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SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE PROGRAMME

YEAR III SEMESTER I (Intake I)

END SEMESTER EXAMINATION – JANUARY 2016

AFM 30930 Financial Reporting Framework

Date	:	14th January 2016
Time	:	5.30 p.m. – 8.30 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions
- This paper consists of two sections (A and B).
- Section A – Answer **ALL** questions in the separate sheet provided
  Section B – Answer **ALL** questions
- The total marks for the paper is 100.
- All questions carry equal marks. Marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Section A

Select most appropriate answer for following questions

1. Which of the following statement is **<u>true</u>** in relation to the characteristics of an asset as per conceptual framework of financial reporting?
   A. There should be a resource owned by the business as a result of past event.
   B. There should be a resource owned by the business as a result of future event.
   C. There should be a resource controlled by the business as a result of past event.
   D. There should be a resource controlled by the business as a result of future event.

2. Dimuthu PLC had 40,000 units of product Alfa which are only 60% completed as at 31.03.2015. Cost incurred up to date was Rs.950,000. These items can be sold at Rs.50 each once the product is completed after incurring cost of another Rs.550,000. Further, 15% of selling price should be paid as sales commission to sales staff at the point of sale.
   The net realizable value of these inventories as at 31.03.2015 is:
   A. Rs.807,500
   B. Rs.1,150,000
   C. Rs.1,275,000
   D. Rs.1,700,000

3. Which of the following item is **<u>not</u>** presented under other comprehensive income?
   A. Changes in revaluation surplus
   B. Gains or losses on subsequent measurement of biological assets
   C. Gains or losses on re-measuring available-for-sale financial assets
   D. Gains or losses arising from translating the financial statements of a foreign operation

4. Which of the following statement is **<u>true</u>** in relation to measurement of a biological asset at initial recognition?
   A. It should be measured at cost.
   B. It should be measured at fair value unless it is impracticable.
   C. It should be measured at cost or fair value whichever is higher.
   D. It should be measured using cost model or revaluation model.

5. Which of followings statement is **true** in relation to intangible assets?
   A. Internally generated goodwill should not be recognized in the financial statements.
   B. Internally generated goodwill should be recognized in the financial statements.
   C. All internally generated intangible assets should be recognized in the financial statements.
   D. Any internally generated intangible assets should not be recognized in the financial statements.

6. Titan PLC revalued its plant and machinery for Rs.3.5 million on 01.04.2013 for the first time. On this date the cost and accumulated depreciation of plant and machineries were Rs.4 million and Rs.1.5 million respectively. These assets were purchased on 01.04.2010 and had an estimated useful life of 8 years. The same assets were revalued again on 01.04.2015 for Rs.1.8 million. The revaluation made on 01.04.2015 is resulted in a :
   A. Deficit of Rs.300,000
   B. Deficit of Rs.825,000
   C. Deficit of Rs.700,000
   D. Deficit of Rs.1,700,000

7. A business purchased a plant for Rs.7 million on 01.04.2011 and it had an estimated a useful life of 10 years. On 31.03.2014, the fair value less cost to sell of this plant was Rs.3.9 million and present value of expected future cash flows from it was Rs.4.2 million. The amount of impairment loss and depreciation expense to be recognized for year ending 31.03.2015 are:

	Impairment loss (Rs.)	Depreciation expenses (Rs.)
A.	nil	700,000
B.	700,000	420,000
C.	700,000	600,000
D.	1,000,000	390,000

8. Which of following statement is **true** as per LKAS 08: Accounting policies, changes in accounting estimates and errors?
   A. Changes in accounting estimates should be accounted using retrospective restatement.
   B. Changes in accounting estimates should be accounted using retrospective application.
   C. Changes in accounting policies should be accounted using retrospective restatement.
   D. Changes in accounting policies should be accounted using retrospective application.

9. Which of following item is **not** an example for a financial asset?
   A. Cash
   B. Trade Receivables
   C. Rs.100, 20% Debentures' issued
   D. Investment in ordinary shares of Galaxies PLC

10. Which of the following are **correct** fundament principles of IFAC code of ethics which are applicable for professional accountants?
    A. Objectivity, integrity, independence, professional confidence and due care
    B. Objectivity, integrity, understandability, professional confidence and due care
    C. Objectivity, independence, understandability, professional confidence and due care
    D. Integrity, independence, understandability, professional confidence and due care

(Total 20 Marks)

Section B

Answer **ALL** questions

Question No. 01

a. **Briefly explain** what do you understand by “contingent assets” with an example.

