UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

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Total Marks: 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

4000 LEVEL FIRST SEMESTER END EXAMINATION -AUGUST/SEPTEMBER 2025 *(Old Syllabus)*

Three Hours

ACC 4110 – Advanced Financial Reporting | Academic Year 2025/2026

Instructions

- **Answer only five questions including question one (01).**
- **Calculators are permitted.**

Question No.01

On 01 April 2024, Paladin Company acquired 80% of Saracen Company's equity shares on the following terms;

A. An immediate payment of Rs. 4,400 million on 01 April 2024.

B. Further amount on 01 April 2025 that was contingent upon post-acquisition performance of Saracen Company. At the date of acquisition Paladin Company assessed the fair value of this contingent consideration at Rs. 600 million, but by 01 April 2025 it was clear that the actual amount to be paid would be only Rs. 500 million (ignore discounting).

C. In addition to above immediate payment and contingent consideration value Paladin Company agreed to defer a further amount of Rs. 937.5 million until 01 April 2026. Paladin Company's cost of capital is 16% per annum (the discount factor on 01 April 2026 is 0.640).

Paladin Company has recoded the immediate payment and provided for the initial estimate of Rs. 600 million for the contingent consideration but the deferred payment has not been recorded.

On 01 April 2024 Paladin Company also acquired 30% of the equity shares of Augusta Company paying Rs. 500 cash per acquired share and the paid consideration has been recorded by Paladin Company in its books.

The summarized statements of financial position of the three companies at 31 March 2025 are as follows.

	Paladin Rs. Million	***Saracen Rs. Million***	***Augusta Rs. Million***
Assets			
Non-current assets			
Property, plant and equipment	5,200	3,500	2,700
Intangible assets	700	600	200

Investments	6,500	-	-
Current assets			
Inventories	1,200	1,000	600
Trade receivables	1,000	600	300
Cash and cash equivalents	400	300	200
Total assets	**15,000**	**6,000**	**4,000**
Equity			
Stated share capital			
Ordinary shares of Rs. 100 each	6,000	1,500	1,000
Retained earnings	5,000	2,500	1,500
Non-current liabilities			
12% Debentures	1,500	500	500
Current liabilities			
Contingent consideration	600	-	-
Trade payables	1,500	1,200	500
Payable income tax	400	300	500
Total equity and liabilities	**15,000**	**6,000**	**4,000**

The following adjustments are to be made in preparing the consolidated statement of financial position as at 31 March 2025.

1. At the date of acquisition the balances of retained earnings of Saracen Company and Augusta Company were Rs. 1,300 million and Rs. 800 million respectively.

2. At the date of acquisition the fair values of Saracen Company's property, plant and equipment was equal to its carrying amount with the exception of Saracen Company's buildings which had a fair value of Rs. 200 million above its carrying amount. Saracen Company has not adjusted the carrying amount of the buildings as a result of the fair value exercise. This requires additional annual depreciation of Rs. 10 million in the consolidated financial statements in the post-acquisition period.

3. At the date of acquisition, Paladin Company valued Saracen Company's customer relationship as a customer base intangible asset at fair value of Rs. 200 million. Saracen Company has not accounted for this asset in its books. The trading relationship with Saracen Company's customers persists for an average of five years.

4. The some goods-in-transit invoiced at Rs. 250 million that were sent by Paladin Company on 28 March 2025, but had not been received by Saracen Company until after the financial year end. Paladin Company sold all these goods to earn a profit margin 20%.

5. The inventory of Paladin Company includes goods at a transfer price of Rs. 250 million purchased from Saracen Company after the acquisition. Saracen Company goods sold to Paladin Company at a markup of 25%.

6. The inventory of Augusta Company includes goods at a transfer price of Rs. 300 million purchased from Paladin Company. Paladin Company sold all these goods at a markup of 50%.

7. Paladin Company's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose board of directors of Paladin Company considered a share price for Saracen Company of Rs.400 per share to be appropriate.

8. Impairment tests were carried out on 31 March 2025 which concluded that the value of the investment in Augusta Company was impaired by Rs. 100 million and due to poor trading performance of Saracen Company, consolidated goodwill was impaired by Rs. 300 million.

Required:

Prepare the Consolidated Statement of Financial Position as at 31 March 2025 in accordance with the relevant Sri Lanka Financial Reporting Standards.

(Total Marks 30)

Question No.02

a. Innovix Solutions Ltd is a company which manufactures industrial machinery and has a year-end of 30 June. The shareholders and board of directors of Innovix Solutions Ltd unanimously approved and implemented the following share-based payment schemes in 2023:

Scheme 1: On 1 January 2023, granted 250 share options to each of 100 employees. The options vest after 3 years of continuous service. Fair value per option at grant date was Rs. 120. The company estimated 12% of employees would leave during the vesting period.

Actual departures:

2023: 6 employees left (revised estimate: 10% total departures)

2024: 9 employees left (revised estimate: 15% total departures)

2025: 4 employees left

Scheme 2: On 1 July 2023, the company granted cash-settled share appreciation rights (SARs) to 3 senior managers. Each manager received 1,500 SARs that vest after 2 years. Fair values:

30 June 2024: Rs. 124 per SAR

30 June 2025: Rs. 136 per SAR

Required:

Advise the directors of Innovix Solutions Ltd on how the above transactions should be dealt with in its financial statements concerning relevant Sri Lanka Financial Reporting Standards for the years 2023, 2024, and 2025, showing all calculations.

