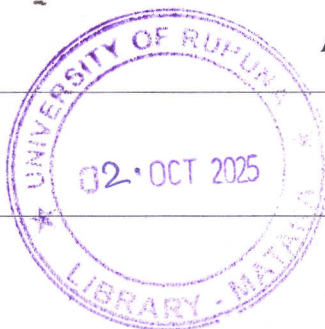
	UNIVERSITY OF RUHUNA FACULTY OF MANAGEMENT AND FINANCE	No. of Pages : 05 No. of Questions: 05 Total Marks : 70
	BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE 3000 LEVEL FIRST SEMESTER END EXAMINATION–AUG/SEP 2025 (Old Syllabus)	<i>Three Hours</i>
ACC 3112 – Financial Reporting		Academic Year 2025/2026
Instructions ➔ Answer all (05) questions. ➔ Calculators are permitted.		



Question No. 01

A. Sandaruwan (Pvt) Ltd established a defined benefit pension scheme for its employees five years ago. The company invested the required initial funds in government bonds and equity securities in the Colombo Stock Exchange. On 1st January 2024, the fair value of plan assets was Rs. 5,200,000 and the present value of the defined benefit obligation was Rs. 3,400,000.

During 2024, the company made employer contributions of Rs. 850,000 on 30th June and Rs. 150,000 on 31st December. Benefits of Rs. 420,000 were paid on 1st July 2024 and Rs. 180,000 on 30th November 2024. The current service cost for the year was Rs. 360,000 and a discount rate of 8% should be applied to the net liability/asset.

As at 31st December 2024, the fair value of plan assets was Rs. 5,320,000 and the defined benefit obligation was Rs. 3,650,000. (The 8% Present Value Interest Factor is 0.9259). Sandaruwan (Pvt) Ltd expects to pay Rs. 675,000 worth of benefits during the financial year ending 31st December 2025.

Required:

- i. Calculate the net gain or loss of the re-measurement of employee benefit plan based on LKAS 19 *Employment Benefit*.
- ii. Illustrated how these values related to pension plan will be recognized in the financial statements of Sandaruwan (Pvt) Ltd for the year ended 31st December 2024 in accordance with LKAS 19.
- iii. According to LKAS 19, organizations provide four main categories of employee benefits. Briefly explain each category and provide relevant examples.

(10 Marks)

B. The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 establish regulatory oversight for Specified Business Enterprises (SBEs) in Sri Lanka.

Required:

According to the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, identify examples of Specified Business Enterprises (SBEs) and discuss the primary responsibilities and compliance requirements of SBEs under this Act.

(04 Marks)

(Total Marks 14)

Question No. 02

The following scenario relates to the Pyramid Company for the year ended 31 December 2024:

On 1 January 2024, Pyramid Company acquired a machine under the following terms:

Item	Amount (Rs.)
Manufacturer's base price	825,000
Transport costs	25,000
Site preparation	20,000
Staff training in use of machine (incurred in January and February)	5,000
Purchase of a three-year service contract	45,000
Estimated residual value	15,000
Estimated useful life	10 years

At 31 December 2024, due to technological changes in the industry, there were indicators that the machine acquired on 1 January 2024 might be impaired. An impairment review was conducted with the following results:

- Fair value less costs of disposal: Rs. 720,000
- Value in use: Rs. 680,000

Required:

- i. Calculate the initial cost of the machine that should be capitalized as Property, Plant and Equipment on 1 January 2024 in accordance with LKAS 16 *Property, Plant and Equipment*. Provide justification for the treatment of each cost component.

(04 Marks)

ii. Calculate the carrying amount of the machine as at 31 December 2024 before considering any potential impairment.

(02 Marks)

iii. Determine whether the machine is impaired at 31 December 2024 and calculate any impairment loss that should be recognized in accordance with LKAS 36 *Impairment of Assets*. Show all workings and prepare the journal entry to record the impairment loss.

(04 Marks)

iv. Explain the key principles of IAS 36 *Impairment of Assets* regarding:

- ✓ When impairment testing is required
- ✓ The concept of recoverable amount and its components

(04 Marks)

(Total Marks 14)

Question No. 03

A. Accounting to LKAS 20 *Government Grants and Disclosure of Government Assistance* establishes principles for recognizing, measuring, and presenting government grants in financial statements.

