SRI LANKA

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 03 EXAMINATION - JULY 2026

(3801) FINANCIAL REPORTING

25-07-2026
Morning
[08.45 – 12.00]

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

No. of Pages : 11
No. of Questions : 10

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

Writing : 03 hours

(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

Information about a reporting entity's financial performance helps users to understand the return that the entity has produced on its economic resources. Also, the qualitative characteristics of useful financial information apply to financial information provided in the financial statements, as well as to financial information provided in other ways.

You are required to:

(a) **Explain** the two(02) fundamental qualitative characteristics of useful financial information, as per Conceptual Framework for Financial Reporting. (03 marks)

(b) **Explain** the going concern assumption used in preparing the financial statements.
(02 marks)
(Total 05 marks)

Question 02

Sri Lanka Financial Reporting Standard – Sustainability Disclosure Standard 1 (SLFRS S1) sets out the general requirements for disclosing sustainability-related financial information to ensure transparency, comparability, and accountability.

You are required to:

(a) **State** a purpose of using a Sustainability Report. (02 marks)

(b) **List** three(03) General requirements of SLFRS S1. (03 marks)

(Total 05 marks)

Question 03

(a) An Accounting Software is a tool that helps individuals and entities to record, manage and to report financial transactions.

You are required to:

List two(02) functions of an accounting software. (02 marks)

(b) Automation has transformed the accounting landscape by streamlining processes, enhancing accuracy, and enabling strategic decision-making.

You are required to:

Explain two(02) benefits of automation for accounting and reporting. (03 marks)

(Total 05 marks)

Question 04

As per the Sri Lanka Accounting and Auditing Standards Act. No. 15 of 1995, Specified Business Enterprises (SBEs) should apply the Sri Lanka Accounting Standards in the preparation of their financial statements.

You are required to:

(a) **Identify** three(03) categories of Specified Business Enterprises, as per the Sri Lanka Accounting and Auditing Standards Act. No. 15 of 1995. (03 marks)

(b) **State** two(02) importances of adopting Accounting Standards in financial reporting.

(02 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

The Statements of Financial Position of **Sun (Pvt) Ltd.** as at 31st March 2026 and 31st March 2025 are given below:

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

As at 31st March	2026	2025
Non-Current Assets:		
Property, Plant and Equipment	24,900	22,400
Accumulated Depreciation	(5,400)	(4,200)
Carrying Value	**19,500**	**18,200**
Current Assets:		
Inventories	6,800	6,100
Trade and Other Receivables	6,400	6,000
Cash and Cash Equivalents	2,100	1,900
	15,300	**14,000**
Total Assets	**34,800**	**32,200**
Equity and Liabilities:		
Equity:		
Stated Capital	25,000	25,000
Retained Earnings	4,200	3,200
	29,200	**28,200**
Non-Current Liabilities:		
Long Term Loans	2,300	1,100
Employee Benefits (Provision for Gratuity)	450	380
	2,750	**1,480**
Current Liabilities:		
Trade Payables	1,900	1,620
Income Tax Payable	950	900
	2,850	**2,520**
Total Equity and Liabilities	**34,800**	**32,200**

The following additional information is also provided:

(1) Profit after tax for the year ended 31st March 2026 was Rs.1,200,000/-.

(2) Income Tax expense for the year ended 31st March 2026 was Rs.450,000/-.

(3) During the year, a machinery which had a cost of Rs.4,000,000/- was sold at a price of Rs.1,800,000/- and accumulated depreciation on disposal date was Rs.1,900,000/-. Further, a new machine was purchased during the year.

(4) Interest expense on loans for the year ended 31st March 2026 was Rs.175,000/- and all the interest had been paid during the year. No capital repayments on loans were made during the year and a new loan was obtained during the year.

(5) Gratuity payments made during the year were Rs.250,000/-.

(6) Interim dividends were paid to the ordinary shareholders on 31st March 2026.

You are required to:

Prepare the Statement of Cash Flows of **Sun (Pvt) Ltd.** for the year ended 31st March 2026 using indirect method. (10 marks)

Question 06

(A) **Tech Solutions Ltd.** has entered into a contract on 01st April 2025 with a customer to deliver a customized software package and to provide three years of technical support. The total contract price is Rs.3,000,000/-. If this sells separately, the selling price of the software is Rs.2,700,000/-, and the support service per month is Rs.25,000/-.

You are required to:

Identify the revenue to be recognized for the year ended 31st March 2026 and for the year ending 31st March 2027 for the above transaction, in accordance with SLFRS 15 – Revenue from Contracts with Customers.

(05 marks)

(B) **Sithma Ltd.** has constructed a building costing Rs. 60 million. Construction was started on 01st July 2025 and was finished on 31st March 2026.

The company has made the following borrowings:

Loan A : Rs. 20 million at an interest rate of 10% per annum was obtained on 01st April 2025 specifically for this construction.

