



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2025

PILOT PAPER

Level 03

3801 - FINANCIAL REPORTING (FAR)

A publication of the Education and Training Division

Association of Accounting Technicians of Sri Lanka

3801 - Financial Reporting (FAR)

Instructions to Candidates (Please Read Carefully)

Time Allowed:

Reading : 15 Minutes

Writing : 03 Hours

Structure of Question Paper:

- This paper consists of three Sections; Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

Marks:

- Allocation of marks for each section:

Section	Marks
Section A	20
Section B	30
Section C	50
Total	100

- Marks for each question are shown with the question.
- The pass mark for this paper is 50.

Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's).
- Students should answer the questions based on the definition of the verb given in the checklist.

Four (04) Compulsory Questions

(Total 20 marks)

SECTION A

Question 01

The Conceptual Framework for Financial Reporting provides the foundation for the development of accounting standards and the preparation of financial statements.

You are required to:

- (a) **State** the objective of the General-Purpose Financial Reporting. (02 marks)
- (b) **Identify** three (03) enhancing qualitative characteristics that enhances the usefulness of financial information as per the Conceptual Framework. (03 marks)
- (Total 05 marks)

Question 02

Sustainability-related financial disclosures are increasingly important for primary users of the financial statements. SLFRS S1 and S2 provide a framework for consistent and comparable sustainability disclosures.

You are required to:

- (a) **State** the main objective of SLFRS S1 – General Requirements for Disclosure of Sustainability Related Financial Information. (02 marks)
- (b) **Identify** three (03) key disclosure areas required under SLFRS S1. (03 marks)
- (Total 05 marks)

Question 03

Digital accounting systems are widely used in modern business organizations. Ensuring data security and accuracy is critical for maintaining the integrity of financial information.

You are required to:

- (a) **Identify** two (02) common errors in digital accounting systems. (02 marks)
 - (b) **State** three (03) ways in which Artificial Intelligence (AI) helps to prevent or correct accounting errors. (03 marks)
- (Total 05 marks)

Question 04

Sri Lanka has adopted Accounting Standards and Sustainability Standards to ensure consistency and transparency in financial reporting and sustainability disclosures.

You are required to:

- (a) **Explain** the role of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in the adoption of Accounting and Sustainability Standards. (03 marks)
 - (b) **Identify** two (02) committees set up to assist CA Sri Lanka in executing aforementioned role. (02 marks)
- (Total 05 marks)

End of Section A

Three (03) Compulsory Questions

(Total 30 marks)

SECTION B

Question 05

- (a) On 01st April 2024, **Sun Ltd.** purchased a machinery for Rs.10,000,000/-. For accounting purposes, the machinery is depreciated on the straight-line basis over 5 years . However, for tax purposes, the machinery is depreciated on the straight-line basis over 4 years. The applicable income tax rate is 30%.

You are required to:

Calculate the deferred tax asset / liability as at 31st March 2025 in relation to the machinery.

(03 marks)

- (b) As at 31st March 2025, **Sun Ltd.** estimated its gratuity obligation of Rs.2,500,000/- as per LKAS 19.

You are required to:

Identify two (02) disclosures to be provided with respect to the gratuity provision as per LKAS 19

- Employee Benefits

(02 marks)

- (c) **Sun Ltd.** entered into a contract with a customer on 01st February 2025 to sell a machinery and provide free maintenance services for six months. The total contract price is Rs.5,000,000/-. The machinery was delivered immediately.

The standalone selling prices of the components are as follows:

- Machinery: Rs.4,800,000/-
- Maintenance: Rs.200,000/-

You are required to;

Explain how revenue should be recognized for the year ended 31st March 2025 as per 5 step model under SLFRS 15 – Revenue from Contracts with Customers.

