

# PILOT PAPER – 2023-2027 SYLLABUS

## ML3.2 Corporate Reporting & Assurance

Managerial Level

**Time allowed:** 3 Hours.

**Total Marks:** 100

### Exam Structure

This exam is consisting with three parts:

#### Part-I

- 10 Multiple Choice Questions (MCQ)
- 07 MCQs from Corporate Reporting & 03 MCQs from Assurance
- Each 02 marks and 20 marks in total.

#### Part-II

- Six Case Based Objective Test Questions.
- 03 questions from Corporate Reporting and 03 questions from Assurance
- 50 marks in total

#### Part-III

- One Structured Question.
- Each containing a case that relates to one or more requirement(s).
- Answers are required to be provided in a spreadsheet on the given format.
- 30 marks in total

# Practice Examination – Part I

## Exam Structure

- 10 Multiple Choice Questions (MCQ)

### Corporate Reporting

Segment A	03 MCQ
Segment B	02 MCQs
Segment C	02 MCQs

### Assurance

Segment A&B	01 MCQ
Segment C	01 MCQ
Segment D&E	01 MCQ

- Each 02 marks and 20 marks in total.

## Corporate Reporting

### Segment A-

- Sithara Ltd acquired 80% of Nishara Ltd. on 01st April 2020. On 01st March 2022, Nishara Ltd. acquired 55% of Divya Ltd. In order to expand the business Sithara Ltd. further made a 10% direct investment in Divya Ltd. and 50% in Mihika Ltd on 31st March 2022. Which of the following is/are subsidiary/ies of Sithara Ltd as at 31st March 2022.  
  
a) Nishara Ltd, Divya Ltd and Mihika Ltd                      b) Nishara Ltd and Divya Ltd  
c) Nishara Ltd and Mihika Ltd                                      d) Nishara Ltd
- According to SLFRS 03, “When the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns of the investee “ is known as:  
  
a) Power                      b) Significant influence                      c) Control                      d) Joint Arrangement

3. Which one of the following is **not** a principal criterion for consolidation:
- a) Power over the investee arising from voting rights or contractual arrangements.
  - b) Exposure or right to variable returns from its involvement with the investee.
  - c) The ability to use its power over the investee to affect the amount of the investor's returns.
  - d) Power to participate in the financial and operating policy decisions of an investee.

### Segment B

4. Which of the following transactions will improve the current ratio:
- a) Purchase of Goods for Cash.
  - b) Cash collected from Trade Receivables.
  - c) Payment to Trade Payables.
  - d) Credit purchase of Goods.
5. \_\_\_\_\_ analysis is the process of studying a series of ratios of a company and/or industry over time.
- a) DuPont
  - b) Trend
  - c) Common size
  - d) Vertical

### Segment C

6. The primary purpose of Integrated Reporting (IR) is to:
- a) Give customers a holistic view of the company and its values.
  - b) Explain to providers of financial capital how an organization creates, preserves or erodes value over time.
  - c) Report the non-financial performance of the company.
  - d) Meet the regulatory requirements of corporate social responsibility reporting.
7. Which of the following is not a benefit of Blockchains in accounting:
- a) Providing zero exposure for cyber security attacks.
  - b) Providing easy access for the staff to directly record entries in the ledger through their personal computers.
  - c) Allowing a high level of control and automation.
  - d) Providing time-stamped data for reporting and auditing.

## Assurance

### Segment A & B

8. In an assurance engagement, the practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users about the subject matter. What is the subject matter in an assurance engagement:
- a) Financial statements.
  - b) Management's assertions.
  - c) Performance measures.
  - d) All of the above.

### Segment C

9. Which of the following best represents the objective of ISA 300, "Planning an Audit of Financial Statements":
- a) To establish the overall audit strategy for the engagement and develop an audit plan.
  - b) To assess the risks of material misstatement in the financial statements.
  - c) To obtain an understanding of the entity and its environment, including internal control.
  - d) To communicate relevant audit matters to those charged with governance.

