UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level I - Semester I) Repeat Examination – June 2017

ACT 1300 – Intermediate Accounting

Three (03) Hours

Instructions to Candidates:

- **Answer any Five (05) questions.**
- **Use of Calculators is permitted.**
- **Show the question numbers and workings clearly.**

1.

i. "Business managers are accountable to society at large"

a) What do you mean by accountability?

(03 Marks)

b) Why are business managers accountable to all stakeholders?

(03 Marks)

ii. Briefly discuss the role of accounting and financial reporting in the current competitive business environment.

(04 Marks)

iii. Identify the factors influencing financial reporting.

(04 Marks)

iv. Write a brief note on integrated corporate report.

(06 Marks)

(Total 20 marks)

2.

i. List down the enhancing qualitative characteristics of accounting information.

(02 Marks)

ii. 'Accounting Standards supersede the Conceptual Framework.' Briefly elaborate on this statement.

(04 Marks)

iii. Explain the benefits of 'Financial Reporting Conceptual Framework' for an organization.

(06 Marks)

iv. Explain the Regulatory Framework for Accounting in Sri Lanka by summarizing the main regulations coming under each regulatory body.

(08 Marks)

(Total 20 marks)

3.

i. Describe the concept of 'Accounting Harmonization'.

(05 Marks)

ii. State five (05) differences in financial accounting treatments introduced with the IFRS adoption to Sri Lanka.

(05 Marks)

iii. Is it necessary to update Financial Reporting Standards in Sri Lanka from time to time after IFRS adoption? Explain you answer with appropriate examples.

(06 Marks)

iv. State four (04) main disclosure requirements as per SLFRS 1 for an organization that's appying IFRSs for the first time.

(04 Marks)

(Total 20 marks)

4.

i. State the two methods of changing accounting policies and explain the appropriate accounting treatment for each method.

(04 Marks)

ii. Answer the following scenarios based on the guidelines of LKAS 8.

a). DIG PLC acquired an equity investment in an unquoted company on 1 January 2015 which values using fair value. The fair value of the investment as at 31 December 2015 was estimated to be Rs. 200,000 by an actuary. This year, the actuary estimated a fair value of Rs. 250,000 as at 31 December 2016. However, the actuary stated that he had used a different estimation technique this year in arriving at the fair value and that if he had used the same estimation method last year, the fair value of the investment would have been Rs. 180,000 as at the 31 December 2015. It is difficult to conclude whether the change in estimation technique used in determination of the fair value of investment constitutes a change in accounting policy or estimate. If so, how should DIG PLC account for this change?

b) BTL Limited has been valuing inventory on the basis of Weighted Average Cost (WAC) method until 31 March 2015. The new accountant of BTL has introduced First-in-first-out (FIFO) method in valuing the same type of inventories promising higher profits for the company. Due to this change, BTL could reduce the cost of sales by Rs. 345,000 than if it was WAC method. How should BTL Limited correctly account for this new accounting treatment?

(03 marks * 2 = 06 Marks)

iii. Novis Pvt Limited has three main types of products which have several sub- categories under each. Below table provides the details of inventories of Novis Pvt Limited as at 31 December 2016.

Inventory Group	Inventory Item	No. of Units	Cost per Unit (Rs.)	Net Realizing Value per Unit (Rs.)
A	A1	2,000	15/-	17/-
	A2	2,250	20/-	18/-
B	B1	3,500	17/-	15/-
	B2	3,000	18/-	20/-
	B3	3,100	25/-	25/-
C	C1	2,500	40/-	35/-
	C2	2,600	45/-	43/-

Required:

a) Briefly explain the rationale of writing-down inventories.

(02 Marks)

b) Calculate the Inventory value and Written-down value using both item-by-item method and grouping method.

(04 Marks)

c) Write down the journal entries for inventories based on both of the above methods.

(04 Marks)

(Total 20 marks)

5.

i. Answer the following questions applying your knowledge on LKAS 18.

a) A company has sold 1000 units of a product at Rs. 40 per unit. This unit price includes Rs. 5 of sales tax. What is the respective revenue amount which should be recognized in the seller's books?

b) A Limited ships goods by sea to a foreign company, B Limited. As per the terms of the contract, any loss or damage to the goods until it reaches the factory of B Limited shall be borne by A Limited. In this case, when does A Limited recognize revenue?

c) XY Limited is a service supplier. They have performed a service which is not completed as at the year end. The cost incurred is Rs. 500,000. The outcome of the service supplied is not reliably measurable. How should they recognize the revenue of this sales?

