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Serial No.....

**Institute of Certified Management Accountants of Sri Lanka**  
**Operational Level**  
**October 2017 Examination**

**Examination Date :** 28<sup>th</sup> October 2017 **Number of Pages :** 08  
**Examination Time:** 9.30 a.m. – 12.30 p.m. **Number of Questions:** 07

**Instructions to Candidates**

1. Time allowed is **three (3) hours.**
2. Total: **100** Marks
3. Part I : Answer **all** questions  
Part II: Answer **all** questions in **Question No.2** & any **one (1)** question from **Section A** and select any **two (2)** questions from **Section B.**
4. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language.**

<b>Subject</b>	<b>Subject Code</b>
<b>Financial Accounting and Reporting</b>	<b>(FAR / OL 2 – 202)</b>

**PART I**

**Question No. 01 (20 Marks)**

Answer all parts of Question No.1. Select the most suitable answer to each part of the question. Write the number of the part of the question and the selected answer by stating the relevant English letter, in your answer booklet. **E.g. (1) (relevant English letter), (2) (relevant English letter) etc...**

- (1) ***Which one of the following items of expenditure should be classified as capital expenditure?***
  - (a) Purchase of Cars for resale
  - (b) Cost of three-year manufacturer's warranty
  - (c) Installation costs for an air-conditioning system
  - (d) Service agreement costs for computer equipment
- (2) ***Which one of the following is an example of an intangible asset?***
  - (a) An investment in a listed company
  - (b) Royalty receipts
  - (c) A registered trademark
  - (d) A lease of land
- (3) ***Which of the following is NOT a component of financial statements?***
  - (a) Accounting policies and explanatory notes
  - (b) A cash flow forecast
  - (c) A statement of changes in equity
  - (d) A statement of comprehensive income

- (4) A company receives income from:
- (i) the sale of non-current assets
  - (ii) the provision of service to clients
  - (iii) surplus cash funds placed on deposits
  - (iv) property rental

**From which of these sources must revenue be recognized under LKAS-18 “Revenue”?**

- (a) (i), (ii) and (iii) only
  - (b) (i), (ii) and (iv) only
  - (c) (i), (iii) and (iv) only
  - (d) (ii), (iii) and (iv) only
- (5) Inventories under LKAS 2 allow a number of method for determining purchase price or production of finished goods inventory.

**Which of the following valuation methods is allowed by LKAS 2?**

- (a) Both LIFO and weighted average
  - (b) Both LIFO and FIFO
  - (c) Both FIFO and weighted average
  - (d) Neither LIFO nor FIFO
- (6) **Which of the following would never qualify for capitalization of borrowing costs under LKAS-23: *Borrowing Costs*?**
- (a) Intangible assets
  - (b) Financial assets
  - (c) Manufacturing Plants
  - (d) Power Generation facilities

- (7) **According to LKAS-17 *Lease* requires a lessee to capitalize a finance lease at which of the following amounts?**

- (a) Fair value of the lease assets
- (b) Present value of the minimum lease payments
- (c) Lower of fair value of the lease asset present value of the minimum lease payments
- (d) Lower of minimum lease payments and fair value of lease asset

- (8) **Which ONE of the following would be shown in a statement of cash flow using the direct method but not in a statement of cash flow using the indirect method of calculating cash generated from operation?**

- (a) Cash payments to employees
- (b) Depreciation
- (c) Increase/(decrease) in trade payable
- (d) Finance costs

- (9) **Which of the following is an underline assumption as per the *Conceptual Framework for Financial Reporting*?**

- (a) Accruals
- (b) Reliability
- (c) Going concern
- (d) Relevance

- (10) **At what amount is a revalued asset is included in the statement of financial position in accordance with LKAS-16 “*Property, Plant and Equipment*”.**

- (a) Fair value
- (b) Market value
- (c) Replacement value
- (d) Revalued amount

