



Association of Accounting Technicians of Sri Lanka

Level III Examination -July 2025

Suggested Answers

(301) FINANCIAL REPORTING (FAR)

Association of Accounting Technicians of Sri Lanka

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Level III Examination – July 2025

(301) Financial Reporting

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 01

(a)

The two fundamental qualitative characteristics as per conceptual framework for financial reporting are relevance and faithful representation.

If an information is capable of making a difference in the decisions that is considered as a relevant information. Sub qualities of relevance include predictive value, confirmatory value and materiality.

As per faithful representation the financial reports must represent the economic phenomena in words and numbers. In order to be faithfully represented, information shall be complete, neutral and free of errors.

(03 marks)

(b)

- Comparability
- Verifiability
- Timeliness
- Understandability

(Only two of the above is adequate)

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 03

- Business Model
- Organizational Overview and External Environment
- Risk and Opportunities
- Strategy and Resource Allocation
- Outlook
- Governance

- Performance
 - Basis of preparation and presentation
- (Only five of the above is adequate)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 05

Goodwill calculation	Rs. 000	
Total investment		
Parent's consideration	15,000	
Fair value of Non-Controlling Interest	4,500	19,500
(-) Fair value of Subsidiary net assets at acquisition date		
Stated Capital	10,000	
Retained Earnings	4,500	
Land Revaluation Reserve	1,500	16,000
Goodwill		3,500

(Total 05 marks)

Suggested Answers to Question Four:

Chapter 02

(a) Property Plant and Equipment Recognition Criteria

- If it is probable that future economic benefits associated with the item will flow to the entity; and
- If the cost of the item can be measured reliably.

(02 marks)

(b)

Change in Inventory valuation method

Changing the inventory valuation method from First in First Out (FIFO) to Weighted Average Cost (WAC) method is a change in accounting policy. As per SLFRS for SMEs, if the change in accounting policy is due to a voluntary change it requires a retrospective application. Therefore, the company needs to apply retrospective application restating the comparative figures and statement of changes in equity.

Net Realizable Value

The inventory shall be measured at cost or net realizable value whichever is lower. As per the information given the net realizable value is higher than the cost.

(03 marks)

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 03

**Chemiro (Pvt) Ltd.
Statement of Cash Flows
For the year ended 31st March 2025**

Rs. 000'

Operating Activities		
Profit before tax W 2	15,337	
+/- Adjustments		
Interest Expense	8,100	
Gratuity Expense	1,750	
Machine Disposal Gain W 5	(2,750)	
Depreciation W 4	35,890	
Operating Cash Flow before Working Capital Changes	58,327	
(-) Gratuity Paid	(6,970)	
(-) Tax Paid W 1	(5,800)	
	45,557	
Working Capital Changes		
Decrease in Inventory	51,019	
Increase in Trade and Other Receivables	(12,596)	
Increase in Trade and Other Payables	4,980	
Cash Flow from Operating Activities		88,960
Investment Activities		
Machine Disposal Proceed	9,500	
New Machine Purchased W 3	(78,470)	
Cash Flow from Investing Activities		(68,970)
Financing Activities		
Loans Obtained W 7	10,000	
Interest Paid W 6	(1,710)	
Loans Paid	(20,500)	
Dividend Paid	(1,280)	
Cash Flow from Financing Activities		(13,490)
Net Cash Flow for the Year		6,500
Opening Cash and Cash Equivalents		8,900
Closing Cash and Cash Equivalents		15,400

Workings

W1 – Tax Expense for the year

Tax Expense

Debit	Tax Expense	3,400
Credit	Tax Payable	3,400

Tax Payable			
Cash	5,800	Balance B/F	5,640
Balance C/D	3,240	Tax Expense	3,400
	<u>9,040</u>		<u>9,040</u>

W-2

Retained Earnings			
Tax Expense	3,400	Balance B/F	114,939
Dividend	1,280	Profit before Tax	15,337
Balance C/D	125,596		
	<u>130,276</u>		<u>130,276</u>

Profit before Tax and Interest	23,437
(-) Interest Expense	(8,100)
Profit before Tax	15,337

W-3

Property Plant and Equipment			
Balance B/F	156,930	Disposal Gain/Loss	15,000
Cash	78,470	Balance C/D	220,400
	<u>235,400</u>		<u>235,400</u>

W-4

Accumulated Depreciation			
Disposal Gain/Loss	8,250	Balance B/F	101,460
Balance C/D	129,100	Depreciation	35,890
	<u>137,350</u>		<u>137,350</u>

