

# Tutorial 1

## LKAS 08: Accounting Policies, Changes in Accounting Estimates and Errors

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### Activity 1

When preparing the financial statements for year ending 31.03.2017, the Universal PLC discovered that Rs.600,000 spent to purchase office equipment on 01.04.2015 had been erroneously recognized under office equipment maintenance expenses. The company depreciates office equipment over 5 years.

Further, the company has decided to change its accounting policy on measurement of cost of inventories from weighted average cost (WAC) method to first in first out (FIFO) method on 31.03.2017.

The following information was available in relation to cost of inventories.

Date	Cost under FIFO method (Rs.)	Cost under WAC Method (Rs.)
31.03.2017	850,000	650,000
31.03.2016	750,000	650,000
31.03.2015	900,000	750,000
31.03.2014	750,000	975,000

The following information was extracted from the Statement of Profit or Loss prior to making any adjustment for the change in accounting policy.

	2017 (Rs.'000)	2016 (Rs.'000)
Revenue	3,200	2,800
Cost of sales	1,600	1,300
Distribution expenses	400	325
Administrative expenses	450	875
Finance cost	200	100

Income tax rate is 30% of the profit before tax.

The ordinary share capital and the retained earnings balances as at 01.04.2015 were Rs.6 million and Rs.4.5 million respectively.

**Required:** As per guideline of LKAS 01 and LKAS 8

1. **Prepare** the statement of profit or loss (Income Statement) for year ending 31.03.2017 with comparative information.
2. **Prepare** the statement of changes in equity for the year ending 31.03.2017 with comparative information.

## Activity 2

When preparing the financial statements for year ending 31.03.2017, the Universal PLC discovered that Rs.1,000,000 spent to building maintenance on 01.04.2015 had been erroneously capitalized to cost of building . The company depreciates buildings over 10 years.

Further, the company has decided to change its accounting policy on measurement of cost of inventories from first in first out (FIFO) method to weighted average cost (WAC) method to on 31.03.2017.

The following information was available in relation to cost of inventories.

Date	Cost under FIFO method (Rs.)	Cost under WAC Method (Rs.)
31.03.2017	950,000	550,000
31.03.2016	850,000	650,000
31.03.2015	950,000	600,000
31.03.2014	550,000	950,000

The following information was extracted from the Statement of Profit or Loss prior to making any adjustment for the change in accounting policy.

	2017 (Rs.'000)	2016 (Rs.'000)
Revenue	5,200	4,800
Cost of sales	2,600	2,300
Distribution expenses	700	525
Administrative expenses	850	875
Finance cost	400	200

Income tax rate is 30% of the profit before tax.

The ordinary share capital and the retained earnings balances as at 01.04.2015 were Rs.4.5 million and Rs.2.5 million respectively.

**Required:** As per guideline of LKAS 01 and LKAS 8

3. **Prepare** the statement of profit or loss (Income Statement) for year ending 31.03.2017 with comparative information.
4. **Prepare** the statement of changes in equity for the year ending 31.03.2017 with comparative information.