(05 marks)

(Total 10 marks)

Question 06

The Statements of Financial Position of **Mars (Pvt) Ltd.** as at 31st March 2025 and 31st March 2024 are given below:

Mars (Pvt) Ltd.		
Statements of Financial Position		<i>(Rs.'000)</i>
As at 31st March	2025	2024
Non-Current Assets:		
Property, Plant and Equipment	18,800	17,900
Current Assets:		
Inventories	6,200	5,800
Trade and Other Receivables	6,000	5,400
Cash and Cash Equivalents	1,800	2,400
	14,000	13,600
Total Assets	32,800	31,500
Equity and Liabilities:		
Equity:		
Stated Capital	25,000	25,000
Retained Earnings	3,600	2,400
	28,600	27,400
Non-Current Liabilities:		
Long -Term Loans	2,000	1,000
Employee Benefits (Provision for Gratuity)	420	360
	2,420	1,360
Current Liabilities:		
Trade Payables	1,780	1,740
Income Tax Payable	-	1,000
	1,780	2,740
Total Equity and Liabilities	32,800	31,500

The following additional information is also provided:

- (1) Profit After Tax for the year ended 31st March 2025 was Rs.2,000,000/-.
- (2) Income Tax Expense for the year ended 31st March 2025 was Rs.800,000/-.
- (3) Accumulated depreciation of property, plant and equipment as at 31st March 2025 and 31st March 2024 are as Rs.3,200,000/- and Rs.2,600,000/- respectively.
- (4) The interest expense on loans for the year was Rs.150,000/- and it was paid during the year. No other loan repayments were made during the year
- (5) A fully depreciated vehicle costing Rs.600,000/- was sold for Rs.150,000/- on 01st April 2024.
- (6) A new machinery was purchased on 01st May 2024 and capitalized it on the same date.
- (7) During the year, the company has paid interim dividends of Rs.800,000/- to its ordinary shareholders.
- (8) The gratuity provision for the year was Rs.120,000/-.

You are required to:

Prepare the Statement of Cash Flows of **Mars (Pvt) Ltd.** for the year ended 31st March 2025 using indirect method.

(10 marks)

Question 07

- (a) **Moon Ltd.** entered into a lease agreement on 01st April 2024 for a 3 year period. The annual lease installment was Rs.1,200,000/- and it should be paid on 31st March in each year. In addition to that **Moon Ltd.** has paid an upfront lease payment of Rs.800,000/-. The implicit rate was 10% per annum.

You are required to:

Explain how the amounts should be recognized as at / for the year ended 31st March 2025 with respect to the above lease. (06 marks)

- (b) On 15th March 2025, **Moon Ltd.** was informed a legal claim of Rs. 5 million. Legal advice suggests that it is possible, but not probable, that compensation will be required.

You are required to:

- (i) **Explain** how the legal claim should be considered in the Financial Statements for the year ended 31st March 2025 as per LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets. (02 marks)

- (ii) **State** two (02) disclosures to be made in the financial statements in relation to the legal claim. (02 marks)

(Total 10 marks)

End of Section B

Three (03) Compulsory Questions

(Total 50 Marks)

SECTION C

Question 08

The following trial balance was extracted from the books of accounts of **Metro Wheels PLC** (a company which is in the business of manufacturing and distributing wheels) as at 31st March 2025:

Metro Wheels PLC
Trial Balance as at 31st March 2025 (Rs. '000)

	Dr.	Cr.
Stated Capital (40,000,000 Ordinary Shares)		400,000
Retained Earnings as at 01 st April 2024		18,000
Property, Plant and Equipment at Cost:		
Land and Buildings at Cost (Land Cost – Rs. 120 million)	180,000	
Machinery	65,000	
Motor vehicles	15,000	
Equipment	7,000	
Accumulated Depreciation as at 01st April 2024:		
Buildings		18,000
Machinery		21,000
Motor vehicles		4,000
Equipment		600
Capital Work-In-Progress - Building	85,000	
Inventory as at 31 st March 2025 at Cost	110,000	
Trade Receivables / Trade Payables	105,000	28,000
Cash in Hand and at Banks	114,800	
Allowance for Trade Receivables as at 01 st April 2024		18,000
Long-Term Loan		60,000
Income Tax Paid	11,000	
Cost of Sales / Sales	680,000	940,000
Income Tax Payable as at 01 st April 2024		10,000
Other Income		4,000
Prepayments	4,800	
Interim Dividends Paid	20,000	
Administration Expenses	75,000	
Distribution Expenses	40,000	
Other Expenses	9,000	
	1,521,600	1,521,600

The following additional information is also provided:

