



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages: 08
No. of Questions: 06
Total Marks :70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

1000 LEVEL SECOND SEMESTER END EXAMINATION –FEBRUARY/MARCH 2023

Three Hours

BBA 12023 – Financial Accounting

Academic Year 2021/2022

Instructions

- ▶ Answer only five questions (05) 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 is the objective of Financial Reporting?
(01 Mark)
- B. The conceptual framework for Financial Reporting sets out fundamental qualitative characteristics of financial information, what are the fundamental qualitative characteristics of financial information?
(01 Mark)
- C. According to the conceptual framework for Financial Reporting, briefly explain meaning of assets.
(01 Mark)
- D. According to the LKAS 02 (Inventories), briefly explain meaning of the inventories.
(01 Mark)
- E. According to the LKAS 08 (Accounting policies, changes in accounting estimates and errors), briefly explain the prior period errors.
(01 Mark)
- F. Define the adjusting events in accordance with LKAS 10 (Events after the reporting period)
(01 Mark)
- G. What is the meaning of impairment loss as per the LKAS 16 (Property, plant, and equipment)?
(01 Mark)
- H. Briefly explain meaning of legal obligation in accordance with LKAS 37 (Provisions, contingent liabilities, and contingent assets).
(01 Mark)
- I. A Company uses a periodic inventory system. The purchases made by the Company during the month of January 2023 are given below.
- i. January 05: Inventory purchased 10,000 units at Rs. 200 per unit.
 - ii. January 17: Inventory purchased 10,000 units at Rs. 250 per unit.
 - iii. January 28: Inventory purchased 5,000 units at Rs. 300 per unit.

The Company sold 20,000 units during the month of January.

Required:

Calculate the inventory as at 31st January 2023 and cost of goods sold for the month using weighted average cost (WAC) method in accordance with LKAS 02.

(02 Marks)

- J. The following income statements are given for the year ending 31st March 2022 and its comparative period.

	2021/2022 (Rs. '000)	2020/2021 (Rs. '000)
Sales	120,000	100,000
Cost of sales	(70,000)	(60,000)
Gross profit	50,000	40,000
Operating expenses	(30,000)	(25,000)
Profit before tax	20,000	15,000
Income tax	(7,200)	(5,400)
Profit for the period	12,800	9,600

The following information is available.

- It is revealed in year 2021/2022 that some of the goods sold in year 2020/2021 amounted Rs. 06 million have been recognized in the inventory balance as at 31st March 2021.
- The retained earnings as at 01st April 2020 was Rs. 22 million.
- The income tax rate of the Company is 36%.

Required:

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

(03 Marks)

K. How would you act on the following events in accordance with LKAS 10, if a Company's financial year ending 31st March 2022? The Company's financial statements were authorized for issuing by its directors on 15th June 2022.

- A plant which accounted for 50% of the production was destroyed by a fire occurred on 10th April 2022. The estimated value of this plant is Rs. 3.5 million.
- A single class of inventory of the company was valued at its cost of Rs. 960,000 at 31st March 2022. In May 2022, 80% of this inventory was sold for Rs. 720,000 on which company sales staff earned a commission of 10% of the selling price.

(02 Marks)

L. On 01st January 2023 a company purchased a machine the following terms:

	Rs. '000
Purchase price inclusive of 15% VAT	23,000
Import duty	1,200
Delivery fees	400
Electrical installation cost	1,900
Pre-production testing cost	1,000
Purchase of a five-year maintenance contract for machine	1,400

In addition to the above information the Company was granted a trade discount of 10% on the initial list price of the asset and a settlement discount of 5% if payment for the machine was received within one month of purchase. The Company paid for the machine on 25th January 2023. The Company is registered for value added tax (VAT).

Required:

How should the above information be accounted in the financial statements as per LKAS 16?

