

PILOT PAPER – 2023-2027 SYLLABUS

ML3.2 Corporate Reporting & Assurance

Managerial Level

ANSWER KEY

Practice Examination – Part I

| Q. No | Answer |
|-------|--------|
| 01 | B |
| 02 | C |
| 03 | D |
| 04 | C |
| 05 | B |
| 06 | B |
| 07 | A |
| 08 | D |
| 09 | A |
| 10 | A |

Practice Examination – Part II

Question 01 - Total 08 marks - Segment B

1. Calculate the net profit margin and return on assets of Zigma PLC for the years 2022 and 2023.

| | 2022 (%) | 2023 (%) |
|-------------------|-------------|-------------|
| Net profit margin | 6.53 | 5.59 |
| Return on Assets | 9.22 | 7.73 |

2. What are the inventory holding period (days), receivable collection period (days) and payable settlement period (days) of Zigma PLC for the year ended 31st March 2023: **Answer D**

3. Calculate the cash operating cycle of Zigma PLC for the year ended 31st March 2023.

Cash operating cycle: (days)

| |
|------------|
| 166 |
|------------|

4. Which of the following is incorrect relating to the use of building time and finishing time available to the company when maximizing the contribution in the next year: **Answer A & D**

Question 02 - Corporate Reporting - Total 08 marks - Segment B

5. Which of the following is not an investor ratio: **Answer C**

6. Compute Earnings per share (EPS) and P/E ratio for the years 2021 and 2022.

| | 2022 | 2021 |
|-----|-------------|--------------|
| EPS | 0.17 | 0.14 |
| P/E | 9.65 | 10.93 |

7. Which of the following statements is not true about EPS and dividend payout rate:

Answer D

8. Calculate the dividend payout ratio and retention ratio for the years 2022 and 2021:

| | 2022 | 2021 |
|-----------------------|------------|------------|
| Dividend Payout Ratio | 54% | 60% |
| Retention Ratio | 46% | 40% |

Question 03 - Corporate Reporting - Total 10 marks - Segment C

9. Integrated reporting (IR) is a new development proposed to improve the quality of financial reporting. State whether the following statements are true or false regarding the IR:

| Statement | True/False |
|--|--------------|
| An integrated report is necessary to be a stand-alone report. | False |
| The framework for IR is written primarily in the context of the private sector, and for-profit companies of any size, but is also applied by the public sector and not-for-profit organizations. | True |
| IR is a principles-based approach that leaves a certain degree of flexibility compared to a rules-based approach | True |
| An integrated report is identical to a combined report, and there is no difference in the content or objectives | False |

10. General Electric PLC is concerned with how to categorize their assets according to the concept of 'capitals' of IR identify the correct type of capital for the below-mentioned assets.

- a) Buildings, equipment and other infrastructure
- b) Lands and mineral deposits

| |
|-----------------------------|
| Manufactured Capital |
| Natural Capital |

11. Sustainability reporting is another alternative discussed by the management to be incorporated into the corporate reporting practices of the company. They have raised the below concerns and you are supposed to identify the correct statement about sustainability reporting. **Answer B**

12. If General Electric PLC needs to implement Global Reporting Initiatives (GRIs) for its sustainability reporting, what are the steps involved? Rank the below steps in the correct order.

| Steps | Rank |
|---|----------|
| Prepare GRI content index and statement of use. | 4 |
| Identify and assess impacts and determine material topics. | 2 |
| Report relevant information under universal standards, sector standards and topic standards | 3 |
| Understand the system and key elements of the GRI standards. | 1 |

13. General Electric PLC is also considering making use of new information technologies such as blockchains, artificial intelligence (AI) and big data in the accounting and financing functions. State whether the below statements are true or false.

| Statement | True/False |
|---|--------------|
| Blockchains and AI will replace the role of the Accountant. | False |
| Blockchains and AI will provide new opportunities for Accountants to create more value for the company. | True |
| These new technologies will eliminate transaction-level processing and the need for reconciliations. | True |
| These new technologies will eliminate the need for external auditing. | False |

Question 04 - Assurance - total 08 marks - Segment A&B

14. State whether the following statement is true or false regarding the audit engagement.

| Statement | True/False |
|---|--------------|
| In an assurance engagement, the assurance provider provides a guarantee of the accuracy and completeness of the subject matter. | False |
| The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement. | True |

15. Rank the following engagements in terms of the level of assurance provided, with 1 being the highest level and 3 being the lowest level:

| Engagement | Rank |
|-------------------------------|----------|
| A) Review engagement. | 2 |
| B) External audit engagement. | 1 |
| C) Book-keeping engagement. | 3 |

16. State whether the following statement is true or false regarding the principles of audit.

| Statement | True/ False |
|--|--------------|
| Independence is a fundamental principle of auditing that requires auditors to be unbiased and free from any conflicts of interest | True |
| If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner shall express an unqualified conclusion/opinion. | False |

