

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2021****(301) FINANCIAL REPORTING**

Most of the common mistakes made by the candidates have been identified. The unsuccessful candidates should identify the mistakes which they made and learn all the principles in order to be successful at the future examinations:

SECTION A**Question No. 01**

- (a) Required the candidates to list 3 non-financial information that is included in an annual report of a listed company.

Most candidates listed the financial information instead of non-financial information. However, considerable number of candidates successfully attempted this question.

- (b) Required to state the main objective of integrated reporting. Most candidates answered this part well.

Overall performance for this question was at a satisfactory level.

Question No. 02

- (a) Required to list two objectives for establishing the Securities and Exchange Commission of Sri Lanka.

Most candidates mixed up foreign exchange control with Securities and Exchange Commission & stated that the main objective of SEC is to control foreign exchange & control inflation. Some others have written functions of Colombo Stock Exchange for this question.

- (b) Required to state 3 duties and functions of Securities and Exchange Commission of Sri Lanka.

Most of the candidates stated controlling & monitoring exchange rates, controlling inflation rate of the country as duties & functions of Securities Exchange Commission & Trading stocks.

Overall performance for this question was not that satisfactory.

Question No. 03

- (a) Required to differentiate the financial capital maintenance concept from the physical capital maintenance Concept. This question was very poorly answered. Only a few were able to answer correctly. Some others had not attempted this question.
- (b) Required to state the underlying assumption in preparing the financial Statements. Almost everyone obtained full marks for this part.

Overall performance for this question was not at a satisfactory level.

Question No. 04

Required to explain the validity of 3 given statements as per the Sri Lanka Accounting Standard for SMEs.

Statement 1: Most of the candidates incorrectly stated it is valid based on LKAS 23. However, the question required to answer based on SLFRS for SMEs.

Statement 2: Most of the candidates obtained full marks.

Statement 3: Only a few answered correctly. Many stated that it is valid and has to be adjusted retrospectively.

To improve performance: It is recommend to study the application of SLFRS for SMEs.

Performance of this question was at a satisfactory level.

SECTION B

Question No. 05

Required to prepare a Statement of Cash Flows for the year ended 31.03.2021 using indirect method.

Most of the candidates answered this question well and earned full marks. But a few students made the following mistakes:

- (1) Net profit before tax amount of Rs.1,890/- (1,500 + 200 + 190) was not taken to the cash flow statement correctly. Some started with Rs.1,500/-. Some others started with various other amounts which were incorrect.
- (2) Most candidates did not classify operating activities, investments activities and finance activities correctly. For example, amount spent on purchase of land was categorized under operating expenses.
- (3) Some could not arrive at the fixed assets depreciation amount correctly. Some others calculated depreciation correctly but deducted from the profit before tax.
- (4) In preparing the cash flow statement, cash outflows were not shown within brackets as deductions. On the other hand, some others have shown cash inflows as deductions with brackets.

- (5) Some incorrectly showed the increase in trade receivable as an inflow, decrease in inventories as an outflow and increase in trade payable as an outflow.

To Improve Performance: Candidates should study LKAS 7.

Overall performance for this question was at a satisfactory level.

Question No. 06

- (a) Required to prepare accounting entries for the years ended 31st March 2021 and 31st March 2022 in recognizing revenue According to SLFRS 15.

Most of candidates did not attempt this part. Among those who attempted this part many did not allocate the revenue according to SLFRS 15.

- (b) Required to calculate the depreciation charge after reviewing the useful life of an asset.

Most of the candidates answered this part well. But there were a few who divided Rs. 10 million by 8 instead of dividing 6 M by 8.

To improve performance: Candidates should study application of SLFRS 15 & LKAS 08.

Overall performance for this question was at satisfactory level.

Question No. 07

- (a) Required to explain the term “a qualifying asset” as per LKAS 23 with 2 examples of qualifying assets.

Only a few candidates correctly deifind a quilfying asset. However, most of them could not define it correctly. Instead they have defined “an asset”.

- (b) Required to calculate the borrowing cost to be capitalized correctly. Only a few candidates were able to calculate the borrowing cost to be capitalized correctly.

Others made following mistakes:

- (1) Calculated annual interest instead of 9 months.
- (2) Calculated interest income (Rs.160,000/-) for 9 months.
- (3) Instead of deducting, added interest income (Rs.160,000/-) to the interest cost.

To Improve Performance: Candidates should study application of LKAS 23.

Overall performance for this question was not at a satisfactory level.

SECTION C

Question No. 08

This question tested the knowledge on preparation of Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Depreciation Schedule of a Company.