**(10 × 2 Marks = Total 20 Marks)**

End of Part I

## PART II

### Section A

Answer all questions in Question No.2 and any one (1) question from Section A

#### Question No. 02 (20 Marks)

The following Trial Balance has been extracted from the books of accounts of Beta PLC as at 31<sup>st</sup> March 2017

	<u>Rs.'000</u>	<u>Rs.'000</u>
Land	10,000	
Buildings	15,500	
Plant & Machinery	10,750	
Motor Vehicles	6,500	
Office Equipment	1,500	
<u>Accumulated Depreciation as at 1<sup>st</sup> April 2016</u>		
Buildings		1,500
Plant & Machinery		2,200
Motor Vehicles		1,500
Office Equipment		500
Trade Receivables	3,500	
Trade Payables		2,200
Fixed Deposits – (10% per annum)	1,200	
Cash at Bank	750	
Share capital - Ordinary Shares		30,000
General Reserves		1,250
Revaluation Reserve		450
Retained Earnings - 1 <sup>st</sup> April 2016		3,150
Sales		75,100
Purchases	45,000	
Inventory - at 1 <sup>st</sup> April 2016	4,200	
Administration expenses	5,500	
Distribution Expenses	6,500	
Finance Expenses	1,950	
Motor Vehicles disposal		650
Income Tax Provision – 1 <sup>st</sup> April 2016		1,350
Income Tax paid	2,500	
Dividend paid	4,500	
Total	<u>119,850</u>	<u>119,850</u>

**Following additional information is also available:**

- (1) Inventories at 31<sup>st</sup> March 2017 were valued at Rs.4,500,000/-
- (2) Goods to the value of Rs.100,000/- invoiced and dispatched on 10<sup>th</sup> March 2017, have returned by a customer on 28<sup>th</sup> March 2017 and included in the year-end stocks. However no entries have been passed to account the returned goods.
- (3) 1<sup>st</sup> April 2016, Beta PLC placed a Fixed Deposit to the value of Rs.1,200,000/- at ABC Bank and as per the Fixed Deposit Certificate interest per annum is 10%.

- (4) Estimated Income tax for the year 2016/2017 is Rs.3,500,000/-.
- (5) On 31<sup>st</sup> March 2017, Buildings were revalued and the revaluation surplus which amounted to Rs.2,500,000/- has not yet been recorded in the books.
- (6) During the year an Office Equipment was purchased for Rs.250,000/- and was debited to the Office Equipment Account.
- (7) A Motor Vehicle purchased on 30<sup>th</sup> April 2013 for Rs.1,500,000/- was sold during the year and the sales proceeds which amounted to Rs.650,000/- have been credited to the Motor vehicle disposal Account.
- (8) Property, Plant & Equipment are depreciated on Straight line method at the following rates and the relevant depreciation should be classify under the given expense category.

	Rate (% per annum)	Expense Category
Building	5	Administration expenses
Plant & Machinery	20	Administration expenses
Motor vehicles	25	Distribution Expenses
Office Equipment	20	Administration expenses

It is company policy to charge full years' depreciation in the year of purchase and no depreciation in the year of sale.

**You are required to prepare the following for Beta PLC for publication purposes:**

- (a) Statement of Profit or Loss for the year ended 31<sup>st</sup> March 2017. **(06 Marks)**
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2017. **(05 Marks)**
  - (c) Statement of Changes in Equity For the year ended 31<sup>st</sup> March 2017. **(04 Marks)**
  - (d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2017. **(05 Marks)**
- (Total 20 Marks)**

**Question No. 03 (20 Marks)**

- (a) The Financial Statements of Robin as at 31<sup>st</sup> March were as follows:

**Statement of Profit & Loss (Extracts)**

	Rs.'000	
	<u>2017</u>	<u>2016</u>
Operating Profit	16,900	6,100
Finance Expenses	(1,200)	(1,800)
Profit Before Tax	15,700	4,300
Income Tax	(4,300)	(1,800)
<b>Profit for the year</b>	<b><u>11,400</u></b>	<b><u>2,500</u></b>