- (1) On 31st March 2025, a motor vehicle which was purchased on 01st July 2022 at Rs.8,000,000/- was sold for Rs.6,500,000/-. No any other entries were made except recording the cash received in the cash account and the sales account.
- (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
Equipment	:	05 years
Motor vehicles	:	04 years
- (3) The company carried out an impairment test on machinery as at 31st March 2025 and it was revealed that recoverable amount was Rs.35,000,000/-. No adjustments were made in the books of accounts regarding the impairment.
- (4) On 01st July 2024, the company borrowed Rs. 60 million with an interest rate of 12% per annum to construct a building. The construction was commenced at the same date. The loan payments will be commenced on 01st July 2026 onwards. No entries were made in the accounts for the interest of the year.
- (5) During the year, the company recovered a bad debt of Rs.1,800,000/- which was written-off during the last financial year. This amount has been credited to Trade Receivable Account. Further it was decided to maintain the allowance for trade receivables at 5% of the balance trade receivables as at 31st March 2025.
- (6) Audit and tax consultancy fees for the year ended 31st March 2025 were Rs.1,000,000/- and Rs.600,000/- respectively and were paid in April 2025. However, these have not been accounted for year ended 31st March 2025. Prepayment account represents rent payment made for the full calendar year 2025.
- (7) Estimated income tax liability for 2024/25 is Rs.8,000,000/-. No provision has been made in this regard. The payments of the income taxes were made during the year for the year of assessment 2023/24.
- (8) As at 31st March 2025, it was decided to change the subsequent measurement policy of land to revaluation model. Accordingly, the land was revalued and the resulted revaluation gain was Rs.20 million and it was not recorded in the books of accounts.

- (9) The Board of Directors of the company has approved a final dividend of 75 cents per share at the board meeting held on 20th May 2025. The financial statements were authorized for issue on 30th June 2025.

You are required to:

Prepare the following, for **Metro 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 2025. (10 marks)
- (b) Statement of Financial Position as at 31st March 2025. (08 marks)
- (c) Statement of Changes in Equity for the year ended 31st March 2025. (03 marks)
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2025. (04 marks)
- (Total 25 marks)

Question 09

The following information was extracted from **Vega PLC** for the years ended / as at 31st March 2025 and 31st March 2024.

(Rs.'000)

For the years ended	31st March 2025	31st March 2024
Sales	1,850,000	1,620,000
Cost of Sales	(1,420,000)	(1,260,000)
Gross Profit	430,000	360,000
Interest Expense	(22,000)	(20,000)
Income Tax	(18,000)	(16,500)
Net Profit After Tax	150,000	123,500
As at 31st March	2025	2024
Current Assets	980,000	1,120,000
Current Liabilities	140,000	130,000
Trade Receivables	580,000	460,000
Inventory	120,000	115,000
Trade Payables	130,000	120,000
Interest Bearing Loans	60,000	65,000
Shareholders' Equity	180,000	200,000
Number of Shares Issued ('000)	20,000	20,000

Credit sales consists of 70% of total sales and 85% 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 2025:
- (i) Gross Profit Ratio.
 - (ii) Net Profit Ratio.
 - (iii) Debtors' Collection Period.
 - (iv) Creditors' Settlement Period.
 - (v) Earnings Per Share.
- (05 marks)

(b) The following are the industry average ratios for the sector in which **Vega PLC** operates in:

Gross Profit Ratio	25%
Net Profit Ratio	10%
Debtors' Collection Period	90 days
Creditors' Settlement Period	60 days
Earnings Per Share	Rs.8/-

Prepare a summary report comparing **Vega PLC's** ratios with the industry averages while explaining possible reasons for any significant variances. (05 marks)

(Total 10 marks)

Question 10

On 01st April 2024, **Orion PLC (OP)** acquired 75% of the ordinary share capital of **Nova PLC (NP)** for Rs. 90 million. The Statements of Financial Position of **OP** and **NP** as at 31st March 2025 are as follows:

Statements of Financial Position		<i>(Rs. '000)</i>	
As at 31st March 2025	OP	NP	
Non-Current Assets:			
Property, Plant and Equipment at Carrying Value	120,000	80,000	
Investment in NP	90,000	–	
Current Assets:			
Inventories	18,000	22,000	
Trade and Other Receivables	20,000	14,000	
Amount Due from NP	3,000	–	
Cash and Cash Equivalents	5,000	2,500	
	46,000	38,500	
Total Assets	256,000	118,500	
Equity & Liabilities:			
Equity:			
Stated Capital	150,000	60,000	
Retained Earnings	30,000	10,000	
	180,000	70,000	
Non-Current Liabilities:			
Long-Term Loans	40,000	30,000	
Employee Benefits Payable	6,000	3,500	
Current Liabilities:			
Trade Payables	27,000	12,000	
Amount Due to OP	–	3,000	
Income Tax Payable	3,000	–	
	30,000	15,000	
Total Equity & Liabilities	256,000	118,500	