[illegible] has sold some goods to CV Limited without retaining any further obligation regarding it. Still the goods are on the way to CV Limited's stores and CV agreed to pay the BV Limited within 30 days. When should BV Limited recognize this revenue?

(02 marks * 4 = 08 Marks)

ii. Aero Limited is a company that operates an aircraft. The aircraft was acquired on 1 January 2008. The details of the cost of the aircraft's components are as follows:

Component	Cost (Rs. Mn)	Depreciation basis
Exterior Structure	800	25 years – straight line
Cabin Fittings	480	12 years – straight line
Engine	300	10 years – straight line

In the year ended 31 December 2015 the aircraft engine had experienced a serious trouble which needs a major repair.

The aircraft log as at 31 December 2015 showed that existing engine is facing technological obselesence and that it cannot be used further. Hence, at the start of January 2016 a decision was taken to replace the engine at a cost of Rs. 420 million. The expected life of the new engine is 12 years. The carrying amount of the old engine has to be charged as a loss for the year 2016. With this engine replacement, the company upgraded the cabin facilities at a cost of Rs. 180 million and the exterior structure was re-painted at a cost of Rs 60 million. After the upgrade to the cabin fittings its estimated remaining useful life was increased to five years (from the date of the upgrade).

All the work on the aircraft can be assumed to have been completed on 1 January 2016. All residual values can be taken as nil.

Required:

Calculate the carrying value of the aircraft (component-wise) as at 31 December 2016 in the statement of financial position and related expenses in the statement of profit or loss for the year ended 31 December 2016.

(10 Marks)

iii. State the definition criteria for Property, Plant and Equipment (PPE) as per LKAS 16.

(02 Marks)

(Total 20 marks)

6.

i. Summarized Comprehensive income statements of Dee Limited for the year ended 31 March 2017 and 2016 are as follows.

Dee Limited

Comprehensive income statements for the year ended 31 March

	2017 (Rs.)	2016 (Rs.)
Net sales	900,000	750,000
Cost of goods sold	(530,000)	(420,000)
Gross profit	370,000	330,000
Operating expenses	(243,000)	(170,000)
Interest expenses	(24,000)	(30,000)
Income before taxes	103,000	130,000
Income tax	(28,000)	(40,000)
Net income	75,000	90,000

Required to:

a) Carry out a horizontal analysis of Comprehensive income statements of Dee Limited.

(05 Marks)

b) Carry out a vertical analysis of Comprehensive income statement of 2017 of Dee Limited.

(05 Marks)

ii. Following information has been summarized from the Financial Statements of two companies in the same industry as at 31 March 2017.

Statements of Financial Positions (Figures in Rs. '000)

	X	Y
Plant and Equipment	1,695	2,400
Cash	210	320
Debtors-Net	330	630
Stock	1,230	950
Total Assets	3,465	4,300
Equity Share Capital	1,100	1,750
Retained Earnings	965	500
8% Debentures	500	1,000
Sundry Creditors	900	1050
Total Liabilities	3,465	4,300

(Figures in Rs. 000)

	X	Y
Sales	5,600	8,200
Cost of Goods sold	(4,000)	(6,480)
Other Operating Expenses	(800)	(860)
Interest Expenses	(40)	(80)
Net profit before tax	760	780
Income taxes	(380)	(390)
Dividends	(100)	(180)
Balance C/F	280	210

Answer each of the following questions by making a comparison of one or more relevant ratios.

a) Which company uses the shareholders' investment in a more profitable manner?
b) Which company is better able (quick ability) to meet its current debts?
c) If you have planned to invest in debentures of one of these companies, which company's debentures would you select?
d) Which company collects its receivable faster? (Assume that all sales on credit basis).
e) Which company has extended a greater payment period for its creditors? (Assume that all purchases on credit basis).

(10 Marks)

(Total 20 marks)