	2017		2016	
<u>Assets</u>	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b><u>Non-current assets</u></b>				
Property – Cost	29,000		14,000	
Accumulated Depreciation	(7,000)		(3,500)	
		22,000		10,500
Plant & Equipment	9,000		9,000	
Accumulated Depreciation	(3,500)		(2,500)	
		5,500		6,500
Investments at Cost		6,400		6,400
		33,900		23,400
<b><u>Current Assets</u></b>				
Inventories	16,000		11,500	
Trade Receivables	14,950		10,600	
Cash and Bank	-		5,300	
		30,950		27,400
<b>Total Assets</b>		<b>64,850</b>		<b>50,800</b>
<b><u>Equity and Liabilities</u></b>				
<b><u>Equity</u></b>				
Equity Capital		15,000		15,000
Retained Earnings		15,600		4,200
		30,600		19,200
<b><u>Non-Current Liabilities</u></b>				
Long-term Loan		12,500		14,000
<b><u>Current Liabilities</u></b>				
Bank Overdraft	500		-	
Trade Creditors	16,350		15,700	
Current Tax payable	4,000		1,400	
Accrued Interest	900		500	
		21,750		17,600
<b>Total Equity &amp; Liabilities</b>		<b>64,850</b>		<b>50,800</b>

**The following information is relevant:**

Equipment with a carrying amount Rs.1,500,000/- was sold at the beginning of 2017 for Rs.1,750,000/-. The equipment was purchased originally for Rs.3,000,000/-.

During the past 2 years no dividends have been paid.

**You are required to prepare the Statement of Cash Flows for Robin for the year Ended 31st March 2017, in accordance with LKAS 7, using the indirect method.**

***(2 marks will be given for correct classification of activities)***

**(Total 20 Marks)**

**Question No. 04 (20 Marks)**

(a) You have been asked to advice on the appropriate accounting treatment for the following situations arising in the books of various companies. The year end in each case can be taken as 31<sup>st</sup> March 2017 and you should assume that the amounts involved are material in each case.

(i) On 1<sup>st</sup> March 2017 the company entered in to a legal action defending a claim for supplying faulty machine. The company lawyers advised that there is a 30% probability that the claim will succeed. The amount of the claim is Rs.1,500,000/-. (03 Marks)

(ii) At 31<sup>st</sup> March the company has a total potential liability of Rs.5 million for warranty work on contracts. Past experience show that 10% of these costs are likely to be incurred. And 20% may possibly be incurred but that the remaining 70% is highly unlikely to be incurred. (03 Marks)

(iii) A Van belongs to the company was accident on 20<sup>th</sup> January 2017. At the year-end there was a debit balance in the books of the company for Rs.250,000/-, representing an estimate of the amount receivable from an insurance company as accident claim. 15<sup>th</sup> May 2015, before the directors had agreed the final draft of the published accounts, Insurance claim was finally settled as Rs.280,000/-. (03 Marks)

(iv) The company has an item of equipment which cost Rs.500,000/- in year 2014 and was expected to last for 5 years. At 1<sup>st</sup> April 2016 the carrying amount of the equipment was Rs.200,000/-. Due to change in technology it is now thought that the company will immediately cease to make the product for which the equipment was specifically purchased. Its recoverable amount is only Rs.60,000/- as at 31<sup>st</sup> March 2017. (03 Marks)

(b) In relation to LKAS-18 “*Accounting for Revenue*”:

(i) What conditions should satisfied to recognize Revenue from sale of goods? (04 Marks)

(ii) “When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the balance sheet date”.

**You are required to state what conditions should satisfied to reliably estimate the outcome of a transaction involving the Rendering of Services.** (04 Marks)

**(Total 20 Marks)**

End of Section A

**Section B**

**Answer any two (2) questions**

**Question No. 05 (20 Marks)**

(a) Paper acquired 80% of Sault equity shares for Rs.500,000/- on 1<sup>st</sup> April 2016. At the date of acquisition Sault had retained earnings of Rs.240,000/-. On 31<sup>st</sup> March 2017, Paper dispatched goods which cost Rs.150,000/- to Sault at an price of Rs.200,000/-. Sault received the goods on 2<sup>nd</sup> April 2017 and recorded the transaction then. The drafted financial statements of two companies as at 31<sup>st</sup> March 2017 are given below.

