



**JMC JAYASEKERA  
MANAGEMENT CENTRE**  
"Pioneers in Professional Education"

# AAT Level 03

## FAR Model Paper

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B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, MBA (PIM-SJP), Visiting Lecturer – Colombo University.

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**JMC JAYASEKERA MANAGEMENT CENTRE (PVT) LTD**  
**AAT LEVEL III EXAMINATION – JULY 2023**  
**(301) FINANCIAL REPORTING**  
 Instructions to candidates (Please Read Carefully):  
 Time Allowed: Reading : 15 minutes Writing : 03 hours  
**All questions should be answered.**

- Answers should be in one language, in the medium applied for, in the booklets provided.
- Submit all workings and calculations. State clearly assumptions made by you, if any
- Use of Non-programmable calculators is only permitted.
- Action Verb Check List with definitions is attached.
- Each question will begin with an action verb.
- Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
- 100 Marks.

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## Section A (20 Marks)

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### Question 01

We live in a VUCA (Volatile, Uncertain, Complex and Ambiguous) world where the Accounting has also changed with the impact of fast changing world.

You are required to:

- (a) Briefly explain two (02) accounting trends faced by the accountants.  
(03 Marks)

When it comes to accounting, companies that put ethics first are more likely to build trust with their stakeholders, avoid financial losses, and be successful in the long run.

You are required to:

- (b) List down two (02) ethics relevant to an accountant (02 Marks)

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**Question 02**

As per the Conceptual Framework for Financial Reporting, there are qualitative characteristics which are fundamental and enhancing.

You are required to:

- (a) State the sub components of fundamental and enhancing qualitative characteristics as per the conceptual framework. (02 Marks)

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**Question 02**

Ayurveddu (Pvt) Ltd. commenced its operations in 20X3 and the entity is classified as a Small and Medium sized entity. Sandeepa, a Financial Consultant has been approached by the company to clarify on the following matters.

(a) The company incurred Rs. 500,000 on a new research carried out on new methods to reduce the body weight. Further, based on the research finding they are developing a new health drink called "Bandi Mattu". For the new health drink development, they have spent Rs. 700,000/-.

(b) The company constructed a new showroom worth of Rs. 10 Million and it was financed through a term loan. Borrowing cost up to the completion of construction of the building was Rs. 1 Million.

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**Question 02**

(c) The company has 20 employees working. The company is considering to use the Actuarial valuation to measure the gratuity liability.

You are required to,

Advise on the accounting requirement for the above scenarios based on Sri Lanka Accounting Standards for Small and Medium Enterprises. (03 Marks)

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**Question 03**

Integrated reporting is a process founded on integrated thinking for communicating how an organisation's strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term.

You are required to:

(a) State two (03) components of integrated report. (03 Marks)

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**Question 03**

Sustainability reporting is a form of non-financial reporting that enables companies to convey their progress toward goals on a variety of sustainability parameters, including environmental, social and governance metrics, as well as risks and impacts they may face, at the moment or in the future.

You are required to:

(b) Explain the importance of Sustainability reporting in decision making. (02 Marks)

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**Question 04**

(a) Cost of the machinery of a company is Rs. 10 million and carrying value of this machinery as at 31st March 2023 was Rs.4 million. The company carried out an impairment test on 31st March 2023 and it was revealed that the fair value of the machine is Rs. 3.5 million. There can be a selling cost of 0.2 million. The present value of future cash flows from the machine will be Rs. 3.8 million.

You are required to:

Calculate the impairment loss of the machinery for the year ended 31<sup>st</sup> March 2023. (02 marks)

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**Question 04**

Financial Instruments are becoming complex with the recent developments in the financial market across the globe.

You are required to:

- (b) Define the term “Financial Instrument”. (01 Mark)
- (c) List two (02) examples for Financial assets (02 Marks)

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## Section B (30 Marks)

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## Question 05

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The statements of Financial Position as at 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2023 of Minoli (Pvt) Ltd. are as follows:

As at 31 <sup>st</sup> March	Rs.'000	2023	2022
<b>Non-current Assets:</b>			
Property, Plant and Equipment at cost		4,740	4,300
Accumulated Depreciation		(2,060)	(1,410)
<b>Carrying Value</b>		<b>2,680</b>	<b>2,890</b>
<b>Current Assets:</b>			
Inventories		2,370	1,415
Trade Receivables		4,450	2,536
Cash and Cash Equivalents		2,280	1,320
		<b>9,100</b>	<b>5,271</b>
<b>Total Assets</b>		<b>11,780</b>	<b>8,161</b>

