

**UNIVERSITY OF RUHUNA****FACULTY OF MANAGEMENT AND FINANCE****Bachelor of Business Administration Degree Programme 1000 Level Semester II****End Examination February/March 2021****Academic Year 2019/2020****BBA 12023 – Financial Accounting****Duration: Three hours****The Question Paper contains four (04) questions.****Answer all questions.****Calculators are allowed.****Question No. 01**

- A. According to the conceptual framework for Financial Reporting;
- Briefly explain the objective of Financial Reporting.
 - List the fundamental qualitative characteristics of financial information.
 - Define the meaning of assets.
- (03 Marks)*
- B. According to the LKAS 01 (Presentation of Financial Statements), what is the meaning of general-purpose financial statements?
- (01 Mark)*
- C. According to the LKAS 02 (Inventories), briefly explain meaning of the inventories.
- (01 Mark)*
- D. According to the LKAS 08 (Accounting policies, changes in accounting estimates and errors), what is the accounting policies?
- (01 Mark)*
- E. Define the adjusting events in accordance with LKAS 10 (Events after the reporting period)
- (01 Mark)*
- F. What is the meaning of “carrying amount” as per the LKAS 16 (Property, plant and equipment)?
- (01 Mark)*
- G. Briefly explain the meaning of contingent liabilities in accordance with LKAS 37 (Provisions, contingent liabilities, and contingent assets).
- (01 Mark)*
- H. What is the meaning of the short-term leases as per the SLFRS 16 (Leases)?
- (01 Mark)*

- I. i. The inventories as at 31st December 2020 have been valued at a cost of Rs. 03 million. This includes an obsolete (redundant) inventory at a cost Rs. 01 million which could be sold at an estimated of Rs. 700,000 after expending Rs.100,000 as selling expenses.

Required:

Prescribe the appropriate accounting treatment as per LKAS 02.

- ii. Malsha Company uses a periodic inventory system. The beginning balance of inventory and purchases made by the Company during the month of February 2021 are given below.

February 01: Beginning inventory 500 units at Rs. 200 per unit.

February 14: Inventory purchased 800 units at Rs. 240 per unit.

February 28: Inventory purchased 700 units at Rs. 260 per unit.

The Company sold 1,500 units during the month of February.

Required:

Calculate the inventory as at 28th February 2021 and cost of goods sold for the month of February using weighted average cost (WAC) method in accordance with LKAS 02.

(03 Marks)

- J. The following income statements are given for the year ending 31st March 2020 and its comparative period.

	2019/2020 (Rs. '000)	2018/2019 (Rs. '000)
Sales	10,000	11,000
Cost of sales	(5,000)	(5,500)
Gross profit	5,000	5,500
Operating expenses	(2,000)	(2,400)
Profit before tax	3,000	3,100
Income tax	(900)	(930)
Profit for the period	2,100	2,170

The following information is available.

- The closing inventory had been understated by Rs. 500,000 on 31st March 2019.
- The retained earnings at the beginning of the year 2018/2019 is Rs. 03 million.
- The income tax rate of the Company is 30%.

Required:

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

(03 Marks)

- K. If Nethmini Company's financial year ended 31st March 2020 and the Company's financial statements were authorized to issue by its directors on 30th June 2020. How would you act on the following events in accordance with LKAS 10?

i. A decision was made on 01st May 2020 to pay a production bonus to workers of Rs. 03 million in compliance with an agreement with them for the year ended 31st March 2020.

ii. On 05th May 2020 the government announced tax changes which have the effect of increasing Company's deferred tax liability by Rs.600, 000 as at 31 March 2020.

(02 Marks)

L. A machine was purchased on 01st April 2017 for Rs. 02 million, It was estimated that the asset had a residual value of Rs. 200,000 and a useful economic lifetime of ten years at this date. On 01st April 2019 the residual value was reassessed as being only Rs. 140,000 and the useful economic lifetime remaining were only five years.

Required:

How the asset (machine) should be accounted for the years ending 31st March 2018/2019 and 2019/2020 as per LKAS 16.

(02 Marks)

M. Navoda Company is selling electrical equipment under the warranty of two years. Experience of the Company indicates that 20% of goods sold are major defects and the Company repairs those. Repair cost of those damaged equipment are 20% on sales value. 15% are minor defects and 5% on sales value is required to repair under warranties. Sales for the year ended 31st March 2020 were Rs. 120 million. In addition, the following information provides for the year ended 31st March 2020.

