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UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Program 1000 Level Semester II

End Examination March 2022

Academic Year 2020/2021

BBA 12023 – Financial Accounting **Duration: Three hours**

The Question Paper contains five (05) questions.

Answer only four (04) questions including question number one (01) two (02) and three (03).

Calculators are permitted.

Question No. 01

A. According to the conceptual framework for Financial Reporting, what are the elements of Financial Statements? *(01 Mark)*

B. The conceptual framework for Financial Reporting sets out enhancing qualitative characteristics of financial information, what are the enhancing qualitative characteristics of financial information? *(01 Mark)*

C. According to the conceptual framework for Financial Reporting, briefly explain meaning of liabilities. *(01 Mark)*

D. According to the conceptual framework for Financial Reporting, what is objective of general-purpose financial statements? *(01 Mark)*

E. According to the LKAS 02 (Inventories), briefly explain meaning of the net realizable value (NRV). *(01 Mark)*

F. According to the LKAS 08 (Accounting policies, changes in accounting estimates and errors), briefly explain the accounting policies. *(01 Mark)*

G. Define the non-adjusting events in accordance with LKAS 10 (Events after the reporting period) *(01 Mark)*

H. What is the meaning of fair value as per the LKAS 16 (Property, plant, and equipment)? *(01 Mark)*

I. Briefly explain meaning of contingent assets in accordance with LKAS 37 (Provisions, contingent liabilities, and contingent assets). *(01 Mark)*

J. What is the meaning of the leases of low value assets as per the SLFRS 16 (Leases)? *(01 Mark)*

K. A Company uses a periodic inventory system. The beginning balance of inventory and purchases made by the Company during the month of February 2022 are given below.

i. February 01: Beginning inventory, 7,000 units at Rs. 200 per unit.
ii. February 12: Inventory purchased 10,000 units at Rs. 260 per unit.
iii. February 25: Inventory purchased 8,000 units at Rs. 280 per unit.

The Company sold 18,000 units during the month of February.

Required:

Calculate the inventory as at 28th February 2022 and cost of goods sold for the month of February using first in first out (FIFO) method in accordance with LKAS 02.

(02 Marks)

L. The following income statements are given for the year ending 31st December 2021 and its comparative period.

	2021 (Rs. '000)	***2020 (Rs. '000)***
Sales	40,000	44,000
Cost of sales	(20,000)	(21,000)
Gross profit	20,000	23,000
Operating expenses	(8,000)	(10,000)
Profit before tax	12,000	13,000
Income tax	(3,600)	(3,900)
Profit for the period	8,400	9,100

The following information is available.

i. The closing inventory had been overstated by Rs. 02 million on 31st December 2020.
ii. The retained earnings as at 01st January 2020 was Rs. 08 million.
iii. The average income tax rate of the Company is 30%.

Required:

Prepare the income statement using the ***retrospective*** statement method as per LKAS 08.

(04 Marks)

M. How would you act on the following events in accordance with LKAS 10, if a Company's financial year ending 31st March 2021? The Company's financial statements were authorized for issue by its directors on 30th June 2021.

a). A tax estimate of 02 million payables for the vehicle imported on 31st March 2021 was informed to the Company by the Sri Lanka Customs on 25th April 2021.

b). On 05th May 2021 the government announced tax changes which have the effect of increasing Company's deferred tax liability by Rs.01 million as at 31 March 2021.

(02 Marks)

N. A motor vehicle was purchased on 01st April 2018 for Rs. 10 million It was estimated that the asset had a residual value of Rs. 02 million and a useful economic lifetime of ten years at this date. On 01st April 2020 the residual value was reassessed as being only Rs. 2.4 million and the useful economic lifetime remaining were 12 years.

Required:

Calculated depreciation and carrying amount for in the years ending 31st March 2020 and 2021 as per LKAS 16.

(02 Marks)

O. A Company is selling electrical equipment under the warranty of two years. The following information provides for the year ended 31st March 2021.

	Rs. '000
Warranty provision as at 01st April 2020	4,000
Warranty value for the period on sales	7,400
Repair cost for the period, according to agreement	1,600
Expired warranty provision during the period	1,800

Required:

Prepare the warranty provision account in accordance with LKAS 37.

