CA THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

NOT FOR SALE

SUGGESTED SOLUTIONS

KB 1 – Business Financial Reporting

December 2016

All Rights Reserved

SECTION 1

Answer 01

Relevant Learning Outcome/s:
1.1 Conceptual framework of SLFRS
1.3 Regulatory framework

(a) According to the conceptual framework, income is recognised in the income statement when an increase in future economic benefits (which can be measured reliably), related to an increase in an asset or decrease of a liability, has arisen.

This means, in effect, that the recognition of income occurs simultaneously with the recognition of an increase in asset or a decrease in liability.

Per LKAS 18 *Revenue*, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction.

In this particular instance, though the company received the cash in advance i.e. before the arrival of the guests, the service is performed from the date of arrival to the date of departure.

Therefore revenue should be recognised in proportion to time if there is no other reliable basis to measure the stage of completion of the transaction. The revenue for March will be USD $\frac{22,000}{46} \times 31$

(b) Historical cost

Under historical cost basis, a machine should be recorded at the amount of cash or cash equivalent paid, or at the fair value of the consideration given to acquire the asset. In this case, the machine should be measured at Rs. 10million on 1 January 2014.
The machine's carrying value as at 31 December 2015 is the cost less accumulated depreciation for 2 years. That is Rs. 8 million (10 – 10/10*2)

Current cost

The current cost of the machine, which is probably the fair value as at 31 December 2015, is Rs. 7.5 million.

Realisable value

This is the amount that could be obtained from selling the machine less the selling cost. i.e. Rs. 7.4 million (7.5 – 0.1)

Present value

Present value is the current estimate of the present value of future net cash flows in the normal course of the business i.e. Rs. 8.5 million

(Total: 10 marks)

NOT FOR SALE

Answer 02

Relevant Learning Outcome/s:
2.1 Sri Lanka Accounting Standards (Level A)

(a)	**Rs. '000**
Cash flows from investing activities	
Purchase of property, plant and equipment	(145)
Proceeds from sale of equipment	80
Investment in shares	(750)
Net cash flow from operating activities	(815)

Workings

Purchase of property, plant and equipment

	Rs. '000
As at 1 April 2015	910
Revaluation	45
Disposal (120 + 30)	(150)
Finance lease addition	200
Transferred from CWIP	150
Cash addition	145
31 March 2016	1,300

Revaluation reserve

	Rs. '000
As at 1 April 2015	85
Disposal	(30)
During the year revaluation	45
As at 31 March 2016	100

(b)	**Rs. million**	
Cost (on 1 January 2011)	175	
Accumulated depreciation (for 5 years)	35	(175/25*5)
Carrying value as at 31 December 2005	140	
Decommissioning liability as at 31 December 2015	2	(1.2*1.1^5)

Reduction in decommissioning liability by Rs. 0.7 million

	Dr.	Cr.
Dr. Decommissioning liability	0.7 million	
Cr. Cost of the plant		0.7 million

Impact on financial statements

Statement of financial position	**Rs. million**
The amount of the plant (140 – 0.7)	139.3
Decommissioning liability (1.2 x 1.1^5) – 0.7	1.3

Statement of comprehensive income	
Depreciation charge (139.3/20)	7.0
Finance cost (1.3 x 12%)	0.16

NOT FOR SALE

Answer 03

Relevant Learning Outcome/s:
2.2 Sri Lanka Accounting Standards (Level B)

(a) Per LKAS 39, debentures classified as loans and receivables should be measured at amortised cost.

	Rs.
Initial investment	100,000
Interest at 12% EIR	12,000
Cash received at 6%	(6,000)
Balance as at 31 December 2015	106,000

The investment is impaired due to:

- Significant financial difficulty of the issuer due to the huge financial fraud, and the impact it has on the going concern ability of the business
- Inability to pay future interest and only making 50% of the maturity

As there is an impairment of the investment, debentures should be measured at present value of future cash flows using the original EIR of 12%.
i.e. 125,200 * 50% * $(1/1.12^2)$ = 49,904

Impairment is Rs. 56,095 (106,000 – 49,904) and it should be recognised in the profit and loss account.