	<i>Rs. million</i>
Warranty provision as at 01 st April 2019	35
Repair cost for the period, according to agreement	10
Expired warranty provision during the period	15

Required:

Prepare the warranty provision account in accordance with LKAS 37.

(02 Marks)

N. Madumali Company enters a four-year period lease of a machine on 01st April 2020. The following information is relevant for the lease agreement.

- i. Rs. 800,000 initial payment was paid on 01st April 2020.
- ii. Direct cost of Rs. 200,000 was paid on 01st April 2020.
- iii. At the end of each year starting from 31st March 2021 should be paid Rs. 600,000 as an annual installment.
- iv. Certified residual value is estimated at Rs. 100, 000 and it should be paid by lessee.
- v. 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)

O. The following two statements of financial position have been extracted from the book of Pubudumali Company.

	<i>2019/2020</i>	<i>2018/2019</i>
	<i>(Rs. '000)</i>	<i>(Rs. '000)</i>
Assets		
Property Plant and Equipment	9,000	7,000
Investments	1,500	2,000
Current assets	1,500	1,000
Total Assets	12,000	10,000
Equity & Liabilities		

Stated ordinary share capital	7,000	5,000
Retained earnings	2,000	1,000
18% Bank loan	800	1,600
Provisions for gratuity	700	500
Accrual interests	100	200
Accrual income tax	100	200
Other current liabilities	1,300	1,500
Total Equity & Liabilities	12,000	10,000

The following information is relevant.

1. The Company disposed a motor vehicle on 30th June 2019 at Rs.700,000. Its carrying amount on that date was Rs.600, 000 and the total depreciation for the year was Rs. 01 million.
2. Income tax, interest expenses and investment income for the year were Rs. 200,000 and Rs. 200,000 and Rs. 300,000, respectively.
3. The company has paid Rs. 200,000 interim dividends and a gratuity payment of Rs, 100,000 was made during the year.
4. On 31st March 2019 and 31st March 2020, cash and cash equivalents were Rs. 400,000 & Rs. 300,000 and receivable investment income was Rs. 100,000 & Rs. 200,000 respectively includes in the current assets.

Required:

Prepare the cash flow statement for the year ended 31st March 2020 as per LKAS 07.

(08 Marks)

(Total Marks 32)

Question No. 02

The following Trial Balance has been extracted from the books of Lakshani Company as at 31 March 2020.

	Debit (Rs. '000)	Credit (Rs. '000)
Property, Plant and Equipment at cost and their accumulated depreciation as at 1st April 2019		
Land and buildings (Land value is Rs. 10 million)	14,000	1,000
Motor vehicles	13,000	6,000
Plant and machineries	7,000	3,000
Cost of sales and Sales	44,000	63,000
Trade receivables and trade payables	4,000	3,000
Cash paid for debenture redemption	2,000	
Inventories	5,000	
Cash and cash equivalents	8,000	
Distribution expenses	3,000	
Administration expenses	2,000	
Other expenses	1,000	

Financial expenses	2,000	
Paid income tax	2,000	
Paid interim dividend	1,000	
15% Bank loan		8,000
Stated ordinary share capital		16,000
12% Debenture		4,000
Revaluation reserves		1,000
Retained earnings as at 01 st April 2019		2,000
Provision for doubtful debts as at 01 st April 2019		1,000
	108,000	108,000

The following adjustments are to be made in preparing the financial statements for the year ending 31st March 2020.

Ordinary share issues.

1. In February 2020, the Company called applications for the issue of 10,000 ordinary shares at Rs.200 per share fully payable with the application. The company received applications for 15,000 shares and the total amount received was credited to stated share capital account. The company allotted 10,000 shares on 31st March 2020. Any other entries were not passed in this respect till 31st March 2020.