(01 Mark)

P. A Company enters a three-year period lease for a motor vehicle on 01st January 2022. The following information is relevant for the lease agreement.

i. Rs.01 million initial payment and Rs. 200,000 direct cost were paid on 01st January 2022.
ii. At the end of each year starting from 31st December 2022 should be paid Rs. 01 million as an annual installment.
iii. Certified residual value is estimated at Rs.500, 000 and it should be paid by lessee.
iv. The interest rate implicit in the lease is 10% and 10% discount factors are as follows.

Year 1	Year 2	Year 3
0.909	0.826	0.751

Required:

Calculate the basic value of lease liability and value of the right of use asset as per SLFRS 16.

(02 Marks)

Q. The following two statements of financial position have been extracted from the books of a Company.

	31.12 2021	*31.12.2020*
Assets	***(Rs. '000)***	***(Rs. '000)***
Property Plant and Equipment	18,000	14,000
Investments	3,000	4,000
Receivable investment income	500	600
Cash and cash equivariant	1,500	1,000
Other current assets	3,000	2,400
Total Assets	***26,000***	***22,000***
Equity &Liabilities		
Stated ordinary share capital	15,000	12,000
Retained earnings	3,000	2,000
18% Bank loan	2,000	3,000
Provisions for gratuity	1,400	1,000
Accrual interests	200	400
Accrual income tax	400	200
Other current liabilities	4,000	3,400
Total Equity & Liabilities	***26,000***	***22,000***

The following information is relevant.

1. The Company has purchased new motor vehicle on 01st January 2021 and disposed an old motor vehicle on same day at Rs.1.5 million. Its carrying amount on that date was Rs.01 million and the total depreciation for the year was Rs. 02 million.

2. Income tax, interest expenses and investment income for the year were Rs. 01 million, Rs. 400,000 and Rs. 600,000, respectively.

3. The company has paid Rs. 500,000 interim dividends and Rs, 500,000 gratuities during the year.

Required:

Prepare the cash flow statement for the year ended 31st December 2021 as per LKAS 07.

(07 Marks)

(Total Marks 30)

Question No. 02

The following Trial Balance has been extracted from the books of Splendid company for the year ended 31st March 2021.

Description	Dr. Rs.' 000	Cr. Rs.'000
Property, plant, and equipment-***(carrying amount as at 31st March 2021)***	27,000	
Inventory as at 31st March 2021	10,000	
Cash and cash equivalents	9,000	
Distribution expenses	9,000	
Administration expenses	8,000	
Other expenses	3,000	
Finance expenses	2,000	
Paid income tax and provision for income tax as at 01st April 2020	4,000	1,000
Cost of sales and Sales	40,000	86,000
Trade receivables and Trade payables	13,000	6,000
Other income		2,000
15% Bank loan		6,000
Provision for doubtful debts as at 01st April 2020		1,000
Revaluation reserves on building as at 01st April 2020		2,000
Retained earnings as at 01st April 2020		5,000
Redeemable preference share capital		2,000
Stated ordinary share capital		14,000
	125,000	**125,000**

The following adjustments are to be made in preparing the financial statements for the year ending 31st March 2021.

Closing inventories.

1. The inventories as at 31st March 2021 include an absolute inventory at a cost of Rs. 02 million which could be sold at an estimated of Rs. 1.2 million after expending Rs. 200,000 as selling expenses.

Property plant and equipment.

2. The company has been adjusted depreciation for the current year properly accounted. The composition of property, plant & equipment and their accumulated depreciation as at 31st March 2021 was as follows.

Description	Annual Depreciation Rate on Cost	Cost/Revalued. Amount Rs.'000	Accumulated Depreciation Rs.'000	Carrying Amount Rs.'000
Land	-	8,000	-	8,000
Buildings	5%	12,000	2,000	10,000
Motor vehicles	20%	11,000	5,000	6,000
Furniture and Equipment	10%	6,000	3,000	3,000
Total		**37,000**	**10,000**	**27,000**

3. A motor vehicle purchased at cost of Rs. 03 million with a carrying amount of Rs. 02 million as at 01st April 2020 was exchanged with a new vehicle having a fair value of Rs. 03 million on 31st December 2020. This disposal has been properly accounted and the profit on disposal of the motor vehicle has been recorded under other income.

4. The building of the company was revalued for the first time on 31st March 2019 for Rs.12 million. In addition, the building was revalued again on 31st March 2021 for Rs. 07 million and it has not yet been accounted in the books of the company.