Loan B : Rs. 50 million at an interest rate of 12% per annum was obtained on 01st July 2025 as general borrowings. Balance amount incurred on construction was used from this loan.

An interest income of Rs.400,000/- was generated for the year ended 31st March 2026 from the investment of loan received until such loans were utilized. Capital repayments of the above two loans were started from 01st April 2026.

You are required to:

Calculate the borrowing cost to be capitalized as part of the cost of the building as per the LKAS 23 – Borrowing Cost. (05 marks)

(Total 10 marks)

Question 07

(A) The following information was extracted from books of **P Ltd.** as at 31st March 2026.

(1) Details of Property, Plant and Equipment are as follows: *(Rs.'000)*

Assets	**Cost**	**Carrying Value (Accounting Written Down Value) as at 31st March 2026**	**Cumulative Depreciation as per Tax Purpose (Capital Allowance) as at 31st March 2026**
Land	120,000	120,000	-
Motor Vehicles	90,000	60,000	40,000

(2) The provision for gratuity as at 31st March 2026 was Rs.12,000,000/-.

(3) Corporate Income Tax Rate is 30%.

You are required to:

(a) **Identify** the temporary differences as at 31st March 2026. (03 marks)

(b) **Calculate** the deferred tax asset / liability as at 31st March 2026. (02 marks)

(B) The Financial Statements of **Santa PLC** for the year ended 31st March 2026 were authorized to issue on 10th June 2026.

The following information is relevant to **Santa PLC**:

(1) The company pays a bonus of Rs.8 million to employees as a practice in every year. Accordingly an amount of Rs. 8 million was approved to pay out of the profit for the year ended 31st March 2026 by the Board of Directors on 05th April 2026. This has not been considered in preparing the Financial Statements.

(2) There was a fraud of inventories took place during the year ended 31st March 2026, which was committed by the Stores Manager and was revealed on 10th May 2026. It was estimated that a loss of Rs. 7.5 million was incurred due to this fraud, and stock value has been overstated by this amount due to the fraud.

You are required to:

Explain how each of the above instances would be recognized in the Financial Statements for the year ended 31st March 2026 of **Santa PLC** as per LKAS 10-Events after the Reporting Period. (05 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 **Oceanic Cement PLC** as at 31st March 2026:

Oceanic Cement PLC

Trial Balance as at 31st March 2026 *(Rs.'000)*

	Dr.	**Cr.**
Stated Capital (25,000,000 Ordinary Shares)		250,000
Retained Earnings as at 01st April 2025		15,000
Property, Plant and Equipment at Cost:		
Land and Buildings (Land Cost – Rs.80 million)	140,000	
Machinery	90,000	
Motor Vehicles	22,000	
Accumulated Depreciation as at 01st April 2025:		
Buildings		14,000
Machinery		30,000
Motor Vehicles		2,000
Assets Disposal Account		2,000
Inventory as at 31st March 2026 at Cost	95,000	
Trade Receivables / Trade Payables	88,000	33,000
Cash in Hand and at Banks	19,357	
Allowance for Trade Receivables as at 01st April 2025		6,000
Income Tax Paid	7,500	
Cost of Sales / Sales	520,000	720,000
Income Tax Payable as at 01st April 2025		6,500
Other Income		3,500
Advance Lease Payments	2,543	
Interim Dividend Paid	12,000	
Administration Expenses	51,600	
Distribution Expenses	28,000	
Finance and Other Expenses	6,000	
	1,082,000	**1,082,000**

The following additional information is also provided:

(1) Net Realizable Value (NRV) of the inventory as at 31st March 2026 was Rs.91,400,000/-.

(2) On 31st March 2026, a machine which was purchased on 01st April 2022 at Rs.20,000,000/- was sold for Rs.2,000,000/-. The cash received on disposal of machinery has been credited to "Assets Disposal Account". Other than recording cash received, no any entries have been made in the books of accounts.

(3) 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
Machinery	:	04 years
Motor vehicles	:	05 years

(4) On 01st April 2025, a new motor vehicle was purchased under a finance lease agreement. Fair value of the leased motor vehicle was Rs. 7 million and the lease term was 5 years. Annual lease Installment of Rs.1,543,000/- should be settled on 31st March of each year. Implicit interest rate is 9% per annum. The ownership of the motor vehicle will be transferred to **Oceanic Cement PLC** at the end of the lease term. A down payment of Rs. 1 million made at the commencement of the lease term and the first lease installment of Rs.1,543,000/- have been recorded under the "Advance Lease Payments" Account. Other than that, no entries were made in the books of accounts in this regard.

(5) One of its customers who owed Rs.1,500,000/- to the company was declared bankrupt on 20th May 2026. Now it has been confirmed that this amount is irrecoverable and has to be written off as a bad debt. The company has not made a specific provision in the books of accounts for this particular customer. Further, it was decided to maintain the allowance for trade receivables at 10% of the remaining trade receivables balance as at 31st March 2026.

