



Eastern University, Sri Lanka  
Faculty of Commerce and Management  
Third Year Second Semester Examination in Bachelor of Commerce  
(Specialization in Accounting and Finance) 2010/2011 (June 2013)  
(Proper/Repeat)

DAF 3092 Accounting Standards

Answer all questions

Time: Two Hours

01. (a) What do you understand by the term "General Purpose Financial Statement" and list out its components.

(05 Marks)

(b) The qualitative characteristics of relevance, reliability and comparability identified in the IASB's Framework for the preparation and presentation of financial statements are some of the attributes that make financial information useful to the various users of financial statements.

**Required:**

Explain what is meant by "Relevance", "Reliability" and "Comparability" and how they make financial information useful?

(10 Marks)

(c) During the year ended 31<sup>st</sup> March 2012, Glaxo experienced the following transactions or events:

- (i) Entered into a finance lease to rent an asset for substantially the whole of its useful economic life.
- (ii) A decision was made by the Board to change the company's accounting policy from expensing a finance cost regarding building new retail outlets to capitalizing such cost.
- (iii) The company's income statement prepared using historical costs showed a loss from operating its hotels, but the company is aware that the increase in the value of its properties during the period far outweighed the operating loss.

**Required:**

Explain how you would treat the items in (i) to (iii) above in Glaxo financial statements and indicate on which of the Framework's qualitative characteristics your treatment is based.

**(05 Marks)**

**(Total 20 Marks)**

- 0.2 (a)** What do you understand by the term "Borrowing Cost" and distinguish between the Benchmark Treatment and Alternative Treatment for borrowing cost as per LKAS 23.

**(05 Marks)**

- (b)** On 1<sup>st</sup> July 2011, the entity, ABC plc, entered into an Rs 2.2 million contract for the construction of a building. The building was completed at the end of June 2012. During the period, the following payments were made to the contractor:

Payment date	Amount (Rs'000)
01 July 2011	200
30 September 2011	600
31 March 2012	1,200
30 June 2012	200
<b>Total</b>	<b>2,200</b>

The entity's borrowings as at 30<sup>th</sup> June 2012 were as follows:

- (i)** 10% four-year note with simple interest payable annually, which relates specifically to the project; debt outstanding at 30<sup>th</sup> June 2012 amounted to Rs700, 000. Interest of Rs 65,000 was incurred on these borrowings during the year, and interest income of Rs 20,000 was earned on these funds while they were held in anticipation of payments.
- (ii)** 12.5%, 10-year note with simple interest payable annually; debt outstanding at 1<sup>st</sup> July 2011 amounted to Rs1,000,000 and remained unchanged during the year.

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(iii) 10% 10-year note with simple interest payable annually; debt outstanding at 1<sup>st</sup> July 2011 amounted to Rs1,500,000 and remained unchanged during the year.

Assume that interest expenses equals borrowing costs.

**Required:**

Find the amount of the Borrowing Cost eligible for Capitalization and the amount of the Borrowing Cost charged as Finance Cost in the entity's Financial Statement.

**(15 Marks)**

**(Total 20 Marks)**

03. (a) Distinguish between "Guaranteed Residual Value" and "Unguaranteed Residual Value".

**(05 Marks)**

(b) On 1<sup>st</sup> October 2010 NCM plc entered into an agreement to lease a machine that had an estimated life of four years. The lease period is also four years with annual rentals of Rs.10,000 payable in advance from 1<sup>st</sup> October 2010. The machine is expected to have a nil residual value at the end of its life. The machine had a fair value of Rs.35,000 at the inception of the lease. The lessor includes a finance cost of 10% per annum when calculating annual rentals.

How should the lease be treated in the Financial Statements of NCM plc for the year ended of 31<sup>st</sup> March 2012?

**(10Marks)**

(c) Briefly explain the following:

- (i) Non Cancellable Lease
- (ii) Sale and Leaseback Transactions

**(05 Marks)**

**(Total 20 Marks)**

04. (a) Differentiate the term "Dilution" and "Anti dilution".

(05 Marks)

(b) The following figures have been calculated from the financial statements (including comparatives) of ABC plc for the year ended 30<sup>th</sup> September 2011:

Increase in profit after taxation 80%

Increase in (basic) earnings per share 5%

Increase in diluted earnings per share 2%

**Required:**

Explain why these three measures of earnings (profit) growth for the same company over the same period can give apparently differing impressions.

(05 Marks)

(d) The profit after tax for TAK plc for the year ended 30<sup>th</sup> September 2011 was Rs 15 million. At 1<sup>st</sup> October 2010 the company had an issue of 36 million equity shares and Rs.10 million 8% convertible loan note. The loan note will mature in 2012 and will be redeemed at par or converted to equity shares on the basis of 25 shares for each Rs.100 of loan note at the loan-note holders' option. On 1<sup>st</sup> January 2011 TAK plc made a fully subscribed rights issue of one new share for every four shares held at a price of Rs.2.80 each. The market price of the equity shares of TAK plc immediately before the issue was Rs.3.80. The Earnings Per Share (EPS) reported for the year ended 30<sup>th</sup> September 2010 was 35 cents. TAK plc's income tax rate is 25%.

**Required:**

Calculate the (basic) EPS figure for TAK plc (including comparatives) and the diluted EPS (comparatives not required) that would be disclosed for the year ended 30<sup>th</sup> September 2011.

(10 Marks)

(Total 20 Marks)



05. (a) How can you define the term 'Investment Property'? and differentiate it from "Owner Occupied Property".

(05 Marks)

(b) (i) A company is selling one model of car. It has no inventory at the start of the period. The company buys 4 cars during the period. Due to price rises, the cars cost: Rs.12000, Rs.13000, Rs.14000, and Rs.15000 in the order they are purchased. The company then sells 2 cars, and uses FIFO to value the inventory.

(ii) Another company is selling one model of car. It also has no inventory at the start of the period. This company also buys 4 cars during the period. Due to price rises, the cars cost: Rs.12000, Rs.13000, Rs.14000, and Rs.15000 in the order that it purchased them. Total cost is Rs.54000. The company sells 2 cars, and uses the weighted-average cost to value its inventory.

**Required:**

Find the value of the inventory at the end of the period and the cost of sales in the cases (i) and (ii).

(10 Marks)

(c) List down the benefits of cash flow information.

(05 Marks)

(Total 20 Marks)