### Segment D & E

10. Which type of audit evidence involves the physical examination of tangible assets or documents:
- a) Inspection.
  - b) Recalculation.
  - c) Analytical procedures.
  - d) Observation.

## Practice Examination – Part II

### Exam Structure

- Three Case-Based Objective Test Questions.

#### Corporate Reporting

Segment B 02 Questions

Segment C 01 Question

#### Assurance

Segment A&B 01 Question

Segment C 01 Question

Segment D&E 01 Question

- 50 marks in total

### Question No. 01 - Segment B

Given below are the extracts from the financial statements of Zigma PLC for the years 2022 and 2023. Answer questions 1- 4 based on the details given.

### Question 01 - Corporate Reporting - each question 02 marks in maximum, total 08 marks - Segment B

Statements of financial position:

	2023 (Rs. '000)	2022 (Rs. '000)
Assets		
Cash	17,400	12,100
Trade Receivables	35,600	31,400
Inventories	79,000	64,700
Property, Plant and Equipment	58,600	46,200
Intangible Assets	11,900	10,700
Total Assets	<b>202,500</b>	<b>165,100</b>
Liabilities		
Trade Payable	15,200	7,000
Other current liabilities	26,900	23,500
Long-term loans	28,700	12,400
Deferred tax	4,580	2,570
Other liabilities	1,520	2,030
Total Liabilities	76,900	47,500



4. Which two of the following statements are correct regarding Zigma PLC's financial results in 2023 compared to the year 2022:

- a) Short-term liquidity has decreased in 2023.
- b) Both current and quick ratios have been improved in 2023.
- c) The interest coverage ratio has been improved in 2023.
- d) Leverage (debt-to-equity) is increased in 2023.

**Question 02 - Corporate Reporting - each question 02 marks in maximum, total 08 marks - Segment B**

	2022 (Rs. '000)	2021 (Rs. '000)
Gross Profit	800	700
Net Profit before Tax	400	340
Net Profit after Tax	200	170

Given below are the selected income figures for United Chemists for the last two years.

Notes:

- 1) In 2022 dividends were Rs.110,000/- and in 2021 they were Rs.100,000/-.
- 2) The company is financed by 1,200,000 ordinary shares valued at Rs. 1 each.
- 3) The market price of each share was Rs.1.64 as of 31st December 2022 and Rs.1.53 as of 31st December 2021.

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

- a) Price/ Earnings (P/E) ratio
- b) Dividend payout rate
- c) Interest cover
- d) Dividend cover

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

	2022	2021
EPS		
P/E		

7. Which of the following statements is not true about EPS and dividend payout rate:
- EPS does not reflect the cash amount that shareholders receive.
  - The dividend payout ratio represents the portion of the company's earnings that is paid out to each shareholder.
  - While the EPS provides a way to gauge the progress in profitability, the dividend payout ratio shows whether the dividends are growing or not.
  - A high dividend payout rate means the company is planning to reinvest a higher amount of profit for future growth.
8. Calculate the dividend payout ratio and retention ratio for the years 2022 and 2021.

	2022	2021
Dividend Payout Ratio		
Retention Ratio		

**Question 03 - Corporate Reporting - each question 02 marks in maximum, total 10 marks – Segment C**

General Electric PLC is leading the electrical items manufacturing industry. Due to their market expansion and strategic changes, the management has decided to embrace new accounting trends to enhance the efficiency and quality of the financial reporting functions. As the team leader in the financial reporting committee, you have been asked to clarify the following concerns raised by the top management.

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.	
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.	
IR is a principles-based approach that leaves a certain degree of flexibility compared to a rules-based approach	
An integrated report is identical to a combined report, and there is no difference in the content or objectives	

True

False



10. General Electric PLC is concerned with how to categorize its 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 

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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.

