Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year First Semester Examination in Bachelor of Commerce Honours in Accounting and Finance- 2021/2022 (February 2024)
(Proper/Repeat)
DAF 3072 Accounting and Reporting Standards

Answer all questions

Time: Two Hours

Part I

Choose the correct answer.

01. What is the primary objective of general purpose financial reporting mentioned in the *Conceptual Framework*?
   - (a) to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.
   - (b) to provide information about financial position, performance, and changes in financial position of an entity that useful to a wide range of users in making economic decisions.
   - (c) to provide financial information about the reporting entity that is useful to lenders and other creditors in making decisions relating to providing resources to the entity.
   - (d) to provide financial information about the reporting entity that is useful to existing and potential investors.

02. What are the fundamental qualitative characteristics of financial information stated in the *Conceptual Framework*?
   - (a) Relevance, Materiality, and Faithful Representation.
   - (b) Comparability, Verifiability, Timeliness, and Understandability.
   - (c) Relevance and Faithful Representation.
   - (d) Comparability, Verifiability, Timeliness, and Materiality

03. What are the enhancing qualitative characteristics of financial information identified in the *Conceptual Framework*?
   - (a) Relevance, Comparability, Faithful Representation, Materiality.
   - (b) Comparability, Verifiability, Timeliness, and Understandability.
   - (c) Accruals, Going Concern, Materiality, and Consistency.
   - (d) Comparability, Verifiability, Timeliness, and Materiality

04. According to the Conceptual Framework, Items of financial information are material if:
   - (a) They could be useful and favourable for the users of financial statements.
   - (b) They could influence the decisions made by the users of financial statements if omitting them or misstating them.
   - (c) They are aggregated with other items.
   - (d) They are understandable by the users of financial statements.

05. The reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs are termed as:
   - (a) Interim Financial Reports.
   - (b) Financial Statements.
   - (c) General Purpose Financial Statements.
   - (d) Integrated Financial Reports.

06. Which of the following are the components of a complete set of financial statements of an entity according to LKAS 01?
   - A. Assets, Liabilities, Equity, Income and Expenses, Gains and Losses.
   - B. A statement of financial position as at the end of the period.
   - C. A statement of profit or loss and other comprehensive income for the period.
   - D. A statement of equity structure for the period.
   - E. A statement of projected cash flows for the period.

   (a) A only. (b) B and C only. (c) A, B, and C only. (d) B, C, D, and E only.

07. The main purpose of the statement of changes in equity is to show:

(a) an entity's equity structure at the beginning and the end of an accounting period.
(b) an entity's accumulated profit, revaluation surplus, and revenue reserve for a period.
(c) how each component of an entity's equity has altered during an accounting period.
(d) an entity's total equity at the end of an accounting period.

08. Which of the following items cannot be included in the cost of inventories?

(a) Fixed production overheads.
(b) Variable production overheads.
(c) Irrecoverable import duties payable on the acquisition of inventories.
(d) The cost of abnormal wastage of materials and labour.

09. The cost formulas permitted by LKAS 02 are:

(a) LIFO and Average Cost.
(b) FIFO and LIFO.
(c) FIFO and Average Cost.
(d) FIFO, LIFO and Average Cost.

10. The cost of inventories of items that are not ordinarily interchangeable and goods or services produc segregated for specific projects shall be assigned

(a) by using specific identification of their individual costs.
(b) by using cost formula, FIFO.
(c) by using cost formula, LIFO.
(d) by using cost formula, Weighted Average.

11. The net realizable value of inventories is defined by LKAS 02 as:

(a) Selling price less costs of completion and selling costs.
(b) Selling price.
(c) Selling price less costs of completion.
(d) Replacement Cost price.

12. Which of the following cannot be included in the Cost of inventories of a service provider?

(a) Labour and other costs of personnel directly engaged in providing the service.
(b) Labour cost of Sales and general administrative personnel.
(c) Labour cost of Supervisory personnel.
(d) Attributable overheads.