(03 Marks)

b. Kandy PLC purchased a land for Rs.5.5 million on 01.04.2010 and it was revalued for the first time on 31.03.2013 for Rs.4.8 million. This land was revalued again on 01.04.2014 for Rs.5.9 million. The profit for the year ending 31.03.2013 and 31.03.2015 before making any adjustments for these revaluations were Rs.3 million and Rs.4 million respectively.

Show the extracts of statement of profit or loss and other comprehensive income and statement of financial position for year 2012/13 and 2014/15.

(06 Marks)

c. Gall PLC purchased a plant on 01.04.2010 for Rs.8 million. The estimated useful life and the residual value of the asset on this date were 8 years and Rs.800,000 respectively. The useful life and residual value were revised on 01.04.2014 as 10 years from the date of purchase years and Rs. 1.6 million respectively.

i. **State** the accounting treatment for change in useful life and residual value with reference to relevant accounting standard.

ii. **Calculate** the depreciation expense for the year ending 31.03.2014 and 31.03.2015.

(04 Marks)

d. The following information is relevant to a construction contract undertaken by Kurunegala PLC.

Date of agreement	01.04.2013
Initial contract price agreed	Rs.700 million
Total estimated cost	Rs.560 million
As at 31.03.2014	
Cost incurred up to date	Rs.275 million
Value of works certified	Rs.315 million
Progress payments received up to date	Rs.225 million

As at 31.03.2015	
Cost incurred up to date	Rs.545 million
Value of works certified	Rs.646 million
Progress payments received up to date	Rs.475 million
Due to change in specification, the contract cost and price was increased by Rs.40 million and Rs.60 million respectively on 31.03.2015.	

i. **Calculate** the stage of completion as at 31.03.2014 and 31.03.2015

ii. **Provide** the extracts of statement of profit or loss and other comprehensive income for year ending 31.03.2014 and 31.03.2015.

iii. **Provide the** extracts of statement of financial position as at 31.03.2014 and 31.03.2015.

(07 Marks)

(Total 20 Marks)

Question No. 02

a. A trainee accountant of Galle PLC has suggested the following accounting treatments for the accounting issued identified by him.

i. Since the company has changed its subsequent measurement of property, plant and equipment from cost model to revaluation model as it is in line with industry practices, it should be considered as a change in an accounting estimate and should be accounted using retrospective restatement.

ii. Since fair value less cost to sell of a plant was Rs.4 million when the carrying amount and present value of future cash flows were Rs.5 million and Rs.5.5 million respectively, an impairment loss of Rs.1.5 million should be recognized in the financial statements.

Critically evaluate the suggested accounting treatment for each scenario with reference to relevant LKASs.

(06 Marks)

b. **Distinguish** the finance lease from operating lease.

(02 Marks)

c. 'The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill.'

Explain what is mean by identifiable with reference to LKAS 38: Intangible assets.

(04 Marks)

d. The following information is available in relation to items of property, plant and equipment of Mathara PLC as at 31.03.2015. All the assets were purchased on 01.04.2014.

Asset	Cost (in Rs.000)	Depreciation rate for accounting purpose	Depreciation rate for tax purpose
Buildings	12,000	5%	10%
Motor Vehicles	15,000	20%	20%
Office Equipments	10,000	25%	20%

The income tax paid based on self assessment during the year ending 31.03.2015 was Rs.900,000 and total income tax liability for the year ending 31.03.2015 was estimated as Rs.1.3 million. The tax rate applicable to business is 30%.

i. **Calculate** the taxable temporary difference and deductible temporary difference.

ii. **Calculate** the differed tax liability and deferred tax asset as at as at 31.03.2015.

iii. **Prepare** the income tax expense account for the year ending 31.03.2015.

iv. **Provide** the extracts of statement of financial position as at 31.03.2015

(08 Marks)

(Total 20 Marks)

Question No. 03

a. Jaffna PLC entered in to finance lease agreement to acquire a motor vehicle in finance lease on 01.04.2013. The following information is available in relation to this transaction.