5. The land of the company was revalued on 31st March 2021 at a value of Rs. 12 million. No entries have been passed yet in respect of revaluation of land.

Lease

6. The Company enters into a leasing agreement with Asian Finance on 01st April 2020 to acquire a machine. The lease requires a down payment of Rs. 01 million and direct cost of Rs. 500,000 at the commencement of lease and three annual rentals of Rs. 02 million which is payable in arrears stating from 31st March 2021. In addition, which is payable requirement of residual payment of Rs. 703,000 the end of lease agreement. The implicit interest rate of the lease is 10%. As per the lease agreement the ownership of the machine is transferred to the Company (lessee) at the end of the lease period. The company believes that the machine useful lifetime is 06 years and will have a residual value of Rs. 01 million. However, the Company had only debited the cash payment during the period into the trade payables account and had calculated basic value of the lease liability as Rs. 5.5 million.

Income tax and doubtful debts.

7. Income tax paid during the year includes a payment of Rs. 02 million being an under provision for the year of assessment 2019/2020. Income tax liability for the current year has been estimated as Rs.06 million.

8. An amount of Rs. 500,000 due from a customer is to be written off as bad debts and a general provision of doubtful debt on outstanding trade receivables is to be made Rs. 500,000.

Preference share redemption and bank loan.

9. The company had 100,000, 12% redeemable preference shares at the beginning of the year. The issue price of each share was Rs. 50. On 31st March 2021 the company redeemed 50% of the preference shares at a premium of 08%. Dividend accrued on these shares for the period up to

31st March 2021 was also paid. The total paid amount was debited to preference share capital account and no other entries have been passed in respect of redemption of preference shares.

10. The bank loan is repayable at the end of each month, in monthly installments comprising Rs. 300,000 as principal amount and interest accrued up to that date. The monthly loan installment for the month of March 2021 had not been paid and to be provided.

Required:

Prepare the following financial statements (including notes) of Splendid Company for the publication in accordance with LKAS 1.

a. Statement of Profit or Loss and Other Comprehensive income for the year ending 31st March 2021.
b. Statement of Changes in Equity for the year ending 31st March 2021.
c. Statement of Financial Position as at 31st March 2021.

(Total Marks 20)

Question No. 03

People Company acquired 80% of the 600,000 issued ordinary shares of Super Company on 01st April 2020. On that date retained earnings of Super Company was Rs. 03 million. The fair value of identifiable net assets of Super Company on 01st April 2020 was Rs.13 million. Assume that any difference between the fair value of identifiable net assets and its carrying value on the date of acquisition was due to change in the value of the motor vehicle. Market value per share of Super Company as at 01st April 2020 was Rs. 32. People Company adopts fair value approach in measuring non-controlling interest. The statements of financial position of the two companies as at 31st March 2021 are given below.

Assets	***People (Rs'000)***	***Super (Rs'000)***
Non-current assets		
Property, plant, and equipment at carrying value	19,000	11,000
Investment in Super Company	15,000	-
Current assets		
Inventories	4,000	3,000
Trade and other receivables	11,000	7,000
Current account with Super Company	2,000	-
Cash and cash equivalents	4,000	4,000
Total assets	**55,000**	**25,000**
Equity and liabilities		
Equity		
Ordinary share capital	33,000	9,000
Retained earnings	7,000	6,000
Revaluation reserves	2,000	1,000
Non- current liabilities		
Bank loan	7,000	4,000
Current liabilities		
Trade and other payable	6,000	4,000
Current account with People Company	-	1,000
Total Equity and liabilities	**55,000**	**25,000**

The following additional information is given.

1. Super Company invoice goods to People Company at a markup of 25% on cost. As at 31st March 2021 the inventory of People Company included Rs. 500,000 being the goods purchased from Super Company.

2. Reasons for the difference of the current account balances of the companies were as follows.
   i. A cheque for Rs. 200,000 sent to People Company by Super Company on 30th March 2021 had not been received to People Company as on 31st March 2021.
   ii. People Company invoice goods to Super Company at a margin of 25%. Stock to the value of Rs. 800,000 was sent to Super Company by People Company on 31st March 2021 had not been received to Super Company even on 04th April 2021.

3. A motor vehicle purchased by People Company on 01st April 2020 for Rs. 03 million was sold to Super Company on same day for Rs. 04 million and the motor vehicles of both companies are depreciated at 20% per annum on straight-line basis.