(b)
1. The managing director is key management personnel and therefore the loan given to the subsidiary is a related party transaction, which requires to be disclosed.
2. HK Insurance and HK (Pvt) Ltd are members of the same group. Therefore, the insurance policy purchased is a related party transaction.
3. HK is not related to its main customer simply by virtue of economic dependence. Therefore, no disclosures required.
4. Directors are key management personnel of the group and short-term employee benefits paid must be disclosed.
5. Close family members of key management personnel are related parties and therefore transactions with the MD's wife need to be disclosed.

(Total: 10 marks)

NOT FOR SALE

Answer 04

Relevant Learning Outcome/s:
2.3 Sri Lanka Accounting Standards (Level C)

(a) PBS (Pvt) Ltd should treat this lease as a finance lease under LKAS 17. The machine is leased for the major part of its useful life (the useful life of the machine and the lease are both four years). Further, the present value of lease payments substantially equals the fair value of the machine (Rs. 100,000).
Present value of lease payments = 31,547 * 3.169 = Rs. 99,972 or 31,547 * 3.17 = Rs. 100,004

(b)

PBS (Pvt) Ltd (Lessee)	
Impact on income statement	**2015/16**
	Rs.
Lease interest	(10,000)
Depreciation of machinery	(25,000)

PBS (Pvt) Ltd (Lessee)	
Impact on statement of financial position	**31 March 2016**
	Rs.
ASSETS	
Property, plant and equipment – leasehold machinery	75,000
EQUITY	
Retained earnings	(35,000)
LIABILITIES	
Non-current liabilities	
Borrowings/leases (payable after 1 year)	54,751
Current liabilities	
Borrowings/leases (payable within 1 year)	23,702

PBS (Pvt) Ltd (Lessee)	
Impact on statement of cash flows	**2015/16**
	Rs.
Cash flow from operating activities	
Profit before tax	xxxx
Add: Non-cash items (depreciation)	25,000
Finance cost	10,000
Cash flow from financing activities	
Capital repayment under finance lease	(21,547)
Lease interest paid	(10,000)

NOT FOR SALE

RBS (Pvt) Ltd (Lessor)	
Impact on income statement	**2015/16**
	Rs.
Interest income on lease receivable	10,000
Profit on sale (100,000 – 90,000)	10,000

RBS (Pvt) Ltd (Lessee)	
Impact on statement of financial position	**31 March 2016**
	Rs.
ASSETS	
Non-current assets	
Machinery	(90,000)
Lease receivable (after 1 year)	54,751
Current assets	
Lease receivable (within 1 year)	23,702
EQUITY	
Retained earnings	20,000

RBS (Pvt) Ltd (Lessor)	
Impact on statement of cash flows	**2015/16**
Cash flow from operating activities	
Profit before tax	xxxx
Less: Profit on sale	(10,000)
Add: Decrease in working capital	21,547

Workings

PBS (Pvt) Ltd – Amortisation schedule

Year	Lease liability (opening)	Interest @ 10%	Annual payment	Reduction of lease liability	Lease liability (closing)
15/16	100,000	10,000	31,547	21,547	78,453
16/17	78,453	7,845	31,547	23,702	54,751
17/18	54,751	5,475	31,547	26,072	28,679
18/19	28,679	2,868	31,547	28,679	0
		26,188	**126,188**	**100,000**	

NOT FOR SALE

PBS (Pvt) Ltd – PPE (Leasehold assets – Machinery)

Year	Gross carrying value	Depreciation for the year	Accumulated depreciation (31st March)	Net carrying value (31st March)
2017	100,000	25,000	25,000	75,000
2018	100,000	25,000	50,000	50,000
2019	100,000	25,000	75,000	25,000
2020	100,000	25,000	100,000	-

