

# PILOT PAPER – 2023-2027 SYLLABUS

## OL2.2 Advanced Financial Accounting & Finance

Operational Level

**Time allowed:** 3 Hours.

**Total Marks:** 100

### Exam Structure

This exam is consisting with three parts:

#### Part-I

- 20 Multiple Choice Questions (MCQ)
- Each 02 marks and 40 marks in total.

#### Part-II

- Four Case Based Objective Test Questions.
- 30 marks in total

#### Part-III

- Three Structured Questions.
- Each containing a case which relates to one or more requirement(s).
- Answers are required be provided in spreadsheet on given format.
- Each 10 marks and 30 marks in total

All questions are compulsory.

# Practice Examination – Part I

## Exam Structure

- 20 Multiple Choice Questions (MCQ)

### **Advanced Financial Accounting**

Segment A 06 MCQs

Segment B 02 MCQs

Segment C 02 MCQs

Segment D 02 MCQs

### **Finance**

Segment A 02 MCQs

Segment B 01 MCQ

Segment C 04 MCQs

Segment D 01 MCQ

- Each 02 marks and 40 marks in total.

## Segment A- Advanced Financial Accounting

1. Which qualitative characteristic of accounting information is reflected when accounting information is clearly presented:
  - a) Faithful Representation.
  - b) Relevance.
  - c) Comparability.
  - d) Understandability.
  
2. Which of the following does the Conceptual Framework identify as the primary users of general purpose financial reports:
  - a) Employees, investors and trade union representatives.
  - b) Existing and potential investors, lenders and other creditors.
  - c) Lenders and other creditors and customers.
  - d) Existing and potential investors, government agencies and the general public.

3. Identify the correct list of qualifying assets as per LKAS 23- Borrowing Cost:
- A. A construction company constructing a bridge for the government which will take 6 years to complete.
  - B. A very sophisticated integrated circuit is made by an entity that manufactures and sells 10,000 to 12,000 units every month.
  - C. A power plant under construction- it may take 10 months to complete this.
  - D. Equipment purchased by X Limited- the equipment may be used immediately after it is delivered.
  - E. Special order from a customer to manufacture a machine for him which will take 11 months at the least.
  - F. An entity is constructing an office building which will take 8 months to complete.

- a) A, C, E, F                      b) A, B, E, F                      c) A, B, C, F                      d) A, B, C, D

4. Which of the following is an external factor in recognizing impairment loss of an asset as per LKAS 36- Impairment of Assets:

- a) Increase in cost of capital.
- b) The carrying amount of the net assets.
- c) Obsolescence of an asset.
- d) Worsen economic performance of an asset than expected.

5. Which of the following defines the term 'fair value' as per SLFRS 13 – Fair Value Measurement:

- a) The price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the reporting date under current market conditions.
- b) The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- c) The weighted average price at which orderly transactions to sell assets or to transfer liabilities take place between market participants at the reporting date in the relevant market.
- d) The entry price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

6. Select the correct statement according to LKAS 38 - Intangible Assets:
- a) The most commonly identifiable intangible asset is goodwill.
  - b) Expenditure on research shall be recognized as a cost of intangible assets.
  - c) Intangible assets acquired as a government grant can be recognized at their fair value.
  - d) Internally generated intangibles can be recognized in the development phase.

### **Segment B Advanced Financial Accounting**

7. 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) Power to participate in the financial and operating policy decisions of an investee.
  - c) Exposure or right to variable returns from its involvement with the investee.
  - d) The ability to use its power over the investee to affect the amount of the investor's returns.
8. A subsidiary is an entity that:
- a) controls the parent entity in a group of entities.
  - b) exercises control over a parent entity.
  - c) has the power to control a parent entity.
  - d) is controlled by a parent entity.

### **Segment C - Advanced Financial Accounting**

9. How should a company recognize the carried forward tax loss when calculating the tax expense:
- a) Recognize a deferred tax asset.
  - b) Recognize a deferred tax liability.
  - c) Recognize a current tax asset.
  - d) Do not recognize any tax impact.

10. As per SLFRS 15- Revenue from Contract with Customer, revenue should be recognized when:

- a) The performance obligation/s fulfilled.
- b) The customer has made payment for the goods or services.
- c) The goods or services have been delivered to the customer.
- d) The customer has signed a contract for the goods or services.