The following additional Information is also provided:

- (1) Fair value of the Non-Controlling Interest (NCI) on the date of acquisition was Rs. 25 million. The fair value of identifiable net assets of **NP** was equal to its book value. At the date of acquisition, the retained earnings of **NP** was Rs. 4 million.
- (2) On 01st July 2024, **NP** has sold goods worth Rs. 5 million to **OP**. **NP** applied a profit of 25% on cost. As at 31st March 2025 inventory worth of Rs. 1 million remained unsold at the store of **OP** which was purchased from **NP**.
- (3) The impairment test was conducted on 31st March 2025 and it was revealed that goodwill on acquisition of the company has been impaired by Rs. 4 million.

You are required to:

- (a) **Calculate** the goodwill arising on acquisition of **Nova PLC**. (04 marks)
 - (b) **Prepare** the Consolidated Statement of Financial Position of **Orion PLC** Group as at 31st March 2025. (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.
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.

Level	Action Verb	Definition	Detailed Instructions for Students
ANALYSE 1 Breaking 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.



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CURRICULUM 2025

SUGGESTED ANSWERS

Level 03

3801 - FINANCIAL REPORTING (FAR)

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Four [04] Compulsory Questions

[Total 20 Marks]

SECTION - A

Suggested Answers to Question 01:**Unit 01 – Governance Structure, Importance of Ethics in Accounting and Integrated Reporting and Sustainability Reporting, Conceptual Framework of Financial Reporting**

Learning outcome – Discuss the Conceptual Framework of Financial Reporting

(a) The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. **(02 marks)**

(b)

(1) Comparability

(2) Verifiability

(3) Timeliness

(4) Understandability

(01 mark each, maximum 03 marks)

(Total 05 marks)

Suggested Answers to Question 02:**Unit 01 – Governance Structure, Importance of Ethics in Accounting and Integrated Reporting and Sustainability Reporting, Conceptual Framework of Financial Reporting**

Learning outcome – Explain integrated reporting and sustainability reporting

(a) The main objective of SLFRS S1 is to require an entity to disclose information about its' sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

(02 marks)

(b) (1) Governance.

(2) Strategy.

(3) Risk Management.

(4) Metrics and Targets.

(01 mark each, 03 marks)

(Total 05 marks)

Suggested Answers to Question 03:

Unit 06 – Digitalization of the Accounting & Financial Reporting process

- Learning outcome - Explain data security and accuracy in digital accounting.
- Identify digital accounting tools with its benefits.

(a)

- (1) Duplicate entries.
- (2) Incorrect account classification.
- (3) Data entry errors.
- (4) Error of entry reversal.
- (5) Reconciliation errors.
- (6) Errors of commission.
- (7) Error of omission. **(01 mark each, 02 marks)**

(b)

- (1) Anomaly detection / AI can flag unusual transactions for review.
 - (2) Automated reconciliation / AI can match entries across systems to identify mismatches.
 - (3) Smart categorization / AI can learn and apply correct account classifications based on historical data. **(01 mark each, 03 marks)**
- (Total 05 marks)**

Suggested Answers to Question 04:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting Standards in preparing financial statements

- Learning outcome – Explain the Global Accounting Standard Development Process, the adoption of Accounting Standards in Sri Lanka and the role of the Institute of Chartered Accountants of Sri Lanka, the Accounting Standard Committee, and the Sustainability Disclosure Standards Committee

- (a)** CA Sri Lanka is the official accounting standard-setting body in Sri Lanka. It adopts and implements international standards such as IFRS and SLFRS, ensuring consistency and compliance with global practices. **(03 marks)**

(b)

- (1) Accounting Standards Committee.
 - (2) Sustainability Disclosure Standards Committee. **(02 marks)**
- (Total 05 marks)**

End of Section A

Suggested Answers to Question 05:

Unit 02 – Regulatory requirements and application and disclosure requirements of Sri Lanka Accounting Standards in preparing financial statements

Learning outcome – Apply the Accounting treatments and disclosure requirements prescribed in the Sri Lanka Accounting Standards.