(c)

Effect on profitability

PBS (Pvt) Ltd (under finance lease)		
Effect on income statement	**2015/16**	**2016/17**
	Rs.	**Rs.**
Lease interest	(10,000)	(7,845)
Depreciation of machinery	(25,000)	(25,000)
	(35,000)	(32,845)

PBS (Pvt) Ltd (under operating lease)		
Effect on income statement	**2015/16**	**2016/17**
	Rs.	**Rs.**
Rent expense	(31,547)	(31,547)
Additional expense under finance lease over operating lease	**(3,453)**	**(1,298)**

Effect on cash flows

Net cash outflow under both finance and operating leases are similar for each year (i.e. Rs. 31,547).

However under a finance lease, capital repayment is considered as a financing cash outflow and interest expense is considered either as an operating or financing cash outflow. Under an operating lease, lease rent is considered as an operating cash outflow.

(Total: 10 marks)

NOT FOR SALE

Answer 05

Relevant Learning Outcome/s:
4.1 Financial statement analysis

(a)

Each ratio has been defined in the answer below for the purpose of clarity only. It was not expected in the answer script of candidates. What was required was only to interpret the ratios in an understandable manner

Liquidity ratios measure a company's ability to meet its maturing short-term obligations.

Current ratio
Current assets/Current liabilities
This ratio reflects the number of times short-term assets cover short-term liabilities and is a accurate indication of a company's ability to service its current obligations. A higher number is preferred because it indicates a strong ability to service short-term obligations.

The current ratio for Ashaa Medical PLC is 0.7, which compared to the baseline of 0.9 indicates that the company's ability to service short-term obligations is not satisfactory.

Quick ratio
(Cash + marketable securities + trade accounts receivable)/Current Liabilities
This ratio, also known as the acid test ratio, measures immediate liquidity – the number of times cash, accounts receivable, and marketable securities cover short-term obligations. A higher number is preferred because it suggests a company has a strong ability to service short-term obligations.

The quick ratio for Ashaa Medical PLC is 0.6, which compared to the baseline of 0.8 indicates that the company's ability to service short-term obligations is unfavourable.

Sales to working capital
Sales / (Current Assets – Current Liabilities)
This ratio measures a company's ability to finance current operations. It relates to the ability of a company to generate sales using its working capital and determines how efficiently working capital is being used. In general, a higher number is preferred because it indicates a company has a satisfactory level of working capital. *Working capital (current assets – current liabilities) is another measure of liquidity and the ability to cover short-term obligations.*

The sales to working capital ratio for Ashaa Medical PLC is (40.0), which compared to the baseline of (253.1) shows that the company may want to make an effort to improve its utilisation of working capital.

Activity ratios provide a useful gauge of a company's operations by determining for example the average number of days it takes to collect payments on customer accounts and the average number of days taken to pay vendors.

Sales to assets
Sales/Total assets
This ratio measures a company's ability to produce sales in relation to total assets and determines the effectiveness of the company's asset base in producing sales. A higher number is preferred, as it indicates that a company is using its assets to successfully to generate sales.

NOT FOR SALE

Sales to assets for Ashaa Medical PLC is 6.6, which compared to the baseline of 8.5 indicates that the company's performance in this area is lacking and management should consider taking measures to improve this ratio.

Sales to net fixed assets
Sales/(Property and equipment – Accumulated depreciation)
This ratio measures a company's ability to effectively utilise its fixed assets to generate sales. A higher number is desired, as it indicates the company productively uses its fixed assets to produce sales.

Sales to net fixed assets for Ashaa Medical PLC is 19.6, which compared to the baseline of 25.1 indicates the company is not making use of its fixed assets to effectively generate sales.

