M O C K   E X A M I N A T I O N

SL 25-1 Advanced Corporate Reporting (ACR)

Mock Paper 1 – December 2026 Batch

INSTRUCTIONS TO CANDIDATES

1. This paper contains seven (07) questions. Answer ALL questions.
2. The total marks allocated for this paper is 50 marks. Marks for each question are shown against that question.
3. Write your name and the subject in the spaces provided on this cover page before commencing the paper.
4. Begin each answer on a new page. Write legibly in blue or black ink only.
5. Show all workings clearly. Marks are awarded for workings and for the reasoning applied.
6. State clearly any assumptions made in arriving at your answers.
7. Where relevant, support your answers with reference to the applicable Sri Lanka Accounting Standards (LKAS / SLFRS) and the Conceptual Framework for Financial Reporting.
8. Silent, non-programmable calculators may be used. Mobile phones and smart devices are not permitted.
9. Do not detach any page from this question paper.

This question paper consists of seven (07) questions. | Total: 50 marks

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B.Sc. Accounting (special) First Class (USJ) | ACA | CMA Passed Finalist | MAAT | ICAEW Finalist | ACCA Finalist | CA, CMA and AAT Merit and Subject Prize winner | Certification in Forensic Accounting (CASL) | ABR Prize Winner in CA Strategic Level

Question No. 01

(a) IPL purchased a land to construct an apartment complex on 1 January 2023 for Rs. 30 million. The company spent two months on planning activities and on 1 March 2023 the planning approvals were obtained. The development of the land was also completed on this date and construction commenced immediately after obtaining the approvals. The estimated cost of construction was Rs. 150 million. Construction was temporarily suspended due to COVID-19 from 11 March 2025 to 10 May 2025. On 30 September 2025 the apartment complex was ready for sale except for a few modifications in some units to suit buyers' specifications. All these modifications were completed on 15 October 2025.

IPL made the following payments to the contractor:

Phase	Date of payment	Amount (Rs. million)
Phase 1	1-Mar-23	40
	1-Jan-24	30
Phase 2	1-Aug-24	20
	31-Dec-24	30
Phase 3	30-Jun-25	20
	30-Sep-25	10
Total payment		**150**

The following information is related to IPL's borrowings.

(i) On 1 January 2023, IPL obtained a loan of Rs. 100 million specifically for the apartment complex project at an annual interest rate of 14%, which is equivalent to the effective interest rate (EIR). The loan is repayable over 5 years at an annual amount of Rs. 29 million. IPL earned interest income of Rs. 1.7 million by temporarily investing the funds until payments were made to the contractor.

(ii) Phase 2 and Phase 3 of construction were financed by IPL's existing borrowings. Details of the existing borrowings of the company during the construction period are given below.

- A loan obtained at 12% p.a. had an outstanding amount of Rs. 20 million as at 1 August 2024. This loan was fully repaid on 1 October 2025.
- Debentures issued at 13% p.a. had an outstanding amount of Rs. 35 million as at 1 August 2024 and this remained unchanged as at 15 October 2025.
- A loan obtained at 11% p.a. had an outstanding balance of Rs. 50 million as at 1 August 2024. This amount was fully settled on 15 November 2025.

Required: Advise the management of IPL on the borrowing costs that should be capitalised to the apartment complex according to the requirements of LKAS 23, Borrowing Costs.

(Assume that the amount of borrowing costs capitalised during a period does not exceed the amount of borrowing costs incurred during the period.)

(10 marks)

Question No. 02

Multi PLC's retail arm has retail stores located island wide from which goods are distributed to its customers. Multi PLC imported goods for sale during March 2025 and the total cost incurred, up to the point of transporting these goods to a warehouse taken on short term rental, was Rs. 3,500,000 (10,000 units). Multi PLC obtains warehouse space on rent, near the port as goods purchased need to be arranged for transportation to its retail stores. Cost of Rs. 250,000 was incurred for transporting the goods from the rented warehouse to retail stores located island wide. Storage cost incurred up to 31 March 2025 amounting to Rs. 130,000 consists of Rs. 30,000 paid for renting the warehouse space and Rs. 100,000 of storage costs incurred by retail stores.

As at 31 March 2025, all these goods were remaining as inventory at retail stores. 30% of this inventory is held to satisfy a firm sale to a major corporate customer at a per unit price of Rs. 470. General selling price per unit applicable for 31 March 2025 is Rs. 485. The total estimated cost to sell is Rs. 200,000, including the costs relating to the said firm sale.

Required: Determine the inventory value to be reflected in the financial statements for the year ended 31 March 2025, together with an analysis of the requirements of the relevant LKAS / SLFRS.

(6 marks)

Question No. 03

Green PLC acquired an entity (Entity A) and is required to measure fair values of the following items by applying the requirements of SLFRS 13, *Fair Value Measurement*.

