
Employee Benefits (Provision for Gratuity)	20,470	19,460
	<b>111,260</b>	<b>147,060</b>
<b>Current Liabilities:</b>		
Trade Payables	124,376	101,400
Interest Payable on Loans	5,470	13,800
Income Tax Payable	3,780	4,220
	<b>133,626</b>	<b>119,420</b>
<b>Total Equity and Liabilities</b>	<b>593,899</b>	<b>545,243</b>

The following additional information is also provided:

- (1) Income tax expense for the year ended 31<sup>st</sup> March 2025 was Rs.3,250,000/-. Profit before tax and loan interest of the company was Rs.25,500,000/-.
- (2) A motor vehicle was disposed for Rs. 5.5 million on 30<sup>th</sup> September 2024. The cost of motor vehicle was Rs. 6 million while accumulated depreciation was Rs. 3.75 million as at 01<sup>st</sup> April 2024. Motor vehicles are depreciated on the straight-line basis at cost over 5 years. A new vehicle has been purchased on 01<sup>st</sup> October 2024 as a replacement of disposed vehicle and it was capitalized on the same date.
- (3) Interest expense on loans for the year was Rs.2,000,000/- and a new loan of Rs.7,500,000/- was obtained during the year.
- (4) Provision for gratuity for the year was Rs.1,100,000/-.
- (5) During the year, the company issued new shares to its existing shareholders.

**You are required to:**

**Prepare** the Statement of Cash Flows of **Emelie (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2025 using indirect method. (10 marks)

## Question 07

(a) The following information is provided with reference to **Tasty Ltd.** for the year ended 31<sup>st</sup> March 2025 and these have not been considered in preparing financial statements for the year ended 31<sup>st</sup> March 2025:

- (1) On 30<sup>th</sup> March 2025 one of the company's customers has filed a case against the company claiming Rs. 2 million as a compensation alleging food poisoning. Based on evidences up to the date of authorization of financial statements, legal advisors of the company have advised that it is probable that the company will not be found liable.
- (2) There was an assessment raised by the Department of Inland Revenue on the income tax disallowing expenses of Rs. 1.5 million with reference to the year of assessment 2023/24. After sending several replies and evidences, it was finalized to disallow expenses of Rs.500,000/- on 30<sup>th</sup> April 2025 by the Department of Inland Revenue.
- (3) An ex-employee of the company has filed a case against the company claiming Rs. 1 million as a compensation due to termination of his service as an employee on a misconduct. Based on the evidences, the company's lawyers believe that there is high probability to pay this compensation. Finally, the court ordered to pay Rs.800,000/- as the compensation on 15<sup>th</sup> May 2025.

Assume that the financial statements were authorized on 30<sup>th</sup> May 2025.

**You are required to:**

**Explain** how each of the above instances could be recognized in the financial statements of **Tasty Ltd.** for the year ended 31<sup>st</sup> March 2025 as per LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets. (06 marks)

(b) **Ultima Ltd.** has finalized its draft financial statements for the year ended 31<sup>st</sup> March 2025. The following balances were appeared in the books of Accounts of **Ultima Ltd.** as at 01<sup>st</sup> April 2024:

	Rs.
Machinery Account	8,000,000
Accumulated Depreciation - Machinery	3,000,000

It was estimated that useful life of machinery was 5 years at the time of acquisition. However, following a review of the useful life of the machinery on 01<sup>st</sup> April 2024, it was revealed that the remaining useful life of the machinery is 4 years as at 01<sup>st</sup> April 2024. **Ultima Ltd.** depreciates its machinery on the straight-line basis at cost.

**You are required to:**

**Calculate** the depreciation charge of the machinery of **Ultima Ltd.** for the year ended 31<sup>st</sup> March 2025 as per LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors. (04 marks)

*End of Section B*

(Total 10 marks)

## **SECTION C**

(Total 50 marks)

### **Question 08**

The following trial balance was extracted from the books of accounts of **Ultra PLC** as at 31<sup>st</sup> March 2025:

<b>Ultra PLC</b> <b>Trial Balance as at 31<sup>st</sup> March 2025</b>		(Rs. '000)	
		<b>Dr.</b>	<b>Cr.</b>
Stated Capital (100,000,000 Ordinary Shares)			100,000
Retained Earnings as at 01 <sup>st</sup> April 2024			31,500
Revaluation Reserve			3,000
<b>Property, Plant and Equipment at Cost:</b>			
Land at Revalued Amount		58,000	
Buildings		36,000	
Motor Vehicles		18,000	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2024:</b>			
Buildings			16,000
Motor Vehicles			9,000
Lease Rentals Paid		4,276	
Inventory as at 31 <sup>st</sup> March 2025 at Cost		43,000	
Trade Receivables / Trade Payables		41,000	45,819
Cash in Hand and at Banks		56,300	
Allowance for Trade Receivables as at 01 <sup>st</sup> April 2024			4,200
Income Tax Paid		16,500	
Cost of Sales / Sales		285,200	459,955
Pre-Payments		2,400	
Income Tax Payable as at 01 <sup>st</sup> April 2024			6,100
Administration Expenses		61,298	
Distribution Expenses		42,100	
Finance Expenses		11,500	
		<b>675,574</b>	<b>675,574</b>

The following additional information is also provided:

- (1) It was revealed that the inventory costing Rs.9,000,000/- which consists of 1,000 units was found to be slow moving and it was included in the closing inventory balance as at 31<sup>st</sup> March 2025. This inventory was sold in April 2025 at a 50% discount on selling price after incurring transport cost of Rs.100,000/-. Normal selling price is Rs.10,000/- per unit.
- (2) On 31<sup>st</sup> March 2025, one of the company's motor lorries was totally damaged by fire. This lorry was bought on 01<sup>st</sup> April 2021 at a cost of Rs.6,000,000/-. On 10<sup>th</sup> April 2025, insurance company assessed the damage and agreed to pay Rs.2,500,000/- as a claim. No any entries were made in the books of accounts in this regard.
- (3) On 01<sup>st</sup> April 2024, the company purchased a motor vehicle under a finance lease. Fair value of the leased vehicle was Rs.10,493,500/- and the lease term was 4 years. Annual lease Installment of Rs.2,776,000/- should be settled on 31<sup>st</sup> March of each year. Implicit interest rate is 9% per annum. The ownership of the motor vehicle will be transferred to **Ultra PLC** at the end of lease term. A down payment of Rs. 1.5 million made at the commencement of the lease and the first lease installment of Rs.2,776,000/- paid on 31<sup>st</sup> March 2025, have been recorded in the "Lease Rental Paid" account. Other than that, no entries were made in the books of accounts in this regard.
- (4) The land was revalued during the financial year 2021/22 and it was revalued again to Rs.60,000,000/- on 31<sup>st</sup> March 2025 by the company. But, this was not recorded in the books of accounts.
- (5) 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	:	40 years
Motor vehicles	:	04 years

- (6) During the year, one of the customers who owed Rs.3,500,000/- to the company was declared as bankrupt. The amount in due became irrecoverable and has to be written-off as a bad debt. The company has already made a full provision in the books of accounts for this particular customer in the last financial year. Further, it was decided to maintain the allowance for trade receivables at 10% of the remaining trade receivables balance as at 31<sup>st</sup> March 2025.
- (7) Income tax liability of Rs.6,100,000/- for the year of assessment 2023/2024 was paid during the year ended 31<sup>st</sup> March 2025 and the amount paid has been charged to the "Income Tax Paid" account. The total income tax liability for the year of assessment 2024/2025 was estimated as Rs.10,500,000/-.
- (8) "Pre-payments" account includes rent payment made for entire calendar year 2025.
- (9) The board of directors of the company approved the financial statements for issue on 31<sup>st</sup> May 2025.

**You are required to:**

**Prepare** the following, for **Ultra 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 2025. (09 marks)

(b) Statement of Financial Position as at 31<sup>st</sup> March 2025. (08 marks)

(c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2025. (03 marks)

(d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2025. (05 marks)

(Total 25 marks)

### Question 09

Extracts of Statements of Comprehensive Income of **SRJ PLC** for the years ended 31<sup>st</sup> March 2025 and 31<sup>st</sup> March 2024 and the Statements of Financial Position as at 31<sup>st</sup> March 2025 and 31<sup>st</sup> March 2024 are as follows:

<b>SRJ PLC</b> <b>Extracts from the Statements of Income</b> (Rs.'000)		
<b>For the years ended 31<sup>st</sup> March</b>	<b>2025</b>	<b>2024</b>
Sales	1,921,320	1,680,400
Cost of Sales	(1,500,520)	(1,476,800)
<b>Gross Profit</b>	<b>420,800</b>	<b>203,600</b>
Interest Expense	(18,230)	(14,200)
Income Tax	(11,400)	(12,500)
<b>Net Profit After Tax</b>	<b>128,790</b>	<b>118,470</b>

<b>SRJ PLC</b> <b>Extracts from the Statements of Financial Position</b> (Rs.'000)		
<b>As at 31<sup>st</sup> March</b>	<b>2025</b>	<b>2024</b>
Current Assets	799,460	1,178,000
Current Liabilities	116,700	124,890
Inventory	110,700	108,400
Trade Receivables	587,200	420,680
Trade Payables	116,800	112,100
Interest Bearing Loans	46,870	54,200
Shareholders' Equity	159,400	134,100

Credit sales consist of 60% of total sales and 75% of the cost of sales consists of purchases and out of which 90% are made on credit terms.

