SRI LANKA

Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2024

Suggested Answers

(301) FINANCIAL REPORTING (FAR)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination - July 2024

(301) Financial Reporting

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter: 01

(a)

(i) A Reporting Entity.

A Reporting Entity is an entity that is required, or chooses, to prepare financial statements. This entity can be a single entity, such as a company, or a portion of an entity, or even a group of entities.

(ii) An Economic Resource.

An Economic Resource is defined as a right that has the potential to produce economic benefits.

Key characteristics of an economic resource include:

Potential to Produce Economic Benefits: The resource should have the ability to contribute directly or indirectly to the flow of cash or other economic benefits to the entity.

Control: The entity must have control over the resource, meaning it can direct the use of the resource and can restrict others from accessing the benefits from it.

Right: The economic resource represents a right that the entity holds, which could be legal, contractual, or based on established practices.

(03 marks)

(b)

The objective of general-purpose financial reporting is to provide financial information about the reporting entity that this is useful to existing useful to existing potential investors, lenders and other creditors in making decision.

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter: 01

(a)

1. Financial Capital: Refers to the funds available to an organization for use in the production of goods or the provision of services, obtained through financing or generated through operations or investments.
2. Human Capital: Encompasses the competencies, capabilities, and experience of the people within the organization, as well as their motivations to innovate.
3. Natural Capital: Represents all renewable and non-renewable environmental resources and processes that provide goods or services, such as air, water, land, minerals, and ecosystems.

(03 marks)

(b)

- To provide a comprehensive view of the organization: Integrated Reporting aims to give stakeholders a holistic picture of how an organization's strategy, governance, performance, and prospects contribute to value creation over the short, medium, and long term.
- To enhance accountability and stewardship: By including information on financial and non-financial aspects, Integrated Reporting promotes transparency and accountability, allowing stakeholders to understand how different capitals are utilized and affected by the organization's activities.
- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
- Promote a more cohesive and efficient approach to corporate reporting.
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

(02 marks)
(Total 05 marks)

Suggested Answers to Question Three:

Chapter: 02.1

(a) Deferred Tax Liability as at 31st March 2024: Rs. 1,290,000

(03 marks)

(b) Total Tax Expense for the Year Ended 31st March 2024: Rs. 1,420,000

(02 marks)

Deferred Tax Asset / Liability as at 31st March 2024

Determine Temporary Differences calculation

Land:

Accounting Carrying Value = Rs. 8,000,000

Tax Base = Rs. 8,000,000

Temporary Difference = Rs. 8,000,000 - Rs. 8,000,000 = Rs. 0

Motor Vehicles:

Accounting Carrying Value = Rs. 6,500,000

Tax Base = Cost - Cumulative Depreciation for Tax Purposes

Tax Base = Rs. 12,000,000 - Rs. 9,800,000 = Rs. 2,200,000

Temporary Difference = Rs. 6,500,000 - Rs. 2,200,000 = Rs. 4,300,000

Calculation of Deferred Tax Liability

Deferred Tax Liability = Temporary Difference × Tax Rate

Deferred Tax Liability = Rs. 4,300,000 × 30%= 1,290,000

Tax Expenses for the Year Ended 31st March 2024

Current Tax Expense = Taxable Profit × Tax Rate

Current Tax Expense = Rs. 2,600,000 × 30%=780,000

Deferred Tax Expense

Deferred Tax Liability at 31st March 2024 = Rs. 1,290,000

Deferred Tax Liability at 1st April 2023 = Rs. 650,000

Deferred Tax Expense = Rs. 1,290,000 - Rs. 650,000

Deferred Tax Expense = Rs. 640,000

Total Tax Expense = Current Tax Expense + Deferred Tax Expense

Total Tax Expense = Rs. 780,000 + Rs. 640,000

Total Tax Expense = Rs. 1,420,000

Defered Tax Account (Rs. '000)			
		B/B/F	650
B/C/F	1,290	P & L	640
	1,290		**1,290**

(Total 05 marks)

Suggested Answers to Question Four:

Chapter: 05.1

Investment	125,000
NCI	40,000
	165,000
Net Assets (136,000x110%)	(149,600)
Goodwill	**15,400**

(Total 05 marks)

Suggested Answers to Question Five:

Chapter: 02.2

(a) Weighted Average Expenditure on Construction

$$\text{Weighted Average Expenditure} = \text{Payment} \times \text{Time Weighting Factor}$$