Net fixed assets to equity
(Property and equipment – Accumulated depreciation)/Total equity
This ratio measures the extent to which investors' capital was used to finance productive assets. A lower ratio indicates a proportionally smaller investment in fixed assets in relation to net worth, which is desired by creditors in case of liquidation.

Net fixed assets to equity for Ashaa Medical PLC is 4.3, which compared to the baseline of 3.9 indicates the company's performance may be insufficient in this area.

Profitability ratios measure a company's ability to use its capital or assets to generate profits.

Rate of return on assets
*Earnings before taxes/Total assets * 100*
This ratio measures how effectively a company's assets are being used to generate profits. A higher number reflects a well-managed company with a healthy return on assets.

The percent rate of return on assets for Ashaa Medical PLC is 3.7%, which compared to the baseline of 11.1% indicates there is a need for improvement in this area to ensure the company can remain competitive and continue to operate successfully.

Rate of return on equity
*Earnings before taxes/Total equity * 100*
This ratio expresses the rate of return on equity capital employed and measures the ability of a company's management to realise an adequate return on the capital invested by the owners of a company. A higher number is preferred for this commonly analysed ratio.

The rate of return on equity for Ashaa Medical PLC is 47.8%, which compared to the baseline of 48.2% indicates the management may not be effectively managing the profits earned on the owners' investment in the company.

Coverage ratios assess a company's ability to meet its long-term obligations, remain solvent, and avoid bankruptcy. Lenders evaluate coverage ratios to determine the degree to which a company could become vulnerable when faced with economic downturns. A company with a high level of debt poses a higher risk to long-term creditors and investors.

Debt to equity
Total liabilities/Total equity
This ratio measures the financial leverage of a company by indicating what proportion of debt and equity a company is using to finance its assets. A lower number suggests there is both a lower risk involved for creditors and strong, long-term, financial security for a company.

NOT FOR SALE

The debt to equity ratio for Ashaa Medical is PLC 11.8, which compared to the baseline of 10.4 indicates that there may be some issues with the way the company is financed.

Cash flow to current maturities of long-term debt
(Net income + Depreciation expense)/Current portion of long-term debt
This ratio measures how well cash flow from operations covers current maturities. Since cash flow is necessary for debt retirement, this ratio reveals a company's capability to repay existing debt and take on additional debt. A higher number for this ratio is desired.

The cash flow to current maturities of long-term debt ratio for Ashaa Medical PLC is 1.3, which compared to the baseline of 1.4 indicates the company may face difficulties meeting its current obligations on long-term debt based on its current cash flow.

Times interest earned
Earnings before interest and taxes/Interest expense
This ratio measures a company's ability to meet interest payments. A higher number is preferred, suggesting a company can easily meet interest obligations and potentially take on additional debt.

The times interest earned ratio for Ashaa Medical PLC is 1.6, which compared to the baseline of 4.6 indicates the company's interest coverage may not be sufficient.

(b) The following list includes several **measures** Ashaa Medical PLC could take **to improve the liquidity ratios:**

- Evaluate accounts receivable on a frequent basis and take a more firm position in the collection of accounts receivable.
- Prepare thorough cash forecasts and evaluate the company's ability to meet goals on a regular basis.
- Consider paying off short-term obligations if the cash position of the company is favourable.
- Consider converting short-term debt to long-term debt.
- Reduce levels of non-moving inventory.

The following list includes several **measures** Ashaa Medical could take **to improve the activity ratios:**

- Consider leasing rather than purchasing assets, or consider purchasing used equipment.
- Carefully evaluate all asset purchases to determine how the asset will directly and indirectly affect sales. Be sure to consider maintenance costs, warranties, salvage values, and the impact of changing technology in relation to the purchase of new equipment.
- Consider liquidating under-utilised assets or developing alternative uses to generate revenue from under-utilised assets.
- Ensure all equipment is properly maintained and evaluate its overall condition and effectiveness within operations at least once a year.
- Eliminate any unnecessary, extravagant assets. Assets should have a direct or indirect impact on sales.
- Set monthly or quarterly sales goals and provide incentives to salespeople.
- Create customer promotions, offer discounts and expand product lines to encourage sales.