(02 Marks)

M. A Company sells goods with a warranty under which customer are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after sales. If minor defects were detected in all products sold repair costs of Rs. 02 million would result. If major defects were detected in all products sold repair costs of Rs. 08 million would result. The company's experience and future expectations indicate that for the coming year 75% of the goods sold will have

no defects, 20% of the goods sold will have minor defects and 05% of the goods sold will have major defects.

Required:

Calculate the expected value of cost of repairs in accordance with LKAS 37.

(01 Mark)

N. A Company enters a four-year period lease for a motor vehicle on 01st April 2022. The following information is relevant for the lease agreement.

- i. Rs.02 million initial payment and Rs. 500,000 direct costs were paid on 01st April 2022.
- ii. At the end of each year starting from 31st March 2023 should be paid Rs. 1.5 million as an annual installment.
- iii. Certified residual value is estimated at Rs.01 million 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	Year 4
0.909	0.826	0.751	0.683

Required:

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

(02 Marks)

(Total Marks 20)

Question No. 02

The following Trial Balance has been extracted from the books of Asiri company for the year ended 31st March 2022.

Description	Dr. Rs.' 000	Cr. Rs.' 000
Property, Plant and Equipment at cost and their accumulated depreciation as at 1st April 2021		
Land and Buildings (Buildings value is Rs. 08 million)	20,000	800
Motor Vehicles	12,000	6,000
Furniture and Equipment	8,000	2,200
Inventory as at 31 st March 2022	16,000	
Cash and cash equivalents	11,000	
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 01 st April 2021	4,000	1,000
Cost of sales and Sales	40,000	90,000
Trade receivables and Trade payables	17,000	10,000
Gratuity provisions as at 01 st April 2021		2,000
Other income		2,000
20% Bank loan		12,000
Provision for doubtful debts as at 01 st April 2021		1,000
Revaluation reserves on building as at 01 st April 2021		2,000
Retained earnings as at 01 st April 2021		5,000
Redeemable preference share capital		2,000
Stated ordinary share capital		14,000
	150,000	150,000

The following adjustments are to be made in preparing the financial statements for the year ending 31st March 2022.

Closing inventories.

1. The inventories as at 31st March 2022 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 depreciates its property, plant and equipment on straight line basis as follows:

<i>Assets</i>	<i>Annual Depreciation Rate on Cost</i>
Land	-
Buildings	5%
Motor vehicles	20%
Furniture and Equipment	10%

3. A motor vehicle purchased at cost of Rs. 04 million with a carrying amount of Rs. 02 million as at 01st April 2021 was exchanged with a new vehicle having a fair value of Rs. 2.5 million on 31st December 2021. No entry has been passed for the exchange of motor vehicle in the books of the company.
4. The buildings of the company were revalued for the first time on 31st March 2019 for Rs.08 million. In addition, the building was revalued again on 01st October 2021 for Rs. 06 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 2022 at a value of Rs. 15 million. No entries have been passed yet in respect of revaluation of land.

Lease

6. The Company enters into a leasing agreement with Commercial Finance on 01st April 2021 to acquire a machine. The lease requires a down payment 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 2022. 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 05 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, doubtful debts and gratuity.

7. Income tax paid during the year includes a payment of Rs. 500,000 being an under provision for the year of assessment 2020/2021. Income tax liability for the current year has been estimated as Rs.4.5 million.
8. An amount of Rs. 300,000 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. 700,000.
9. A gratuity payment of Rs. 500,000 was made during the year and was charged to administration expenses account. The year-end gratuity provision should be adjusted as Rs. 03 million.

Preference share redemption and bank loan.

10. 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 2022 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 2022 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.

11. The bank loan is repayable at the end of each month, in monthly installments comprising Rs. 600,000 as principal amount and interest accrued up to that date. The monthly loan installment for the month of March 2022 had not been paid and to be provided.

Required:

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

- Statement of Profit or Loss and Other Comprehensive income for the year ending 31st March 2022.
- Statement of Changes in Equity for the year ending 31st March 2022.
- Statement of Financial Position as at 31st March 2022.