			<i>(Rs.)</i>
Accounting Base	Tax Base	Temporary Differences	Deferred Tax Liability
$(10,000,000 - 10,000,000/5)$ $= 8,000,000$	$(10,000,000 - 10,000,000/4)$ $= 7,500,000$	$(8,000,000 - 7,500,000)$ $= 500,000$	$(500,000 \times 30\%)$ $= 150,000$
			(03 marks)

(b) As per LKAS 19, the following disclosures are required for gratuity (defined benefit plans):

- (1) Reconciliation of the present value of the defined benefit obligation (showing opening balance, current service cost, interest cost, benefits paid, actuarial gains/losses, and closing balance.)
- (2) Amounts recognized in the financial statements (including the liability and any expense in profit or loss.)
- (3) Actuarial assumptions used (such as discount rate, salary growth rate, and retirement age.)
- (4) Sensitivity analysis showing how changes in assumptions affect the obligation.

(01 mark each, maximum 02 marks)

(c) (1) Valid contract exits as of 01st February 2025.

- (2) The contract includes two performance obligations: **(01 mark)**
- Delivery of machine
 - Maintenance services.

(3) Revenue should be allocated based on the standalone selling prices of each component (i.e Rs.4,800,000/- for machine and Rs.200,000/- for the maintenance services) **(01 mark)**

- (4) For the year ended 31st March 2025 revenue has to be recognized as follows:
- Machine Revenue: Rs.4,800,000/- (at a point in time) **(01 mark)**
 - Maintenance support revenue (2 months): Rs.66,667/- (Over the period of time)
(200,000/6 x 2) **(01 mark)**

(5) Total revenue for the year: Rs.4,866,667/- **(01 mark)**

(Total 10 Marks)

Suggested Answers to Question 06:

Unit 03 – Financial Statements for a Limited Liability Company for Publication Purposes

Learning outcome – Prepare cash flow statement for a single entity as per LKAS 7

Mars (Pvt) Ltd.

Statement of Cash Flows

For the Year Ended 31st March 2025

(Rs. '000)

Cash Flows from Operating Activities:	
Net Profit before Tax (W-1)	2,800
Adjustments for:	
Depreciation (W-2)	600
Provision for Gratuity	120
Interest Expense	150
Profit on Sale of PPE	(150)
Changes in Working Capital:	
Increase in Inventories	(400)
Increase in Trade and Other Receivables	(600)
Increase in Trade and Other Payables	40
Cash Generated from operations	2,560
Gratuity Paid (W-3)	(60)
Income Tax Paid (W-4)	(1,800)
Net Cash Flow from Operating Activities	700
Cash Flows from Investing Activities:	
Proceeds from Sale of Vehicle	150
Purchase of New Machine	(1,500)
Net Cash Used in Investing Activities	(1,350)
Cash Flows from Financing Activities:	
Long-Term Loans Obtained During the Year	1,000
Interest Paid	(150)
Dividends Paid	(800)
Net Cash from Financing Activities	50
Net Decrease in Cash and Cash Equivalents	(600)
Cash and Cash Equivalent Balance as at 01.04.2024	2,400
Cash and Cash Equivalent Balance as at 31.03.2025	1,800

Workings:**(W-1) Net Profit / (Loss) before Tax***(Rs. '000)*

PAT	2,000
Tax	800
PBT	2,800

(W-2) Depreciation of PPE*(Rs. '000)*

Closing Accumulated Depreciation balance	3,200
Opening Accumulated Depreciation balance	(2,600)
Depreciation for the year	600

(W-3) Gratuity Paid*(Rs. '000)*

Closing Gratuity Provision	420
Gratuity provision for the year	(120)
Opening Gratuity Provision	(360)
Gratuity payments	(60)

Provision for Gratuity

Cash	60	B/B/F	360
B/C/D	420	P/L	120
	480		480

(W-4) Income Tax Payable

Cash	1,800	B/B/F	1,000
		P/L	800
	1,800		1,800

(10 marks)

Suggested Answers to Question 07:

Unit 02 – Regulatory Requirements, and Application & Disclosure Requirements of Sri Lanka Accounting Standards in Preparing Financial Statements

Learning outcome – Apply the accounting treatments and disclosure requirements prescribed in the Sri Lanka Accounting Standards

Extract of Statement of Financial Position as at 31st March 2025:

	Rs.'000
Right to use Asset	2,522,815
Non-Current Liabilities:	
Lease Creditor	1,090,908
Current Liabilities:	
Lease Creditor	991,736

Extract of Statement of Income for the year ended 31st March 2025:

	Rs.'000
Lease Interest	298,422
Depreciation	1,261,407

Workings:

Lease Liability is the present value of future lease payments.