**You are required to:**

**Calculate** the following ratios of **SRJ PLC** based on the above information for the year ended / as at 31<sup>st</sup> March 2025:

- (a) Gross Profit Ratio.
- (b) Net Profit Ratio.
- (c) Inventory Residence Period.
- (d) Debtors' Collection Period.
- (e) Creditors' Settlement Period. (10 marks)

**Question 10**

**Seedevi PLC** acquired 90% of the ordinary share capital of **Devi PLC** on 01<sup>st</sup> April 2024 for Rs. 160 million.

The Statements of Financial Position of **Seedevi PLC** and **Devi PLC** as at 31<sup>st</sup> March 2025 were as follows:

<b>Statements of Financial Position</b>		
	<i>(Rs. '000)</i>	
<b>As at 31<sup>st</sup> March 2025</b>	<b>Seedevi PLC</b>	<b>Devi PLC</b>
<b>Non-Current Assets:</b>		
Property, Plant and Equipment at Carrying Value	350,000	165,000
Investment in <b>Devi PLC</b>	160,000	-
Investment in Debentures of <b>Devi PLC</b>	30,000	-
<b>Current Assets:</b>		
Inventories	85,000	45,000
Trade Receivables	60,000	34,200
Cash and Cash Equivalents	20,700	71,000
	165,700	150,200
<b>Total Assets</b>	<b>705,700</b>	<b>315,200</b>
<b>Equity:</b>		
Stated Capital	400,000	150,000
Retained Earnings	210,000	37,000
<b>Total Equity</b>	<b>610,000</b>	<b>187,000</b>
<b>Non-Current Liabilities:</b>		
Debentures	-	100,000
<b>Current Liabilities:</b>		
Trade Payables	93,700	25,200
Other Payables	2,000	3,000
	95,700	28,200
<b>Total Equity and Liabilities</b>	<b>705,700</b>	<b>315,200</b>

The following additional information is also provided:

- (1) At the date of acquisition, the book value of net assets except the land of **Devi PLC** was reflected at fair value. Fair value of the land was Rs.53 million and book value was Rs.45 million. At the date of acquisition, the fair value of the Non-Controlling Interest (NCI) was Rs.35 million and retained earnings as at 01<sup>st</sup> April 2024 of **Devi PLC** was stood at Rs.25,000,000/-.
- (2) During the year, **Devi PLC** has sold Rs.30,000,000/- worth of goods to **Seedevi PLC**. Sales policy of **Devi PLC** is to keep a 20% profit on cost. As at 31<sup>st</sup> March 2025, the closing inventory of **Seedevi PLC** included Rs.6,000,000/- worth of goods purchased from **Devi PLC**. Trade receivables of **Devi PLC** and Trade Payables of **Seedevi PLC** include an amount of Rs.20,000,000/- due from **Seedevi PLC** and due to **Devi PLC** respectively.
- (3) On 01<sup>st</sup> April 2024, **Seedevi PLC** sold a motor lorry to **Devi PLC** at a price of Rs.7,500,000/-. The lorry had a carrying value of Rs.6,000,000/- in the books of **Seedevi PLC** on that date. The remaining useful life of the motor lorry as at 01<sup>st</sup> April 2024 was 05 years.
- (4) During the year, **Seedevi PLC** invested in debentures of **Devi PLC**.

**You are required to:**

- (a) **Calculate** the goodwill arising on acquisition of **Devi PLC**. (04 marks)
- (b) **Prepare** the Consolidated Statement of Financial Position as at 31<sup>st</sup> March 2025. (11 marks)  
(Total 15 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

<b>Level of Competency</b>	<b>Description</b>	<b>Action Verbs</b>	<b>Verb Definitions</b>
<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.

<b>Level of Competency</b>	<b>Description</b>	<b>Action Verbs</b>	<b>Verb Definitions</b>
<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.

<b>Level of Competency</b>	<b>Description</b>	<b>Action Verbs</b>	<b>Verb Definitions</b>
<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.

<b>Level of Competency</b>	<b>Description</b>	<b>Action Verbs</b>	<b>Verb Definitions</b>
<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.