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

SL 25-1 Advanced Corporate Reporting (ACR)
Mock Paper 2 – December 2026 Batch

INSTRUCTIONS TO CANDIDATES

1. This paper contains four (04) questions. Answer ALL questions.
2. The total marks allocated for this paper is 40 marks. Marks for each question are shown against that question. The recommended time for this paper is one (01) hour and fifteen (15) minutes.
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).
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.

Name:

Subject:

This question paper consists of four (04) questions. | Total: 40 marks

Chandima Prabhath

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

JMC

Question No. 01

Ceylon Agro Industries PLC ("CAI") is a listed manufacturer of processed food products with a financial year ending 31 March. On 1 April 2025, CAI commenced the construction of a new production facility at Dambulla. Physical construction, expenditure and the necessary technical and administrative work all commenced on that date. The facility necessarily takes a substantial period of time to get ready for its intended use and was completed and available for use on 31 March 2026.

To part-finance the project, CAI obtained a specific bank loan of Rs. 240 million on 1 April 2025 at a fixed interest rate of 10% per annum. Funds not immediately required for construction were placed in a short-term deposit earning 4% per annum until they were drawn down for construction expenditure.

Payments to the contractor were made as follows:

Date of payment	Amount (Rs. million)
1 April 2025	150
1 August 2025	120
1 December 2025	90
Total payment	**360**

The specific loan was fully utilised by 1 August 2025. Construction expenditure in excess of the specific loan was financed out of CAI's existing general borrowings, which remained outstanding throughout the year. Details of the existing borrowings of the company during the construction period are given below.

- A bank term loan obtained at 12% p.a. had an outstanding amount of Rs. 300 million throughout the year ended 31 March 2026.
- Listed debentures issued at 9% p.a. had an outstanding amount of Rs. 200 million throughout the year ended 31 March 2026.

Owing to an island-wide labour strike affecting the contractor, all active development of the facility ceased from 1 October 2025 to 30 November 2025. During this two-month period, no substantial technical or administrative work was carried out on the project, and the delay was not a necessary part of the process of getting the asset ready for its intended use.

The Finance Director is of the view that the full year's interest on the specific loan should be capitalised without any deduction, on the basis that (i) the strike was outside the company's control, and (ii) the interest income earned on the temporary deposit is "investment income that belongs in profit or loss and has nothing to do with the project".

Required:

(a) With reference to the requirements of LKAS 23, Borrowing Costs, explain whether the production facility is a qualifying asset, and identify the dates on which capitalisation of borrowing costs commences, is suspended and ceases, giving reasons. **(3 marks)**

(b) Calculate the total borrowing costs eligible for capitalisation as part of the cost of the production facility for the year ended 31 March 2026, clearly showing the amounts relating to the specific borrowing and the general borrowings. (Assume that the amount of borrowing costs capitalised during the period does not exceed the amount of borrowing costs incurred during the period.) **(5 marks)**

(c) Critically evaluate the appropriateness of the Finance Director's proposed treatment.
(2 marks)

(Total: 10 marks)

Question No. 02

Lanka Retail Holdings PLC ("LRH") operates a chain of supermarkets and prepares financial statements to 31 March each year. The applicable income tax rate is 30%, and this rate has been enacted for the foreseeable future. You are the Financial Accountant responsible for the current and deferred tax computations for the year ended 31 March 2026.

The following information has been extracted from the draft financial statements as at 31 March 2026:

Item	Carrying amount (Rs. million)	Additional information
Property, plant and equipment (excluding land)	480	The tax written-down value of these assets, per the capital allowance records, is Rs. 390 million.
Freehold land	250	The land was acquired at a cost of Rs. 180 million and was revalued to Rs. 250 million on 31 March 2026. The surplus was recognised in other comprehensive income. For tax purposes, the base cost of the land remains at Rs. 180 million, and any gain on a future disposal would be taxed at 30%.
Provision for warranty and customer refunds	24	These costs are deductible for tax purposes only when the amounts are actually paid.
Accrued staff bonuses	15	Deductible for tax purposes only in the year of payment. Payment will be made in June 2026.
Penalty payable to the Consumer Affairs Authority	5	This penalty is not deductible for tax purposes in any period.
Interest receivable on fixed deposits	8	Interest income is taxed on a cash (receipts) basis. The related interest income has been recognised in profit or loss for the year.

In addition, LRH has unused tax losses of Rs. 40 million arising from its department-store segment, which has incurred losses in each of the last three years. Management's approved profit forecasts, which the audit committee considers reliable, provide convincing evidence that future taxable profits will be available to utilise only Rs. 25 million of these losses before they expire. The Chief Financial Officer has proposed recognising a deferred tax asset on the full Rs. 40 million, arguing that "the group is profitable overall, so the entire loss will eventually be relieved."

There were no other temporary differences as at 31 March 2026.

Required:

(a) For each of the six items in the table above, determine the tax base and the resulting temporary difference (if any) as at 31 March 2026, identifying each temporary difference as taxable or deductible. **(4 marks)**

(b) Calculate the deferred tax liabilities and deferred tax assets to be recognised in the statement of financial position as at 31 March 2026 (including any amount appropriately recognised in respect of the unused tax losses), and state, for each component, whether the related deferred tax is recognised in profit or loss or in other comprehensive income. **(4 marks)**

(c) Discuss the appropriateness of the Chief Financial Officer's proposal to recognise a deferred tax asset on the full amount of the unused tax losses, with reference to the recognition criteria in LKAS 12, Income Taxes. **(2 marks)**

(Total: 10 marks)

<u>Question No. 03</u>

Serendib Capital PLC ("SCP") is a listed diversified holding company with a financial year ending 31 March. During the year ended 31 March 2026, SCP undertook the following financing transactions. The Finance Director has proposed classifying all three instruments within equity in order to "protect the group's gearing ratio ahead of a planned rights issue."

