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 4000 LEVEL FIRST SEMESTER END EXAMINATION –AUGUST/SEPTEMBER 2025		***Three Hours***
ACC 41103 – Corporate Reporting	Academic Year 2025/2026	

Instructions

- **Answer only five questions (05) including question number one (01) and two (02).**
- **Calculators are permitted.**

Question No.01

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

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

B. A further payment was due on 01 April 2025, contingent upon the 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; however, 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 share and the paid consideration has been recorded by Paladin Company in its books.

The summarized statements of financial position of the three companies as 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 and Liabilities			
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 property, plant and equipment of Saracen Company was equal to its carrying amount with the exception of buildings. These buildings had a fair value of Rs. 200 million over 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 for 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 continues for an average of five years.

4. The goods-in-transit have been invoiced at Rs. 250 million that were sent by Paladin Company on 28th March 2025, but had not been received by Saracen Company until the financial year end. Paladin Company sold all these goods with the profit margin of 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 sold goods to Paladin Company at a 25% markup.

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 the fair value at the date of acquisition. For this purpose, the board of directors of Paladin Company considered a share price for Saracen Company at Rs. 400 per share to be appropriate.

8. Impairment tests were carried out on 31st 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 20)

Question No.02

Public Company acquired 80% of the equity capital of Sander Company on 01 April 2024. The fair value of the net assets of Sander Company at the date of acquisition was equal to their carrying amounts, except for an item of motor vehicle, which had a carrying amount of Rs. 03 million and a fair value of Rs. 05 million. This motor vehicle had a remaining life of five years (Straight-line depreciation) at the date of acquisition of Sander Company. Motor vehicle depreciation is charged to distribution cost.

On 01 April 2024, Public Company acquired 30% of the equity shares of Adler Company. The summarized profit or loss and other comprehensive income statements of the three companies for the year ended 31 March 2025 are given below.

	Public (Rs. '000)	Sander (Rs. '000)	Adler (Rs. '000)
Sales Revenue	72,000	36,000	30,000
Cost of Sales	(36,000)	(15,000)	(13,000)
Gross Profit	**36,000**	**21,000**	**17,000**
Other Income	8,000	4,000	2,000
	44,000	25,000	19,000
Distribution Cost	(6,000)	(3,000)	(2,000)
Administration Expenses	(6,000)	(3,000)	(3,000)
Other Expenses	(1,000)	(1,000)	(1,000)
Profit from Operations	**31,000**	**18,000**	**13,000**
Investment Income	3,000	1,000	1,000
Finance Cost	(2,000)	(2,000)	(1,000)
Profit before tax	**32,000**	**17,000**	**13,000**
Income Tax Expenses	(11,000)	(6,000)	(4,000)
Profit for the year	**21,000**	**11,000**	**9,000**
Other Comprehensive Income			
Gain on revaluation of land	3,000	2,000	1,000
Loss on fair value of equity financial assets	(1,000)	(1,000)	-
Total Comprehensive Income	**23,000**	**12,000**	**10,000**

The following adjustments are to be made in preparing the consolidated statement of profit or loss and other comprehensive income for the year ending 31 March 2025.

1. The group accounting policy is to measure non-controlling interests using the fair value (full goodwill) method. The current year goodwill impairment loss was Rs. 01 million, and this was charged to administration expenses. Impairment tests were carried out on 31 March 2025, which concluded that the value of the investment in Adler Company was impaired by Rs. 200,000.

2. Public Company sells goods to Sander Company at a profit margin of 20%. As per the records of the Public Company, goods invoiced at Rs. 03 million were sent to Sander Company during the year. The last goods sent by Public Company to Sander Company were invoiced at Rs. 1.5 million and Sander Company has returned 1/3 of these goods on 28 March 2025 and appropriate entries have been made in its books. Public Company received this on 01 April 2025 and no entries have been passed yet. Other than the last goods received from Public Company, all previous goods were sold by Sander Company before the year end.

3. Before the acquisition, Sander Company used to hire a motor vehicle from Public Company for a monthly rental of Rs. 200,000 and the same practice was continued until 30th June 2024. Sander Company purchased the above motor vehicle from Public Company at a price of Rs. 6.8 million on 01 July 2024. Public Company has purchased this vehicle on 01 July 2022 at a cost of Rs. 06 million and vehicles are depreciated at the rate of 10% per annum by both companies.

4. Sander Company has written off the irrecoverable debtor balance of Rs. 300,000 for the year ended 31 March 2024 (pre-acquisition bad debts), and it is included in the distribution cost of the current financial year.