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As at 31 <sup>st</sup> March	Rs.'000	2023	2022
<b>Equity:</b>			
Stated Capital - Ordinary shares		2,000	2,000
Retained Earnings		3,660	1,460
		<b>5,660</b>	<b>3,460</b>
<b>Non-current Liabilities:</b>			
Long Term Loans		1,000	-
Employee benefits (Provision for gratuity)		590	500
Deferred Tax Liabilities		720	500
		<b>2,310</b>	<b>1,000</b>
<b>Current Liabilities:</b>			
Trade Payables		2,760	2,851
Income Tax Payables		1,050	850
		<b>3,810</b>	<b>3,701</b>
<b>Total Equity and Liabilities</b>		<b>11,780</b>	<b>8,161</b>

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Extract of the Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2023

	Rs.'000
Profit before interest and income tax	2,900
Interest expenses	(250)
Profit Before Income Tax	<b>2,650</b>
Income tax	(450)
Profit for the year	<b>2,200</b>

The following additional information is also provided:

- (1) Income tax for the year includes the deferred tax expense for the year ended 31<sup>st</sup> March 2023.

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- (2) An equipment costing Rs.550,000/- has been disposed during the year ended 31<sup>st</sup> March 2023 for Rs.400,000/-. The carrying value of the equipment as at the date of disposal was Rs.200,000/-.
- (3) Gratuity paid for the year is Rs. 50,000/-.
- (4) The new loan obtained during the year is Rs. 1,100,000/-

**You are required to:**

**Prepare** the Statement of Cash Flows of **Minoli (Pvt) Ltd.** for the year ended 31<sup>st</sup> March 2023 under the indirect method. (10 marks)

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**Question 06**

(a) Manuka Generators has sold a generator of Rs. 3 million to JMC on 25<sup>th</sup> March 2023. On the same day the amount was settled. Generator was delivered to the office premises on 30<sup>th</sup> March 2023. The installation was completed on 01<sup>st</sup> April 2023. JMC started using the generator from 3<sup>rd</sup> April 2023. Manuka has rented out a generator to AAT on 30<sup>th</sup> March to continuous 5 days. Per day charge is Rs. 25,000. AAT has paid Rs. 100,000 to Manuka. Of which 50% is an advance payment and balance is a refundable deposit.

You are required to

Provide the double entries for the year ended 31<sup>st</sup> March 2023 of Manuka (Pvt) Ltd. referring to SLFRS 15 – Revenue from contracts with customers (05 Marks)

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**Question 06**

(b) Kesara PLC leased a machine from Sampath Leasing Ltd. On 01<sup>st</sup> April 2022 Rs. 200,000/- was made as a down payment. The balance was agreed to be settled in 03 equal installments of Rs. 400,000/-. Interest rate is 10%.

Discounting factors are as follows:

Year 01	0.91
Year 02	0.83
Year 03	0.76

The useful life of the machine is 04 years. The ownership of the machine does not transfer at the end of the contract.

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**Question 06**

The company uses the revaluation model for the machine. The machine was revalued as at 31<sup>st</sup> March 2023, where the revalued amount was Rs. 800,000/-.

You are required to

Demonstrate how the above transaction should be reflected in the Financial Statement as at 31<sup>st</sup> March 2023 and Statement of Profit or Loss for the year 2022/23.

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**Question 07**

(a) The following information was extracted from Papito Ltd.'s books of accounts as at 31<sup>st</sup> March 2023:

(1) Details of non-current assets are as follows: Rs.000

Asset	Cost	Accumulated Depreciation	Accumulated Capital Allowance
Building	25,000	10,000	15,000
Machinery	15,000	8,000	5,000

(2) The provision for gratuity as at 31<sup>st</sup> March 2023 was Rs. 5,000,000/-.

(3) Deferred Tax Liability as at 01<sup>st</sup> April 2022 was Rs. 1,500,000/-.

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**Question 07**

(4) Papito Ltd. pays income tax at the rate of 28% per annum.

You are required to:

Calculate the deferred Tax Asset / Liability as at 31<sup>st</sup> March 2023. (05 marks)

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**Question 07**

(b) Dimo Company initiated a showroom construction project. The project was funded from the pool of funds available in the company. The pool of funds available include followings.

Bank	Facility Amount	Interest Rate
Commercial Bank	40 Mn	10%
Bank of Ceylon	20 Mn	9%
Hatton National Bank	15 Mn	12%
HSBC	25 Mn	15%

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**Question 07**

The project value was Rs.50Mn and the construction was commenced on 01<sup>st</sup> April 2022. The investment income earned from investing excess cash in pool of funds were Rs.1Mn. The active construction was suspended on 15<sup>th</sup> May 2022 due to unexpected delay in material supply for 15 days. Showroom was ready to be used by 31<sup>st</sup> December 2022, however management commenced using the showroom from 01<sup>st</sup> of February 2023. Company's Financial year ends on 31 March.