NOT FOR SALE

The following list includes several **measures** Ashaa Medical PLC could take **to improve the profitability ratios:**

- Utilise budgets to track expenses on a regular basis, and identify those that are out of line. Assign specific individuals or departments to be responsible for different cost centers.
- Reduce operating costs. In general, one rupee saved in expense is worth at least three or four extra sales rupees generated.
- Negotiate with vendors to lower costs and have companies submit bids for large capital expenditure.
- Consider leasing instead of purchasing assets or consider purchasing used equipment.
- Consider liquidating under-utilised assets or creating alternative uses to generate revenue from under-utilised assets.

The following list includes several **measures** Ashaa Medical PLC could use **to improve the coverage ratios:**

- Examine the company's debt to uncover areas that need improvement and create a long-range action plan to address these areas and pay off debt.
- Increase equity by increasing earnings.
- Minimise the overall amount of debt to decrease interest expenses.
- Reduce interest payments by evaluating financing alternatives and possibly refinancing existing debt.

(Total: 10 marks)

NOT FOR SALE

Answer 06

Relevant Learning Outcome/s:
3.1 Consolidated financial statements

	Adams	**Bela**	**Goodwill**	**Legal fees**	**Depreciation**	**Relaised FV (inventory)**	**Investment in Associate**	**Goodwill impairment**	**URP (inventory)**	**Inter-company transactions**	**Post-acquisition profit**	**Group**
ASSETS												
Non-current assets												
Property, plant and equipment	1,032,500	402,000	150,000		-1,875							1,582,625
Investment	840,000	650,000	-750,000	-5,000			-85,000					650,000
Investment in Associate							114,750					114,750
Goodwill			52,700					-26,350				26,350
	1,872,500	1,052,000										2,373,725
Current assets												
Inventory	510,120	85,620	5,000			-5,000			-4,000			591,740
Trade receivables	210,890	136,900										347,790
Receivable from Adams PLC		40,000								-40,000		-
Cash	684,100	24,000								18,500		726,600
	1,405,110	286,520										1,666,130
Total assets	**3,277,610**	**1,338,520**	**-542,300**	**-5,000**	**-1,875**	**-5,000**	**29,750**	**-26,350**	**-4,000**	**-21,500**		**4,039,855**
EQUITY AND LIABILITIES												
Equity												
Stated capital	1,200,000	100,000	-100,000									1,200,000
Retained earnings	1,435,310	631,820	-520,300	-5,000	-1,406	-3,750	29,750	-19,763	-3,000		-27,880	1,515,781
	2,635,310	731,820										2,715,781
Non-controlling interest			65,000		-469	-1,250		-6,588	-1,000		27,880	83,574

NOT FOR SALE

Non-current liabilities												
Long-term loan	250,000	50,000										300,000
Liability arisen from Bela			13,000									13,000
	250,000	50,000										313,000
Current liabilities												
Trade payables	320,800	436,700										757,500
Payable to Bela (Pvt) Ltd	21,500									-21,500		-
Overdraft	50,000	120,000										170,000
	392,300	556,700										927,500
Total equity and liabilities	**3,277,610**	**1,338,520**	**-542,300**	**-5,000**	**-1,875**	**-5,000**	**29,750**	**-26,350**	**-4,000**	**-21,500**		**4,039,855**