4. Impairment test carried out on 31st March 2021 revealed that the goodwill on consolidation had impaired by Rs. 01 million.

Required:
Prepare the consolidated statement of financial position as at 31st March 2021 as per SLFRS 10.

(Total Marks 12)

Question No. 04

Pen Company acquired 80% of the equity of Son Company on 01st April 2020. On that date the fair value of plant and machinery was less than its carrying amount by Rs. 400,000. Plant and machinery is depreciated at 20% per annum. The following are the statements of profit or loss of Pen Company and Son Company for the year ended 31st March 2021.

	Pen (Rs. '000)	***Son (Rs. '000)***
Sales revenue	60,000	35,000
Cost of sales	(32,000)	(18,000)
Gross profit	28,000	17,000
Other income	4,000	2,000
	32,000	19,000
Distribution expenses	(5,000)	(2,000)
Administration expenses	(6,000)	(3,000)
Other expenses	(2,000)	(1,000)
Finance expenses	(1,000)	(1,000)
Profit before tax	18,000	12,000
Income tax	(6,000)	(4,000)
Profit for the year	12,000	8,000
Paid dividends	(4,000)	(2,000)
Retained earnings for the year	8,000	6,000

The following additional information is available.

1. Before the acquisition, Son Company used to hire a motor vehicle from Pen Company for a monthly rental of Rs. 100,000 and the same practice was continued until 30th September 2020. Son Company

purchased the above motor vehicle from Pen Company at a price of Rs. 2.8 million. This vehicle had been purchased by Pen Company on 01st October 2018 at a cost of Rs. 04 million and vehicles are depreciated at the rate of 25% per annum by both companies.

2. Pen Company sells goods to Son Company at a profit margin of 20% on the selling price. As per records of Pen Company, goods to the invoice value of Rs. 03 million were sent to Son Company during the year. The last goods sent to by Pen Company were invoiced at Rs.1.2 million and Son Company has returned 1/3 of same goods on 30th March 2021 and appropriate entries have been made in its books. This was received by Pen Company on 02nd April 2021 and no entries have been passed yet. Other than the last goods received from Pen Company in all previous goods were sold by Son Company before the year end.

3. Pen Company provides management services to Son Company and charged Rs. 50,000 as management fees per month. Son Company has paid that management fees properly during the year.

Required:

Prepare the consolidated statement of profit or loss for the year ended 31st March 2021 as per SLFRS 10.

(Total Marks 08)

Question No. 05

Ajith, Basil and Chamal have been in partnership sharing profits and losses in the ratio of 5:3:2 respectively. The partners have decided to convert the partnership to a Company to be known as ABC Company with effect from 01st January 2022, to take over the assets and liabilities of the partnership including cash at bank. The Trial Balance of the partnership as at 31st December 2021 is given below.

	Dr. (Rs.'000)	Cr. (Rs.'000)
Land and Buildings	9,000	
Office equipment	6,000	
Furniture and Fittings	3,000	
Motor vehicles	13,500	
Inventories	7,500	
Accounts Receivable	6,300	
Cash at Bank	2,700	
12%, Fixed deposits	9,000	
Capital Accounts -Ajith		12,000
Basil		6,000
Chamal		6,000
Current Accounts- Ajith		1,500
Basil		3,000
Chamal		1,500
Profits for the period		15,000
Bank loan		7,000
Accounts Payable		5,000
	57,000	*57,000*

The following are the terms and conditions of the conversion.

1. The car used by Ajith takes over at an agreed value of Rs.4.5 million for his own use.

2. The other vehicles and the other assets are taken over by ABC Company on the following basis.

Assets	**Rs.'000**
Land and Buildings	10,500
Other vehicles	8,500
Office equipment	5,500
Furniture and Fittings	3,300
Inventories	At book value
Fixed Deposits	At book value

3. Rs. 300,000 accounts receivable was identified as irrecoverable. All other accounts receivable will be taken over by the Company with a 10% provision for doubtful debts. All liabilities are taken over by the Company with a provision of Rs. 200,000 for any unaccounted liabilities.

4. The Company issues 200,000 ordinary shares at Rs.200 each in the partners' capital ratio. Partners have agreed to bring in cash to settle any outstanding obligations.

Required:

a. Prepare the necessary accounts to close the books of the partnership.
b. Prepare the opening Statement of Financial Position of ABC Company as at 1st January 2022.

(Total Marks 08)