SRI LANKA

Association of Accounting Technicians of Sri Lanka

AA3 Examination - July 2019

Suggested Answers
Subject No : (AA31)

FINANCIAL ACCOUNTING AND REPORTING (FAR)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 Examination-July 2019

(AA31) Financial Accounting & Reporting

SUGGESTED ANSWERS

Four (04) compulsory questions
(Total 20 marks)

SECTION - A

Suggested Answers to Question 01:

(A)

Chapter No 01 -Conceptual Framework for Financial Reporting

The underlying assumption related to the preparation of financial statement is Going Concern.

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operation.

(03 marks)

(B)

Chapter No 01- Conceptual Framework for Financial Reporting

A liability is recognized,

1. When it is **probable that an outflow of resources embodying economic** benefits will result from the settlement of a present obligation.
2. The amount at which the settlement will take place can be **measured reliably.**

(02 marks)
(Total 05 marks)

Suggested Answers to Question 02:

Supplementary for Chapter 02-Regulatory Framework

The key components of Integrated Report are as below.

- The Business Model
- Organizational overview and external environment
- Capital Management
- Governance
- Strategy and Resource Allocation
- Stakeholder Relationship
- Outlook
- Risk Management and Internal Control

(05 marks)

Suggested Answers to Question 03:

(A)

Chapter No 03 - Accounting Standards Part II (LKAS 38)

Intangible assets shall be recognized

1. Identifiability
2. Control of the asset should be vested with the company
3. It is probable that the expected future economic benefits that are attributed to the assets will flow to the entity
4. The cost of the asset can be measured reliably

(02 marks)

(B)

Chapter No 03 - Accounting Standards Part II (LKAS 38)

1. The Research expenses of Rs.1,000,000 -This is not an intangible asset and should be recognized as an expense to Statement of Profit and Loss.

2. The cost of registration of patent right Rs.100,000/- should be recognized as an intangible asset as a value of 100,000.Recognition criteria are met, therefore this is an intangible asset.
3. The advertising expense of Rs.300,000. This is not an intangible asset and should be recognized as an expense to Statement of Profit and Loss.

(03 marks)
(Total 05 marks)

Suggested Answers to Question 04:

Chapter No 05 - Cash Flow Statement (LKAS 07)

Lanka Teas (Pvt) Ltd
Statement of Cash flows from Investing Activities
For the Year ended 31st March 2019

	Amount(Rs.)
<u>Cash flows from Investing Activities</u>	
Acquisition of Motor Vehicles	(1,400,000)
Sale Proceed from disposal of Motor Vehicles **(W-1)**	800,000
Acquisitions of Intangible Assets	(35,000)
Investment in the companies	(165,000)
Net Cash flows from Investing Activities	**(800,000)**

W-1-Disposal

Cost	1,200	Depreciation	600
Profit	200	Cash	800
	1,400		**1,400**

(05 marks)

End of Section A

Suggested Answers to Question 05:

(A)

Chapter No 06 - Ratio Analysis

i.	Gross Profit Ratio	=	76,920/ 220,700 * 100	= **35%**
ii.	Debtors' Collection Period	=	((27,580+19,850) / 2) / 220,700 * 365	= **39 Days**
iii.	Stock Residency Period	=	((25,250+16,400) / 2) / 143,780 * 365	= **53Days**
iv.	(ROCE)	=	**(PBIT/(Equity+ Long Term Debt)**	
		=	34,760 / (125,600+12,000) * 100	= **25%**

Alternative Answer

ROCE (Closing Capital)	=	**(PAT/Equity)**	
	=	(16,177/125,600)*100	=**13%**

(06 marks)

(B)

Chapter No 06 - Ratio Analysis

i. **The GP Margin can be improved by**

a. Increase the sales
b. Changing the product mix, including more profitable product
c. Get discounts for purchases

ii. **Debtors Collection can be improved by**

a. Providing discounts for cash sales, this could convert the credit sales into cash sales
b. Implementing proper credit control mechanism (Reduce credit period given to customers, follow up debts)

(04 marks)
(Total 10 marks)

Suggested Answers to Question 06:

Chapter No 05 - Cash Flow Statement –(LKAS 07)

Europa Quality Foods (Pvt) Ltd
Statement of Cash flows
For the Year Ended 31st March 2019

"000"