You are required to

Calculate the borrowing cost to be capitalized under the showroom as at 31<sup>st</sup> March 2023. (05 marks)

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## Section C (50 Marks)

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## Question 08

The following trial balance was extracted from the books of **Shevan PLC** as at 31<sup>st</sup> March 2023:

(Rs.'000)	Dr.	Cr.
<b>Property, Plant and Equipment at Cost:</b>		
Land	50,000	
Buildings	25,000	
Motor Vehicles	21,000	
Office Equipment	7,200	
Capital work-in-progress	7,600	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2022:</b>		
Buildings		8,500
Motor Vehicles		11,500
Office Equipment		2,200
Pre-payments	240	
Inventory as at 31 <sup>st</sup> March 2023	41,500	

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(Rs.'000)	Dr.	Cr.
Stated Capital (800,000 ordinary shares)		80,000
Retained Earnings as at 01 <sup>st</sup> April 2022		6,450
Revaluation Reserve		2,100
Trade Receivables / Trade Payables	24,520	31,200
Cash in hand and Cash at Banks	3,280	
Income Tax Paid	800	
Interim Dividend Paid – Ordinary shares	4,000	
Cost of Sales / Sales	192,300	274,500
Other Income		2,900
Income Tax Payable for the year of assessment 2021/22		650
Administration Expenses	32,700	
Distribution Expenses	13,980	
Finance Expenses	1,400	
Allowance for Trade Receivable as at 01 <sup>st</sup> April 2022		520
Bank Loan		5,000
	<b>425,520</b>	<b>425,520</b>

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The following additional information is also provided:

(1) Inventory as at 31<sup>st</sup> March 2023 included some damaged stocks costing Rs. 3,500,000/-. The net realizable value of these stocks is Rs. 2,800,000/- and no adjustments were made in the books of accounts in this regard.

(2) Entire revaluation reserve of Rs. 2,100,000/- represents the land revaluation made 03 years ago. The revaluation carried out on 31<sup>st</sup> March 2023 revealed that the land value has been increased by Rs. 3,000,000/- and no adjustments were made in the books of accounts in this regard.

(3) On 30<sup>th</sup> September 2022, the company has sold a delivery van for Rs. 2,900,000/-. This van was purchased on 01<sup>st</sup> April 2019 at a cost of Rs. 4,500,000/-. The entire sales proceed was debited to cash book and credited to other income account and no other entries have been recorded in respect of this transaction.

(4) Depreciation on Property, Plant and Equipment is calculated on the straight line basis at cost. The useful life of Property, Plant and Equipment is as follows:

Buildings	: 20 years
Motor Vehicles	: 05 years
Office Equipment	: 10 years

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(5) The income tax liability of the company for the year of assessment 2022/23 is estimated to be Rs. 900,000/-.

(6) It has been brought to the notice of the company that a customer owing Rs. 420,000/- was declared bankrupt on 31<sup>st</sup> March 2023 and a full provision has been made in the previous financial year in respect of the said customer's balance. A general provision has to be made at 2% from the remaining trade receivables balance as at 31<sup>st</sup> March 2023.

(7) The company obtained a Rs. 5 million bank loan at an interest rate of 10% per annum on 01<sup>st</sup> April 2022 to construct a new factory building. As at 31<sup>st</sup> March 2023, construction is in progress and it was expected to finalize the construction by 31<sup>st</sup> December 2023. Cost incurred on constructions was recorded under capital work-in-progress account. Further, no repayments were made for the above loan during the year and interest for the year on the above loan was debited to finance expenses and credited to trade payables account.  $\frac{1}{4}$  th of the bank loan as at 31<sup>st</sup> March 2023 should be settled during the next year.

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(8) Pre-payment account represents rent payment made for entire calendar year 2023.

(9) The Board of Director of the company decided to pay Rs. 2/- per share as the final dividend for ordinary shares held on 31<sup>st</sup> March 2023 at the board meeting held on 15<sup>th</sup> April 2023.

(10) The Financial Statements were authorized for issue by the Board of Directors on 02<sup>nd</sup> June 2023.

