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

END SEMESTER EXAMINATION – JULY 2016

AFM 30930 Financial Reporting Framework

Date : 30th July 2016
Time : 1.00 p.m. - 4.00 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 **true** in relation to the LKAS 1: Presentation of financial statements?
 - A. An entity shall not offset assets and liabilities or income and expenses under any circumstances.
 - B. Financial statements prepared by limited liability companies are named as general purpose financial statements.
 - C. Objective of the financial statement is to provide information about financial position of a business as at a particular date.
 - D. Other comprehensive income comprises items of income and expenses that are not recognized in profit or loss as required or permitted by other SLFRS.

2. Universal PLC had 25,000 units of product Beta which are only 70% completed as at 31.03.2016. Cost incurred up to date was Rs.680,000. These items can be sold at Rs.40 each once the product is completed after incurring further cost of Rs.250,000. A sales commission of 8% on the selling price should be paid to sales staff at the point of sale of these units.

The net realizable value of these inventories as at 31.03.2016 is:

 - A. Rs.670,000
 - B. Rs.855,600
 - C. Rs.920,000
 - D. Rs.1,000,000

3. Which of the following statement is **not true** in relation to recognition of revenue as per LKAS 18: Revenue?
 - A. Royalties should be recognized on an accrual basis in accordance with the substance of the relevant agreement.
 - B. Service revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the end of the reporting period.
 - C. Dividends should be recognized when the shareholder's right to receive payment is established even though the actual receipt yet to made.

- D. Revenue from sale of goods should be recognized when risk and reward of the ownership of goods are transferred to buyer even though it is not probable that the inflow of economic benefits associated with the transaction.
4. Galaxies PLC has changed the cost formula used to measure inventories from first-in –first-out (FIFO) method to weighted average cost method on 31.03.2016. What is the appropriate accounting treatment in relation to this as per LKAS 08: Accounting policies, changes in accounting estimates and errors?
- A. Should be accounted using retrospective restatement since this is a changes in accounting estimates.
 - B. Should be accounted using retrospective application since this is a changes in accounting policy.
 - C. Should be accounted using retrospective restatement since this is a changes in accounting Policy.
 - D. Should be accounted using retrospective application since this is a changes in accounting estimates.
5. Financial statements of Mercury PLC for the year ended 31st March 2016 were authorized for issue by the directors on 01.06.2016. The following events have been occurred after the reporting period. Which of the following events should be classified as non-adjusting events as per LKAS 10: Events after the reporting period?
- A. A debtor with a balance of Rs.100,000 as at 31.03.2016 was declared as bankrupt by the court, on 10th April 2016.
 - B. Inventories measured at net realizable value of Rs.450,000 as at 31st March 2016 was realized only for Rs.400,000 in May 2016.
 - C. The court verdict was received on 28th April 2016 to pay Rs.500,000 claim to customer relating to a case filed by him on 25.03.2016.
 - D. Company capitalized reserves amounting to Rs.800,000 by issuing bonds shares one for every five shares held, in April 2016.

6. Jupiter PLC purchased a plant for Rs.14 million on 01.04.2012 and estimated a useful life of 10 years. On 01.04.2015, the fair value less cost to sell of this plant was Rs.7.8 million and present value of expected future cash flows was Rs.8.4 million. The amount of impairment loss and depreciation expense to be recognized for the year ending 31.03.2016 are:

	Impairment loss (Rs.)	Depreciation expenses (Rs.)
A.	nil	1,400,000
B.	1,400,000	840,000
C.	1,400,000	1,200,000
D.	2,000,000	780,000

7. Which of followings statement is **true** in relation to financial instruments?
- A. Financial instrument should raise a financial asset to one entity and financial liability to another entity.
 - B. Put option is an instrument which provides a right to buy shares at a specified price within a specified period.
 - C. Call option is an instrument which provides right to sell shares at a specified price within a specified period.
 - D. A contractual right to receive cash or another financial asset from another entity could be considered as a financial asset.
8. The provision for product warranty of Venus PLC as at 01.04.2015 was Rs.820,000 and warrant expenses paid during the year ending 31.03.2016 was Rs.650,000. Total sales made during the year is Rs.40 million and provision for product warranty as at 31.03.2016 was estimated as 2.5% from sales. The warrant expenses recognized for the year ending 31.03.2016 is:
- A. Rs.650,000
 - B. Rs.820,000
 - C. Rs.830,000
 - D. Rs.1,000,000