5. At the date of acquisition, Sander Company had an intangible asset of Rs. 200,000. This intangible asset has no recoverable value at the date of acquisition. Sander Company has written off the intangible asset, and it is included in the other expenses of the current financial year.

6. During the year, Public Company sold goods to Adler Company for Rs. 03 million at a margin of 20%. At the year's end, 50% of these goods remained in the inventory of Adler Company.

7. Public Company provided management services to Sander Company. It charged Rs. 500,000 as management fees for the year ended 31 March 2025, and both companies have properly recorded management service charges in their books.

8. Sander and Adler Companies paid a total dividend of Rs. 02 million and Rs. 01 million, respectively, during the year. Public Company has recorded correctly in its books, and dividends received from both Sander and Adler Companies.

9. Public Company has obtained a loan of Rs. 05 million from Sander Company at 12% interest on 01 December 2024, and the loan interest for the period is included in finance cost and investment income in respective companies.

Required:

Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2025 in accordance with the relevant Sri Lanka Financial Reporting Standards.

(Total Marks 14)

Question No.03

A. Innovix Solutions Ltd is a company which manufactures industrial machinery and the financial year is ended at 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, Innovix Solutions Ltd granted 250 share options to each of 100 employees. The options vest after 3 years of continuous service. The fair value per option at grant date was Rs. 120. The company estimated that 12% from the above employees would leave during the vesting period.

Actual departures during the vesting period:

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 three senior managers. Each manager received 1,500 SARs that vest after 2 years. All three senior managers remained employed as at 30 June 2025.

Fair values of SARs:

01 July 2023: Rs. 130 per SAR

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, complying with the relevant Sri Lanka Financial Reporting Standards for the years 2023, 2024, and 2025, showing all calculations.

(08 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 criticised fair value as an alternative."

Required:

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

(04 Marks)
(Total Marks 12)

Question No.04

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 five delivery trucks for 4 years with the annual payments of Rs. 18 million due at the end of each year. The implicit interest rate is 8%. In addition, the initial direct costs were Rs. 2.5 million incurred at the date of signing the agreement. As at 1 April 2024, the estimated useful life of delivery trucks were six years, and the estimated residual value of these trucks was Rs. 0.6 million. The Noon holds the all the right to receive substantial economic benefits derived from the delivery trucks and the also authority to determine its usage method and purposes.

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

Required:

I. Determine whether above two lease agreements fall within the scope of SLFRS 16 *Leases* and justify your conclusion.

(04 Marks)

II. For Lease 1, calculate the initial measurement of the lease liability and right-of-use asset, and lease payment schedule showing initial recognition and subsequent measurement entries according to SLFRS 16.

(08 Marks)
(Total Marks 12)

Question No.05

A. Diamond PLC is a financial institution in the retail sector, providing loans and mortgages to companies and individuals as its core business model. Further, Diamond buys or sells financial assets and liabilities. The financial year of the Diamond ends on 31 December each year. The company issued the following financial instruments during 2024:

Convertible Bonds: On 1 January 2024, Diamond 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 bonds are 12%.

Debt Investment: On 1 July 2024, Diamond purchased a debt investment for Rs. 100 million with the business model objective of collecting contractual cash flows and selling them when market conditions are favourable. The securities have a face value of Rs. 110 million, and are to be matured on 30 June 2029, with a fixed interest of 8% per annum. The effective interest rate is 10%.

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 subsequent measurements for year ended 31 December 2024 (assume the fair value was Rs. 104 million).

(03 Marks)

B. As per the SLFRS 9, financial assets are measured using three different measurement categories for subsequent measurement after the initial recognition at fair value.

Required:

Identify and explain the three measurement categories according to SLFRS 9.

(04 Marks)

(Total Marks 12)

Question No.06

A. The BioBloom Company's 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:

Identify the issues faced by this company regarding its sustainability practices and provide your recommendations to enhance sustainability reporting practices, thereby addressing the information needs of various stakeholders.

(07 Marks)

B. "ESG (Environment, Social and Governance) reporting promises to stakeholders to provide non-financial information, in addition to financial information required for effective decision-making. However, critics argue it may lead to information overload and greenwashing without necessarily improving decision-making or stakeholder value."

Required:

Critically evaluate the above statement by providing your suggestions to overcome these criticisms.

(05 Marks)

(Total Marks 12)

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PRESENT VALUE TABLE

r = interest rate; *n* = number of periods until payment or receipt. (*n*)	Interest rates (*r*)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

r = interest rate; *n* = number of periods until payment or receipt. (*n*)	Interest rates (*r*)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

CUMULATIVE DISCOUNT FACTOR (CDF) TABLE

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	7.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870