Considering the above information,

**You are required to:**

**Prepare** the following, for **Shevan PLC** in a form suitable for publication:

(a) The Statement of Profit or Loss and Other Comprehensive Income (Statement of Comprehensive Income) for the year ended 31<sup>st</sup> March 2023. (10 marks)

(b) Statement of Finance Position as at 31<sup>st</sup> March 2023. (08 marks)

(c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2023. (03 marks)

(d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2023. (04 marks)

(Total 25 marks)

### Question 09

The following Financial Statements have been extracted from the books of JMC PLC for the years 2022/23 and 2021/22:

Statement of Comprehensive Income  
for the year ended 31st March 2023

	Rs.000
Sales	378,500
Cost of Sales	(265,900)
Gross Profit	112,600
Other Income	14,650
	127,250

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	Rs.000
Expenses:	
Distribution Expenses	(24,780)
Administration Expenses	(49,540)
Finance Expenses – Interest on Loans	(8,200)
Profit before Tax	44,730
Income Tax	(950)
Profit for the year	43,780

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## JMC PLC

## Statement of Financial Position

	As at 31 <sup>st</sup> March 2023		As at 31 <sup>st</sup> March 2022	
Assets:				
Non-Current Assets:				
Property, Plant and Equipment		169,800		100,500
Current Assets:				
Inventory	29,000		32,500	
Trade Receivables	39,000		38,200	
Other Receivables	2,500		3,000	
Cash and Cash Equivalent	4,200	74,700	18,500	92,200
Total Assets:		244,500		192,700

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	As at 31 <sup>st</sup> March 2023		As at 31 <sup>st</sup> March 2022	
Equity:				
Stated Capital	90,000		90,000	
Retained Earnings	78,000	168,000	39,500	129,500
Non-Current Liabilities:				
Long Term Loan	18,000		12,000	
Employee Benefits	16,500	34,500	20,500	32,500
Current Liabilities:				
Trade Payables	34,000		29,600	
Income Tax Payable	500		400	
Accrued Expenses	7,500	42,000	700	30,700
Total Equity and Liabilities		244,500		192,700

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The following industry averages for the year 2022/23 have also been identified

Gross Profit Ratio	35%
Net Profit Ratio	12%
Current Ratio	2.5 : 1
Debtors' Collection Period	45 days
Inventory Residual Period	40 days
Interest Cover	5 Times

Assume that all sales are made on credit basis.

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**You are required to:**

(a) **Compute** the following ratios based on the above information for the financial year ended / as at 31<sup>st</sup> March 2023:

- (i) Gross Profit Ratio
- (ii) Net Profit Ratio
- (iii) Current Ratio
- (iv) Debtor's Collection Period
- (v) Inventory Residence Period
- (vi) Interest Cover

(06 marks)

(b) **Analyze** the performance of **JMC PLC** for the year ended / as at 31<sup>st</sup> March 2023 considering the industry average identified above.

(06 marks)

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## Question 10

The Statements of Financial Position of Perera PLC and Soyza PLC as at 31<sup>st</sup> March 2023 are as follows.

Rs.000	Perera	Soyza
Non-Current Assets:		
Property, Plant and Equipment – at cost	80,000	42,000
Accumulated Depreciation	(34,000)	(6,000)
Carrying Value	46,000	36,000
Investment in Soyza PLC	40,000	-
Current Assets:		
Inventories	12,000	13,500
Trade Receivables	8,000	9,000
Cash & Cash Equivalents	2,000	2,500
<b>Total Assets</b>	<b>108,000</b>	<b>61,000</b>

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Rs.000	Perera	Soyza
Equity and Liabilities:		
Equity:		
Stated Capital – Ordinary Shares	70,000	40,000
Retained Earnings	16,700	8,000
Current Liabilities:		
Trade and Other Payables	21,300	13,000
<b>Total Equity and Liabilities</b>	<b>108,000</b>	<b>61,000</b>

The following additional information is also provided.

- (1) **Perera PLC** acquired 80% of ordinary share capital of **Soyza PLC** on 01<sup>st</sup> April 2022. Consideration included a share issue worth of Rs. 10 million. This has not been accounted.

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(2) Fair value of the non-controlling interest on the date of acquisition was Rs. 10 million. As at the date of acquisition, **Soyza PLC's** retained earnings was Rs. 5 million and the fair value of identifiable net assets of **Soyza PLC** was higher than the book value by Rs. 5 million. This fair value excess is due to a machine which had a remaining useful life of 5 years.

(3) On 01<sup>st</sup> April 2022, **Perera PLC** sold one of its motor vehicle purchased on 01<sup>st</sup> April 2021 at a cost of Rs. 4 million to **Soyza PLC** for Rs. 5 million. Both companies depreciate their motor vehicles over 5 years on the straight – line basis at cost.

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(4) During the month of March 2023, **Soyza PLC** sold an inventory costing Rs. 3 million with a 20% profit markup to **Perera PLC**. Of that, 50% of the stocks remained unsold at the warehouse of **Perera PLC** as at 31<sup>st</sup> March 2023. Further, the full amount on this transaction was recorded in trade receivables of **Soyza PLC** and trade payables of **Perera PLC**.

**You are required to:**

- (a) **Calculate** the Goodwill arising from consolidation. (03 marks)
- (b) **Prepare** the Consolidated Statement of Financial Position as at 31<sup>st</sup> March 2023. (10 marks)

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