W-5

Disposal Gain or Loss			
Machinery	15,000	Accumulated Dep.	8,250
Profit or Loss	2,750	Cash	9,500
	<u>17,750</u>		<u>17,750</u>

Disposal Proceed

Debit	Cash	1,500
Credit	Disposal Gain or Loss	1,500

Cost of Disposed Machinery

Debit	Disposal Gain or Loss	15,000
Credit	Machinery	15,000

Accumulated Depreciation of Disposed Machinery

Opening Accumulated Depreciation of the Disposed Machinery	7,500
Depreciation from 1/4/24 – 1/10/24 (15,000/10X6/12)	750
Total Accumulated Depreciation of the Disposed Machinery	8,250

W 6– Interest Expense

Debit	Interest Expense	8,100
Credit	Interest Payable	8,100

Interest Payable

Cash	1,710	Balance B/F	1,040
Balance C/D	7,430	Interest Expense	8,100
	<u>9,140</u>		<u>9,140</u>

W 7– Loans (Both Current and Non Current Portions)

New Loan Obtained

Debit	Cash	10,000
Credit	Bank Loan	10,000

Bank Loan

Cash	20,500	Balance B/F	42,900
Balance C/D	32,400	Cash	10,000
	<u>52,900</u>		<u>52,900</u>

W 8

Gratuity Provision

Cash	6,970	Balance B/F	26,700
Balance C/D	21,480	Gratuity Expense	1,750
	<u>28,450</u>		<u>28,450</u>

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 02

(a)

	2024/25	2025/26
Revenue to be recognized	436,174	91,826
Workings	01 and 02	

Working 01

Performance Obligations	Stand alone prices	Allocation of transaction	Revenue Recognition Point
Air Conditioner	360,000	344,348 (528,000 X 360,000/552,000)	At the point of customer acceptance (01/04/2024)
Maintenance	192,000 (8,000 X 24 Months)	183,652 (528,000 X 192,000/552,000)	Over the service period of 24 months
Total Value	552,000	528,000	

Working 02

	2024/25	2025/26
Air Conditioner	344,348	-
Maintenance Service per annum (183,650/2)	91,826	91,826
Total	436,174	91,826

(04 marks)

(b)

Extracts of Statement of Comprehensive Income

For the year ended 31/3/2025

Rs.

Depreciation of Right of Use Asset (W1)	(1,750,000)
Lease Interest (W2)	(840,000)

Extracts of Statement of Financial Position

As at 31/3/2025

Rs.

Non-Current Assets	
Right of Use Asset (W1)	5,250,000
Non-Current Liabilities	
Lease Liability (W2)	3,390,850
Current Liabilities	
Lease Liability (W2)	1,389,921

Working 01 – Right of Use Asset

Down Payment	Rs. 1,000,000
Initial Lease Liability	6,000,000
Cost	7,000,000
(-) Accumulated Depreciation (7,000,000/4)	(1,750,000)
Carrying Value	5,250,000

Working 02 – Lease Liability

Initial Lease Liability		Rs. 6,000,000
Lease Interest (6,000,000 X 14%)		840,000
(-) Lease Installment		(2,059,229)
Closing Lease Liability		4,780,771
Current Portion		
Next Installment	2,059,229	
(-) Interest in Next Installment (4,780,771 X 14%)	(669,308)	1,389,921
Non-Current Portion		
Closing Liability	4,780,771	
(-) Current Portion	(1,389,921)	3,390,850

Year	B/F	Installment	Interest	Capital	C/F
1	6,000,000	2,059,229	840,000	1,219,229	4,780,771
2	4,780,771	2,059,229	669,308	1,389,921	3,390,850
3	3,390,850	2,059,229	474,719	1,584,510	1,806,341
4	1,806,341	2,059,229	252,887	1,806,341	-

(06 marks)
(Total 10 marks)

Suggested Answers to Question Seven:**Chapter 02****(A)**

Index	Adjusting/Non Adjusting	Explanation
(1)	Adjusting	Since the fraud has already occurred as at 31 st of March 2025, the revealing of fraud confirms an event existed as at the reporting period. Therefore, the loss on fraud shall be adjusted to the financials ended 31 st March 2025.
(2)	Non-Adjusting	The price of a share depends on the market situations prevailed as at that time. The share price declined as at 10 th April 2025, is due to the market collapse occurred as at that date. it's a circumstance occurred after the reporting period. Therefore, it

		cannot be adjusted to the financials ended 31 st March 2025. However, if the impact is significant, a disclosure can be made.
(3)	Non-Adjusting	The final dividend of ordinary shares shall be approved by the shareholders at the annual general meeting which occurs after the board authorization of financial statements. Therefore, the board approved dividend does not have the legitimacy to recognize the dividend. It's a non-adjusting event. However, the per share dividend, total dividend and board approved date shall be disclosed.

