

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION – JANUARY 2021

(AA31) FINANCIAL ACCOUNTING AND REPORTING

- Instructions to candidates (Please Read Carefully):

(1) Time Allowed : Reading : 15 minutes

No. of Pages : 10

Writing : 03 hours

No. of Questions: 09

(2) **All questions should be answered.**

(3) **Answers** should be in one language, in the medium applied for, in the booklets provided.

(4) Submit all workings and calculations. State clearly assumptions made by you, if any.

(5) Use of Non-programmable calculators in only permitted.

(6) 100 marks.

SECTION – A 30 FOR MARKS

Question 01

(a) Define an asset as per the conceptual framework for financial reporting? (02 Marks)

(b) Briefly explain two enhancing qualitative characteristics stated in the conceptual framework for financial reporting? (03 Marks)

(Total 05 Marks)

Question 02

(a) Briefly explain the integrated reporting and its key contents? (03 Marks)

(b) State two objectives of Securities Exchange Commission? (02 Marks)

(Total 05 Marks)

Question 03

- (a) The draft financial statement of Asoka PLC was given.

Description	2020	2019
Sales	5,000.00	4,000.00
Cost of sales	(2,800.00)	(2,500.00)
Gross profit	2,200.00	1,500.00
Expenses	(1,200.00)	(900.00)
Net profit	1,000.00	600.00

Statement of changes in equity.

Description	Retained earnings
BBF 01.01.2019	8,400.00
Profit 2019	600.00
Profit 2020	1,000.00
BCF	10,000.00

During the year 2020, the auditors noted a fraud, where the petty cash expenses were understated by 75.00 in 2019 and a similar incident has occurred in 2018 for an amount of 140.00 (Ignore any recoverable possibilities).

Discuss how it will be accounted in the financial statements.

(03 Marks)

- (b) The board of directors has recommended a dividend of 5.00 per shares for the ordinary shares held as of 31.03.2021 at their meeting held on 25.05.2021. discuss how it will be accounted in the financial statement. (02 Marks)
- (c) Define the term Qualifying asset under LKAS 23? (02 Marks)
- (d) A Ltd has obtained a loan of 100 Mn from X Bank at 12% and 150 Mn from Y Bank at 14% on 01.04.2020 for the purpose of construction of qualifying asset. The necessary activities for the construction of qualifying asset as commenced only in 01.07.2020. further the construction of qualifying asset was suspended from 15.12.2020 to 31.12.2020 due to a technical requirement.

Calculate borrowing cost capitalized for the qualifying asset as at 31.03.2021?

(03 Marks)

(Total 10 Marks)

Question 04

(a) Following details were taken from Banket PLC for the year ended 31.03.2021

Description	Amount / Rate
Cost of Asset	1,500,000.00
Depreciation Rate	20%
Capital Allowance Rate / Tax Depreciation Rate	25%
Date of Purchase	01.04.2019
Retirement Benefit Obligation	500,000.00
Tax Losses	350,000.00
Tax Rate	10%
B/F Deferred Tax Liability	15,000.00

Calculate the deferred tax as at 31.03.2021.

(05 Marks)

(b) Identify whether such assets are financial assets / financial liability under LKAS 32 / SLFRS 09 with reason.

1. Property Plant & Equipment
2. Fixed Deposits with Bank
3. Cash Balances
4. Bank overdraft
5. Creditors
6. Tax Payable

(03 Marks)

(c) Chris Ltd purchased an equity instrument for 180 Mn and incurred a transaction cost of 12 Mn. the intention of the Company is to hold such shares. As at 31.03.2021 these shares had a fair value of 220 Mn. Discuss how this will be accounted in the books of Chris Ltd.

(02 Marks)

(Total 10 Marks)

SECTION – B 45 FOR MARKS

Question 05

- (a) Mala PLC purchased a PPE on 01.07.2020 and the details related to the cost were given below, Mala is VAT registered company.

Description	Amount
Initial Purchase Price	2,750,000.00
Duties	750,000.00
VAT	250,000.00
Installation Cost	300,000.00
Testing Cost	250,000.00
Proceed from Test of Sales Item	50,000.00
Training Cost of Staff	125,000.00
Advertising Cost	75,000.00

Determine the cost and carrying value as at 31.03.2021 (Assume useful life as 5 years) (05 Marks)

- (b) Darley PLC (the lessee) enters into a 5-year lease of a floor of a building on 01.04.2020, with an option to extend the lease for a further 5 years. Lease payments are LKR 40,000 per annum during the initial term and LKR 45,000 per annum during the optional period, all payable at the end of the year. To obtain the lease, Darley incurs initial direct costs of LKR 15,000.