(6) The total income tax liability of Rs.6,500,000/- for the year of assessment 2024/25 was paid during the year ended 31st March 2026 and the amount paid has been charged to the "Income Tax Paid Account". The total income tax liability for the year of assessment 2025/26 was estimated as Rs.9,250,000/-.

(7) Audit fee of Rs.250,000/- for the year ended 31st March 2026 was not paid and has not been accounted in the books of accounts.

(8) Further, interest income of Rs.125,000/- for the year ended 31st March 2026 was received on 01st April 2026.

(9) The board of directors of the company approved the financial statements for issue on 31st May 2026.

You are required to:

Prepare the following, for **Oceanic Cement 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 2026. (10 marks)

(b) Statement of Financial Position as at 31st March 2026. (08 marks)

(c) Statement of Changes in Equity for the year ended 31st March 2026. (03 marks)

(d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2026. (04 marks)

(Total 25 marks)

Question 09

The following information was extracted from **Moon PLC** for the years ended / as at 31st March 2026 and 31st March 2025:

(Rs.'000)

For the year ended 31st March	**2026**	**2025**
Sales	1,000,000	900,000
Cost of Sales	(600,000)	(540,000)
Gross Profit	**400,000**	**360,000**
Interest Expense	(12,000)	(20,000)
Income Tax	(8,000)	(5,000)
Net Profit After Tax	**125,000**	**110,000**
As at 31st March	**2026**	**2025**
Inventory	150,000	120,000
Trade Receivables	200,000	180,000
Cash and Cash Equivalents	50,000	40,000
Other Current Assets	25,000	20,000
Trade Payables	100,000	90,000
Short-Term Borrowings	75,000	60,000
Other Current Liabilities	25,000	20,000

All the sales and 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 2026:

(i) Current Ratio.

(ii) Gross Profit Ratio.

(iii) Net Profit Ratio.

(iv) Inventory Residence Period.

(v) Debtors' Collection Period. (05 marks)

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

Ratio	Industry Average
Current Ratio	1.80
Gross Profit Ratio	35%
Net Profit Ratio	15%
Inventory Residence Period	75 days
Debtors' Collection Period	60 days

Prepare a summary report comparing the above ratios of **Moon PLC** with the industry averages while explaining the possible reasons for variances. (05 marks)

(Total 10 marks)

Question 10

Galaxy PLC acquired 80% of the ordinary share capital of **Star PLC** on 01st April 2025 for Rs. 90 million.

The Statements of Financial Position of **Galaxy PLC** and **Star PLC** as at 31st March 2026 were as follows:

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

As at 31st March 2026	Galaxy PLC	Star PLC
Non-Current Assets:		
Property, Plant and Equipment at Carrying Value	120,000	80,000
Investment in **Star PLC**	90,000	-
Current Assets:		
Inventories	18,000	22,000
Trade Receivables	24,000	14,000
Amount Due from **Galaxy PLC**	-	5,000
Cash and Cash Equivalents	18,500	2,500
	60,500	43,500
Total Assets	**270,500**	**123,500**
Equity and Liabiities:		
Equity:		
Stated Capital	150,000	60,000
Retained Earnings	30,000	12,000
Total Equity	**180,000**	**72,000**
Non-Current Liabilities:		
Long-Term Loan	46,000	33,500
Current Liabilities:		
Trade Payables	35,000	17,000
Amount Due to **Star PLC**	3,000	-
Income Tax Payable	6,500	1,000
	44,500	18,000
Total Equity and Liabilities	**270,500**	**123,500**

The following additional information is also provided:

(1) At the date of acquisition, the book value of net assets except the land of **Star PLC** was reflected at fair value. On that date, the fair value of the land and carrying value (book value) of the land were Rs. 75 million and Rs. 68 million respectively.

(2) The fair value of the Non-Controlling Interest (NCI) on the date of acquisition was Rs. 18 million. At the date of acquisition, the retained earnings of **Star PLC** were Rs. 10 million.

(3) On 21^{st} March 2026, **Star PLC** sold Rs. 2 million worth of goods to **Galaxy PLC**. **Star PLC** keeps a profit of 25% on cost. As at 31^{st} March 2026, **Galaxy PLC** had not received this inventory, and the discrepancy between "Amount due from **Galaxy PLC**" and "Amount due to **Star PLC**" reflects this timing difference.

(4) The impairment test was carried out on 31^{st} March 2026 and it was revealed that goodwill on acquisition of **Star PLC** had been impaired by Rs. 7 million.

(5) On 31^{st} March 2026, a land purchased for Rs.10 million by **Galaxy PLC** was disposed for Rs. 15 million to **Star PLC**.

You are required to:

(a) **Calculate** the goodwill arising on acquisition of **Star PLC**. (04 marks)

(b) **Prepare** the Consolidated Statement of Financial Position as at 31^{st} March 2026. (11 marks)

(Total 15 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.