1. XYZ Bank Loan:

Borrowing Cost for XYZ Bank=200,000×13%×11/12 = 23,833 per year

2. ABC Bank Loan:

Borrowing Cost to be Capitalized from ABC Bank= 200,000 ×12% × 7/12 = 14,000

Borrowing Cost to be Capitalized = 23,833 + 14,000 (Rs'000)

= 37,833,000

(04 marks)

(b)

1. This is a **non-adjusting event**. The company should not recognize the Rs. 50 million dismantling costs in the financial statements for the year ended 31st March 2024. However, the event should be disclosed in the notes to the financial statements, including the nature of the event and an estimate of the financial effect, if possible

2. This is an **adjusting event**. The Rs. 12 million bonuses should be recognized as an expense in the financial statements for the year ended 31st March 2024

3. This is a **non-adjusting event**. The company should not adjust the value of investments in the financial statements as of 31st March 2024. However, the event should be disclosed in the notes to the financial statements, including the nature of the event and the financial impact.

4. This is a **non-adjusting event**. The final dividend should not be recognized as a liability in the financial statements as of 31st March 2024. Instead, it should be disclosed in the notes to the financial statements.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter: 02.2

(A)

<u>Carrying Amount as of 31st March 2024</u>:
Carrying Amount=Cost−Accumulated Depreciation=6,500,000−3,900,000=2,600,000

According to LKAS 36, the recoverable amount is the higher of the **fair value less costs of disposal** and the **value in use**.

Fair Value Less Costs of Disposal: Rs. 2,300,000

Value in Use: Rs. 2,400,000

Recoverable Amount:

Recoverable Amount=Higher of Rs. 2,300,000 or Rs. 2,400,000=2,400,000

Impairment Loss=Carrying Amount−Recoverable Amount=2,600,000−2,400,000=200,000

(05 marks)

(B)

	Standard Price	**Transaction Price**
Air Conditioner	240,000	(240,000/384,000) x 360,000 = 225,000
Maintenance	144,000	(144,000/384,000)x 360,000 = 135,000
	384,000	**360,000**

Revenue for the year ended 31st March 2024 = 225,000 + 67,500 = **292,500**

Revenue for the year ended 31st March 2025 = **67,500**

(05 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

Chapter: 03.2

Statement of Cash Flows		
<u>**Cash Flows from Operating Activities**</u>		Rs. '000
Profit Before Tax and Interests (30,300 – 8,075)		22,225
Adjustments:		
Interest		8,075
Depreciation (119,500 – (112,540 – 4,720))		11,680
Loss on Disposal of Motor Vehicle (W – 1)		(8,020)
Provision for Gratuity		400
		34,360
Income Tax paid (W -2)		(369)
		33,991
Changes in Working Capital		
Increase in Inventories	(6,816)	
Decrease in Receivables	77,829	
Decrease in Payables	(2,900)	68,113
Net Cash Provided by Operating Activities		**102,104**
<u>**Cash Flows from Investing Activities**</u>		
Proceeds from Disposal of Motor Vehicle	8,500	
Purchase of New Motor Vehicle (150,126 – (136,420 – 5,200)	(18,906)	
Net Cash Used in Investing Activities		**(10,406)**
<u>**Cash Flows from Financing Activities**</u>		
Interest paid (W-3)	(8,225)	
Long-term loan obtained	5,000	
Loan repayment	(85,400)	
Dividend Paid	(1,873)	(90,498)
Net increase in Cash & Cash equivalents		**1,200**
Cash & Cash equivalents at beginning of year		12,300
Cash & Cash equivalents as at 31st March 2024		**13,500**

(W-1) Profit on Disposal Accounts			
Cost	5,200	Sales Proceed	8,500
Profit	8,020	Acc. Depreciation	4,200
		Depreciation for the year	520

	13,220		13,220

(W-2) Income Tax Payable Accounts			
Cash	369	B/B/F	2,320
B/C/F	2,241	P & L	290
	2,610		**2,610**

(W-3) Interest Payable Account			
Cash	8,225	B/B/F	1,600
B/C/F	1,450	P & L	8,075
	12,675		**12,675**

(Total 10 marks)

End of Section B

Three (03) Compulsory Questions (Total 50 Marks)	SECTION - C

Suggested Answers to Question Eight:

Chapter: 03.1

(a)