17. According to ISA 200, which of the following is not a requirement to conduct external audit engagements: **Answer B**

Question 05 - Assurance - each question 02 marks in maximum, total 08 marks - Segment C

18. State whether the following statement is true or false regarding the audit planning.

| Statement | True/ False |
|---|--------------|
| The audit plan sets the direction of the audit and guides the development of the audit program. | False |
| The nature and extent of planning activities will vary according to the size and complexity of the entity | True |

19. Rank the following steps in an external audit engagement in the correct sequence, from the earliest step to the latest step:

| Steps | Rank |
|---|----------|
| Performing substantive procedures. | 3 |
| Assessing the risks of material misstatement. | 1 |
| Performing tests of controls | 2 |

20. Match the following terms related to risk in auditing with their corresponding definitions:

| Definition | | Risk |
|---|----------|----------------|
| The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatement. | 2 | Inherent Risk |
| 2. The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. | 3 | Control Risk |
| 3. The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. | 1 | Detection Risk |

21. This is not a benefit of audit planning: **Answer C**

Question 06 - Assurance - each question 02 marks in maximum, total 08 marks - Segment D&E

22. State whether the following statement is true or false regarding the audit evidence.

| Statement | True/ False |
|--|--------------|
| Audit evidence is only limited to financial information and does not include non-financial data in external audit engagements. | False |
| The sufficiency of audit evidence is a measure of the quantity of audit evidence. | True |

23. Rank the following sources of audit evidence in terms of their reliability, with 1 being the most reliable and 3 being the least reliable:

| Steps | Rank |
|---|----------|
| A) Oral representations made by management. | 3 |
| B) Internal financial records and documents. | 2 |
| C) External confirmations from third parties. | 1 |

24. State whether the following statement is true or false regarding the audit report.

| Statement | True/ False |
|--|--------------|
| An independent auditor's report provides a detailed description of the audit procedures performed by that auditor. | False |
| ISA 700 deals with the auditor's responsibility to form an opinion on the financial statements. | True |

25. Rank the following sections of an audit report in the correct sequence, from the earliest section to the latest section:

| Steps | Rank |
|-----------------------------------|----------|
| A) Basis for opinion. | 2 |
| B) Auditor's responsibilities | 4 |
| C) Auditor's Opinion. | 1 |
| D) Management's responsibilities. | 3 |

Practice Examination – Part III

Question 01 - Corporate Reporting - Total 30 Marks - Segment A

- 1) You are required to Prepare Consolidated Statement of Profit or Loss and Other Comprehensive Income of Inova Group for the year ended 31st December 2022.

| Inova Group | | | | |
|--|----------------------|------------------|--|---------------|
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | | | | |
| for the Year Ended 31st December 2022 | | | | |
| Rs. '000 | | | | |
| | Inova PLC | Siplo PLC | Adjustments | Group |
| Revenue | 55,200 | 38,600 | -1,200 | 92,600 |
| Cost of Sales | (21,400) | (17,200) | -1200 +400 (URP) | (37,800) |
| Gross Profit | 33,800 | 21,400 | | 54,800 |
| Other Income | 4,200 | 2,500 | -4000 (DIV.INCOME) -1320) (MGT FEES) | 1,380 |
| | 38,000 | 23,900 | | 56,180 |
| Distribution Expenses | (8,500) | (3,500) | | (12,000) |
| Administration Expenses | (7,700) | (6,100) | +1320 (MGT FEES) | (15,120) |
| Finance & Other Expenses | (5,400) | (3,000) | +900 (GW IMP) +800 (INT.AMORT) +200 (PPE REVLOSS) | (10,300) |
| Profit Before Tax | 16,400 | 11,300 | | 18,760 |
| Income Tax Expense | (4,600) | (3,300) | | (7,900) |
| Profit for the year | 11,800 | 8,000 | | 10,860 |
| Dividend | (3,500) | (5,000) | - 4,000 | (4,500) |
| Retained Profit for the year | 8,300 | 3,000 | | 6,360 |
| Profit Attributable to | | | | |
| NCI (w1) | | 260 | | |
| Parent | | 6,100 | | |
| Other Comprehensive Income | | | | |
| Revaluation Loss | | | | (400) |

Workings:

| W1 Profit Attributable to NCI | | |
|--------------------------------------|-------|---------|
| Subsidiary Profit | | 3,000 |
| Adjustments | | |
| Goodwill Impairment | (900) | |
| Amortization | (800) | (1,700) |
| Adjusted Profits | | 1,300 |
| 20% | | 260 |

- 2) Prepare Consolidated Statement of Financial Position of Inova Group as at 31st December 2022.