- a) It replaces traditional financial reporting.
- b) It augments traditional financial reporting and can be presented as a standalone additional report or as an integrated report.
- c) There are mandatory statutes for sustainability reporting currently in Sri Lanka.
- d) The Global Reporting Initiatives (GRIs) are the only globally recognized guideline for sustainability reporting.

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.	
Identify and assess impacts and determine material topics.	
Report relevant information under universal standards, sector standards and topic standards	
Understand the system and key elements of the GRI standards.	

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.	

Blockchains and AI will provide new opportunities for Accountants to create more value for the company.	
These new technologies will eliminate transaction-level processing and the need for reconciliations.	
These new technologies will eliminate the need for external auditing.	

True

False

**Question 04 - Assurance - each question 02 marks in maximum, total 08 marks - Segment A&B**

You are an audit senior working for a renowned auditing firm. Your firm has been engaged to perform an assurance engagement for ABC Limited, a multinational company operating in the energy sector.

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.	
The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement.	

True

False

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.	
B) External audit engagement.	
C) Book-keeping engagement.	

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	
If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner shall express an unqualified conclusion/opinion.	

True

False

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

- a) Compliance with Ethical Requirements Relating to an Audit of Financial Statements.
- b) Preparation of the financial statements
- c) Obtain Sufficient Appropriate Audit Evidence and consider Audit Risk.
- d) Conduct of an Audit in Accordance with ISAs.

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

You are an auditor working on an external audit engagement for XYZ Company, a manufacturing firm. As part of the planning phase, you are responsible for setting the direction of the audit and developing the audit program. You also need to assess the risks of material misstatement and perform various audit procedures.

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.	
The nature and extent of planning activities will vary according to the size and complexity of the entity	

True

False

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.	
Assessing the risks of material misstatement.	
Performing tests of controls	

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.		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.		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.		Detection Risk

21. This is not a benefit of audit planning

- a) Helping the auditor identify and resolve potential problems on a timely basis.
- b) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner
- c) Helping the auditor to procrastinate and delay the resolution of potential problems.
- d) Helping the auditor to devote appropriate attention to important areas of the audit.

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

You are an auditor working for a reputable audit firm. Your team has been assigned to conduct an external audit engagement for a manufacturing company called XYZ Ltd. The company has requested your firm to audit their financial statements for the year ending December 31, 2022.

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.	
The sufficiency of audit evidence is a measure of the quantity of audit evidence.	

True

False

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.	
B) Internal financial records and documents.	
C) External confirmations from third parties.	

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.	
ISA 700 deals with the auditor's responsibility to form an opinion on the financial statements.	

True

False

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.	
B) Auditor's responsibilities	
C) Auditor's Opinion.	

D) Management's responsibilities.	
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## Practice Examination – Part III

### Exam Structure

- Three Structured Questions.
  - Segment A 01 Question
- Each containing a case that relates to one or more requirement(s).
- Answers are required to be provided in a spreadsheet in the given format.
- 30 marks in total.

### Question 01 - Corporate Reporting - total 30 marks – Segment A

On 01st January 2022, Inova PLC acquired 16,000 shares out of 20,000 shares of Siplo PLC for Rs. 30 Mn. The market value per share of Siplo PLC as at the acquisition date was Rs.1,450/-. The financial statements as at 31st December 2022 are given below.

The Statements of Comprehensive Income for the year ended 31st December 2022.

	Inova PLC (Rs. 000)	Siplo PLC (Rs. 000)
Revenue	55,200	38,600
Cost of Sales	(21,400)	(17,200)
Gross Profit	33,800	21,400
Other Income	4,200	2,500
	38,000	23,900
Distribution Expenses	(8,500)	(3,500)
Administration Expenses	(7,700)	(6,100)
Finance & Other Expenses	(5,400)	(3,000)
Profit Before Tax	16,400	11,300
Income Tax Expense	(4,600)	(3,300)
Profit for the year	11,800	8,000
Dividend expenses	(3,500)	(5,000)
	8,300	3,000

The Statements of Financial Position as at 31st December 2022.