Printing Solutions PLC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2024

		Rs.'000
Sales		255,000
Less : Cost of Sales		(124,000)
Gross Profit		**131,000**
Other Income (W-8)		9,100
Expenses:		
- Administration Expenses (W- 2)	35,800	
- Distribution Expenses (W- 1)	58,432	
- Finance Expenses (W – 3)	27,100	(121,332)
Profit Before Tax		18768
Income Tax Expense (W – 9)		(5,600)
Profit for the Year		13,168
Other Comprehensive Income:		
- Revaluation Surplus (Land)		3,000
Total Comprehensive Income		**16,168**

(09 marks)

(b)

Printing Solutions PLC
Statement of Financial Position
As at 31st March 2024

		Rs.'000
Assets		
Non-Current Assets		
- Property, Plant, and Equipment (Note 1)		90,568
Current Assets		
- Inventory	63,000	
- Trade Receivables	51,300	
- Receivable on sales of Machine	2,000	
- Cash & Cash equivalent	22,356	
Total Current Assets		138,656

Total Assets		**229,224**
Equity and Liabilities		
Equity		
- Stated Capital	125,000	
- Revaluation Reserve	11,000	
- Retained Earnings	43,168	179,168
Non-Current Liabilities		
- Lease Liability		7,043.20
Current Liabilities		
- Trade Payables	41,000	
- Income Tax Payable	400	
- Lease Liability	1,612.80	43,012.80
Total Equity and Liabilities		**229,224**

(08 marks)

(c)

Printing Solutions PLC
Statement of Changes in Equity
For the year ended 31st March 2024

(Rs. 000)

Particulars	Stated Capital	Revaluation Reserve	Retained Earnings	Total
Balance as at 01st April 2023	125,000	8,000	30,000	163,000
Profit for the Year			13,168	13,168
Transfer of Revaluation Surplus		3,000		3,000
Balance as at 31st March 2024	**125,000**	**11,000**	**43,168**	**179,168**

(03 marks)

(d)

Printing Solutions PLC
Statement of Movements of PPE
For the year ended 31st March 2024

				Rs.'000
Particulars	**Land**	**Building**	**Machinery**	**Total**
- Balance as at 01st April 2023	25,000	27,000	22,000	74,000
- Additions		38,400	10,000	48,400
- Disposals			(6,000)	(6,000)
- Revaluation (Land)	3,000			3,000
Balance as at 31st March 2024	**28,000**	**65,400**	**26,000**	**119,400**
Depreciation				
B/B/F		15,000	8,800	23,800
Disposal			(1,800)	(1,800)
Depreciation		732	6,100	6,832
As at 31.03.2023		**15,732**	**13,100**	**28,832**

Carrying value as at 31.03.2024				90,568

Working:

(W-1) Administration Expenses

TB	51,600
Depriciation – Building (W-6)	732
- Machinery	6,100
	58,432

(W-2) Distribution Expenses

TB	35,100
Allowance for trade receivable (w-7)	700
	58,432

(W-3) Finance Expenses

TB	25,100
Lease Interest	2,000
	58,432

(W-4) Depreciation – Machinery

Disposed on (6,000/5 x 9/12)	900
New (10,000/5)	2,000
Existing	3,200
	6,100

(W-5)

Lease Creditor Account

Cash	3,344	Lease	10,000
B/C/F	8,656	Lease Interest W-11	2,000
	12,000		**12,000**

(W-6) Depreciation – Building

New (38,400/50) x 3/12)	192
Balance (27,000/50)	540
	732

(W-7)

Allowance for trade receivable Account

Debtor	2,000	B/B/F	4,000
B/C/F	2,700	P & L	700
	4,700		**4,700**

(W-8) Other Income Account

TB	8,300
Profit on Disposal	800
	9,100

(W-9)

Income Tax payable Account

Cash	9,500	B/B/F	4,300
B/C/F	400	P & L	5,600
	9,900		**9,900**

(W-10)

Disposal Account

Cost	6,000	Cash	3,000
P & L	800	Creditor	2,000
		Acc. Depriciation	**1,800**
	6,800		**6,800**

W -11 Lease Schedule

Year	B/B/F	Interest	Installment	Capital	O/S
1	10,000	2,000	3,344	1,344	8,656
2	8,656	1,731.20	3,344	1,612.80	7,043.20
3	7,403.20	1,408.64	3,344	1,935.36	5,107.84
4	5,107.84	1,021.57	3,344	2,322.43	2,785.41
5	2,785.41	557	3,344	2,786	-

(05 marks)
(Total 25 marks)

Suggested Answers to Question Nine:

Chapter: 04

(a)