Property, Plant & Equipment and Lease

2. A motor vehicle purchased at cost of Rs. 03 million with a carrying amount of Rs. 02 million as at 1st April 2019 was exchanged with a new vehicle having a fair value of Rs. 02 million on 30th September 2019. No entries have been passed in this respect in the books of the company.
3. A machine revalued at value of Rs. 03 million on 01st April 2018 was revalued again on 31st March 2020 and the increase in value over its carrying amount of Rs. 01 million was debited to plant and machineries account and credited to revaluation reserve account. No other entries were passed in this respect. The previous revaluation of that machine was carried out on 01st April 2018 and the revalued amount of the machine was less by Rs. 500,000 with compared to the carrying amount as at that date. The revaluation loss had been recognized in profit and loss in the same year.
4. The Company enters into a leasing agreement with Asian Finance on 01st April 2019 to acquire a motor vehicle. 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 starting from 31st March 2020. In addition, it requires to pay of Rs. 703,000 for the residual payment at the end of lease period. The implicit interest rate of the lease is 10%. As per the lease agreement the ownership of the asset is transferred to Company (lessee) at the end of the lease period. The company believes that the machine's useful lifetime is 06 years and it will have a residual value of Rs. 01 million. However, the Company had only debited the cash payment during the period into the motor vehicle account and had calculated basic value of the lease liability as Rs. 5.5 million.
5. Depreciation on property, plant and equipment is to be provided for on a straight-line method at the following rates.

<i>Property, Plant and Equipment</i>	<i>Rate per annum</i>
Buildings	05%
Motor vehicles (excluding right of use asset)	20%
Plant and Machineries	10%

Redemption of Debentures and Bank Loan.

6. The 50% of debentures were redeemed on 31st January 2020. The payment of Rs. 02 million included the interest accrued to the date of the redemption. Only the accounting for the settlement of the debentures was made and no other accounting entries had been passed.
7. The bank loan is repayable at the end of each month in monthly installments comprising Rs. 250,000 as principal amount and interest accrued up to that date. The monthly loan installment for the month of March 2020 had not been paid and to be provided.

Bad Debts and Provision for Doubtful Debts.

8. An amount of Rs. 200,000 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. 800,000.

Audit Fees and Income Taxes.

9. The Company has estimated payable audit fees for the period of Rs. 310,000
10. Income tax for the year has been estimated at Rs. 02 million. Tax paid during the year includes Rs. 01 million as the final tax payment for the year 2018/2019. The balance is paid on self-assessment basis for the current year.

Required:

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

- a). Statement of Profit or Loss and other Comprehensive Income for the year ended 31st March 2020.
- b). Statement of Financial Position as at 31st March 2020.
- c). Statement of changes in Equity for the year ended 31st March 2020.

(Total Marks 20)

Question No. 03

Priyanwada Company acquired 80% of the 500,000 issued ordinary shares of Sadana Company on 01st April 2019. The fair value of identifiable net assets of Sadana Company on 01st April 2019 was Rs.07 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 land. Market value per share of Sadana Company as at 01st April 2019 was Rs. 15. Priyanwada Company adopts fair value approach in measuring non-controlling interest. The statements of financial position of the two companies as at 31st March 2020 are given below.

Assets	Priyanwada (Rs'000)	Sadana (Rs'000)
Non-current assets		
Property, plant and equipment at carrying value	10,000	6,000
Investment in Sadana Company	7,000	-
Current assets		
Inventories	2,000	1,000
Trade and other receivables	6,000	4,000
Current account with Sadana	1,000	-
Cash and cash equivalents	1,000	1,000
Total assets	27,000	12,000
Equity and liabilities		
Equity		
Ordinary share capital	15,000	4,500
Retained earnings	3,000	2,500
Non-current liabilities		
Bank loan	4,000	1,400
Current liabilities		
Trade and other payables	5,000	3,000
Current account with Priyanwada	-	600
Total Equity and liabilities	27,000	12,000

The following additional information is given.

- At the date of acquisition, the retained earnings balance of Sadana Company was Rs. 1.5 million
- Priyanwada Company invoice goods to Sadana Company at a markup of 25% on cost. As at 31st March 2020 the stocks of Sadana Company included Rs. 200,000 goods purchased from Priyanwada Company.
- Reasons for the difference of the current account balances of the companies were as follows.
 - A cheque for Rs. 100,000 sent to Priyanwada Company by Sadana Company on 30th March 2020 had not been received to Priyanwada Company as on 31st March 2020.
 - Stock valued at Rs. 300,000 was sent to Sadana Company by Priyanwada Company on 31st March 2020 had not been received to Sadana Company even on 02nd April 2020.
- A motor vehicle purchased by Priyanwada Company on 01st April 2019 for Rs. 01 million was sold to Sadana Company on same day for Rs. 1.5 million and the motor vehicles of both companies are depreciated at 20% per annum on straight-line basis.
- Impairment test carried out on 31st March 2020 revealed that the goodwill on consolidation had impaired by Rs.500, 000.

Required:

Prepare the consolidated statement of financial position as at 31st March 2020 as per SLFRS 10.

(Total Marks 11)