

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

**END SEMESTER EXAMINATION – JULY 2017**

**AFM 30930 Financial Reporting Framework**

Date : 15th July 2017  
Time : 9.00 a.m. - 12.00 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

Answer **ALL** questions

### **Question No. 01**

Select most appropriate answer for following questions.

1. Which of the following represent four enhancing qualitative characteristics as per IASB Conceptual Formwork for Financial Reporting?
  - A. Understandability, Reliability, Verifiability, Timeliness.
  - B. Understandability, Comparability, Relevance, Timeliness.
  - C. Comparability, Verifiability, Reliability, Understandability.
  - D. Comparability, Verifiability, Timeliness, Understandability.
  
2. A per LKAS 08, accounting treatment for rectification of prior period errors are known as:
  - A. Prospective application
  - B. Prospective restatements
  - C. Retrospective application
  - D. Retrospective restatement
  
3. Jupiter PLC purchased a plant for Rs.6 million on 01.04.2014. It was then estimated to have a useful life of 5 years and residual value of Rs.500,000. On 01.04.2016 the useful life was revised as 6 years from the date of purchase and residual value was revised to Rs.600,000.  
The carrying amount of plant as at 31.03.2017 is:
  - A. Rs.2,850,000
  - B. Rs.2,975,000
  - C. Rs.3,000,000
  - D. Rs.3,300,000

4. Which of the following statement is **true** in relation to 'Other Comprehensive Income' (OCI) as per LKAS 1?
- A. OCI consists of income and gains not recognized in profit or loss.
  - B. OCI consists of all income and expenses not recognized in profit or loss.
  - C. OCI consists of income and gains not recognized in total comprehensive income.
  - D. OCI consists of all income and expenses not recognized in total comprehensive income.
5. Mars PLC purchased a land for Rs.900,000 on 01.04.2012 and revalued it at first time on 01.04.2014 for Rs.750,000. The same land was revalued again on 01.04.2016 for Rs.950,000.

What is the accounting treatment for revaluation surplus / (deficit) arose on 01.04.2016?

- A. Rs.200,000 is recognized in profit or loss.
  - B. Rs.200,000 is recognized in other comprehensive income.
  - C. Rs.150,000 is recognized in profit or loss and Rs.50,000 is recognized in other comprehensive income.
  - D. Rs.150,000 is recognized in other comprehensive income and Rs.50,000 is recognized in profit or loss.
6. Financial statements of NeptunePLC for the year 2016/17 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 event should be classified as an adjusting event as per LKAS 10?
- A. A building with a carrying amount of Rs.2,500,000 as at 31.03.2017 was fully destroyed due to fire on 10.05.2017.
  - B. A debtor with a carrying amount of Rs.200,000 as at 31.03.2017 was declared as bankrupt by the court on 10.06.2017.
  - C. Inventories measured at net realizable value of Rs.450,000 as at 31.03.2017 was realized only for Rs.350,000 on 20.05.2017.
  - D. Company capitalized reserves amounting to Rs.2,000,000 by issuing of one for every five shares held at the value of Rs.25 per share on 31.05.2017.

7. Which of the following statement is **true** in relation to LKAS 38?
- A. All intangible assets should be measured at fire value at the date of recognition.
  - B. All the internally generated intangible assets are prohibited to be recognised in the financial statements.
  - C. An asset is identifiable only when it is capable of being separated or divided from the entity and sold, transferred or licensed.
  - D. Expenditure on an intangible asset that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.
8. Which of the followings statement is **not** an example for a situation that a lease is classified as a finance lease?
- A. The lease transfers ownership to the lessee by the end of the lease term.
  - B. The lease term is for the major part of the economic life of the asset even if title is not transferred.
  - C. The total of the lease rentals is greater than half of the fair value of the asset at the point of agreement.
  - D. The lessee has the option to purchase the asset at end of the lease term at a price that is expected to be sufficiently lower than the fair value.
9. Which of the following statement is true in relation to LKAS 41?
- A. Plants cultivated to be harvested as agricultural produce are named as bearer plants.
  - B. Gains and losses arises on change in the fair value of biological assets are recognized in the other comprehensive income.
  - C. Harvest is the detachment of produce from a biological asset or cessation of the agricultural produce's life processes.
  - D. Biological assets are measured at fair value less costs to sell on initial recognition except where fair value cannot measures reliably.