Fair value of the motor vehicle	Rs.4.5 million
Initial deposit paid at the time of agreement	Rs.1.5 million
Annual lease rental paid on 31st March	Rs.1,050,796
Lease term	4 years
Useful life	5 years
Interest rate implicit in the lease	15% per annum
Residual value	Rs.500,000
Title of the asset is transferred to lessee at end of the lease term	

i. **Prepare** the lease liability account for year ending 31.03.2014 and 31.03.2015

ii. **Provide** the extracts of statement of profit or loss and other comprehensive income for year ending 31.03.2015

iii. **Provide** the extracts of statement of financial position as at 31.03.2015.

(08 Marks)

b. The followings information is relevant to borrowings of Colombo PLC as at 01.04.2014.

	Interest rate per annum	Amount (Rs.000)	Investment income earned for year ending 31.03.2015from temporary investing the fund borrowed
Loan – Universal Bank PLC	12.5%	8,000	280
Loan – Global Bank PLC	12.0%	6,000	170
Rs,200, Debentures	14%	4,000	220
Overdraft – Stars Bank PLC	16%	2,000	-

Additional information

The construction of a building was commenced on 01.03.2014 and completed on 01.07.2015. Rs.14 million was utilized for construction of this building during the year. The fund collected by issue of debentures was fully utilized for this purpose. The balance amount was utilized from the bank loans. The overdraft facility was fully utilized for working capital management purposes. The construction of building was completed on 30.06.2015.

You are required to prepare;

i. **Extracts** of the statement of profit or loss and other comprehensive income for the year ending 31.03.2015

ii. **Identify** the amount of borrowing cost to be capitalized during the year ended 31.03.2015.

(05 Marks)

c. The following information has been extracted from the financial statements of Kandy PLC for year ending 31.03.2015. Kandy PLC was incorporated on 01.04.2014.

Statement of profit or loss for year ending 31.03.2015

	(Rs.000)
Sales	45,000
Cost of sales	(25,000)
Gross Profit	20,000
Other Income	2,500
Operating expenses	(7,500)
Finance expenses	(1,000)
Profit before tax	14,000
Income tax expense	(3,500)
Profit for the year	10,500

The following additional information is also available.

1. All the sales and purchases were made on credit basis.
2. The finance expense was entirely consists of interest expenses.
3. Other income consists of dividend income of Rs.1.1 million and profit on disposal of a motor vehicle of Rs.1.4 million.

4. Operating expenses includes depreciation expense of Rs.2.5 million.
5. The following balances were available as at 31.03.2015

	(Rs.000)
Trade receivables	2,500
Trade payables	3,800
Inventories	2,750
Accrued interest	225
Prepaid operating expenses	550
Income tax payable	1,400

Prepare the cash flows from the operating activities using indirect method as per LKAS 7: Statement of cash flows.

(07 Marks)

(Total 20 Marks)

<u>Question No. 04</u>

a. **Explain** the two fundamental qualitative characteristics of financial information as per conceptual framework for financial reporting.

(04 Marks)

b. **Define** the bearer plant with reference to LKAS 41:Agriculure (revised)

(03 Marks)

c. **Differentiate** derivative financial instrument and compound financial instrument.

(04 Marks)

d. The reporting period of Central PLC ends on 31st March. The following events were occurred after the reporting period.
05:04: A factory building of the business with a carrying amount of Rs.5 million was fully destroyed due to fire.
10.04: A debtor with a balance of Rs.800,000 as at 31.03.2015 was declared as bankrupt by the court.

22.04: The Court gave the order to pay Rs.600,000 claim to customer relating to a case filed by him. This case was filed in December 2014 and no liability had been recognized as at 31.03.2015.

20.05: Company made a bonus issue of one for every five shares held at the value of Rs.25 per share. The nos. of shares before the bonus issue was 400,000.

28:05: The final invoice of Rs.6.4 million was received from the contractor relating to the building of which the constructions works were completed on 25.03.2015. The estimated contact price was available as at 31.03.2015 was Rs.6 million.

(Note**:** The financial statements of the company were authorized for issue by board of directors on 01.06.2015 and the annual general meeting was conducted on 25.06.2015.)

Identify the above events as adjusting and non-adjusting and **state** the appropriate accounting treatment. (Provide the journal entry when it is required)

(05 Marks)

e. **Differentiate** investment in subsidiary and investment in associates with reference to relevant accounting standards.

(04 Marks)

(Total 20 Marks)