(Total Marks 18)

Question No. 03

On 01st October 2020 Polo Company acquired 80% of Solo company for a cash consideration of Rs. 18 million and allotting 100,000 of its own shares at Rs.22.00. Relevant entries have not been passed for this share allotment. At the date of acquisition Solo company's retained earnings was Rs. 05 million. There was no change in the stated share capital of Solo company since acquisition by Polo company. As on 01st October 2020, fair value of identifiable net assets of Solo Company was Rs. 22 million. Any difference between the carrying amount and fair value of the identifiable net assets of Solo Company as on 01st October 2020 is attributable to variation in the value of motor vehicle which is depreciated at 10% per annum. Statements of financial position as at 31st March 2022 of the two companies are given below.

	<i>Polo</i> (Rs. '000)	<i>Solo</i> (Rs. '000)
Assets		
Non-current assets		
Property Plant and Equipment	24,000	18,000
Investment in Solo Company	18,000	-
Current assets		
Inventories	5,000	4,000
Trade and other receivables	4,000	3,000
Current account with Solo company	2,000	-
Cash and cash equivalents	2,000	5,000
Total assets	55,000	30,000
Equity and liabilities		
Equity		
Ordinary share capital (500,000 equity shares of Solo)	29,000	15,000
Retained earnings	20,000	9,000
Revaluation reserves	3,000	2,000
Current liabilities		
Current account with Polo company	-	1,000
Trade and other payable	3,000	3,000
Total Equity and liabilities	55,000	30,000

The following additional information is available.

- During the year ended 31st March 2022, Polo Company sold goods costing Rs. 4.4 million to Solo Company at a mark-up of 25%. Of these goods at an invoiced value of Rs. 440,000 was in transit and not yet accounted for by Solo Company and another item of stock at invoiced value of Rs. 1.65

million was included under the closing stock of Solo company as on 31st March 2022. Solo company had settled all amounts due on these purchases except for the goods in transit.

2. Solo company invoice goods to Polo company at a markup of 25% on cost. As at 31st March 2022 the inventory of Polo company included Rs. 500,000 being the goods purchased from Solo company.
3. Revaluation reserves of Solo company are made up as follows.

Revaluation of land on 30 th September 2020	Rs. 01 million
Revaluation of buildings on 31 st March 2022	Rs. 01 million

4. A motor vehicle purchased by Polo company on 01st April 2021 for Rs. 03 million was sold to Solo Company on same day for Rs. 04 million.
5. Impairment test carried out on 31st March 2022 revealed that the goodwill on consolidation had impaired by Rs.200, 000.
6. A cheque for Rs. 560,000 sent to Solo company by Polo company on 30th March 2022 had not been received to Polo company as on 31st March 2022.
7. At the date of acquisition market price of the shares of Solo Company was Rs.30.00 and Polo company adopts fair value approach in measuring non-controlling interest.

Required:

Prepare the consolidated statement of financial position as at 31st March 2022 as per SLFRS 10.

(Total Marks 14)

Question No. 04

Pat company acquired 80% of the net assets of Sat company on 01st April 2021. The following are the statements of profit or loss of Pat company and Sat company for the year ended 31st March 2022.

	<i>Pat</i> <i>(Rs. '000)</i>	<i>Sat</i> <i>(Rs. '000)</i>
Sales revenue	80,000	40,000
Cost of sales	(40,000)	(20,000)
Gross profit	40,000	20,000
Other income	5,000	4,000
	45,000	24,000
Distribution expenses	(6,000)	(3,000)
Administration expenses	(9,000)	(3,000)
Other expenses	(3,000)	(2,000)
Finance expenses	(2,000)	(2,000)
Profit before tax	25,000	14,000
Income tax	(9,000)	(5,000)
Profit for the year	16,000	9,000
Paid dividends	(5,000)	(1,000)
Retained earnings for the period	11,000	8,000

The following additional information is available.

1. Pat company sold goods to Sat company at an invoiced value of Rs. 3.6 million during the year ended 31st March 2022 of which 20% of the stocks were included in the closing inventory of Sat company as at 31st March 2022. Pat company invoices goods to Sat company at a mark-up of 20%.