NOT FOR SALE

Goodwill computation	
Consideration paid	750,000
NCI at fair value	65,000
	815,000
FV of net assets acquired:	
Share capital	100,000
Retained earnings	520,300
FV increase of building	150,000
FV increase of inventory	5,000
Contingent liability (Note 1)	-13,000
	762,300
Goodwill	52,700
Legal fees (should be expensed)	
Dr: Retained earnings	5,000
Cr: Investment	5,000
Depreciation for excess value	
= 150,000/20*3/12	1,875
Dr: Retained earnings	
Cr: NCI	
Cr: PPE	
Realised FV adjustment on inventory	
Dr: Retained earnings	3,750
Dr: NCI	1,250
Cr: Inventory	5,000
Investment in Associate	
Cost	85,000
Share of profit	
(245,500 – 120,500) * 25%	31,250
URP share	-1,500
	114,750

Goods sold by Adams to Cone	
(36,000*20/120) * 0.25	1,500
Dr: Retained earnings	
Cr: Investment in Associate	
Goodwill impairment	
50% * 52,700	26,350
Dr: Retained earnings	19,763
Dr: NCI	6,588
Cr: Goodwill	26,350

NOT FOR SALE

Unrealised loss from PPE

Adams sold a machine to Bela on 1 March 2015 (i.e. before the acquisition date). Therefore, no adjustment is required.

Unrealised profit from inventory	
URP (20,000 * 25/125)	4,000
Dr: Retained earnings	3,000
Dr: NCI (4,000 * 0.25)	1,000
Cr: Inventory	4,000

NCI allocation of post-acquisition profit	
Retained earnings	631,820
Pre-acquisition profit	-520,300
Post-acquisition profit	111,520
NCI profit	27,880
Dr: Retained earnings	
Cr: NCI	

Note 1: Contingent liability

Recognition of the contingent liability depends on the assumption made by the candidate to either consider it as a possible obligation and not recognise the contingent liability at all, or to recognise the liability for the present obligation with the probability weighted outcome.

(Total: 25 marks)

NOT FOR SALE

Answer 07

Relevant Learning Outcome/s:
2.1 Sri Lanka Accounting Standards (Level A)

(a) **Fair value of equity investments**

Moon PLC – the shares are being actively transacted in the market and therefore the appropriate price for valuation of these equity shares should be Rs. 50 per share. This is considered as Level 1 prices and it is not appropriate to obtain an estimated value when deriving the fair value of the investment.

Sunrise (Pvt) Ltd

The question is why the same fair value determined in the previous year is applied for the year-end fair value. The performance of Sunrise (Pvt) Ltd has been satisfactory, as the budgets have been achieved. Xtreme PLC needs to finance its project and therefore may want to exit from this investment and obtain funds. Then the question is whether this price was determined as per the market participants' perspective. Therefore, this investment should be properly valued for year-end reporting.

Star (Pvt) Ltd

The issue is whether the management has determined the fair value of the investment based on comparable prices in the same nature and the same volume of business activities. The selected companies are quoted and quite a lot larger than Star (Pvt) Ltd. Therefore, this is not appropriate. However, if the valuations of selected companies are adjusted to arrive at a comparable base, then it can be treated as level 3 inputs.

(b) (i) Both value in use (VIU) and fair value less costs to sell (FVLCTS) can be derived using cash flow projections. However, VIU is based on the cash flows associated with internal factors**.** Therefore, risks are adjusted as specific to the asset. The computation of FVLCTS considers the perspective of market participants and it is based on the same principles in SLFRS 13. The assumptions for FVLCTS are based on what market participants would expect. Some restrictions that are imposed on the VIU calculation would not be applicable for FVLCTS. E.g. restricting costs – if there is an expectation of restructuring from the market participants, this would be considered in deriving the FVLCTS. Therefore, VIU and FVLCTS would not provide the same results.