At the commencement date, Darley PLC concludes that it is reasonably certain to exercise the option to extend the lease. Therefore, the lease term is 10 years. Darley’s incremental borrowing rate is 10% per annum (based on similar facility and term).

Calculate the,

1. Right of use asset 31.03.2021
2. Initial Lease Liability 31.03.2021 (05 Marks)

(Total 10 Marks)

Question 06

(a) Extract of B Ltd was given to you.

Description	31.03.2021	31.03.2020	31.03.2019
Sales	10,000.00	9,500.00	9,100.00
Cost of Sales	6,500.00	6,200.00	5,800.00
Inventories	2,500.00	2,200.00	2,200.00
Debtors	2,900.00	3,100.00	2,800.00
Creditors	1,750.00	2,200.00	2,300.00

Credit sales represent 80% and entire purchases were on credit basis.

Calculate,

1. Debtors Turnover 2021 & 2020
2. Inventory Turnover 2021 & 2020
3. Creditors Turnover 2021 & 2020 (05 Marks)

(b) Briefly discuss two limitations of ratio analysis. (02 Marks)

(c) A PLC reported net profit to shareholders as 5,500.00 and the number of ordinary shares (Weighted average) 2,500. The company paid a dividend of 2,300.00 and the market price was 15.00.

- a. Calculate EPS , P/E ratio and dividends payout ratio (DPO) (02 Marks)

(Total 10 Marks)

Question 07

Gap Limited - Statement of Financial Position as at

	31/03/21 .'000	31/03/20 .'000
Property, plant and equipment	628	514
Current Assets		
Inventories	214	210
Trade receivable	168	145
Cash	7	2
Total current assets	389	357
Total assets	1,017	871
Equity & Liabilities		
Share capital (. 10/- each)	320	260
Revaluation reserve	110	100
Accumulated profit	314	282
	744	642
Non-current Liabilities		
10% Debentures	80	50
Current Liabilities		
Trade creditors	136	121
Tax payable	39	28
Dividend payable	18	16
Bank overdraft	—	14
	193	179
Total equity & liabilities	1,017	871

Gap Limited

Profit & Loss Account - for the year ended 31 March 2021.

Revenue	600
Cost of sales	(318)
Gross profit	282
Other expenses (including depreciation. 42,000)	(194)
Profit before tax	87
Tax	(31)
Profit after tax	56
Dividends	(24)
Retained for the year	32

Additional Information:

There have been no disposals of property, plant and equipment's during the year.

New debenture was issued on 1 April 2020.

Required:

- a. Prepare cash flow statement for the year using indirect method as per LKAS 07.
- b. Explain briefly, Operating activities , Cash and cash equivalent

(Total 10 Marks)

Question 08

On 1 April 2019, Lee acquired 80% of the equity share capital of Gamma for 120,000,000.00. at the time of acquisition, the net assets in subsidiary were 95,000,000.00 and the fair value of non-controlling interest was 26,000,000.00.

In addition to the fair value stated in adjustment 1, land had a fair value of 7,000,000.00

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 30 SEPTEMBER 2020.

	Lee	Gamma
	'000	'000
Revenue	74,600	48,000
Cost of sales	(57,200)	(31,000)
Gross profit	17,400	17,000
Distribution costs	(2,600)	(2,100)
Administrative expenses	(4,200)	(3,400)
Investment income / Disposal Profit	500	-
Finance costs	(420)	-
Profit before tax	10,680	11,500
Income tax expense	(2,800)	(1,600)
Profit for the year	7,880	9,900

The following information is relevant:

- (i) At the date of acquisition, the fair values of Gamma's assets were equal to their carrying amounts with the exception of two items:
 - 1. An item of plant had a fair value of 1.8 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to administrative expenses.
- (ii) Lee's policy is to value the non-controlling interest at fair value at the date of acquisition.
- (iii) Sales from Gamma to Lee throughout the year ended 31 March 2020 had consistently been 600,000 per month. Lee made a mark-up on cost of 25% on these sales. Lee had 1.5 million of these goods in inventory as at 31 March 2020.
- (iv) Lee's investment income is a dividend received Gamma, the dividends paid by Gamma was 250,000.
- (v) Lee has calculated that the goodwill has been impaired by 1.2 million as at 31 March 2020.
- (vi) On 01.01.2020 Lee sold an item of PPE for 1.1 million and the carrying value on such date was 1 million and, on such date, the remaining useful life of the assets was 5 years.