Right-of-Use Asset includes the lease liability plus the upfront payment.

Lease Liability	2,984,222.39
Right-of-Use Asset	3,784,222.39

$$PV = Px \left(\frac{1-(1+r)^{-n}}{r} \right)$$

$$PV = 1.2 \text{ million} \times \left(\frac{1-(1+0.10)^{-3}}{r} \right)$$

$$= 1.2 \text{ million} \times 2.48685$$

$$= \underline{\underline{\text{Rs. 2,984,222.30}}}$$

OR

$$\begin{aligned}\text{Lease Liability} &= \frac{1,200,000}{1.1} + \frac{1,200,000}{1.1^2} + \frac{1,200,000}{1.1^3} \\ &= 1,090,909.09 + 991,735.54 + 901,577.76 \\ &= 2,984,222.39\end{aligned}$$

$$\begin{aligned}\text{Right of Use Asset} &= 2,984,222.39 + 800,000 \\ &= \underline{\underline{3,784,222.39}}\end{aligned}$$

(06 marks)

$$\text{Depreciation} = 3,784,222 / 3 = 1,261,407$$

$$\text{Carrying value of the right to use Asset} = 3,784,222 - 1,261,407$$

$$\text{As at 31st March 2025} = \underline{\underline{2,522,815}}$$

Year	Opening Balance	Installment	Capital	Interest	Closing Balance
1	2,984,222	1,200,000	901,578	298,422	2,082,644
2	2,082,644	1,200,000	991,736	208,264	1,090,908
3	1,090,908	1,200,000	1,090,908	109,092	-

- (b) (i)** Since the obligation is possible but not probable, it does not meet the criteria for a provision.

It should be disclosed as a Contingent Liability in the notes to the financial statements.

(02 marks)

(ii)

- (1) Nature of the contingent liability. A brief description of the nature of the contingent liability.
- (2) An estimate of its financial effect or a statement that such an estimate cannot be made.
- (3) An indication of the uncertainties relating to the amount and timing of any outflow.
- (4) Possibility of any reimbursement.

(01 mark each, 02 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question 08:

Unit 03 – Financial Statements for a Limited Liability Company for Publication Purposes

Learning outcome – Prepare and report financial statements for publication purposes (General Purpose Financial Statements) as per the Sri Lanka accounting standards

(a)

Metro Wheels PLC
The Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2025 *(Rs.'000)*

Sales (W-1)		933,500
Less: Cost of sales		(680,000)
Gross Profit		253,500
Other income (W-5)		22,460
		275,960
Less: Expenses:		
Distribution Expenses (W-5)	(43,750)	
Administration Expenses (W-5)	(86,900)	
Other Expenses (W-5)	(11,500)	(142,150)
Profit Before Tax		133,810
Income Tax (W-6)		(9,000)
Profit After Tax		124,810
Other Comprehensive Income		-
Revaluation Gain		20,000
Total Comprehensive Income for the Year		144,810

(10 marks)

(b)

Metro Wheels PLC
Statement of Financial Position
As at 31st March 2025

(Rs.'000)

Non-Current Assets:		
Property, Plant and Equipment		315,950
Current Assets:		
Inventories	110,000	
Trade Receivables (W-8)	101,460	
Prepayments (4,800 - 1,200)	3,600	
Cash and Cash Equivalents	114,800	329,860
Total Assets		645,810
Equity & Liabilities:		
Equity:		
Stated Capital	400,000	
Retained Earnings	122,810	
Revaluation Reserve	20,000	542,810
Non-Current Assets:		
Long Term loan		60,000
Current Liabilities:		
Trade Payables	28,000	
Interest Payable (W-4)	5,400	
Accrued Expenses (1,000 + 600)	1,600	
Income Tax Payable (W-6)	8,000	43,000
Total Equity & Liabilities		645,810