Cash flow from Operating Activities		
Profit Before Tax(2450+125)		2,575
Provision for Gratuity	50	
Interest Expenses	590	
Depreciation (10,090+400-10,020)	470	
Profit on disposal **(W-1)**	(250)	860
Operating Profit before Working Capital Changes		**3,435**
Increase in Inventories	(2,615)	
Decrease in Trade Receivables	660	
Increase in Trade Payable	60	(1,895)
Cash flows from Operating Activities		**1,540**
Interest Paid**(W-3)**	(445)	
Income Tax Paid**(W-2)**	(925)	(1,370)
Net Cash flow from Operating Activities		**170**
Cash flow from Investing Activities		
Acquisition of Motor Vehicles	(500)	
Proceed from Disposal of Motor Vehicles	600	
Net Cash flow from Investing Activities		**100**
Cash flow from Financing Activities		
Obtaining a long term loan	1,000	
Repayment of Loans	(1,625)	
Net Cash flow from Financing Activities		**(625)**
Net Cash Decreased During the Period		**(355)**
Cash and cash equivalent as at 1st April 2018		**2,560**
Cash and cash equivalent as at 31st March 2019		**2,205**

W-1 **Disposal of Asset**

Cost	750	Depreciation	400
Profit	250	Cash	600
	1,000		**1,000**

W-2 **Income Tax Account**

Cash	925	Depreciation	950
B/C/F	150	P&L	125
	1,075		**1,075**

W-3 **Interest Payable Account**

Cash	445	B/B/F	75
B/C/F	220	P&L	590
	665		**665**

(Total 10 marks)

Suggested Answers to Question 07:

(A)

Chapter No 03 - Accounting Standards Part 01 (LKAS 12)

a.

	Carrying Value	**Tax Base**	**Temporary Difference**
Building	6,000	5,000	(1000)
Vehicle	2,500	2,000	(500)
Gratuity Provision	700		(700)
			800

(03 marks)

b. **Deferred Tax Liability**

= (800,000) *28 %

= 224,000

(02 marks)

(B)

Chapter No 03 - Accounting Standards Part 01 (LKAS 02)

Date		**Receipts**		**Issues**					**Balance**
	Qty	**Per Unit**	**Value**	**Qty**	**Per Unit**	**Value**	**Qty**	**Per Unit**	**Value**
							2,000	10	20,000
15.12.2018	5,000	9.30	46,500				7,000	9.50	66,500
16.12.2018				4,000	9.5	38,000	3,000	9.50	28,500
20.12.2018	6,000	11.00	66,000				9,000	10.50	94,500
				7,000	**10.5**	**73,500**	**2,000**	**10.50**	**21,000**

(05 marks)
(Total 10 marks)

End of Section B

Two (02) compulsory questions
(Total 50 marks)

SECTION - C

Suggested Answers to Question 08:

(a)

Chapter No 04 – Financial Accounts of Limited Liability Company

Omega PLC
Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31st March 2019

"Rs. 000"

Sales	274,500
Less-Cost of Sales(700+192,300)	(193,000)
Gross Profit	**81,500**
Other Income	1,550
	(83,050)
Distribution Expenses**(W-1)**	(18,112)
Admin Expenses**(W-1)**	(34,730)
Finance Expenses	(900)
Profit Before Tax	**29,308**
Taxation	(900)
Profit After Tax	**28,408**
Other Comprehensive Income	
Revaluation of PPE	3,000
Total Comprehensive Income	**31,408**

(10 marks)

(b)

Omega PLC
Statement of Financial Position
As at 31st March 2019

		"000"
Non-Current Assets		
Property Plant & Equipment	04	76,930
Capital Work In Progress (7,600+500)		8,100
		85,030
Current Assets		
Inventories (41,500-700)		40,800
Trade & Other Receivables(24,520-420)	05	23,618
Pre-payment		180
Cash & Bank		3,280
Total Assets		**152,908**
Equity & Liabilities		
Capital & Reserves		
Stated Capital		80,000
Revaluation Reserve		5,100
Retained Earning		30,858
Total Equity		**115,958**
Non-Current Liabilities		
Bank Loan		3,750
Current Liabilities		
Trade Payables(31,200-500)		30,700
Interest Payable		500
Income Tax Payable		750
Current Portion of Bank Loan		1,250
Total Equity & Liabilities		**152,908**

(08 marks)

(c)

Note 06

Omega PLC
Statement of Changes in Equity
For the Year Ended 31st March 2019

"000"

	Std. Capital	**Revaluation**	**Re. Earning**	**Total**
Balance 01.04.2018	80,000	2,100	6,450	88,550
Revaluation of Land		3,000		3,000
Interim Dividend paid			(4,000)	(4,000)
Profit for the year			28,408	28,408
Balance 31.03.2019	**80,000**	**5,100**	**30,858**	**115,958**

(03 marks)

Note: The board of Directors decided to pay Rs.2/- per share as the final dividend for ordinary shares held on 31st March 2019.