### **Segment D - Advanced Financial Accounting**

11. Which is not a financial liability as per LKAS 32- Financial Instruments: Presentation:

- a) Trade payable.
- b) Tax payable.
- c) Redeemable preference shares.
- d) Debenture issued.

12. Financial assets should be initially recognized at:

- a) Current cost.
- b) Revalued amount.
- c) Fair value.
- d) Value in use.

### **Segment A - Finance**

13. Which of the following best describes the objective of financial management:

- a) Maximization of the wealth of the shareholders.
- b) Maximization of profits of the business.
- c) Maximization of the earnings per share of the business.
- d) Maximization of the value of the investments of the firm.

14. Which of the following can be considered as the best way to resolve the agency problem of a firm:

- a) Increasing the perks for top management.
- b) Developing a mechanism through which managers also become shareholders.
- c) Launch training programmes to educate managers on acting on the best interest of the shareholders.
- d) Increasing the retention ratio of the firm.

## Segment B - Finance

15. Why do individuals require a premium to delay the receipt of money:

- a) Preference for early consumption.
- b) Availability of different investment opportunities.
- c) Risk associated with future cash flows.
- d) All the above.

## Segment C - Finance

16. The price of a common stock of XYX PLC was Rs. 100 at the start of January 2020. The share price at the end of year 2020 was Rs. 150 and the at the end of year 2021 the share price was Rs.100. What are the arithmetic average rate of return and the geometric rate of returns for the investors:

- a) 25% and 0%
- b) 0% and 25%
- c) 50% and 0%
- d) None of the above.

17. What should be the objective of a rational investor:

- a) Maximize the return from the investment.
- b) Minimize the risk of the investment.
- c) Maximize the return while minimizing the risk of the investment.
- d) None of the above.

18. Which of the following statement is incorrect:

- a) Benefit of diversification is minimum when the correlation between the returns of the two assets is +1.
- b) Benefit of diversification is maximum when the correlation between the returns of the two assets is -1.
- c) There is no benefit of diversification when the correlation between the returns of the two assets is 0.
- d) Both a. and b. are correct.

19. Select the correct statement:

- a) Beta measures the systematic risk of a security.
- b) Systematic risk can be fully diversified away by investing in a portfolio.
- c) Unsystematic risk can be fully diversified away by investing in a portfolio.
- d) Both a. and c. are correct.

### **Segment D - Finance**

20. Which of the following strategies can be used to shorten the cash conversion cycle of a business:

- a) Make the debt collection policies more lenient.
- b) Expedite the manufacturing process.
- c) Obtaining extended grace periods from creditors.
- d) Both a. and c. are correct.

## Practice Examination – Part II

### Exam Structure

- Four Case-Based Objective Test Questions.

#### Advanced Financial Accounting

- Segment A 01 Question

#### Finance

- Segment B 01 Question
- Segment C 01 Question
- Segment D 01 Question

- 30 marks in total

### Question 01 - Advanced Financial Accounting - each question 02 marks in maximum, total 06 marks - Segment A

The following assets were found in Ramoga Ltd (a VAT-registered company) as at 31<sup>st</sup> December 2022. Answer from questions 1 to 3 using the below mini case study.

Asset type	Purchased date	Initial cost (Rs)	Revaluation details	Annual depreciation rate- Straight line basis	Notes
Land	1st January 2021	1,000,000	31 <sup>st</sup> December 2021 revalued for Rs.950,000/-. 31 <sup>st</sup> December 2022 revalued for Rs.1,100,000/-.	N/A	N/A
Motor Vehicle	1st January 2021	600,000	31 <sup>st</sup> December 2021 revalued for Rs.450,000/-. 31 <sup>st</sup> December 2022 revalued for Rs.200,000/-.	25%	Note 01
Computer Equipment	1st June 2022	300,000	No revaluation has been done. The cost model was followed.	50%	Note 02

#### Note 01

A VAT amount of Rs.100,000/- was included in the cost of the motor vehicle and they received a cash discount of Rs.50,000/- when settling payment to the supplier.



