



No. of Pages - 09

No of Questions - 05

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

**YEAR III SEMESTER I – INTAKE III (GROUP A)**  
**END SEMESTER EXAMINATION – JANUARY 2017**

**AFM 30930 Financial Reporting Framework**

Date : 19th January 2017  
Time : 5.30 p.m. - 8.30 p.m.  
Duration : Three (03) hours

**Instructions to Candidates:**

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The 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 two fundamental qualitative characteristics as per IASB Conceptual Formwork for Financial Reporting?
  - A. Relevance and Reliability.
  - B. Relevance and Faithful Representation.
  - C. Reliability and Faithful Representation.
  - D. Comparability and Understandability
  
2. As per LKAS 08, changes in accounting policies should be accounted in the financial statements using the:
  - A. Retrospective application
  - B. Retrospective restatement
  - C. Prospective application
  - D. Prospective restatements
  
3. Jupiter PLC had 30,000 units of product Asteroid which were only 60% completed as at 31.03.2016. Cost incurred up to date was Rs.800,000. These items can be sold at Rs.50 each once the product is completed after incurring further cost of Rs.350,000. A sales commission of 10% 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.1,000,000
  - B. Rs.1,035,000
  - C. Rs.1,150,000
  - D. Rs.1,350,000

4. Which of the following statement is **false** 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. Revenue from sale of goods should be recognized only when the legal title of the goods is transferred to buyer.
  - C. Dividends should be recognized when the shareholder's right to receive payment is established even though the actual receipt yet to be made.
  - D. 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.
5. Uranus PLC purchased a land for Rs.800,000 on 01.01.2013 and revalued it at first time on 01.01.2014 for Rs.950,000. The same land was revalued again on 01.01.2016 for Rs.600,000.
- What is the accounting treatment for revaluation surplus arose on 01.04.2016?
- A. Rs.350,000 is recognized in profit or loss.
  - B. Rs.350,000 is recognized in other comprehensive income.
  - C. Rs.150,000 is recognized in other comprehensive income and Rs.200,000 is recognized in profit or loss.
  - D. Rs.200,000 is recognized in other comprehensive income and Rs.150,000 is recognized in profit or loss.
6. Financial statements of Neptune PLC for the year 2015/16 were authorized for issue by the directors on 15.06.2016. The following events have occurred in between 31<sup>st</sup> March 2016 and 15<sup>th</sup> June 2016. 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.250,000 as at 31.03.2016 was declared as bankrupt by the court.
  - B. Inventories measured at net realizable value of Rs.600,000 as at 31<sup>st</sup> March 2016 was realized only for Rs.500,000.
  - C. The court verdict was received to pay Rs.800,000 compensation to former employee in relation to a case filed by him on 15.03.2016.
  - D. Company capitalized reserves amounting to Rs.1,000,000 by issuing of one share for every five shares held, at the value of Rs.25 per share.

7. The following payments have been made by Pluto PLC for year ending 31.03.2016. Which of the following would lead to recognize an intangible asset in the separate financial statement of Pluto PLC?
- A. Unrecovered costs of a successful lawsuit to protect a patent amounting to Rs.3 million.
  - B. Payment of Rs.20 million to acquire a patent right to use an advanced technology for manufacturing plant.
  - C. Deposits of Rs.10 million with an advertising agency for advertisements to increase the goodwill of the company.
  - D. Investment of Rs.100 million which includes Rs.15 of goodwill made for acquisition of 75% of the ordinary shares of Sigma PLC.
8. Which of the following statements is considered as a **change in accounting policy** as per LKAS 08?
- A. Changing the useful life of an asset from 10 years to 8 years.
  - B. Changing the net realizable value of inventories from Rs.800,000 to Rs.600,000.
  - C. Changing the cost formula from FIFO method to Weighted Average Cost method.
  - D. Changing the depreciation method from straight line method to reducing balance method.
9. The provision for product warranty of Titian PLC as at 01.04.2015 was Rs.340,000 and warrant expenses paid during the year ending 31.03.2016 was Rs.250,000. Total sales made during the year is Rs.20 million and provision for product warranty as at 31.03.2016 was estimated as 2% from the total sales. The warrant expenses recognized for the year ending 31.03.2016 is:
- A. Rs.190,000
  - B. Rs.250,000
  - C. Rs.310,000
  - D. Rs.400,000
10. Which of the 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

(Total 20 marks)

**Section B**

Answer ALL questions

**Question No. 02**

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

(02 Marks)

- b. **Define** the following terms as per relevance Sri Lanka Accounting Standards.

- i. Property, plant and equipment
- ii. Agricultural activity
- iii. Deferred tax liability

(06 Marks)

- c. Carrying amount of a Cash Generating Unit (CGU) of Ganymede PLC as at 31.03.2016 is given below.

Asset	Carrying Amount (Rs.000)
Land	5,000
Buildings	2,000
Patent	3,000
Goodwill	2,000
Cash	3,000

The recoverable amounts of the cash generating unit and the lands as at 31.03.2016 were Rs.10 million and Rs.3.5 million respectively.

