

Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year Second Semester Examination in Bachelor of Commerce
(Specialization in Accounting and Finance) 2017/2018 (January 2020)
(Proper/Repeat)
DAF 3092 Accounting Standards

Answer all questions

Time: Two Hours

01. (a) List out the contents of a complete set of Financial Statements of an entity.
(05 Marks)
- (b) Other Comprehensive Income comprises items of income and expense that are not recognized in profit or loss as required or permitted by other SLFRSs. State five examples of such items.
(05 Marks)
- (c) The cost of inventories shall comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Briefly explain those components.
(05 Marks)
- (d) Distinguish between the terms "Net Realizable Value" and "Fair Value" in relation to inventory valuation.
(05 Marks)
- (Total 20 Marks)**
02. (a) An entity shall report cash flows from operating activities using either the direct method or indirect method. Explain how the net cash flow from operating activities are determined under the indirect method.
(05 Marks)
- (b) State five examples of investing and financing transactions that do not require the use of cash or cash equivalents and not to be included in the statement of cash flows.
(05 Marks)

(c) The following are the extracts from the financial statements of a company for the year ended 31st December 2019:

Extracts from the Profit and Loss account:

	Rs.
Profit after tax and interest	250,000
Depreciation	20,000
Amortization of goodwill	5,000
Profit on disposal of a machine	15,000
Tax	75,000
Interest	25,000

Extracts from the statement of financial position as at 31st December:

	2018 (Rs.)	2019 (Rs.)
Trade Debtors	25,000	30,000
Bills Receivable	15,000	12,000
Prepaid expenses	5,000	6,000
Trade Creditors	28,000	32,000
Bills payable	10,000	8,000
Tax payable	80,000	75,000
Expenses payable	4,000	5,000
Interest payable	5,000	10,000

Required:

Calculate the cash flow from operating activities of the company for the year ended 31st December 2019 in the indirect method.

(10 Marks)

(Total 20 Marks)

03. (a) Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of two criteria. What are those criteria?

(05 Marks)

(b) As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated using judgement based on the latest available, reliable information. Cite five such items which require estimates.

(05 Marks)

(c) State two examples each for "Adjusting Events after the reporting period" and Non-Adjusting Events after the reporting period"

(05Marks)

(d) Briefly explain the components of Contract Revenue.

(05 Marks)

(Total 20 Marks)

04. (a) The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the assets is equal to its carrying amount. Ascertain the tax base of asset in the following cases:

- (i) A machine cost Rs.100,000. Depreciation deducted in the current and prior period is Rs.30,000.
- (ii) Interest receivable has a carrying amount of Rs.50,000.
- (iii) Trade receivables have a carrying amount of Rs.150,000.
- (iv) Dividends receivable from a subsidiary have a carrying amount of Rs.80,000
- (v) A loan receivable has a carrying amount of Rs.200,000.

(05 Marks)

(b) At what circumstances shall the cost of an item of property, plant and equipment be recognized as an asset? How are the items such as spare parts, stand-by equipment and servicing equipment are recognized?

(05 Marks)

- (c) SDL Plc borrowed Rs.1,000,000 loan from a bank at an interest rate of 10% per annum, which was equal to its effective interest rate on 1st April 2018 for the construction of power generation facilities of the company. The loan was received on 1st April 2018 and Rs.300,000 of which was utilized on qualifying asset and the balance was deposited in a bank yielding interest at 6% per annum from that date. Whole of the amount was withdrawn from the bank and paid to contractor on 31st December 2018 when the construction was completed and ready for use. The company returned the loan to bank on 31st March 2019. Power generation facility was available for use in the business from 1st April 2019.

Required:

- a) Calculate the net borrowing cost that should be capitalized as part of the cost of the new store and the finance cost that should be reported in the income statement for the year ended 31st March 2019.
- b) Show the relevant extracts regarding the finance cost in Income Statement for the year ended 31st March 2019 and the extract regarding the value of the non-current asset in the Statement of Financial Position as at 31st March 2019.

(10 Marks)

(Total 20 Marks)

05. (a) Briefly state the three categories of employee benefits.

(05 Marks)

- (b) A related party relationship could have an effect on the profit or loss and financial position of an entity. Briefly explain the meaning of *Related Party* and *Related Party Transaction*.

(05 Marks)

- (c) Distinguish between the following items:

- a) Provision and Other Liabilities
- b) Contingent Assets and Contingent Liabilities
- c) Dilutive shares and Anti-Dilutive shares

(10 Marks)

(Total 20 Marks)