		2023/2024	**2022/2023**
Gross Profit Ratio	$= \frac{GP}{Sales} X\ 100\ =$	$= \frac{84{,}500}{210{,}000} X\ 100$ $= 40.24\%$	$= \frac{33{,}400}{99{,}500} X\ 100$ $= 33.57\%$
Net Profit Ratio	$= \frac{PAT}{Sales} X\ 100\ =$	$= \frac{42{,}150}{210{,}000} X\ 100$ $= 20\%$	$= \frac{8{,}100}{99{,}500} X\ 100$ $= 8\%$
Quick Assets Ratio	$= \frac{Current\ Assets - Inventory}{Currrent\ Liability} =$	= 141,000-65,000 :67,250 =1.13:1	= 76,400 - 35,000 : 25,000 =41,400 : 25,000
Debtor Collection Period	$= \frac{Average\ Debtors}{Credit\ Sales} X\ 365 =$	$= \frac{30{,}500}{210{,}000} X\ 365$ = 53 Days	$= \frac{28{,}000}{99{,}500} X\ 365$ = 103 days
Stock Residence Period	$\frac{Average\ Stock}{Cost\ of\ sales} X\ 365 =$	$= \frac{50{,}000}{125{,}500} X\ 365$ = 145 Days	$= \frac{37{,}500}{66{,}100} X\ 365$ = 207 Days
Earning per share	$\frac{PAT}{No.of\ shares}$	$= \frac{42{,}150}{1{,}250}$ = Rs. 33.72	$= \frac{8{,}100}{1{,}250}$ = Rs. 6.48

(10 marks)

(b) <u>Summary Report to Management</u>

1. Gross Profit Ratio:

- **2024: 40.24%** vs. **2023: 33.56%**

- The Gross Profit Ratio increased significantly, indicating improved profitability in terms of cost management or an increase in sales prices. This might be due to better cost control, economies of scale, or favorable market conditions.

2. Net Profit Ratio:

- **2024: 20.07%** vs. **2023: 8.14%**
- A sharp rise in Net Profit Ratio suggests better overall profitability, likely driven by increased operational efficiency and higher sales volumes. The significant reduction in interest expenses relative to profit also contributed to this improvement.

3. Quick Assets Ratio:

- **2024: 1.13** vs. **2023: 1.64**
- The Quick Ratio has decreased, indicating that the company has relatively less liquid assets available to meet its short-term obligations. The drop suggests either an increase in current liabilities or a less favorable liquidity position.

4. Debtors' Collection Period:

- **2024: 53 days** vs. **2023: 103 days**
- The improvement in the Debtors' Collection Period indicates faster collection of receivables, which is a positive sign for cash flow management. This could be due to improved credit control or stronger customer relationships.

5. Stock Residence Period:

- **2024: 145 days** vs. **2023: 207 days**
- The reduction in Stock Residence Period suggests a marginally faster inventory turnover, which could imply more efficient inventory management or stronger sales.

6. Earnings Per Share (EPS):

- **2024: Rs. 33.72** vs. **2023: Rs. 6.48**
- EPS has increased significantly, reflecting the company's higher profitability. This may also positively impact investor sentiment, leading to a higher market value per share.

(05 marks)
(Total 15 marks)

Suggested Answers to Question Ten:

Chapter: 05.2

Consolidated Comprehensive Income Statement

For the Year Ended 31st March 2024

(Rs.)

		(Rs. '000)
Sales (800,000 + 500,000 – 144,000)		1,156,000
Cost of Sales (465,000 + 225,000 – 144,000)		(546,000)
Unrealized Profit (7,500)		(7,500)
Gross Profit		**602,500**
Other Income		
Management Fee and Interest Income (3,600+1,200-3,600) – 1,200)		-
Profit on Disposal of PPE (9,500 +1,900 -800)		10,600
		613,100
Less Expenses		
Distribution Expenses (64,000 + 134,000)	(198,000)	
Administration Expenses (114,000+98,000-160-3,600)	(208,240)	
Finance Expenses (12,000+21,000-1,200)	(31,840)	(438,040)
Other Expenses - Imp		(2,000)
Profit Before Tax		173,060
Income Tax (41,000 + 5,100)		(46,100)
Profit After Tax		126,960
Other Comprehensive Income (14,000 + 3,200)		1,800
Total Comprehensive Income		**128,760**

(W-1) Unrealized Profit = 45,000 X 20 = 7,500

(W-2) Depreciation = 8,000 x 1/5 = 1,600

$$= 7{,}200 \times 1/5 = \underline{(1.440)}$$

120

160

(Total 10 marks)

End of Section C

Notice:

These answers compiled 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.