(i) Convertible debentures

On 1 April 2025, SCP issued 100,000 convertible debentures at par for Rs. 1,000 each, raising Rs. 100 million. The debentures carry a coupon of 8% per annum, payable annually in arrears, and mature on 31 March 2028. On maturity, each holder may elect either to receive the par value in cash or to convert each debenture into 120 ordinary shares of SCP. On the issue date, the market interest rate for similar debentures without a conversion option was 12% per annum. Relevant discount factors at 12% are: Year 1 – 0.8929; Year 2 – 0.7972; Year 3 – 0.7118.

(ii) Redeemable preference shares

On 1 April 2025, SCP issued 5 million preference shares of Rs. 10 each, raising Rs. 50 million. The shares carry a fixed preference dividend of 9% per annum, payable annually, which SCP is contractually obliged to pay each year irrespective of whether ordinary dividends are declared. The shares are mandatorily redeemable in cash at par on 31 March 2030. The Finance Director is of the view that, as the instruments are legally shares, they must be presented within stated capital.

(iii) Share-settled supplier obligation

On 1 January 2026, SCP entered into a contract with a major supplier under which SCP will settle an amount of Rs. 20 million on 31 December 2026 by delivering as many of its own ordinary shares as have a total market value equal to Rs. 20 million on the settlement date. The Finance Director considers this to be an equity transaction "because settlement will be made entirely in SCP's own shares."

Required:

(a) With reference to the principles of LKAS 32, Financial Instruments: Presentation, including the definition of a financial liability, the contractual-obligation concept and the "fixed-for-fixed" condition, determine the appropriate classification of each of the three instruments as a financial liability, equity, or a compound financial instrument, giving reasons and evaluating the Finance Director's proposals. **(5 marks)**

(b) For the convertible debentures, calculate the amounts at which the liability component and the equity component should be initially recognised on 1 April 2025, and set out the journal entry to record the issue. **(3 marks)**

(c) Explain how the annual coupon on the convertible debentures and the preference dividend should be presented in the financial statements, and how the presentation would have differed had the preference shares been classified as equity. **(2 marks)**

(Total: 10 marks)

Question No. 04

Colombo Ventures PLC ("CVP") is a listed conglomerate with a substantial treasury function. During the year ended 31 March 2026, CVP acquired the following financial assets. The newly appointed Group Treasurer has asked you, as the Group Financial Controller, to advise on the appropriate classification of each investment under SLFRS 9, Financial Instruments, at initial recognition.

(i) Government Treasury bonds (Rs. 80 million)

Fixed-rate Treasury bonds acquired to match the maturity profile of a known future capital commitment. Treasury policy requires the bonds to be held to maturity in order to collect the contractual coupons and principal. Sales are permitted only in the event of a significant deterioration in the issuer's credit standing. The bonds pay a fixed coupon on the principal amount outstanding.

(ii) Portfolio of listed corporate debentures (Rs. 60 million)

A portfolio of fixed-rate corporate debentures held within the group's liquidity portfolio. The documented objective of the portfolio is both to collect contractual interest and principal and to sell debentures whenever cash is required for working-capital purposes; sales are frequent and significant in value. Certain debentures include an issuer prepayment option under which the issuer may repay the debentures early at par plus accrued interest and reasonable compensation for early termination.

(iii) Structured note (Rs. 30 million)

A five-year note issued by a licensed bank under which the annual return is not a fixed or floating market interest rate but is instead determined by reference to the percentage change in the All Share Price Index of the Colombo Stock Exchange, subject to a minimum of zero. The principal is repayable at par at maturity. Management intends to hold the note to maturity to collect the contractual cash flows.

(iv) Equity investment (Rs. 25 million)

A 4% stake in the ordinary shares of an unquoted strategic supplier, acquired to strengthen the long-term supply relationship. The shares are not held for trading and there is no intention to dispose of them in the foreseeable future. The Group Treasurer is concerned that fair value movements on this investment would introduce unwelcome volatility into profit or loss.

The Group Treasurer has also suggested that, should the structured note perform poorly, it could simply be "reclassified to amortised cost once markets stabilise, since the intention is to hold it to maturity anyway."

Required:

(a) With reference to the business model assessment and the contractual cash flow characteristics ("SPPI") test in SLFRS 9, determine, with reasons, the appropriate classification (amortised cost, fair value through other comprehensive income, or fair value through profit or loss) of Investments (i), (ii) and (iii), addressing the effect of the prepayment feature in Investment (ii) and the index-linked return in Investment (iii) in your answer. **(5 marks)**

(b) In respect of Investment (iv), discuss the classification alternatives available to CVP under SLFRS 9 and explain the financial reporting implications of making the irrevocable election available for such investments, including the treatment of dividends, fair value changes and amounts previously recognised in other comprehensive income on disposal. **(3 marks)**

(c) Comment on the appropriateness of the Group Treasurer's suggestion regarding subsequent reclassification of the structured note. **(2 marks)**

(Total: 10 marks)

END OF QUESTION PAPER

JMC