13. According to LKAS 02 Inventories, which of the following costs should be included in valuing the inventori manufacturing company?

(A) Carriage inwards, (B) Carriage outwards, (C) Depreciation of factory plant, (D) Storage costs of finished

(a) All four items
(b) A, B and D only
(c) B and C only
(d) A and C only.

14. A company values its inventory of a product using the first in, first out (FIFO) method. At 1 January 202 company had 800 units in inventory, valued at Rs.75 each. During the year ended 31 December 202 following transactions took place.

2023	1 February	Purchased 500 units @ Rs.80 each
	1 May	Sold 400 units for Rs.45,000
	1 August	Purchased 450 units at Rs.69 each
	15 November	Sold 450 units for Rs.28,750

What is the value of the company's closing inventory of the product at 31 December 2023?

(a) Rs.8,000
(b) Rs.66,854
(c) Rs.67,050
(d) Rs.68,000

15. In times of rising prices, the FIFO method of inventory valuation, when compared with the average cost method of inventory valuation, will usually produce which of the following?

(a) A higher profit and a lower closing inventory value.
(b) A higher profit and a higher closing inventory value.
(c) A lower profit and a lower closing inventory value.
(d) A lower profit and a higher closing inventory value.

16. On 31 December 2023, a company has partly-completed inventory with a cost to date of Rs.36,600. It is expected that further costs of Rs.12,500 will be incurred in order to complete the inventory. It will then be sold for Rs.45,500. Selling costs will be Rs.1,400. What would be the cost and the net realizable value of this inventory at 31 December 2023 respectively, as per LKAS 02?

(a) Rs.49,100 and Rs.44,100.
(b) Rs.36,600 and Rs.31,600.
(c) Rs.36,600 and Rs.45,500.
(d) Rs.49,100 and Rs.46,900.

17. A company reported cost of goods sold of Rs.550,000 in its most recent financial statements. Inventory increase of Rs.120,000 and Accounts payable decrease of Rs.30,000 also occurred during the period. The company prepares its statement of cash flows using the direct method. How much should it report as cash paid to suppliers?

(a) Rs. 550,000
(b) Rs. 400,000
(c) Rs. 430,000
(d) Rs. 700,000

19. As per LKAS 08, the term "accounting policies" refers to:

(a) The accounting concepts and conventions adopted by an entity.
(b) The measurement bases used by an entity.
(c) The accounting principles applied by an entity.
(d) All of the above.

20. An entity may change one of its accounting policies:

(a) Whenever it wishes to do so.
(b) If this would result in the provision of reliable and more relevant information.
(c) If this would reduce the cost of preparing the financial statements.
(d) Never.

21. A change in accounting policy which does not result from the initial application of an international standard must normally be accounted for:

(a) Prospectively unless it is impracticable to do so.
(b) Retrospectively.
(c) Either retrospectively or prospectively.
(d) Prospectively

22. A change in an accounting estimate should be accounted for:

(a) Prospectively.
(b) Retrospectively unless it is impracticable to do so.
(c) Either retrospectively or prospectively.
(d) Retrospectively.

23. Which of the following is a change of accounting policy?

(a) Revising the residual value of a depreciable non-current asset.
(b) Changing the depreciation method used in relation to a depreciable non-current asset.
(c) Changing from the cost model to the revaluation model when measuring items of property, plant and equipment.
(d) Correcting an error found in the previous year's financial statements.

24. The "carrying amount" of an item of property, plant and equipment as per LKAS 16 refers to:

(a) The cost of the item.
(b) The amount at which the item is recognized in the financial statements.
(c) The depreciable amount of the item.
(d) The replacement cost of the item

25. Which of the following would not be included in the cost of an item of property, plant and equipment?

(a) Refundable value added tax.
(b) Testing costs.
(c) Delivery and installation charges.
(d) Site preparation costs.

