



UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II – Semester V) Examination - July 2017

ACT 2302– Financial Reporting and Regulations

Three (03) Hours

Answer Any Five (05) Questions

Use of Calculators is Allowed

1. i. “IFRS is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements”.

a) State four (04) reasons why a country needs IFRS adoption.

(04 Marks)

b) State three (03) parties who will benefit by adopting SLFRSs in an organization and briefly mention how it helps them.

(03 Marks)

c) What is the main international accounting body which oversees the accounting environment and promotes the rigorous application of standards?

(01 Mark)

d) List two (02) differences between IASs and IFRSs.

(02 Marks)

- ii. Amana (Pvt) Ltd purchased their Land and Building on 1 January 2015 amounting to Rs. 16 Mn, where the land value amounted to Rs. 10 Mn. On 31 March 2017, the company decided to sell the asset due to relocation and management is committed to do so within a year.

At the time of planning to sell the asset, market value of the building amounted to Rs. 13 Mn and expected dismantling costs amounted to Rs. 1Mn.

The company depreciates its buildings at a rate of 10% p.a. and Property Plant and Equipment are valued using the Cost Model.

Company's financial year ends on 31 December.

- a) For what value should the Company recognize the Land & Building as at 31 December 2017?

(02 Marks)

- b) Show the extracts of the Statements of Financial Position as at 31 December 2016 and 31 December 2017.

(04 Marks)

- c) Show the extracts of the Statements of Comprehensive Income for the years ending 2016 and 2017.

(04 Marks)

(Total 20 marks)

2. "SLFRS 13 provides a single source of measurement guidelines and transparent disclosures about fair value."

- i. What is the main difference between SLFRS 13 and other SLFRSs and LKASs?

(01 Mark)

- ii. Define 'Fair Value' as per SLFRS 13.

(01 Mark)

- iii. Briefly explain any two (02) valuation approaches introduced by SLFRS 13.

(02 Marks)

- iv. Draw the hierarchy of inputs for the above valuation techniques.

(03 Marks)

v. State the difference between financial assets and non-financial assets, with appropriate examples.

(02 Marks)

vi. List down two (02) general disclosures required by SLFRS 13, which are to be disclosed at the end of the reporting period.

(02 Marks)

vii. Specify the most suitable valuation approach to each of the following assets:

- a) Cows in a farm used to get milk
- b) A building used for renting out
- c) Office building owned and used by the Company
- d) Treasury Bills purchased by the Company

(04 Marks)

viii. State whether the following statements are 'True' or 'False' according to SLFRS 13.

- a) Non-financial assets must be measured at their highest and best use.
- b) An entity can choose whether to use the principal or the most advantageous market.
- c) It is essential to disclose valuation techniques and inputs used in Financial Statements.
- d) Since the transaction cost is a characteristic of asset/liability it should be included in its Fair Value.
- e) An entity should always minimize the use of relevant observable inputs and maximize the use of unobservable inputs.

(05 Marks)

(Total 20 marks)

3. "Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement".

i. List down four (04) bases of measurement that could be used in financial reporting.

(04 Marks)

ii. State two (02) factors to be considered in selecting alternative measurement approaches.

(02 Marks)

iii. State the basic assumption used in Historical Cost Accounting and provide two (02) reasons why this basic assumption is less valid.

(03 Marks)

iv. List down two (02) impacts of Historical Cost method in times of rising prices.

(02 Marks)

v. "Even though there are limitations in Historical Cost Accounting, it is still used for reporting purpose.". List three (03) reasons for its continuous use.

(03 Marks)

vi. State three (03) alternative approaches introduced for Historical Cost Accounting and provide one (01) limitation of each method.

(03 Marks)

vii. Vision Limited has following assets and liabilities at the beginning of the financial year 2017.

During the year, inflation rate was 15%.

Prepare the adjusted Balance Sheet and determine the profit for the year under Current Purchasing Power Accounting.

	Rs.
Land & Building	30,000
Motor Vehicle	10,000
Fixed deposits	3,000
Trade receivable	4,000
Cash	5,000
Debentures	15,000
Trade payable	6,000
Accruals	2,000
Equity	29,000

(03 Marks)

(Total 20 marks)

4. i. "In the present context, Accountants should be mindful about their job role as the ethical aspect has deteriorating over the last few years."

a) Explain the fundamental principles of code of ethics introduced by The Institute of Chartered Accountants of Sri Lanka.

(05 Marks)

b) State the main ethical issue in Accounting and briefly explain three (03) reasons for them.

(04 Marks)

c) List down four (04) red flags that can be seen in a company when there is an intentional misstatement in financial reporting.

(02 Marks)

d) State three (03) strategies of Earnings Management.

(03 Marks)

e) State two (02) corporate collapses that resulted due to Earnings Management.

(01 Mark)

ii. "It is not only shareholders whom an entity needs to take care of. A Business organization has an obligation which extends its accountability towards society and environment." Do you agree with this statement? Justify your answer.

(05 Marks)

(Total 20 marks)

5. "Annual financial reports of public limited companies should comply with the provisions of Sri Lanka Financial Reporting Standards as well as the provisions of Company Act No. 07, 2007 and the Accounting and Auditing Standard Act No. 15 of 1995".

i. Discuss the prescribed provisions of the Company Act No. 07, 2007 and the Accounting and Auditing Standards Act No. 15 of 1995 relating to annual financial reporting of public limited companies.

(15 Marks)

- ii. Briefly discuss the factors influencing financial reporting practices in Sri Lanka.
(05 Marks)
(Total 20 marks)

6. i. "Currently in corporate reporting there is a move towards integrated reporting practices which mainly attempts to explain value creation process of corporate entities'. Write a note on integrated reporting practices explaining the applicable framework.
(12 Marks)

- ii. Discuss the principles of preparation and presentations of financial statements according to LKAS 01.
(08 Marks)
(Total 20 marks)

7. i. Briefly discuss different types of non-financial disclosures in corporate reports and its significance to stakeholders.
(12 Marks)

- ii. "Harmonization of financial reporting is useful to all stakeholders when they make competitive business decisions". Discuss the advantages and barriers for harmonization of financial reporting practices.
(08 Marks)
(Total 20 marks)
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