**Note 02**

The Trainee accountant has given the cost breakdown of the initial cost of computer equipment as follows:

	Rs.
Purchase price of the computer	100,000
Purchase price of operating software	80,000 License expired in 2 years' time
Cost of accounting package	120,000 License expired in 4 years' time
	<b>300,000</b>

1. What are the amounts to be charged as depreciation in the statement of comprehensive income for the year ended 31<sup>st</sup> December 2022:

a) Motor Vehicle

b) Computer Equipment

2. What is the Net Book Value (NBV) of intangible assets as at 31<sup>st</sup> December 2022:

Intangible Assets (NBV)

3. What is the net impact on the balance of the revaluation reserves account as at 31<sup>st</sup> December 2022 due to the revaluation of lands during these two years:

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

Assume that you are saving for university education of your two children. They are two years apart in age; one will begin university in 20 years from today and the other will begin 22 years from today. You estimate your children's annual university expenses to be Rs. 500,000 per child, payable at the beginning of each university year for four years. You plan to deposit an equal amount of money each year in a savings account that pays 15% per annum. Your deposits begin one year from today. You will make your last deposit when your oldest child enters university. In addition, you also think of another investment which requires you to deposit an annual perpetuity to support the expenses of the two children.

4. Select the correct statement regarding a perpetuity.
- a) A perpetuity has a certain ending point whereas an annuity continues to infinity.
  - b) A perpetuity starts at the end of the period whereas an annuity starts at the beginning of the period.
  - c) An annuity has a certain ending point whereas a perpetuity continues to infinity.
  - d) A perpetuity starts after a certain period of time whereas an annuity starts at the end of the first period.
5. The present value of annual university expenses of the eldest child at the end of year 20 will be:

6. Indicate whether the following statements are True or false. (*Figures are rounded off to the nearest whole number*).

Statement	True/False
The present value of annual university expenses of the youngest child at the end of year 20 is Rs. 1,214,295	
Total expenditure for the two children at the end of 20 years is Rs. 2,828,908	

True                       False

7. Calculate the amount of money you must deposit in an account each year to fund your children’s education (*Round off all your workings to the nearest whole number*).
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**Question 03 - Finance - each question 02 marks in maximum, total 08 marks - Segment C**

Saman is an investment advisor and Gunathilaka, one of his clients, has approached him. He asks Saman about the benefits of investing in a portfolio of stocks, since he has no idea about him. Saman decided to explain Gunathilaka about the benefit of investing in a portfolio of stocks using some of the information (shown in Table 1) he has generated on two stocks, X and Y. To explain his idea, Saman is going to use a hypothetical portfolio consisting of X and Y in equal proportions.

Table 1: Returns expected for stocks X and Y under different economic conditions;

Economic Condition	Probability	Return X (%)	Return Y (%)
Boom	.5	20	15
Stagnation	.3	15	18
Recession	.2	10	17

8. Calculate the expected rate (%) of return for individual stocks.

X	<input type="text"/>
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Y	<input type="text"/>
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9. Calculate the risk of returns (%) for individual stocks.

X	<input type="text"/>
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Y	<input type="text"/>
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10. Select the correct expected rate of return of the equally weighted portfolio.

- a) 14.60%                      b) 14.06%                      c) 16.40%                      d) 16.04%

11. Select the correct risk of the equally weighted portfolio from the below drop down.

- a) 1.51%                      b) 1.15%                      c) 5.11%                      e) 5.51%

**Question 04 - Finance - each question 02 marks in maximum, total 08 marks - Segment D**

Assume that you are an expert in the field of Working Capital Management with many years of practical experience. Mr. Pasan who is one of the partners of LICA Company, seeking your advice on how to manage short-term asset and liabilities effectively and efficiently. Consider the following information extracted from the financial statements of LICA Company.

Item	Beginning (Rs. 000)	Ending (Rs. 000)
Inventory	17,583	19,801
Accounts receivable	13,281	13,493
Accounts payable	15,385	16,767
Net sales (Rs. 000)	178,213	
Cost of goods sold (Rs. 000)	150,382	

12. Select the **characteristics** of firms with a long operating cycle.

- a) Short inventory periods
- b) Long receivables periods
- c) Long payables periods
- d) Letting customers purchase on credit.

13. Indicate whether the following statements **are True or false**.

Statement	True/False
The cash cycle of a firm is generally longer than its operating cycle.	
It is unlikely that the accounts payable period would ever be negative since that implies the firm pays its bills before they are incurred.	

True

False

14. Calculate the operating cycle assuming 365 days a year (*Round off to the nearest whole number*).

15. Calculate the cash cycle assuming 365 days a year (*Round off to the nearest whole number*).

## Practice Examination – Part III

### Exam Structure

- Three Structured Questions covering following segments.
  - Segment B
  - Segment C
  - Segment D
- 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.
- Each 15 marks and 30 marks in total.