9. Which of following item is an example for a 'Bearer Plant' as per *revised* LKAS 41: Agriculture?
- A. Tea bushes in the tea plantation
 - B. Annual crops such as rice and wheat
 - C. Dairy cattle used in production of milk
 - D. Mahogani plants cultivated to be harvested as agricultural produce
10. Which of the following definition is **not** accurate in accordance with the Conceptual Framework for Financial Reporting?
- A. Equity is the residual interest in the assets of the entity after deducting all its liabilities.
 - B. Income is the increase in economic benefits during the period in the form of inflow or enhancement of assets.
 - C. Asset is a resource controlled by the entity as a result of past event and from which future economic benefits are expected to flow to the entity.
 - D. Liability is a present obligation of an entity as a result of past event, the settlement of which is expected to result in an outflow of the resources embodying economic benefits.

(Total 20 marks)

Section B

Answer **ALL** questions

Question No. 01

- a. Universal PLC purchased a plant for Rs.8 million on 01.04.2011 and as of that date estimated a useful life of the plant was 10 years. This plant was revalued for the first time for Rs.7 million on 01.04.2014 and the same plant was revalued again for Rs.5.4 million on 01.04.2015.

Provide the extracts of statement of profit or loss and other comprehensive income and statement of financial position for year 2014/15 and 2015/16.

(06 Marks)

- b. Galaxy PLC purchased a motor vehicle on 01.04.2012 for Rs.15 million. The estimated useful life and the residual value of the asset on this date were 12 years and Rs.3 million respectively. The useful life and residual value were revised on 01.04.2015 as 11 years from the date of purchase and Rs. 2 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 31.03.2015 and 31.03.2016.

(04 Marks)

- c. Carrying amount of a Cash Generating Unit of Mars PLC as at 31.03.2016 is given below.

Asset	Carrying Amount (Rs.000)
Buildings	4,000
Plants	2,500
Debtors	1,000
Cash	1,500

The fair value less cost to sell and value in use of the cash generating unit as at 31.03.2016 were Rs. 7.5 million and Rs.7.8 million respectively. Further, the recoverable amounts of buildings were Rs.3.5 million.

Prepare the journal entry for impairment loss if any at 31.03.2016.

(04 Marks)

- d. **Differentiate** the Recoverable amount and value in use of assets as per LKAS 36: Impairment of Assets.

(02 Marks)

- e. **List** four enhancing qualitative characteristics as per Conceptual Framework for Financial Reporting.

(02 Marks)

(Total 20 Marks)

Question No. 02

- a. The following information is available in relation to items of property, plant and equipment of Jupiter PLC as at 31.03.2016.

Asset	Cost (in Rs.000)	Date of purchase	Depreciation rate for accounting purpose	Depreciation rate for tax purpose
Buildings	16,000	01.04.2011	10%	5%
Motor Vehicles	10,000	01.04.2014	25%	25%
Office Equipment	9,000	01.04.2015	20%	33.33%

The income tax paid based on self-assessment during the year ending 31.03.2016 was Rs. 2.2 million and total income tax liability for the year ending 31.03.2016 was estimated as Rs.3.1 million. The tax rate applicable to business is 30%.

- Calculate** the taxable temporary difference and deductible temporary difference as at 31.03.2016.
- Calculate** the differed tax liability and deferred tax asset as at 31.03.2016.
- Prepare** the deferred tax asset account and deferred tax liability account for the year ending 31.03.2016.

iv. **Prepare** the income tax expense account for the year ending 31.03.2016

(08 Marks)

- b. The following information is relevant to a construction contract undertaken by Pluto Constructions PLC on 01.04.2014.

	As at 31.03.2015 (Rs. Mn)	As at 31.03.2016 (Rs. Mn)
Total contract revenue	2,000	2,200
Total estimated cost	1,600	1,700
Cost incurred	560	1,315
Value of work certified	650	1,650
Progress payments Received	350	1,100

- i. **Calculate** the stage of completion at years ending 31.03.2015 and 31.03.2016
- ii. **Calculate** the contract revenue, cost and profit for year ending 31.03.2015 and 31.03.2016
- iii. **Provide** the extracts of statement of financial position as at 31.03.2015 and 31.03.2016
- (07 Marks)

- c. Alfa PLC acquired 60% of the ordinary share capital of Beta PLC for an investment of Rs.250 million on 01.04.2015 when ordinary share capital and retained earnings of Beta PLC were Rs.200 million and Rs.150 million respectively. The retained earnings of Alfa PLC on this date was Rs.300 million. During the year ending 31.03.2016 Alfa PLC and Beta PLC have reported a profit of Rs.120 million and 85 million respectively. Interim dividend paid by Alfa PLC and Beta PLC during the year ending 31.03.2016 were Rs.50 million and Rs.35 million respectively. Market value of a share of Beta PLC on 01.04.2015 was Rs.200 per share. Total numbers of shares of Beta PLC was 2.5 Mn.