Required:

- (a) Calculate the goodwill arising on the acquisition of Gamma (2 marks)
 - (b) Prepare the consolidated statement of profit or loss for Lee for the year ended 31 March 2020. (13 marks)
- (Total 15 Marks)

SECTION – C 25 FOR MARKS

Question 09

The following trial balance relates to F & Co plc at 31 March 2020:

	'000	'000
Equity shares of 10/- each		70,000
Retained earnings at 1 April 2019		13,800
Property at cost	48,000	
Plant and equipment - at cost	47,500	
General Reserve		6,000
Acc. depreciation of plant and equipment at 1 April 2019		14,800
Inventory at 31 March 2020	25,200	
Trade receivables	28,500	
Bank Overdraft		1,400
Deferred tax		3,200
Trade payables		27,300
Investment in Shares	36,000	
Revenue		370,000
Cost of sales	298,700	
Other Income		8,000
Distribution costs	16,100	
Administrative expenses	26,900	
Bank interest	300	
Current tax paid	800	
Suspense Account		13,500
	528,000	528,000

The following notes are relevant:

- (i) The suspense account represents the corresponding credit for cash received for a fully subscribed rights issue of equity shares made on 1 January 2020. The terms of the share issue were one new share for every five held at a price of 9.64 each.
- (ii) To reflect a marked increase in property prices, F & Co PLC decided to revalue its property on 1 April 2019. The directors accepted the report of an independent surveyor who valued the property at 50 million on that date. F & Co PLC has not yet recorded the revaluation.

- (iii) On 1 April 2019, Fresco acquired an item of plant under a finance lease agreement that had an implicit finance cost of 10% per annum. The lease payments in the trial balance represent an initial deposit of 2 million paid on 1 April 2019 and the first annual rental of 6 million paid on 31 March 2020 (included in PPE). The lease agreement requires further annual payments of 6 million on 31 March each year for the next four years (Assume Depreciated is over 5 years).

Break- up plant & Equipment

Description	Cost	Acc.dep 01.04.2019
Initial Deposit - Lease	2 million	N/A
Lease Payment	6 million	N/A
Plant	24.5 million	12 million
Other Assets	6 million	2 million
Capital work in progress	5 million	N/A
Intangible Asset	4 million	800,000

Plant and equipment (other than the leased plant) is depreciated at 20% per annum using the straight-line method.

Intangible assets are amortized over 4 years

No depreciation/amortization has yet been charged on any non-current asset for the year ended 31 March 2020. Depreciation and amortization are charged to administrative expenses.

- (iv) during the year, on 30 September 2019 F & Co PLC has sold a plant which was purchases in 01 April 2017. The cost of the plant was 3.5 million the sales proceed 2 million was directly credited to other income, this was not adjusted in the books.
- (v) In March 2020, F & Co PLC internal audit department discovered a bad debt of 1.8 million and has recommended to maintain an impairment level (Provision for Doubtful debt) at 7% on the net debtors.
- (vi) The estimated provision for income tax on the profit for the year ended 31 March 2020 is 11.4 million. Further the closing deferred tax for the current year 31 March 2020 is 4.3 million
- (vii) The fair value of investment in share was 38 million, F & Co PLC purchase these shares for trading purposes.
- (viii) The Inventories consist certain items which were obsolete, the cost and the estimated selling price of such inventories were 3.4 million and 2.7 million respectively. The estimated cost to do the sales will be 100,000.
- (ix) Directors recommended to pay a dividend of 1/- per share at held as at 31.03.2020 and their meeting held on 15.06.2020. Financial statement were authorized for issue on 30.06.2020

Required:

- (a) Prepare a statement profit or loss and other comprehensive income for the year ended 31 March 2020. (8 marks)
- (b) Statement of financial position as at 31 March 2020. (17 Marks)

(Total 25 Marks)