### Practice Question 01 - Total 10 Marks - Segment B

The following information was extracted from Sigma Exports Ltd's books of accounts for the year ended 31<sup>st</sup> March 2023.

- Taxable profit for the year ended 31<sup>st</sup> March 2023 was Rs.1,600,000/-.
- Deferred tax assets as at 01<sup>st</sup> April 2022 was Rs.300,000/-.
- The carrying value and tax base of non-current assets are as follows:

Asset	Carrying Value as at 31 <sup>st</sup> March 2023 (Rs.)	Tax Base (Rs.)
Office Equipment	20,000,000	18,000,000
Motor Vehicle	12,000,000	11,000,000

- Provision for Gratuity as at 31<sup>st</sup> March 2023 was Rs.1,000,000.
- Corporate tax rate 30%

### You are required to:

1. Compute Deferred tax asset/liability as at 31st March 2023.
2. Compute Tax expenses for the year ended 31st March 2023.

**Format**

<b>DTL</b>		%	Rs.
<b>Temporary Difference on,</b>			
Office Equipment			
Motor Vehicle			
<b>DTA</b>		%	
B/B/F	-	-	
Provision for Gratuity			
<b>DTL/DTL as at 31.03.2023</b>			

<b>. Tax Expenses</b>	
Current Tax Expenses	
(-) DTA	
(+) DTL	
<b>Tax expenses</b>	

Speed Mobile Corporation is a telecommunication company that provides mobile network services. The company contracted with a customer to deliver a handset and provide network service for 12 months period at a monthly rent of Rs.2,000/-.

The market price for a handset and network fees would be Rs.1,600/- and Rs.1,200/- respectively.

**You are required to:**

3. Answer the following questions based on SLFRS 15- Revenue from Contract with Customer.

I. Determine the transaction price. (Rs)

II.State the transaction price among the identified performance obligations.

<b>Performance Obligation</b>	<b>Standalone transaction price (Rs)</b>	<b>Allocation of the Transaction price (Rs)</b>
Obligation 1		
Obligation 2		

## Practice Question 02 - Total 10 Marks - Segment C

Nuwansara PLC is the parent of a listed group of companies. Its financial year ends on 31st March. Nuwansara PLC has made several investments and raised finance using several financial instruments during the year ended on 31st March 2023. The company seeks your advice as to the correct accounting treatment of the following financial instruments.

II. Nuwansara PLC purchased 25,000 shares in Sisara PLC on 10th December 2022 as a long-term investment at a price of Rs.20 per share and incurred a transaction cost of Rs. 30,000. Immediately after the purchase, the company made an irrevocable election to recognize the remeasurement gains and losses of this investment through other comprehensive income as allowed in SLFRS 9- Financial Instruments. Due to the unfavorable economic conditions, the market price per share was Rs.14 as at 31st March 2023.

III. On 15th January 2023, the company purchased 60,000 shares in Madura PLC at a price of Rs. 40 per share incurring a transaction cost of Rs.120,000/-. This investment is held for the purpose of trading. On 12th March 2023, 30,000 shares were sold at Rs. 50 per share. The market price per share was Rs.30/- as at 31st March 2023.

IV. On 01st April 2022, the company purchased 12%, 3-year, Rs.1,000,000/- debentures of Thushara PLC at a discount price of Rs.931,503/-. The coupon is receivable in arrears on 31st March each year. The effective interest rate of the investment is 15% per annum. It is held as part of an investment portfolio, which is held to maturity.

V. On 01st April 2022, Nuwansara PLC issued 30,000 convertible debentures at Rs.1,000/- each at par with a maturity of 3 years. The coupon rate is 12%, which is payable in arrears on 31st March each year. The debentures could be redeemable at par or convertible each debenture into 10 ordinary shares at the option of the debenture holders on 31st March 2025. The investors would have required an annual return of 15%, had the conversion option not been available.

Additional information: Discounting and Annuity Factors for 12% and 15%

Period	Discounting Factor		Annuity Factor	
	12%	15%	12%	15%
1	0.893	0.870	0.893	0.870
2	0.797	0.756	1.690	1.626
3	0.712	0.658	2.402	2.284

**You are required to:**

4. Prepare the extracts of the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31st March 2023 in relation to the financial instruments. Using the below format.