Calculate the followings using fair value method.

- i. Goodwill
- ii. NCI as at 31.03.2016
- iii. Consolidated retained earnings as at 31.03.2016

(05 Marks)

(Total 20 Marks)

Question No. 03

- a. **List two** items recognized in other comprehensive income other than the change in revaluation surplus.

(02 Marks)

- b. Neptune PLC was incorporated in year 2010 and commenced to operate a mango state. The trees were planted in 2010 and reached to matured stage in April 2013. The fair value less costs to sell of the mangoes harvested during the year ending 31.03.2016 immediately after picking amounted to Rs.700,000. 80% of the mangoes were sold by 31.03.2016 (immediately after harvesting) for a sale price of Rs. 620,000. The remaining 20% of the picked mangoes are recognized as inventories at the end of the reporting period. The fair value less cost to sell of the mango trees at 31.03.2015 and 31.03.2016, was Rs.1,200,000 and Rs.1,550,000 respectively. The company has spent Rs.250,000 for fertilizers and related operating expenses during the year ending 31.03.2016.

Prepare the journal entries to record:

- i. The harvesting of the agricultural produce
- ii. The sale of the agricultural produce and operating expenses
- iii. The changes in the fair value of the biological assets between ends of the two reporting period.

(05 Marks)

- c. The following information is relevant to a plant acquired by Titian PLC under a finance lease agreement.

Fair value of the plant	Rs.1,500,000
Initial deposit paid at the time of agreement	Rs.300,000
Annual lease rental paid on 31 st March	Rs.357,978
Lease term and useful life	5 years
Interest rate implicit in the lease	15% per annum

- i. **Provide** the extracts of statement of profit or loss and other comprehensive income for year ending 31.03.2016
- ii. **Provide** the extracts of statement of financial position as at 31.03.2016.

(06 marks)

- d. Due to the financial difficulties faced by the business, Struan PLC sold one of its motor vehicles for Rs.5.5 million on 01.04.2015. The carrying amount and the fair value of this motor vehicle on this date were Rs.4 million and Rs.5 million respectively. On the same day Struan PLC leased this motor vehicle under an operating lease agreement for a period of two years at an annual lease rental of Rs.800,000 which is Rs300,000 higher than the market rate.

Explain the accounting treatment for the profit on disposal of the motor vehicle

(03 marks)

- e. The followings information is relevant to borrowings of Neptune PLC as at 01.04.2015.

	Interest rate per annum	Amount (Rs.'000)	Investment income (Rs.'000)
Loan – ABC Bank PLC	14%	15,000	360
Loan – XYZ Bank PLC	15%	10,000	210
Rs. 200, Debentures	18%	15,000	160

Additional information

The construction of a building was commenced on 01.05.2015 and completed on 01.07.2016. Rs.25 million was utilized for construction of this building during the year. The loan obtained from ABC Bank PLC was fully utilized for this purpose. The balance amount was utilised from the other financing sources in the above given information.

- Calculate** the borrowing cost to be capitalized to the cost of building.
- Provide** the extracts of the statement of profit or loss and other comprehensive income for the year ending 31.03.2016.

(04 marks)

(Total 20 Marks)

Question No. 04

a. **Define** the following term as per relevant Sri Lanka Accounting Standards

- i. Cash generating unit
- ii. Property, plant and equipment

(04 Marks)

b. **List** three criteria's to be satisfied in order to recognized an intangible asset arise from development within an entity

(03 Marks)

c. 'All internally generated intangible assets should not be recognized in the financial statements.' **Discuss** with reference to LKAS 38: Intangible Assets.

(05 Marks)

d. 'Inventories shall be measured at the lower of cost and net realizable value'

Do you agree? Explain with your own example with reference LKAS 02: Inventories.

(04 Marks)

e. **Differentiate** 'Compound Financial instrument' and 'Derivative financial instrument' by providing one example for each.

(04 Marks)

(Total 20 Marks)