26. On 31 December 2021, a company acquired a land for Rs.750,000. The land was revalued at Rs.800,000 on December 2022 and Rs.725,000 on 31 December 2023.The company prepares financial statements to December each year and uses the revaluation model in relation to land. As per the LKAS 16, the com accounting treatment of each revaluation in the statement of comprehensive income is as follows:

	2022	2023
(a)	Other comprehensive income Rs.50,000	Negative other comprehensive income Rs.50,000 Profit/Loss (Deficit) Rs.25,000
(b)	Other comprehensive income Rs.50,000	Profit/Loss (Deficit) Rs.75,000
(c)	Profit/Loss (Surplus) Rs.50,000	Profit/Loss (Deficit) Rs.75,000
(d)	Other comprehensive income Rs.50,000	Negative other comprehensive income Rs.75,000

27. As per SLFRS 03, Goodwill is the excess of .... plus, fair value of...................... over fair value of assets acquired. It should be included in the consolidated statement of financial position as an ....

(a) Investment, net assets acquired, operating asset.
(b) Consideration transferred, net assets acquired, operating liability.
(c) Consideration transferred, non-controlling interest, intangible asset.
(d) Share capital and reserve, non-controlling interest, intangible asset.

28. LKAS 16 requires that estimates of useful life and residual value be reviewed at the end of each reporting per If either changes significantly, the change should be accounted for over the useful life remaining. This is refe to as:

(a) A prospective adjustment rather than a retrospective adjustment.
(b) A retrospective adjustment rather than a prospective adjustment.
(c) A prospective and a retrospective adjustment.
(d) A prospective adjustment or a retrospective adjustment.

29. On 31 December 2023, PMB Plc acquired 400,000 of the 500,000 ordinary shares of Rs.10 each at STM paying Rs.10 Million cash. On that date the fair value of the subsidiary's net assets was Rs.7.5 Million. The ma price of the shares held by the non-controlling shareholders just before the acquisition was Rs.20 per share. W is goodwill in the consolidated statement of financial position?

(a) Rs.2,000,000   (b) Rs.2,500,000   (c) Rs.4,000,000   (d) Rs.4,500,000

30. Which of the following areas SLFRS 3 does not apply to?

A. The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itse
B. The acquisition of an asset or a group of assets that does not constitute a business.
C. A combination of entities or businesses under common control.
D. The acquisition of an asset or a group of assets that constitutes a business.

(a) A and B   (b) B and C   (c) A and D   (d) A, B, and C.

(40 Ma

Part II

01. **(I)** VATA Trading Company purchases electric cars from several countries and sells them to Asian countries. During the current year, this company has incurred following expenses:

(a) Trade discounts on purchase
(b) Handling costs relating to imports
(c) Salaries of accounting department
(d) Sales commission paid to sales agents
(e) After sales warranty costs
(f) Import duties
(g) Costs of purchases (based on supplier's invoices)
(h) Freight expense
(i) Insurance of purchases
(j) Brokerage commission paid to indenting agents

Indicate with a pass tick (√) which costs are allowed by LKAS 02 for inclusion in the cost of inventory of electric cars in the books of the company.

(05 Marks)

(II) MDA Plc uses a periodic inventory system. The following information relates to 2023.

Month	Item	Units	Unit Cost	Total Cost
January	Inventory	200	10	2000
April	Purchase	50	11	550
September	Purchase	400	12	4800
December	Purchase	350	14	4900
Total		**1000**		**12250**

Required:
Physical inventory as at 31.12.2023 was 400 units. Calculate the ending inventory value and cost of sales using:
(a) FIFO
(b) Weighted Average as per LKAS 02.