**Format**

<b>The extracts of the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31.03.2023</b>	
	<b>Rs. '000</b>
Gain on disposal of FA at FV through P/L	
Loss on disposal of FA at FV through P/L	
Debenture interest income	
Interest expense-convertible debentures	
Transaction cost	
Loss on re-measurement of FA through P/L	
Gain on re-measurement of FA through P/L	
Loss on re-measurement of FA at FV through OCI	
Gain on re-measurement of FA at FV through OCI	

**Practice Question 02 - Total 10 Marks - Segment D**

The following statements of financial position were extracted from the books of Power Asia PLC and Sunshine PLC as at 31st December 2022.

	Power Asia PLC (Rs. '000)	Sunshine PLC (Rs. '000)
Assets		
<b>Non current Assets</b>		
Property, Plant and Equipment	3,000	1,400
Accumulated Depreciation	(1,500)	(200)
Carrying Value	1,500	1,200



Investments in Sunshine PLC	2.000	
<b>Current Assets</b>		
Inventory	1.300	500
Trade Receivables	900	140
Cash and Cash equivalent	100	410
	<b>5,800</b>	<b>2,250</b>
<b>Equity and Liabilities</b>		
Stated Capital	1200	300
Retained Earnings	1800	650
Other reserves	1200	200
<b>Non-Current Liabilities</b>		
Bank Loans	250	550
<b>Current Liabilities</b>		
Trade Payables	1.098	358
Other Payables	252	192
	<b>5,800</b>	<b>2,250</b>

Additional information (All are in Rs. '000):

1. Power Asia PLC acquired 70% of the equity shares of Sunshine PLC on 1st January 2022.

The reserves balances as at the acquisition date were as follows;

Retained earnings	Rs.300
Other reserves	Rs.100

The fair value of net assets at the acquisition date was Rs. 1,500. The excess of the fair value of net assets beyond the book value is considered to be attributable to the Property Plant and Equipment (PPE) of the subsidiary. PPE is estimated to have a remaining useful life of 8 years.

2. The fair value of the above net assets (Rs.1500) doesn't include the fair value of the brand name of Rs. 150. The brand name is expected to have a useful life of 5 years.
3. Non-Controlling Interest (NCI) is measured at the proportionate of the net asset method.
4. During the month of December 2022, Sunshine PLC sold an inventory worth Rs.600 at a profit margin of 20% to Power Asia PLC, out of which 30% of the stocks remained unsold as at 31st December 2022.
5. Trade Receivables of Sunshine PLC include Rs.80 which is due from Power Asia PLC relating to the transactions made during the year.

**You are required to:**

5. Prepare the consolidated statement of financial position of Power Asia Group as at 31st December 2022.

**Format**

<b>Power Asia Group</b>				
<b>Consolidates Statement of Financial Positions</b>				
<b>as at 31st December 2022</b>				
	<b>Power Asia PLC</b>	<b>Sunshine PLC</b>	<b>Adjustments</b>	<b>Group</b>
	<b>Rs. '000</b>			
<b>Assets</b>				
<b><u>Non-current Assets</u></b>				
Property, Plant and Equipment				
Accumulated Depreciation				
Carrying Value				
Goodwill				
Intangibles Assets				
<b><u>Current Assets</u></b>				
Inventory				
Trade Receivables				
Cash and Cash Equivalent				
<b>Total Assets</b>				
<b><u>Equity and Liabilities</u></b>				
<b><u>Equity</u></b>				
Stated Capital				
Consolidated Retained Earnings				
Consolidated Other Reserves				
<b>Equity Attributable to Parent</b>				
Non -Controlling Interest				
<b><u>Non-Current Liabilities</u></b>				
Bank Loans				

<b>Current Liabilities</b>				
Trade Payables				
Other Payables				
<b>Total Equity and Liabilities</b>				

**Workings:**

**Goodwill**

Investment in Sunshine PLC		
Add: Non –Controlling Interest		
Less: Share Capital		
Retained Earning		
Other Reserves		
Revaluation of Property Plant and Equipment		
Intangible Assets		
<b>Goodwill/Gain on Bargain Purchase</b>		

**Workings:**

**Consolidated Retained Earnings**

Retained Earnings of Power PLC	
Add: Retained Earnings of Sunshine PLC	
Group Retained Earnings as at 31st December 2022	

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