**Statements of Profit or Loss and Other Comprehensive Income for the year ended 31<sup>st</sup> March 2017**

	Rs.'000	
	<u>Paper</u>	<u>Sault</u>
Sales	8,000	1,500
Cost of Sales	(4,400)	(900)
Gross Profit	3,600	600
Other Expenses	(2,200)	(420)
Profit Before Tax	1,400	180
Income Tax	(430)	(50)
Profit for the year	970	130
<u>Other Comprehensive Income:</u>		
Gain on revaluation of property	150	-
<b>Total Comprehensive Income</b>	<b>1,120</b>	<b>130</b>

<b>Statements of Financial Position as at 31<sup>st</sup> March 2017</b>		
	<u>Paper</u> Rs.'000	<u>Sault</u> Rs.'000
<b><u>Assets</u></b>		
<b><u>Non-current assets</u></b>		
Property, Plant & Equipment	3,000	500
Investment in Sault Ltd.	500	-
	3,500	500
<b><u>Current Assets</u></b>		
Inventories	1,500	140
Trade Receivables	1,150	100
Cash and Bank	2,290	260
<b>Total Assets</b>	<b>8,440</b>	<b>1,000</b>
<b><u>Equity and Liabilities</u></b>		
<b><u>Capital &amp; Reserves</u></b>		
Share Capital	4,000	300
Retained Earnings	2,500	540
Revaluation Surplus	150	-
	6,650	840
<b><u>Current Liabilities</u></b>		
Trade Payables	1,360	110
Tax	430	50
<b>Total Equity &amp; Liabilities</b>	<b>8,440</b>	<b>1,000</b>

**Additional information is as follows:**

It is the group policy to value the non-controlling interest at acquisition at fair value. The fair value of the non-controlling interest in Sault at the date of acquisition was Rs.150,000/-.

**You are required to prepare a draft Consolidate Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position as at 31<sup>st</sup> March 2017.**

**(Total 20 Marks)**

**Question No. 06 (20 Marks)**

- (a) Define the following terms as per LKAS-17 “Leases”:
- (i) Lease (02 Marks)
  - (ii) Finance lease (02 Marks)
  - (iii) Operating lease (02 Marks)
- (b) You are required to identify Two advantages and Two disadvantages of the following types of Leases:
- (i) Finance Lease (04 Marks)
  - (ii) Operating lease (04 Marks)
- (c) On 1<sup>st</sup> September 2016, Brito increased the operating capacity of its plant. However due to the lack of liquid funds it was decided to buy the required plant which had a cost of Rs.450,000/-. Brito entered into an agreement to lease the plant from the manufacture. The lease required four annual payments in advance of Rs.150,000/- each commencing on 1<sup>st</sup> September 2016. The plant would have a useful life of four years and would be scrapped at the end of this period.
- You are required to prepare extracts of Brito’s statement of profit and loss and statement of financial position for the year ended 31<sup>st</sup> March 2017 in respect of the rental agreement assuming:**
- (i) It is an operating lease. (02 Marks)
  - (ii) It is a finance lease (use an implicit interest rate of 10% per annum). (04 Marks)
- (Total 20 Marks)**

**Question No. 07 (20 Marks)**

- (a) “Intangible assets can be broadly classified into three categories”. What are they? (03 Marks)
- (b) State four factors that may give rise to formation of goodwill in a business. (04 Marks)
- (c) “Research and Development expenditure can be classified in to three board Classifications”. What are they? Briefly explain. (03 Marks)
- (d) Explain why expenditure on research is treated differently from expenditure on development? (04 Marks)
- (e) State the criteria to be demonstrated for expenditure on development to be recognized as an intangible asset. (06 Marks)

**(Total 20 Marks)**

End of Section B

End of Part II

End of Question Paper

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