2. Before the acquisition, Sat company used to hire a motor vehicle from Pat company for a monthly rental of Rs. 200,000 and the same practice was continued until 31st December 2021. Sat company purchased the above motor vehicle from Pat company at a price of Rs. 3.35 million. This vehicle had been purchased by Pat Company on 01st October 2019 at a cost of Rs. 04 million and vehicles are depreciated at the rate of 25% per annum by both companies.
3. Pat company provides management services to Sat company and charged Rs. 50,000 as management fees per month. Sat company has paid that management fees properly during the year.
4. The impairment test carried out on 31st March 2022 revealed the goodwill was impaired by Rs.200,000.
5. During the year ended 31st March 2022 Pat company received Rs. 100,000 from Sat company being interest on loan.

Required:

Prepare the consolidated statement of profit or loss for the year ended 31st March 2022 as per SLFRS 10.

(Total Marks 09)

Question No. 05

Anura, Sajith and Ranil have been in partnership sharing profits and losses in the ratio of 2:2:1 respectively. The partners have decided to convert the partnership to a company to be known as **Anusara** company with effect from 01st April 2022, to **take over the assets and liabilities** of the partnership including cash at bank. The Trial Balance of the partnership as at 31st March 2022 is given below.

	Dr. (Rs. '000)	Cr. (Rs. '000)
Land and Buildings	12,000	
Furniture and Fittings	5,000	
Motor vehicles	14,000	
Inventories	11,000	
Accounts Receivable	10,000	
Cash at Bank	3,000	
Capital Accounts -Anura		13,000
Sajith		10,000
Ranil		7,000
Profits for the period		10,000
Bank loan		10,000
Accounts Payable		5,000
	55,000	55,000

The following are the terms and conditions of the conversion.

1. All liabilities are taken over by the Company with a provision of Rs. 500,000 for any unaccounted liabilities.
2. The Company issues 200,000 ordinary shares at Rs.220 each in the partners' profit-sharing ratio. Partners have agreed to bring in cash to settle any outstanding obligations.
3. The car used by Ranil take over at an agreed value of Rs.05 million for his own use.
4. The other vehicles and the other assets are taken over by Anusara company on the following basis.

<i>Assets</i>	<i>Rs. '000</i>
Land and Buildings	13,000
Other vehicles	11,000
Furniture and Fittings	4,000
Inventories	10,000
Accounts Receivable	9,000

Required:

- Prepare the necessary accounts to close the books of the partnership.
- Prepare the opening Statement of Financial Position of Anusara company as at 01st April 2022.

(Total Marks 09)

Question No. 06

The following two statements of financial position have been extracted from the books of Mihin company.

	<i>31.03. 2022</i>	<i>31.03.2021</i>
<i>Assets</i>	<i>(Rs. '000)</i>	<i>(Rs. '000)</i>
Property, Plant and Equipment	22,000	17,000
Accumulated depreciation	(4,500)	(3,500)
Investments	4,000	4,500
Receivable investment income	500	1,000
Cash and cash equivalent	1,000	2,000
Other current assets	2,000	1,000
Total Assets	25,000	22,000
Equity & Liabilities		
Stated ordinary share capital	14,000	12,000
Revaluation Reserves	1,000	-
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	3,000	3,400
Total Equity & Liabilities	25,000	22,000

The following information is relevant.

- A motor vehicle which cost Rs.01 million was sold on 01st July 2021 for Rs. 800,000. On that date accumulated depreciation on this vehicle was Rs. 500,000.
- Income tax, interest expenses and investment income for the year were Rs. 900,000, Rs. 500,000 and Rs. 700,000, respectively.
- The company has paid Rs. 600,000 interim dividends and Rs, 700,000 gratuities during the year.

Required:

Prepare the cash flow statement for the year ended 31st March 2022 as per LKAS 07.

(Total Marks 09)