	Inova PLC (Rs. 000)	Siplo PLC (Rs. 000)
Non-current Assets		
Property Plant and equipment	45,000	30,000
Investment in B Ltd	30,000	
Current Assets		
Inventory	6,500	5,500
Trade Receivables	3,000	14,200
Other Receivables	900	300
Cash and Cash equivalent	2,100	9,000
Total Assets	87,500	59,000
Equity and Liabilities		
Stated Capital	30,000	18,500
Revaluation Reserves	1,000	-
Retained Earnings	14,000	10,000
Non Current Liabilities		
20% Debentures	14,000	10,000
Current Liabilities		
Trade Payables	18,000	7,500
Proposed Dividend	3,500	5,000
Other Payables	7,000	8,000
Total Equity and Liabilities	87,500	59,000

Additional Information is given below (All are in Rs. 000)

- a) Non-Controlling Interest (NCI) is measured at fair value.
- b) The balances of Siplo PLC as at the acquisition date were as follows,
  - Retained earnings - Rs. 7,000
  - Unrecorded brand name - Rs. 4,000

- c) At the acquisition date, it was estimated that the fair value of the land of Siplo PLC to be Rs. 16,000 which was at a cost of Rs. 11,000. The fair value of the other assets and the liabilities were equal to the book value.
- d) Buildings of Inova PLC were revalued at the year-end making a loss of Rs.600. The same assets had a revaluation gain of Rs. 400 in the previous year.
- e) The inventories of Siplo PLC as at 31st December 2022 include inventories with a value of 1,200 purchased from Inova PLC which marks up the goods by 50% of the cost in invoicing.
- f) The goodwill has been impaired by 900 as at 31st December 2022.
- g) Siplo PLC owes 800 to Inova PLC as at 31st December 2022, which includes in trade receivables of Inova PLC.
- h) The brand name recognized on the acquisition date has a useful lifetime of 5 years.
- i) During the year, Inova PLC had charged Rs.1,320 as a management fee from Siplo PLC. However, the last 03 months' management fee was not yet paid by Siplo PLC and it has been recorded as other payable and receivable by both companies at the end of the year.
- j) The proposed dividend shown in the books has been declared out of 2022 profits.

**You are required to:**

1. Prepare Consolidated Statement of Profit or Loss and Other Comprehensive Income of Inova Group for the year ended 31st December 2022
2. Prepare Consolidated Statement of Financial Position of Inova Group as at 31st December 2022.

**Answer Format**

<b>Inova Group</b>				
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>				
<b>for the Year Ended 31<sup>st</sup> December 2022</b>				
	Rs. '000			
	Inova PLC	Siplo PLC	Adjustments	Group
Revenue				
Gross Profit				



Profit Before Tax				
<b>Profit After Tax</b>				
<b>Retained Profit for the year</b>				
<b><u>Profit Attributable to:</u></b>				
-Non-Controlling Interest				
-Parent				
<b><u>Other Comprehensive Income</u></b>				

**Workings:**

**Profit Attributable to Non-Controlling Interest**


<b>Inova Group</b>				
<b>Consolidates Statement of Financial Position</b>				
<b>as at 31<sup>st</sup> December 2022</b>				
	<b>Rs. '000</b>			
	<b>Inova PLC</b>	<b>Siplo PLC</b>	<b>Adjustments</b>	<b>Group</b>
<b><u>Non-Current Assets</u></b>				
<b><u>Current Assets</u></b>				

<b>Total Assets</b>				
<b><u>Equity and Liabilities</u></b>				
<b><u>Equity</u></b>				
<b>Total Equity</b>				
<b><u>Non-Current Liabilities</u></b>				
<b><u>Current Liabilities</u></b>				
<b>Total Equity and Liabilities</b>				

**Workings:**

**Goodwill**


**Workings:**

**Retained Earnings**



**Workings:**

**Non-Controlling Interest**


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