(ii) **Impairment of Alpha CGU**

As per the information provided, the impairment charge is as follows:

	Rs. '000
Carrying value as at 31 March 2016	850,000
Value in use calculated	650,000
Impairment charge for the year	200,000

Xtreme has to recognise an impairment charge of Rs. 200 million in its consolidated financial statements

NOT FOR SALE

The impairment charge to be allocated among the non-current assets of Alpha is as follows:

	Rs. '000
Impairment identified for already impaired PPE	30,000
Goodwill	100,000
Amount to be allocated to other PPE	30,000
Amount to be allocated to brand	40,000
Total impairment charge	200,000

* Goodwill allocation

Impairment	=	Rs. 200 million
Allocated to goodwill	=	(Rs. 100 million)
Goodwill remaining (200 –100)	=	Rs. 100 million
Exclude specific impairment on PPE	=	100 – 30
	=	Rs. 70 million
Allocation to PPE	=	Rs. 70 million * 300/700
	=	Rs. 30 million

(c) Classification of items in the statement of financial position

(i) Raw materials – although the raw material is to be used for 14 months (more than 12 months), since it is in line with the normal operating cycle of Xtreme, this should have been classified as current assets in the financial position of Xtreme as at 31 March 2016.

(ii) Investment in quoted shares – the management's intention is not to sell these shares, rather hold them for a strategic purpose. They have no plans to sell immediately. The shares are being held to achieve a long-term business objective, therefore they should have been classified as non-current investments.

(iii) Loan covenant – the loan covenant was breached before the end of the reporting period at which time the loan became repayable on demand. Therefore the entire loan should be classified as current, even though the lender agreed, after the reporting period and before the authorisation of financial statements (LKAS 1 p.74).

(d) Provisions/reversals

Restructuring programme included in the business plan
LKAS 37 (para 74 & 75) states that a constructive obligation to restructure only arises when the entity has a detailed plan for the restructuring and has raised a valid expectation to those affected (employees). Further LKAS 37 para 74 states that "if it is expected that there will be a long delay before restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of the others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change the plans". In this scenario although the restructuring was committed to, the implementation time frame is 4 years. Therefore, the company can apply the above principle in LKAS 37. Xtreme should not recognise a provision as at 31 March 2016 with respect to the proposed restructure indicated in the business plan.

NOT FOR SALE

Litigation
In this instance the provision has been made based on the then prevailing circumstances. Since the actual outcome is now different to the expected outcome, the provision made in the financial statements should be reversed.

The management should have reversed Rs. 28.10 million during the year ended 31 March 2016.

[Rs. 20 million * (1.12)^3]

(e) **Intangible assets**

Asset 1: Per LKS 38, a variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. In this case, it is mentioned that the pattern for deriving future economic benefits cannot be reliably assessed, therefore, this asset should be depreciated over its useful life as follows.

Cost of the asset: Rs. 400 million
Useful life of the asset: 4 years
Amortisation for the year (400/4) = Rs. 100 million

Asset 2: Per LKAS 37 p.97, amortisation shall begin when the asset is available for use. i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Therefore in this case, although the asset was not used until the 2nd year, since it was in a condition to use, the amortisation should begin from the first year.

The amortisaiton is computed as follows:

Cost: Rs. 300 million
Useful life: 3 years
Amortisation (300/3) = Rs. 100 million

(Total: 25 marks)

NOT FOR SALE

Notice of Disclaimer

The answers given are entirely by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and you accept the answers on an "as is" basis.

They are not intended as "Model answers', but rather as suggested solutions.

The answers have two fundamental purposes, namely:

1. to provide a detailed example of a suggested solution to an examination question; and

2. to assist students with their research into the subject and to further their understanding and appreciation of the subject.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) makes no warranties with respect to the suggested solutions and as such there should be no reason for you to bring any grievance against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). However, if you do bring any action, claim, suit, threat or demand against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and you do not substantially prevail, you shall pay the Institute of Chartered Accountants of Sri Lanka's (CA Sri Lanka's) entire legal fees and costs attached to such action. In the same token, if the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is forced to take legal action to enforce this right or any of its rights described herein or under the laws of Sri Lanka, you will pay the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) legal fees and costs.

© 2013 by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior written permission of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

NOT FOR SALE