(i) Asset held as inventory

This asset is traded in two different markets: the US and the UK markets. Entity A can access prices in both markets. Green PLC thinks the UK market price is more appropriate to measure fair value since Entity A buys and sells this asset in the UK market. The following details at the acquisition date are provided to you.

	US market	UK market
Price per unit	Rs. 2,300	Rs. 2,400
Market volume for the asset (units)	6 million	4 million
Transaction cost per unit	Rs. 100	Rs. 120
Transport cost per unit	Rs. 230	Rs. 170

(ii) Investment in an equity instrument

Entity A holds an investment in an equity instrument, which is pledged as collateral to support a debt obligation of the entity. Until the debt is fully settled, the entity cannot sell this instrument. The debt is due for repayment one year after the date of acquisition of Entity A by Green PLC. It is highly likely that the debt will be settled on the due date. The following details at the acquisition date are provided to you.

- Market price of the equity instrument: Rs. 13 million
- Discount (%) on the market price for the restriction period of one year: 7%

(iii) Investment in equity shares offered in a private placement

Entity A has purchased equity shares offered by B PLC in a private placement. According to the regulatory requirements, these shares cannot be sold for 1 year from the date of allotment. On the date Green PLC acquired Entity A, the remaining lock-in period was 7 months. The following details at the acquisition date are provided to you.

- Market price per share: Rs. 23.00
- Discount (%) on the market price for one-year lock-in period: 10%
- Discount (%) on the market price for the remaining lock-in period of 7 months: 8%

Required: Conclude on the price that should be used in estimating the fair values of the assets given above, on the date of Green PLC acquiring Entity A, together with the required calculations.

(8 marks)

Question No. 04

POP PLC has an investment in RED (Pvt) Ltd which has been accounted as an investment in associate. Due to the adverse market conditions over the past few years, the management carried out an impairment test as at 31 March 2025 to see whether the investment was impaired. This impairment test revealed that the investment was not impaired since the value in use was higher than the carrying value (value in use is higher than the fair value less cost to sell). In computing value in use, the following has been considered among other things.

- Future cash flows have been projected for 10 years. Revenue is expected to grow by 5% in the next 5 years based on the most recent budget approved by the management. Thereafter, revenue is expected to grow by 10% as a result of future restructuring.
- Proceeds to be received from a loan already approved by the bank.
- Discount rate used was the long-term Treasury bond rate.

Required: Advise the management on the accuracy of the value in use computation based on the information provided above.

(10 marks)

Question No. 05

TEL (Pvt) Ltd has included the following note in its financial statements for the year ended 31 March 2025 in relation to the fair value hierarchy of fair value measurement of assets.

Asset	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000
Available for sale investments	–	67,800	–
Investment in Treasury Bills	–	–	132,500
Investment properties	1,124,800	–	–

Notes:

(i) Fair value of unquoted equity was determined using a valuation technique that considered the share price of a similar quoted company. The resulted value was reduced by 25% for non-marketability.

(ii) Investment in Treasury Bills was valued using yield curves and interest rates published by the Central Bank of Sri Lanka.

(iii) Investment properties were valued based on the prices of recent market transactions of properties in the same area with substantial adjustments to reflect the condition of the property.

Required: Evaluate the appropriateness of classification of the above assets in the fair value hierarchy.

(4 marks)

Question No. 06

Entity P (P) is owned and controlled by the Government of Sri Lanka. The following transactions have taken place during the financial year ended 31 March 2025 between P and the parties mentioned below.

(i) Government granted a loan to P, equivalent to 50% of P's stated capital, at market interest rates. This loan is repayable in quarterly installments, within the next five years.

(ii) Printing work valued at Rs. 12 million, had been done by entity B, which is controlled by the Government. This amount was fully settled during the year. If an exactly similar work is done for another party, the price would have been Rs. 15 million.

(iii) 35% of sales of P are made to Government related entities.

(iv) Mr. Jin had been appointed to a key management position in P by the Government. P has a transaction with Mr. Jin amounting to Rs. 0.5 million, and this is receivable by P, as at 31 March 2025.

(v) Government had provided several guarantees for loans, obtained by P from banks, for Rs. 10 million.

Required: Prepare the note to be disclosed in the financial statements of P for the year ended 31 March 2025, per the requirements of LKAS 24, Related Party Disclosures.

(7 marks)

Question No. 07

Alco (Pvt) Ltd acquired a machine by paying Rs. 10 million on 1 January 2014, which has a useful life of 10 years. On 31 December 2025, the management estimated that this machine can be sold in the market only for Rs. 7.5 million, incurring a selling cost of Rs. 100,000. However, if it is used in operations to generate future cash flows, it would give a present value of Rs. 8.5 million over its remaining life.

Required: Explain the four measurement bases referred to in the Conceptual Framework for Financial Reporting using the above information, as at 31 December 2025.

(5 marks)

END OF QUESTION PAPER