(06 Marks)

b. "Historical cost accounting is based on the accounting principle of conservatism but does not represent the economic realities of a business entity. While fair value accounting attempts to address the shortcomings of value relevance associated with historical cost, scholars have equally criticized fair value as an alternative."

Required:

Critically analyze this statement, discussing the strengths and weaknesses of both historical cost and fair value accounting.

(04 Marks)
(Total Marks 10)

Question No.03

Noon Logistics PLC (Noon) is a diversified listed group operating in the technology, logistics, and financial services sectors. The company's financial year ends on 31 March. Noon entered into the following lease agreements in 2024:

Lease 1: On 1 April 2024, Noon leased a delivery truck for 4 years. Annual payments of Rs. 2.5 million is due at the end of each year. The implicit interest rate is 10%. In addition, the initial direct costs were Rs. 1.5 million. As at 1 April 2024, the estimated useful life of the delivery truck was six years, and the estimated residual value was Rs. 0.6 million. The Noon holds the right to receive substantially all the economic benefits derived from the delivery truck and the authority to determine its usage method and purposes.

Lease 2: On 1 July 2024, Noon leased office space for 12 months with monthly payments of Rs. 250,000. This office space has been rented due to renovation work being carried out on the existing office building.

Required:

I. Determine whether each lease falls within the scope of SLFRS 16 *Leases* and justify your conclusion.

(03 Marks)

II. For Lease 1, calculate the initial measurement of the lease liability and right-of-use asset, lease payment schedule, and prepare all journal entries for the year ended 31 March 2025, including initial recognition and subsequent measurement entries according to SLFRS 16.

(07 Marks)
(Total Marks 10)

Question No.04

a. UrbanEdge Properties PLC, a real estate investment company, needs to determine fair values for the following assets as at 31 March 2025:

Investment Property: A commercial building in Kandy with a book value of Rs. 14 million. Recent transactions for similar properties in the area range from Rs. 15-17 million. An independent valuer estimates the current market value at Rs. 15.5 million.

Specialized Equipment: Manufacturing equipment with no active market. The replacement cost is Rs. 6.5 million, but the equipment is expected to generate cash flows of Rs. 1.2 million annually for 8 years with a terminal value of Rs. 0.2 million. The company's cost of capital is 10%.

Required:

According to SLFRS 13: Fair Value Measurement, determine the fair value and hierarchy level (Level 1, 2, or 3) for each asset, showing all calculations and explaining how to account for the fair value changes in the financial statements for the year ended 31 March 2025.

(06 Marks)

b. The emergence of modern technologies such as Digitalisation, Artificial Intelligence (AI), and Machine Learning (ML) has significantly transformed the financial reporting landscape in recent years. Businesses worldwide are increasingly adopting these technologies to enhance accuracy, efficiency, and transparency in their financial reporting processes.

Required:

Critically analyze how modern technology has revolutionized financial reporting practices.

(04 Marks)
(Total Marks 10)

Question No.05

a. Diamond PLC is a financial institution which acts in the retail sector, providing loans and mortgages to companies and individuals. This is its core business model and it seldom buys or sells financial assets. The company issued the following financial instruments during 2024:

Convertible Bonds: On 1 January 2024, issued 100,000 convertible bonds at a par value of Rs. 1,500 each (total proceeds Rs. 150 million). The bonds have a 4-year term with annual interest of 10% payable on 31 December. Each bond is convertible into 10 ordinary shares at any time. The prevailing market interest rate for similar non-convertible debt is 12%.

Debt Instrument: On 1 July 2024, purchased debt securities for Rs. 100 million with the business model objective of collecting contractual cash flows and selling when market conditions are favorable. The securities have a face value of Rs. 110 million, mature on 30 June 2029, and carry fixed interest at 8% per annum.

Required:

I. Classify the convertible bonds as per LKAS 32 *Financial Instruments: Presentation* and calculate the initial recognition of liability and equity components.

(05 Marks)

II. Classify and measure the debt investment as per SLFRS 9 *Financial Instruments*, showing the journal entries for initial recognition and at 31 December 2024, assuming the fair value was Rs. 96 million.

(05 Marks)
(Total Marks 10)

Question No.06

a. The BioBloom Company climate action plan includes achieving Net Zero by 2040, with additional science-based targets to be achieved by 2030. By 2030, the company aims to reduce operational emissions by 50% and supply chain emissions by 40%. To address waste management, BioBloom is targeting 100% recyclable or reusable packaging across all consumer products by this same deadline. The company is also focused on reducing water use operationally, particularly in areas experiencing high levels of water stress. Through strategic partnerships, BioBloom has embarked on a data-based water risk assessment to identify the most vulnerable water basins and has initiated restoration projects to help rehabilitate these critical water resources. However, despite recognizing the importance of sustainability, BioBloom's board of directors has not yet integrated environmental considerations into the company's strategic planning or risk management processes. Currently, there is no dedicated sustainability officer, and environmental issues are handled informally across different departments without proper coordination, creating a significant governance gap that could hinder the achievement of the company's ambitious sustainability targets.

Required:

Discuss how BioBloom Company should enhance its corporate reporting practices to address sustainability-related matters, considering the information needs of various stakeholders and the potential impact on the company's financial reporting.

(06 Marks)

b. ESG (Environment, Social and Governance) reporting promises to address this gap by connecting financial and non-financial information. However, critics argue it may lead to information overload and greenwashing without necessarily improving decision-making or stakeholder value.

Required:

Critically evaluate this statement and discuss its implications for BioBloom Company's reporting strategy.

(04 Marks)
(Total Marks 10)

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