(05 marks)

(B)

(a)

Closing Deferred Tax Liability 2,100 (W1)

(03 marks)

(b)

Total Tax Expense

	Rs. 000
Income Tax Expense for the year W 2	6,000
Deferred Tax Reversal	(1,400)
Total Tax Expense	4,600

(02 marks)

Working 01 – Deferred Tax Calculation

Description	Land	Building	Total
Accounting Carrying Value	10,000	38,500	48,500
(-) Tax Base [Cost – Acc. Capital Allowances]	(10,000)	(31,500)	(41,500)
Temporary Difference	-	7,000	7,000
Taxable or Deductible Temporary Difference	N/A	Taxable TD	Taxable TD
Tax Rate			30%
Closing Deferred Tax			2,100
Opening Deferred Tax Liability			3,500
Deferred Tax Reversal			(1,400)

Working 02 – Income Tax Calculation

	Rs. 000
Taxable Profit	20,000
Tax Rate	30%
Income Tax Expense for the year	6,000

(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 03

Zigma PLC
Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31st March 2025

	Notes	Rs.000
Revenue		354,000
Cost of Sales		(151,200)
Gross Profit		202,800
Other Income	1	8,600
Distribution Expenses W 1		(35,750)
Administration Expenses W 2		(40,435)
Finance Expenses W 3		(14,050)
Other Operating Expenses W 10		(2,000)
Profit Before Tax	2	119,165
Tax Expense W 9	3	(9,750)
Profit After Tax		109,415
Other Comprehensive Income		2,000
Total Comprehensive Income		111,415

(10 marks)

(b)

Zigma PLC
Statement of Financial Position
As at 31st March 2025

	Notes	Rs. 000	Rs. 000
Non-Current Assets			
Property Plant and Equipment	4	55,365	55,365
Current Assets			
Inventory		63,000	
Trade Receivables	5	35,550	
Cash and Cash Equivalents		55,525	154,075
Total Assets			209,440
Equity			
Stated Capital		50,000	
Revaluation Reserve		5,000	
Retained Earnings		117,815	172,815

Non-Current Liabilities			
Long Term Loan W 5		4,500	4,500
Current Liabilities			
Trade Payables		20,725	
Tax Payable (-4,500)		7,750	
Other Payables	6	2,150	
Current Portion of Loan W 5		1,500	32,125
Total Equity and Liabilities			209,440

(07 marks)

(c)

Zigma PLC
Statement of Changes in Equity
For the Year Ended 31st March 2025

Rs.000

	Stated Capital	Revaluation Reserve	Retained Earnings	Total
Balance as at 1/4/2024	50,000	3,000	8,400	61,400
Total Comprehensive Income		2,000	109,415	111,415
Balance as at 31/3/2025	50,000	5,000	117,815	172,815

(03 marks)

(d) Property Plant and Equipment

Cost/Revaluation	Land	Buildings	Motor Vehicles	Total
Opening Balance	28,000	23,000	14,000	65,000
Additions W 4		15,000		15,000
Disposals			(6,000)	(6,000)
Revaluation W 7	2,000			2,000
<i>Closing Balance</i>	<i>30,000</i>	<i>38,000</i>	<i>8,000</i>	<i>76,000</i>
Accumulated Depreciation				
Opening Balance		13,500	6,500	20,000
Depreciation for the Year		535	1,600	2,135
Disposals			(1,500)	(1,500)
<i>Closing Balance</i>	<i>-</i>	<i>14,035</i>	<i>6,600</i>	<i>20,635</i>
Net Book Value	30,000	23,965	1,400	55,365

(05 marks)

Note 01 Other Income

	Rs. 000
Motor Vehicle Disposal Gain	500
Other Income	8,100
	8,600

Note 02 Following Expenses were deducted at Profit before Tax

	Rs. 000
Depreciation	2,135
Bad Debt	1,500
Compensation	2,000
Audit Fee	150

Note 03 Taxation

	Rs. 000
Current Year Tax Expense	9,750
Prior Year Under/Over Provision	-
Total Tax Expense	9,750

Note 04 Trade Receivables

	Rs. 000
Trade Receivable Balance	41,000
(-) Bad Debts	(1,500)
Trade Receivable Balance after Bad Debts	39,500
(-) Allowance for Receivables	(3,950)
Trade Receivables Balance Carrying Value	35,550