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

(04Marks)

- d. A plant purchased on 01.04.2012 for Rs.2,000,000 was estimated to have a useful life of 10 years. The fair value of this plant on 01.04.2014 was Rs. 1,200,000 subject to 5% cost to sell. However, the value in use of the asset on this date was of Rs.1,280,000. The recoverable amount of this plant as at 01.04.2015 was Rs. 1,500,000.

- i. **Show** the extracts of statement of profit or loss for year ending 31.03.2015 and 31.03.2016.
- ii. **Show** the extracts of statement of financial position as at 31.03.2015 and 31.03.2016.

(08Marks)

(Total 20 Marks)

**Question No. 03**

- a. Kandy PLC was incorporated on 01.04.2015 and on the same day company purchased a machinery and office equipment at a cost of Rs.24 million and Rs. 12 million respectively. The machinery was depreciated at 20% p.a. for accounting purpose and 50% per income tax purpose. Office equipment was depreciated at 33.33% p.a. for accounting purpose and 20% per income tax purpose. Income tax rate is 25%. The total income tax liability for the year ending 31.03.2016 was Rs.4 million and of which Rs.2.8 million had been paid during the year based on self assessments.
- 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 as at 31.03.2016.
  - 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 Galaxies Constructions PLC on 01.04.2014.

	As at 31.03.2015 (Rs. Millions)	As at 31.03.2016 (Rs. Millions)
Total contract revenue	3,000	3,300
Total estimated cost	2,400	2,600
Cost incurred	840	2,000
Value of work certified	975	2,475
Progress payments received	530	1,700

- Calculate** the stage of completion as at 31.03.2015 and 31.03.2016.
- Calculate** the contract revenue, cost and profit for years ending 31.03.2015 and 31.03.2016.
- Provide** the extracts of statement of financial position as at 31.03.2015 and 31.03.2016.

(07 Marks)

c. Mercury PLC purchased a building on 01.04.2012 for Rs.30 million. The estimated useful life and the residual value of the asset on date of purchased were 24 years and Rs.6 million respectively. After using the asset for three years, the useful life and residual value were revised on 01.04.2015 as 20 years from the date of purchase and Rs.3.2 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 years ending 31.03.2015 and 31.03.2016.

(05 Marks)

**(Total 20 Marks)**

#### **Question No. 04**

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

(02 Marks)

b. JaffnaVineyard PLC grows grapes and sells in the local market. The fair value of grape vines of the company as at 01.04.2015 was Rs. 800,000. The company spent Rs. 80,000 for fertilizer and other expenses during the year ending 31.03.2016. Grapes with a fair value of Rs. 450,000 were harvested at a cost of Rs. 30,000 during the year ending 31.03.2016. The cost of the packaging which is necessary to sell the grapes is 5% of the fair value of the grapes. 90% of the harvested grapes were sold immediately after the harvesting at Rs.400,000. The fair value of grape vines of the company as at 31.03.2016 was Rs. 700,000.

**Provide** 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 Saturn PLC under a finance lease agreement on 01.04.2015.

Fair value of the plant	Rs.4,000,000
Initial deposit paid at the time of agreement	Rs.1,000,000
Annual lease rental paid on 31 <sup>st</sup> March	Rs.1,050,796
Lease term	4 years
Useful life	5 years
Interest rate implicit in the lease	15% per annum
Other condition in the agreement	Ownership is transferred to lessee at the end of lease term

- 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, Mars PLC sold one of its plants for Rs.7.5 million on 01.04.2015. The carrying amount and the fair value of this plant on this date were Rs.5.5 million and Rs.6.8 million respectively. On the same day Mars PLC leased this plant under an operating lease agreement for a period of two years at an annual lease rental of Rs.1.2 million which is Rs.400, 000 higher than the market rate.

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

(03 marks)

- e. The followings information is relevant to inventory item 'Beta' of Neptune PLC.

01.03.2016: Balance of 500 units which were purchased at Rs.25 each

10.03.2016: Purchase of 400 units at Rs.28 each

15.03.2016: Sale of 600 units

20.03.2016: Purchase of 400 units at Rs.30 each

25.03.2016: Sale of 350 units



**Calculate** the cost of inventories as at 31.03.2016 using the following cost formulas.

- i. First-in-first-out
- ii. Weighted average cost

(04 marks)

**(Total 20 Marks)**

**Question No. 05**

- a. **Differentiate** the provision and contingent liability by providing one example for each.

(04 Marks)

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

(03 Marks)

- c. Apollo PLC purchased a plant on 31.03.2016. The following information is relevant to this plant.

	Rs.
Purchase price (Before trade discount)	1,200,000
Trade discount	5%
Transport cost	35,000
Site preparation expenses	15,000
Installation fee	35,000
Annual insurance fee	60,000
Cost of test run	47,500
Net revenue from item produced in test run	7,500

**Calculate** the cost of Plant recognized as at 31.03.2016

(05 marks)

- d. “When a company owns more than 50% of equity shares of another entity it results parent subsidiary relationship. When a company owns less than 50% of equity shares of another entity it results in an investment in associates. When an entity owns exactly 50% of equity shares of another entity it results an investment in joint venture”. **Critically evaluate above statement.**

(08 marks)

**(Total 20 marks)**