(d)

Note 04– PPE

"000"

Cost

	Land	**Building**	**Motor Vehicles**	**Office Equipment**	**Total**
Balance as at 01.04.2018	50,000	25,000	21,000.00	7,200	103,200
Revaluation	3,000	-	-	-	3,000
Disposal			(4,500)		(4,500)
Balance as at 31.03.2019	**53,000**	**25,000**	**16,500**	**7,200**	**101,700**

Acc. Depreciation

Balance as at 01.04.2018	-	8,500	11,500	2,200	22,200
Depreciation for the year	-	1,250	3,750	720	5,720
Removal			(3,150)		(3,150)
Balance as at 31.03.2019	**-**	**9,750**	**12,100**	**2,920**	**24,770**

Carrying Value	**53,000**	**15,250**	**4,400**	**4,280**	**76,930**

(04 marks)

Notes to Financial Statements **Rs. ("000")**

Note 01 – Other Income

As per TB	2,900
Less- Sale Proceeds	(2,900)
Profit on Disposal (W-2)	1,550
Total	**1,550**

Note 02 – Finance Expenses

As per TB	1,400
Less -Capitalized Borrowing Cost	(500)
Total	**900**

Note 3 -Taxation

B/B/F	650
Cash	(800)
B/C/D	900
P&L	**900**

Note 04 - PPE

Refer PPE working *(Question 8-Part d)*

Note 05 -Trade and Other Receivable

Debtors	24,100	
Less: Allowance	(482)	
Total		**23,618**

W-1 Expenses Analysis

Rs.**("000")**

	Admin	**Selling**
Inventory Written Off		
Depreciation	1,970	3,750
Bad Debt		420
Reversal of Allowance		(38)
Prepayment Expenses	60	
From TB	32,700	13,980
	34,730	**18,112**

W-2 Depreciation & Disposal

Disposal

Sales Proceed	=		2,900
Less – Cost	=	4,500	
Acc.Dep	=	(3,150)	(1,350)
Profit on Disposal	=		**1,550**

Depreciation

Building Depreciation	= 25,000 / 20	=	**1,250**
MV Depreciation	= (16,500/ 5) + (4,500 /5*6/12)	=	**3,750**
Office Equipment	= 7,200/10	=	**720**

(Total 25 marks)

Suggested Answers to Question 09:

(A)

Chapter No 07 -Chapter Name – Group Financial Statement

(a)

Investment 75% by Parent	=	290,000,000
Fair Value of NCI (250,000*365)	=	91,250,000
Total	**=**	**381,250,000**
Less: Fair Value of Net Assets	=	(340,000,000)
Goodwill	**=**	**41,250,000**

(05 marks)

(b)

Sigma Group
Consolidated Income Statement
For the Year Ended 31st March 2019

Sales (250,000+150,000-5,500)		394,500
Cost of Sales (150,000+90,000-5,500)		(234,500)
Gross Profit (100,000+60,000)		**160,000**
Unrealized Profit(**W1**)		(100)
		159,900
Other Income		
Interest Income (1200+950-500)	1,650	
Dividend Income	500	
Other Income (150+1,250-1,000 -50)	350	3,500
		163,400
Expenses		
Distribution Expenses (12,000+7,000)	(19,000)	
Admin Expenses (60,000+46,000-50+100) (**W2**)	(106,050)	
Finance Expenses (6000+4000-500)	(9,500)	**134,550**
Profit Before Tax		**28,850**
Taxation (6500+1550)		(8,050)
Profit for the year		**20,800**

(14 marks)

Workings

(W-1) Unrealized Profit = 1100/110*10 = **100**

(W-2) Over Depreciation = 1000/10 = **100**

(B)

Chapter Reference-Chapter No 06 -Chapter Name Ratio Analysis

Limitations of Ratio

(1) Items in financial statements are recognized in historical concept and inflation is not considered.
(2) Decisions for future are taken based on historical data and it can be changed.
(3) Ratios are calculated based on statistics.
(4) Comparison among businesses is difficult if policy is changed.

(06 marks)

(Total 25 marks)

End of Section C

Notice:

These answers complied and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the "Only" answers, or, for that matter even as "Model Answers". The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.