Note 05 Other Payables

	Rs. 000
Compensation Payable	2,000
Audit Fee Payable	150
	2,150

Workings**W1 Detail Expenditure Statement**

Description	Cost of Sales	Administration	Distribution	Finance	Other
Building Depreciation		535			
Motor Vehicle Depreciation			1,600		
Borrowing Cost				(450)	
Bad Debt			1,500		
Allowance for Receivables			3,950		
Compensation					2,000
Audit Fee		150			
As per Trial Balance	151,200	39,750	28,700	14,500	
	151,200	40,435	35,750	14,050	2,000

Working 02 Disposal of Motor Vehicle

Disposal Gain or Loss			
Motor Vehicles	6,000	Cash	5,000
Other Income	500	Motor Vehicle Acc. Depreciation	1,500
	6,500		6,500

Cost of Disposed Motor Vehicle

Debit Disposal Gain or Loss 6,000
Credit Motor Vehicle 6,000

Accumulated Depreciation of Disposed Motor Vehicle

Debit Motor Vehicle Accumulated Depreciation 1,500
Credit Disposal Gain or Loss 1,500

Disposal Gain (5,000 – 4,500)

Debit Disposal Gain or Loss 500
Credit Other Income 500

Working 03 Borrowing Cost of Qualifying Asset

	Rs. 000
Loan	6,000
Interest Rate	10%
Construction Period (1/4/24 – 31/12/24)	9/12
Borrowing Cost to be Capitalized	450

Debit Capital Work in Progress 450
Credit Finance Expenses 450

Working 04 Transferring Capital Work in Progress to Building

Since the building work in progress was completed by 31/12/2024, the cost shall be transferred to Building account.

	Rs. 000
Capital Work in Progress Carrying Value	14,550
Borrowing Cost Capitalized	450
Capital Work in Progress Transferred to Building	15,000

Debit Building 15,000
Credit Capital Work in Progress 15,000

Working 05 Current and Non-Current Classification of Loans

As per LKAS 01 Presentation of Financial Statements, the liabilities shall be classified as current and non-current.

	Rs. 000
Loan Balance	6,000
Current Portion (25%)	1,500
Non-Current Portion (75%)	4,500

Working 06 Depreciation

Asset	Building	Motor Vehicle
Cost	23,000	14,000
(-) Cost of Disposed Motor Vehicle		(6,000)
Useful Life	23,000 50	8,000 5
Depreciation of Assets held through out	460	1,600
Depreciation of Capital Work in Progress Transferred 15,000/50X3/12	75	
Total Depreciation	535	1,600

Working 07 Land Revaluation

Revaluation Gain/Loss	Rs. 000
Revalued Amount	30,000
Land Carrying Value	28,000
Revaluation Gain	2,000

Debit Land 2,000
Credit Revaluation Reserve (Through OCI) 2,000

Working 08 Allowance for Receivables

	Rs. 000
Trade Receivable Balance after Bad Debt	39,500
Allowance for Receivables 10%	10%
Closing Allowance for Receivables	3,950
Allowance for Receivables Carrying Value	-
Under Provision of Allowance for Receivables	3,950

Debit Allowance for Receivables 3,950
Credit Provision on Allowance for Receivables 3,950

Working 09 Current Year Tax

	Rs. 000
Current Year Tax Expense	9,750
Current Year Tax Paid (6,500 – 4,500)	(2,000)
Income Tax Payable for the Current Year	7,750

Debit Tax Expense 9,750
Credit Tax Paid 2,000
Credit Income Tax Payable 7,750

10 Compensation Payable

As the lawyers have confirmed that there's a high probability to pay the full claim as a compensation a provision is required as per LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Debit Compensation Expense 2,000
Credit Compensation Payable 2,000

(Total 25 marks)

Suggested Answers to Question Nine:

Chapter 05

Vikash Group
Consolidated Statement of Comprehensive Income
For the Year Ended 31st March 2025

	Rs.000
Revenue (1,035,200+624,000-75,000)	1,584,200
Cost of Sales (703,900+443,000-75,000 +1,000)	(1,072,900)
Gross Profit	511,300
Other Income	
Other Income (3,600+900- 3,000 – 100)	1,400
Profit on Disposal of Assets (200+620-500)	320
Expenses	
Distribution Expenses (640,000+34,000)	(98,000)
Administration Expenses (116,000+67,000 +3,000 +100)	(179,900)
Finance Expenses (18,500+23,400-100)	(41,800)
Profit Before Tax	193,320
Tax Expense (40,980+16,564)	(57,544)
Profit After Tax	135,776
Profit Attributable to Parent's Shareholders (135,776 – 4,106)	131,670
Profit Attributable to Non-Controlling Interest (W1)	4,106
Other Comprehensive Income	355
Total Comprehensive Income	136,131
Total Comprehensive Income Attributable to Parent's Shareholders (136,131 – 4,106)	132,025
Total Comprehensive Income Attributable to Non-Controlling Interest (W1)	4,106