| Inova Group | | | | |
|---|----------------------|----------------------|--------------------|----------------|
| Consolidates Statement of Financial Position | | | | |
| as at 31st December 2022 | | | | |
| | Rs 000 | | | |
| | Inova PLC | Siplo PLC | Adjustments | Group |
| <u>Non-current Assets</u> | | | | |
| Property Plant and equipment | 44,400 | 35,000 | | 79,400 |
| Goodwill | | | | 400 |
| Intangible assets | | | | <u>3,200</u> |
| | | | | 83,000 |
| <u>Current Assets</u> | | | | |
| Inventory | 6,500 | 5,100 | | 11,600 |
| Trade Receivables | 2,200 | 14,200 | | 16,400 |
| Other Receivables | 570 | 300 | | 870 |
| Cash and Cash equivalent | 2,100 | 9,000 | | 11,100 |
| Total Assets | | | | 122,970 |
| <u>Equity and Liabilities</u> | | | | |
| Stated Capital | 30,000 | - | | 30,000 |
| Consolidated Retained Earnings | 18,440 | - | | 18,440 |
| Consolidated Revaluation reserves | 600 | | | 600 |
| Equity attributable to Parent | | | | 49,040 |
| Non-Controlling Interest | | | | 6,060 |
| Total Equity | | | | 55,100 |
| <u>Non-Current Liabilities</u> | | | | |
| Debentures | 14,000 | 10,000 | | 24,000 |
| <u>Current Liabilities</u> | | | | |
| Trade Payables | 6,700 | 18000 | | 24,700 |
| Dividends Proposed (3500+5000-4000-1000) | 3500 | - | | 3,500 |
| Dividend payable to NCI (5000*20%) | | 1,000 | | 1,000 |
| Other Payables | 7,000 | 7,670 | | 14,670 |
| Total Equity and Liabilities | | | | 122,970 |

Workings:**Cost of Control**

| | | | |
|---------------------|---------------|---------------------------|---------------|
| Investment | 30,000 | Share Capital | 18,500 |
| NCI (1,450*4000) | 5,800 | Retained Earning | 7,000 |
| | | Rev. of PPE (16000-11000) | 5,000 |
| | | Intangible Asset | 4,000 |
| | | Goodwill | 1,300 |
| | 35,800 | | 35,800 |

NCI

| | | | |
|-----|--------------|--------------------------|--------------|
| | | Cost of Control | 5,800 |
| | | Retained Earnings -Siplo | 260 |
| C/D | 6,060 | | |
| | 6,060 | | 6,060 |

Consolidated Retained Earnings

| | | | |
|-------------------------------------|---------------|-----------------------------------|---------------|
| Unrealised Profits (1200/150*50) | 400 | B/B/F | 14,000 |
| Ppe Inova Rev. Loss | 200 | Dividend Receivable (5000*80%) | 4,000 |
| C/D | 18,440 | Siplo- Retained Earnings | 1,040 |
| | 19,040 | | 19,040 |

Siplo- Retained Earnings

| | | | |
|-----------------------|---------------|-------|---------------|
| Cost of Control | 7,000 | B/B/F | 10,000 |
| Goodwill Impairment | 900 | | |
| Amortization | 800 | | |
| Consol.R/E (1300*80%) | 1,040 | | |
| NCI (1300*20%) | 260 | | |
| | 10,000 | | 10,000 |

Inova -Trade Receivables

| | | | |
|-------|--------------|-----------------------|--------------|
| B/B/F | 3,000 | Siplo -Trade Payables | 800 |
| | | C/D | 2,200 |
| | 3,000 | | 3,000 |
| B/F | 2,200 | | |

Siplo -Trade Payables

| | | | |
|--------------------------|--------------|-------|--------------|
| Inova -Trade Receivables | 800 | B/B/F | 7,500 |
| C/D | 6,700 | | |
| | 7,500 | | 7,500 |
| | | B/B/F | 6,700 |

Brand Name

| | | | |
|-----------------|--------------|--------------------------|--------------|
| Cost of Control | 4,000 | Siplo- Retained Earnings | 800 |
| | | Amortization (4000/5) | |
| | | C/D | 3,200 |
| | 4,000 | | 4,000 |
| B/F | 3,200 | | |

Goodwill

| | | | |
|-----------------|--------------|--|--------------|
| Cost of Control | 1,300 | Siplo- Retained Earnings (Impairment) | 900 |
| | | C/D | 400 |
| | 1,300 | | 1,300 |
| B/F | 400 | | |

Consolidated Revaluation reserves

| | | | |
|-----------|--------------|-------|--------------|
| PPE-Inova | 400 | B/B/F | 1,000 |
| C/D | 600 | | |
| | 1,000 | | 1,000 |

PPE-INOVA

| | | | |
|-------|---------------|--------------------------------------|---------------|
| B/B/F | 45,000 | Consolidated Revaluation reserves | 400 |
| | | Consolidated Retained Earnings | 200 |
| | | | 44,400 |
| | 45,000 | | 45,000 |