10. The profit for the year ended 31.03.2017 of Global PLC was Rs.7 million. The revaluation of land for the first time on 31.03.2017 was resulted a surplus of Rs.1.5 million. The revaluation of plant and machinery for the second time on 31.03.2017 was resulted deficit of Rs.2 million. However, the first time revaluation of plant and machinery on 31.03.2015 has been resulted a surplus of Rs.1 million. The total comprehensive income of Global PLC for the year ended 31.03.2017 was:
- A. Rs.6.5 million  
 B. Rs.7.5 million  
 C. Rs.8.5 million  
 D. Rs.9.5 million

(Total 20 Marks)

### Section B

Answer ALL questions

#### Question No. 02

- a. Briefly explain the term ‘Derivative Financial Instrument’ with an example.  
 (04 Marks)
- b. Complete the following table as per the guidelines given in LKAS32:Financial Instruments-Recognition and measurement

Category	Measurement basis for subsequent recognition to	Changes in carrying amount is recognized in:
Financial assets at fair value through profit or loss	(1).....	(2).....
Available-for-sale financial assets	(3).....	(4).....
Held-to-maturity investments	(5).....	(6).....
Loans and receivables	(7).....	(8).....

(04 Marks)

- c. Carrying amount of a Cash Generating Unit (CGU) of Titian PLC as at 31.03.2017 is given below.

Asset	Carrying Amount (Rs.000)
Land	7,500
Buildings	3,000
Patent	2,000
Goodwill	2,000
Cash	1,000

The recoverable amounts of the CGU and the lands of Titian PLC as at 31.03.2017 were Rs.12millions and Rs.7 million respectively.

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

(04 Marks)

- d. A plant purchased on 01.04.2013 for Rs.4,000,000 was estimated to have a useful life of 10 years. The fair value of this plant on 01.04.2015 was Rs. 2,400,000 subject to 5% cost to sell. However, the value in use of the asset on this date wasRs.2,560,000. However, the recoverable amount of this plant as at 01.04.2016 was increased to Rs. 3,000,000.
- Show the extracts of statement of profit or loss and other comprehensive income for the year ended 31.03.2015, 31.03.2016 and 31.03.2017.
  - Show the extracts of statement of financial position as at 31.03.2015, 31.03.2016 and 31.03.2017.

(08 Marks)

**(Total 20 Marks)**

### **Question No. 03**

- a. Alfa PLC acquired 750,000 out of 1,000,000 ordinary share capital of Beta PLC for Rs.32 million on 01.04.2016. On this date ordinary share capital and retained earnings of Beta PLC were Rs.20 million and Rs.15 million respectively. The retained earnings of Alfa PLC on this date was Rs.26 million. During the year ended 31.03.2017 Alfa PLC and Beta PLC have reported profit of Rs.18 million and Rs.9 million respectively. The interim dividend paid by Alfa PLC and Beta PLC for their ordinary shareholders during the year ended 31.03.2017 were Rs.8 million and Rs.3 million respectively. The market prices of a share of Alfa PLC and Beta PLC as at 01.04.2016 were Rs.45 and Rs.35 respectively. Alfa group uses fair value method in calculating non-controlling interest and the goodwill.

Calculate the following:

- i. Goodwill arising on consolidation
- ii. NCI as at 31.03.2017.
- iii. Consolidated retained earnings as at 31.03.2017

(04 Marks)

- b. Platinum PLC was incorporated on 01.04.2015 and on the same date company purchased a machinery and office equipment at a cost of Rs.30 million and Rs. 20 million respectively. The machinery was depreciated at 20% p.a. for accounting purpose and 33.33% per income tax purpose. Office equipment was depreciated at 25% p.a. for accounting purpose and 20% p.a. for income tax purpose. Income tax rate is 30%. The total income tax liability for the year ended 31.03.2017 was Rs.3.5 million and of which Rs.2.2 million had been paid during the year based on self assessments.
- i. Calculate the taxable temporary difference and deductible temporary difference as at 31.03.2017.
  - ii. Calculate the differed tax liability and deferred tax asset as at 31.03.2017.
  - iii. Prepare the income tax expense account for the year ended 31.03.2017.

(06 Marks)

- c. Silver Constructions PLC entered into contract on 01.04.2015 to construct a building. The initially agreed price and the total estimated cost of the contract was Rs.50 million and Rs.40 million respectively. During the year ended 31.03.2016 the company spent Rs.12 million for this construction and stage of completion as at 31.03.2016 was 25%. Half (1/2) of the revenue earned during the year ended 31.03.2016 was received by the business. As per the agreement the client keeps retention of 10% of the contract revenue and will be paid it back only after 6 months from the completion of the contract. The following information is relevant to this construction contract for year 2016/17.