(08 marks)

(c)

Metro Wheels PLC
Statement of Changes in Equity
For the year ended 31st March 2025

(Rs.'000)

	Stated Capital	Retained Earnings	Revaluation Reserve	Total
Balance as at 01 st April 2024	400,000	18,000	-	418,000
Profit for the year	-	124,810	-	124,810
Dividend Payment	-	(20,000)	-	(20,000)
Revaluation Gain	-	-	20,000	20,000
Balances as at 31st March 2025	400,000	122,810	20,000	542,810

(03 marks)

(d)

Metro Wheels PLC

Statement of Movements of PPE

For the year ended 31st March 2025

(Rs.'000)

	Land	Buildings	Machinery	Motor Vehicles	Equipment	CWP	Total
Cost as at 01 st April 2024	120,000	60,000	65,000	15,000	7,000	85,000	352,000
Additions	-	-	-	-	-	-	-
Revaluation gain	20,000	-	-	-	-	-	20,000
Interest cost capitalization (W-4)	-	-	-	-	-	5,400	5,400
Disposals	-	-	-	(8,000)	-	-	(8,000)
Impairment (W-7)	-	-	(2,500)	-	-	-	(2,500)
Balance as at 31st March 2025	140,000	60,000	62,500	7,000	7,000	90,400	366,900
Depreciation:							
Accumulated Depreciation as at 01 st April 2024	-	18,000	21,000	4,000	600	-	43,600
Depreciation for the year	-	1,200	6,500	3,750	1,400	-	12,850
Disposals	-	-	-	(5,500)	-	-	(5,500)
Accumulated Depreciation as at 31st March 2025	-	19,200	27,500	2,250	2,000	-	50,950
Carrying Amount as at 31st March 2025	140,000	40,800	35,000	4,750	5,000	90,400	315,950

(04 marks)

Workings:

W-1 Sales

Sales as per TB	940,000
Error – Recording of PPE Sale	(6,500)
	933,500

W-3 Depreciation Account

Building (180,000 – 120,000) / 50	1,200
Machinery (65,000 / 10)	6,500
Equipment (7,000 / 5)	1,400
Motor vehicle (15,000 / 4)	3,750
	12,850

W-2 Gain on Sale of Vehicle Account

Cash Received	6,500
Carrying Value	(2,500)
(Cost 8,000 – Accumulated Depreciation 5,500)	
Gain	4,000

W-4 Interest Capitalization Account

Interest to be capitalized = $60,000 \times 12\% \times 9/12 = \underline{5,400}$

W-5

	Other Income	Admin Expenses	Distribution Expenses	Other Expenses
As per TB:	4,000	75,000	40,000	9,000
Bad debt recovery	1,800	-	-	-
Bad Debt over provision (W-9)	12,660	-	-	-
Depreciation (W-3)	-	9,100	3,750	-
Gain on sale of motor vehicle (W-2)	4,000	-	-	-
Audit and tax consultancy	-	1,600	-	-
Rent (4,800 x 3/12)	-	1,200	-	-
Impairment (W-7)	-	-	-	2,500
	22,460	86,900	43,750	11,500

W-6 Income Tax Payable

Cash	11,000	B/B/F	10,000
B/C/D	8,000	P/L	8,000
		P/L Under Provision	1,000
	19,000		19,000

W-7 Impairment

Cost	65,000
Acc. Dep.	(27,500)
Carrying Value	37,500
Recoverable Value	35,000
Impairment	2,500

Prepayment Rent:

$4,800 \times 3/12 = 1,200$ – Rent P/L

$4,800 \times 9/12 = 3,600$ – Prepaid rent

W-8 Trade Receivables Account

Balance as per TB	105,000
Error: Bad Debt Recovery	1,800
	106,800
Bad Debt Provision (5% of Rs.106,800/-)	(5,340)
	101,460

W-9 Allowance for Trade Receivables

Balance as per TB	18,000
Required Provision	(5,340)
Over Provision	12,660

(Total 25 marks)

Suggested Answers to Question 09:

Unit 04 – Interpretation of Financial and Non-Financial Data and Information

Learning outcome – Analyze and interpret financial statements using financial ratios (profitability ratios, investment ratios, liquidity ratios, efficiency ratios and gearing ratios)