Common Mistakes that were made by the candidates are as follows:

Statement of Comprehensive Income:

- (1) Failed to identify the tax expense of Rs. 1.5 million even though this was clearly given in the question. Previous years under-provision was added and current years tax expense was taken as Rs 2.2 million.
- (2) Depreciation was not calculated on RTU asset. Full years depreciation was calculated on disposed asset and some did not work out the depreciation during the year of sale.
- (3) Lease interest was not calculated correctly either according to SLFERS 16 or according to LKAS 17. Instead difference between the instalment value of Rs.806,000/- and annual payment of Rs.600,000/- (leaseliability/ leaseperiod) was arrived at.
- (4) Lease down payment of Rs. 2 million was taken as finance expenses.
- (5) Sale proceeds of Rs.4,500,000/- on asset disposal was recognized as profit on disposal.
- (6) Unrecoverable debtor balance of Rs.300,000/- which had been already provided was erroneously recognized as bad debts in the income statement.
- (7) Entire rent payment of Rs.1,200,000/- was taken to income statement as rent expense.
- (8) Unrecoverable debtor's balance of Rs.300,000/- which had been already provided was recognized as a bad debt.

Statement of Financial Position:

- (1) Failed to show the current portion of the bank loan under current liabilities and non-current portion of it under non-current liabilities.
- (2) Gratuity provision for the year ended 31st March 2021 of Rs.500,000/- was shown as a current liability instead of non-current liability.
- (3) Rs. 2.2 million received from a debtor in April 2021 was credited to Trade Receivable account.
- (4) Down payment of Rs. 2 million on RTU asset was recognized as an advance payment under current assets.
- (5) RTU asset was not taken to asset schedule.

Statement of Changes in Equity:

- (1) Considerable number of candidates deducted the interim dividend paid from the share capital instead of deducting it from the Retained Earnings.
- (2) Considerable number of candidates took the total comprehensive income or profit before tax of the year to the retained earnings instead of taking to the profit after tax.

This question was answered fairly well by majority of the candidates.

Areas to be improved: Knowledge on relevant LKASs and SLFRSs and preparation of Financial Statements.

Performance of this question was at a satisfactory level.

Question No. 09

- (a) Required to calculate Goodwill arising from consolidation. Most of the candidates calculated the goodwill on acquisition correctly.
- (b) Required to prepare the Consolidated Comprehensive Income Statement as at 31st March 2021.

Following were the common mistakes made by the candidates:

- (1) Some candidates showed income and expense figures of both companies separately in two columns without showing a column with the consolidated amounts. There were some who failed to show the individual figures of the two companies separately in their workings. These candidates lost marks when the total amount given was wrong.
- (2) Inter company sales of Rs 10 million was added to sales and cost of sales of consolidated income statement instead of deducting. Some did not make any adjustment relating to intercompany sales.
- (3) Unrealized profit on unsold goods were not calculated correctly.
- (4) Some candidates deducted the unrealized profit from cost of sales without adding it.
- (5) Inter company profit on sale of machinery of Rs. 1 million was added to other income instead of deducting.
- (6) Some failed to eliminate the inter-company consultancy fee from other income and from administration expenses. Some adjusted the monthly consulting fee of Rs.25,000/- instead of taking the consulting fee for one year.
- (7) Some failed to show the workings.

To improve performance: Candidates should practice preparation of Consolidated Comprehensive Income Statement

Performance of this question was at a satisfactory level.

Question No. 10

- (a) Required to calculate Gross profit ratio, net profit ratio, current ratio, debtors collection period, inventory residence period & interest cover.
- (b) Required to analyze the performance of **Alex PLC** as at 31st March 2021 based on the computed ratios, considering the given industry averages.

Following were the common mistakes made by some of the candidates:

- (1) When computing the GP ratio, Gross Profit was divided by cost of sales, instead of sales.
- (2) Net Profit ratio was calculated by dividing Profit Before Tax by sales instead of Profit After Tax.
- (3) Some compared the performance of years ended 31st March 2020 and 31st March 2021 instead of comparing with the industry.
- (4) Some showed the interest cover as a percentage instead of showing as number of times.
- (5) When analyzing the performance, most of the candidates only stated that the ratio has been increased or decreased. They did not give the possible reasons for such variations.

Areas to be improved: Candidates should practise calculation of ratios and to interpret them meaningfully.

Overall performance for this question was at a satisfactory level.

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General points to be considered in developing the level of Understanding of candidates:

- (1) Studying well the contents of the entire syllabus and develop a thorough understanding of the level of knowledge expected for each unit or area.
- (2) Candidates should read the questions carefully and provide answers to the question asked.
- (3) Should show all the workings for the figures arrived at.
- (4) Should state all the assumptions if there are any.
- (5) Should start each question on a fresh sheet of paper and question number should be clearly stated.
- (6) Hand writing should be legible.
- (7) Practising past questions many times will help sharpening knowledge, skills and gaining speed. This will also be advantageous as similar types of questions may be repeated in the future examinations.
- (8) Reference to Accounting Standards, Suggested Answers, Pilot Papers, Articles related to subject will definitely improve knowledge.
- (9) Time management is crucial at the examination. In answering questions, candidates should spend time based on the marks allocated to each question.
- (10) Should sit at the examination with due preparation and with firm determination of passing the examination.

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