	<b>As at 31.03.2017 (Rs. Millions)</b>
The variation to initial contract price	10
Total estimated cost	45
Cost incurred	27
Value of work certified	33
Progress payments received	22
Retention	10%

- Calculate the stage of completion as at 31.03.2017.
- Provide the extracts of statement of profit or loss and other comprehensive income for the year ended 31.03.2017.
- Provide the extracts of statement of financial position as at 31.03.2017.

(05 Marks)

- d. Sigma Vineyard PLC grows grapes and sells in the local market. The fair value of grape vines of the company as at 01.04.2016 was Rs. 950,000. The company spent Rs. 110,000 for fertilizer and other related expenses during the year ended 31.03.2017. Grapes with a fair value of Rs. 575,000 were harvested at a cost of Rs. 45,000 during the year ended 31.03.2017. The cost of the packaging which is necessary to sell the grapes is 10% of the fair value of the grapes. 80% of the harvested grapes were sold immediately after the harvesting at fair value. The fair value of grape vines of the company as at 31.03.2016 was Rs. 1,080,000.

- Provide the extracts of statement of profit or loss and other comprehensive income for the year ended 31.03.2017.
- Provide the extracts of statement of financial position as at 31.03.2017.

(05 Marks)

**(Total 20 Marks)**



**Question No. 04**

- a. List three items recognized in other comprehensive income other than the changes in revaluation surplus.

(03 Marks)

- b. The following information is relevant to a motor vehicle acquired by Jupiter PLC under a finance lease agreement on 01.04.2016.

Fair value of the plant	Rs.7,500,000
Initial deposit paid at the time of agreement	Rs.1,500,000
Annual lease rental paid on 31 <sup>st</sup> March	Rs.2,006,278
Lease term	5 years
Useful life	10 years
Interest rate implicit in the lease	20% per annum
Other condition in the agreement	Ownership is transferred to lessee at the end of lease term

- i. Prepare the lease liability account for the year ended 31.03.2017.  
ii. Provide the extract of statement of financial position as at 31.03.2017.

(08 Marks)

- c. Due to the financial difficulties faced by the business, Saturn PLC sold one of its plants for Rs.6.5 million on 01.04.2016. The carrying amount and the fair value of this plant on this date were Rs.5 million and Rs.6 million respectively. On the same day Struan PLC leased this plant under an operating lease agreement for a period of two years at an annual lease rental of Rs.1.6 million which is Rs.600,000 higher than the market rate.

Explain the accounting treatment for the profit on disposal of the plant.

(03 Marks)

- d. The following information is relevant to borrowings of Lanka PLC as at 01.04.2016. The investment income represents the interest income earned from the temporary investing the borrowed fund.

	<b>Interest rate per annum</b>	<b>Loan Amount (Rs.000)</b>	<b>Investment Income (Rs.000)</b>
Loan – ABC Bank	14%	30,000	1,150
Loan - PQR Bank	16 %	20,000	1,050
Rs,200, Debentures	20%	10,000	1,100
Overdraft - XYZ	15%	10,000	-

Ceylon PLC obtained loan from ABC bank to construct a new building which is estimated a cost of Rs. 50 million. Construction was commenced on 01.04.2016 and completed on 31.12.2016. The balance amount of the cost of building construction was funded from other general borrowing. The useful life of the building is 20 years and it was available for use from 01.01.2017.

- Calculate the borrowing cost to be capitalized to the cost of building as per LKAS 23.
- Provide the extract of statement of profit or loss and other comprehensive income for the year ended 31.03.2017.

(06 Marks)

**(Total 20 Marks)**

**Question No. 05**

- a. The following transactions were made by Gold PLC, which manufacture and sells industrial plants, during the year ended 31.03.2017.
1. The company sold plants for Rs.5 million to retailer who has right to return the goods if it is unable to sell.
  2. The company shipped plants for Rs.25 million. As per the agreement these plants should be installed by Gold PLC and installation fee included in above price amounted to Rs.5 million. Installation yet to be made.
  3. The company received Rs. 2 million advance payment for plants yet to be made.
  4. The company sold a major manufacturing plant of the business for Rs.60 million to Sigma Bank PLC but continue to use as exactly the same way as before, even though XYZ Bank is now its legal owner.

Discuss how to recognize the revenue of each transaction with reference to relevant accounting standards.

(08 Marks)

- b. List six criteria's to be satisfied in order to recognize an intangible asset arise from development.

(03 Marks)

- c. Differentiate the following terms (Use your own illustration for the explanation)

- i. Mature and immature biological assets
- ii. Retrospective application and retrospective restatement
- iii. Investment in subsidiaries and investment in associates

(09 Marks)

**(Total 20 Marks)**