Required:

Discuss the different categories of government grants and their appropriate accounting treatment.

(04 Marks)

B. Narmadha operates a textile manufacturing business and received a 60% government grant on 1st January 2023 to purchase new weaving machinery costing Rs. 450,000. The machinery has a useful life of 5 years with zero residual value. The business expects to generate profits before depreciation of Rs. 850,000 annually throughout the machinery's useful life.

Required:

If Narmadha applies the Income Approach for government grants, prepare the financial statement extracts for the years ended 31st December 2023 and 2024, in accordance with LKAS 20.

(04 Marks)

C. Innovixus Ltd is evaluating the accounting treatment of the following expenditures under LKAS 38 *Intangible Assets*:

Research and Development	The company spent Rs. 650,000 developing a mobile application. Research costs were Rs. 240,000 and development costs were Rs. 410,000. The app is expected to generate significant future revenue.
Marketing Campaign	Innovixus Ltd spent Rs. 250,000 on a digital marketing campaign to increase brand awareness and customer acquisition.
Software License	The company purchased a 10-year software license for Rs. 750,000, providing exclusive rights to use specialized design software.
Customer Database	Innovixus Ltd developed an internal customer relationship management system and database. The company estimates the database's value at Rs. 220,000 based on projected customer retention benefits.

Required:

Determine whether each item qualifies as an Intangible Asset under LKAS 38. Provide justification based on the recognition and measurement criteria in LKAS 38.

(06 Marks)

(Total Marks 14)

Question No. 04

- A. Evergreen Builders Ltd is building a hotel complex expected to take three years to complete. On 1st January 2024, the company secured a Rs. 20 million loan at 9% annual interest specifically for this project. Construction began on 1st April 2024.

The company also has existing general borrowings:

1. Loan from State Bank: Rs. 10 million at 10% annual interest
2. Loan from a Private Bank: Rs. 5 million at 12% annual interest

Due to a delay in material supply from a foreign supplier, construction was suspended for two months from 1st August 2024. The hotel is expected to be completed and operational by March 2027.

Required:

- i. Explain how Evergreen Builders Ltd should capitalize borrowing costs in accordance with LKAS 23 *Borrowing Costs*.
- ii. Calculate the total borrowing costs eligible for capitalization for the year ended 31st December 2024.
- iii. Discuss how the construction suspension impacts the capitalization of borrowing costs.

(08 Marks)

B. Explain non-financial information disclosures that companies may include in their annual reports, providing relevant framework/guidelines could be used to disclose this information.

(06 Marks)
(Total Marks 14)

Question No. 05

A. Explain the five-step revenue recognition model introduced by SLFRS 15 *Revenue from Contracts with Customers*. Discuss the key considerations at each step and provide a brief example to illustrate the application of this model.

(04 Marks)

B. Abacus Ltd. is preparing its annual financial statements for the year ended 31st June 2025. The following parties and transactions have been identified:

- Mr. Sandaruwan Bandara owns 45% of Abacus Ltd. and serves as Chairman of the company.
- Mr. Sandaruwan Bandara's wife is a director of Dynamic Ltd., which has supplied raw materials worth LKR 25 million to Abacus Ltd. During the financial year ended 30 June 2025.
- Abacus Ltd.'s CEO purchased a company vehicle from Abacus Ltd. for LKR 3 million as at 31 March 2025 (fair value was LKR 3.5 million).
- Horizon Bank (Abacus Ltd.'s main banker) provided a loan of LKR 50 million.
- Vibrant Ltd., which purchases 40% of Abacus Ltd.'s total sales, is owned by Mr. Sandaruwan Bandara's brother.

Required:

Identify and explain which of the above parties qualify as related parties under LKAS 24 *Related Party Disclosures*, and describe the disclosure requirements for any related party transactions.

(06 Marks)

C. How does LKAS 08 *Accounting Policies, Changes in Accounting Estimates and Errors* define accounting policies, and what three essential factors must companies evaluate when considering modifications to their accounting policy selections?

(04 Marks)
(Total Marks 14)