(05 Marks)

(III) The following figures relate to inventory held at the year-end:

Items	A	B	C
Per Unit:	**Rs.**	**Rs.**	**Rs.**
Cost	200	90	120
Selling price	300	120	220
Modification cost to enable sale	-	20	80
Marketing costs	70	20	20
Units held	200	150	300

Required: Calculate the total value of inventory held as per the rule of Lower of Cost or Net Realizable Value (LCNRV) in accordance with LKAS 02.

(05 Marks)

(IV) ASP Industries suffered a fire in its warehouse on March 4, 2023. The warehouse was full of finished goods, and after reviewing the damage, management determined that inventory, with a retail selling price of Rs.90,000, was not damaged by the fire. For the period from January 1, 2023, to March 4, 2023, accounting records showed the following:

Purchases	Rs.650,000
Purchase returns	Rs.16,000
Sales revenue	Rs.955,000

The inventory balance on January 1, 2023, was Rs.275,000, and the company has historically earned a gross profit percentage of 35%.

Required:
Use the gross profit method prescribed in LKAS 02 to determine the cost of inventory damaged by the fire.

(05 Marks)
(Total 20 Marks)

02. (I) SPC Plc, a pharmaceutical company, has the following four items in inventory: The Cost and Net real value (**Rs.000**) is given as follows:

Item	Cost	Net Realizable Value
Antibiotic	2,100	1,900
Vaccines	5,000	5,100
Ointments	4,400	4,250
Vitamins	3,500	3,000
Total	**15,000**	**14,250**

Required: Determine the value of Inventories:

(a) On an item by item basis.

(b) On a group basis.

(05 Ma

(II) State the two types of cash flows arising from the operating, investing or financing activities that may be rep on a net basis as prescribed by the LKAS 07.

(05 Ma

(III) What are the two conditions stipulated by the LKAS 08 for an entity that can change the accounting policy one period to the next?

(05 Ma

(IV) State whether the following changes would be classified as a 'Change in Accounting Policy' or not as detern by LKAS 08. (Write Yes or No).

(a) Increased the allowance for doubtful debts from 8% to 12% of outstanding debts.

(b) Changed the method of valuing inventory from weighted average cost to FIFO.

(c) Changed the depreciation of plant and equipment from reducing balance to straight line depreciation on

(d) Changed the useful economic life of its plant and equipment from six years to eight years.

(05 Ma

(Total 20 M

03. (I) What are the two conditions stipulated by LKAS 16 for recognizing subsequent costs related to an ite Property, Plant, and Equipment?

(05 Ma

(II) A company purchased a property with an overall cost of Rs.1000,000 on 1 January 2023. The sep components of the property are made up as follows:

	Rs.	Estimated life
Land and buildings (Land element Rs.20,000)	650,000	Land: Indefinite. Building: 50 years
Fixtures and fittings	240,000	10 years
Lifts	110,000	20 years
	1000,000	

Required:

Calculate the annual depreciation charge for the property for the year ended 31 December 2023.

(05 M

(III) At 31 December 2022 DMO Plc owned a building that it had purchased 10 years ago for Rs.800,000. It was depreciated at 2% per year on the straight line basis. On 1 January 2023 a revaluation to Rs.1,000,00 recognized. At this date the building had a remaining useful life of 40 years. Find out **(a)** the depreciation c for the year ended 31 December 2023 and **(b)** the revaluation surplus balance as at 1 January 2023.

(05 M

(IV) The following material events took place after the reporting date of 31 December 2023 and before the fin statements for TVP Plc are approved.

(I) BKP Traders, a major customer of TVP plc, went into liquidation. TVP Plc has been advised that it is unlikely to receive any of the outstanding debt of Rs.150,000 owed by BKP Traders at the year end.

(II) A fire occurred in the warehouse of TVP Plc and stock costing Rs.75,000 was destroyed. Adjustmen made in the financial statements as required by LKAS 10 Events After the Reporting Date.

Required: Calculate the effect of these events on profit for the year in the financial statements at 31 Dec 2023 of making the required adjustments.

(05 M

(Total 20 M