Workings

Working 1 Profit Attributable to Non-Controlling Interest

	Profit
Book Profit Attributable to Non-Controlling Interest (41,556 X 10%)	4,156
+/- Adjustments	
Unrealized Profits from Machine 500 X 10%	(50)
Profit Attributable to Non-Controlling Interest	4,106

Working 2 Intercompany Sales

	Rs. 000
Cost of the Items	60,000
Profit on Cost at 25%	15,000
Sale Value	75,000

Debit Revenue 75,000
Credit Cost of Sales 75,000

Working 3 Unrealized Profits in Inventory (Seller Parent)

	Rs. 000
Inventory	5,000
Profit on Cost	25%
Unrealized Profit (5,000/125X25)	1,000

Debit Cost of Sales 1,000
Credit Inventory 1,000

Working 4 Intercompany Management Fee

Debit Other Income 3,000
Credit Administration Expenses 3,000

Working 5 Intercompany Interest

	Rs. 000
Loan	2,000
Interest Rate	10%
Period	6/12
Intercompany Interest	100

Debit Interest Income 100
Credit Interest Expense 100

Working 6 Unrealized Profits on Machinery Disposal (Seller Subsidiary)

	Rs. 000
Machine Disposal Proceed	10,000
Carrying Value	9,500
Unrealized Profit	500

Debit Disposal Gain from Machinery 500 (Adjust to NCI share of Profits)
Credit Machinery 500

Working 7 Depreciation on Unrealized Profits on Machinery

	Rs. 000
Unrealized Profit	500
Useful Life	5
Period Used	1
Depreciation on Unrealized Profit	100

Debit Accumulated Machinery Depreciation 100
Credit Administration Expenses 100

(Total 10 marks)

Suggested Answers to Question Ten:

Chapter 04

(a)

Ratio	Formula	Y/E 31/3/2025	Y/E 31/3/2024
Gross Profit Margin	Gross Profit/Sales X 100	=146,000/410,000X100 =35.6%	=107,500/320,000X100 =33.6%
Net Profit Margin	Profit after Tax/Sales X 100	=42,884/410,000X100 =10.5%	=20,093/320,000X100 =6.3%
Debtors Collection Period	365/Credit Sales X Average Debtors	=365/410,000X (54,000+42,000)/2 =43 Days	=365/320,000X (42,000+32,000)/2 =42 Days
Stock Residence Period	365/Cost of Sales X Average Inventory	=365/264,000X (82,000+75,000)/2 =109 Days	=365/212,500X (75,000+20,000)/2 =82 Days
Earnings Per Share	Profit Attributable to Ordinary Shareholders/Number of Ordinary Shares	=42,884/20,000 =Rs. 2.1	=20,093/20,000 = Rs. 1

(10 marks)

(b)

To : Management of Rex PLC
 From : Financial Consultant
 Subject : Summary Report on Rex PLC comparing years ending 31st March 2025 and 2024
 Date : 25/7/2025

Profitability

The gross profit margin has increased from 33.6% to 35.6% during the year. The main reasons for the above increase is due to the increase in sales by Rs. 90 million during the year. The increase in the cost of sales is only Rs. 51.5 million. Therefore, company shows better marketing, pricing decisions and cost management.

The net profit margin has increased from 6.3% to 10.5%. This increase is beneficial for the company as the net savings have been increased. The possible reasons may include the benefit from gross profit as well as better management and control of administration, distribution, finance and tax expenses of the business.

Overall the profitability of the business has improved significantly than the previous year. As a result of this profitability increase the earnings per share has increased from Rs. 1/- in previous year to Rs. 2.1 in the current year. Therefore, the profit for the investors have more than doubled during the year.

Efficiency and Working Capital Management

The debt collection period shows a slight increase of around 01 day from 42 days in previous year to 43 days in current year. The difference is negligible. However, it seems the debt collection is marginally decreased than the previous year. This may be due to the new sales generated through new customers during the year.

The stock residence period has increased from 82 days to 109 days during the year. This increase of 27 days shows a decline in the efficiency of inventory management. Compared to previous year the inventory is held for 27 days more in the warehouse causing increased inventory holding cost and risk of inventory impairment. This may be due to keeping extra inventory to manage the increased sales during the year or may be due to lack of proper inventory management.

Overall, the efficiency and working capital management in terms of debtors and inventory has weakened during the year.

(05 marks)

(Total 15 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.

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