		<u>2024/25</u>
(i) Gross Profit Ratio	$= \frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$= \frac{430,000}{1,850,000} \times 100$ <u>23.24%</u>
(ii) Net Profit Ratio	$= \frac{\text{PAT}}{\text{Sales}} \times 100$	$= \frac{150,000}{1,850,000} \times 100$ <u>8.11%</u>
(iv) Debtors Collection Period	$= \frac{520,000}{1,295,000} \times 365$	 <u>147 Days</u>
	$= \frac{\text{Average Debtors} \times 365}{\text{Credit Sales}}$	
(iv) Creditor's Settlement Period	$= \frac{125,000}{1,211,250} \times 365$	 <u>38 Days</u>
	$= \frac{\text{Average Creditors} \times 365}{\text{Credit Purchases (W-1)}}$	
(v) Earning Per Share	$\frac{\text{Net Profit After Tax}}{\text{No. of Ordinary Shares}}$	$\frac{150,000}{20,000}$ <u>Rs.7.50</u>

W-1 Purchases

Opening Stock	115
Purchases	1,425
Closing Stock	(120)
Cost of Sales	1,420

Credit Purchases = $1,425 \times 85\% = \underline{\underline{1,211,250}}$

(05 marks)

(b) Vega PLC's profitability ratios are slightly below when compared with the industry average ratios. Gross profit ratio of **Vega PLC** has recorded only 23.24%. When compared with the industry average of 25%. This may be due to lower price charged and higher cost of sales, low sales, supply chain inefficiencies, etc. When it comes to Net Profit ratio, **Vega PLC's** Net Profit Ratio is 8.11% and it is below the industry average of 10%. It may be due higher Operating or Finance Expenses, internal inefficiencies of administration or handling distribution channels.

Debtor's collection period is 147 days compared to industry average of 90 days. This is due to weaker debtor collection practice of the company and needs to give more attention to improve the collection or grant discounts to encourage early settlements by the debtors.

Creditors' settlement period of **Vega PLC** is very short compared to the industry average. This may be due to faster credit payments or less favourable credit terms. It has to be improved by negotiating with suppliers to manage the liquidity.

Earning Per Share is Rs.7.50 and it is slightly lower compared than industry average. The lower profitability is likely the main course, as it directly affects EPS.

(05 marks)
(Total 10 marks)

Suggested Answers to Question 10:

Unit 05 – Consolidated Financial Statement

Learning outcome – Prepare consolidated Statement of Financial Position for a group of companies in accordance with Sri Lanka accounting standards.

(a)

Purchase Consideration	90,000
Fair Value of NCI	25,000
Total Consideration	115,000
Less: Net Assets at Acquisition (60,000 + 4,000)	(64,000)
Goodwill on Acquisition	51,000

(04 marks)

(b)

Orion PLC Group
Consolidated Statement of Financial Position
as at 31st March 2025

Assets		Rs.'000	
Property, Plant & Equipment	120,000 + 80,000	200,000	
Goodwill (Net of Impairment)	51,000 - 4,000	47,000	Rs.4,000 is the impairment
Current Assets:			
Inventories (W-1)	18,000 + 22,000 - 200	39,800	
Trade & Other Receivables	20,000 + 14,000	34,000	
Cash & Bank	5,000 + 2,500	7,500	
Total Assets		328,300	
Equity and Liabilities:			
Stated Capital	150,000	150,000	
Group Retained Earnings (W-2)		31,350	
Non-Controlling Interest (W-3)		25,450	
Long-Term Loans	40,000 + 30,000	70,000	
Employee Benefits	6,000 + 3,500	9,500	
Current Liabilities:			
Trade Payables	27,000 + 12,000	39,000	
Income Tax Payable	3,000	3,000	
Total Equity and Liabilities		328,300	

Working:

(W-1) Unrealized Profits = $1,000/125 \times 25 = 200$

(W-2) Consolidated Retained Earnings

URP	150	B/B/F	30,000
Goodwill Impairment	3,000	NP Profit	4,500
B/C/D	31,350		
	34,500		34,500

(W-2) NCI

URP	50	Fair Value	25,000
Goodwill	1,000	Profit	1,500
B/C/D	25,450		
	26,500		26,500

(11 marks)

(Total 15 marks)

End of Section C