



THIRD YEAR EXAMINATIONS IN BACHILOR OF ARTS (EXTERNAL)-2011/2012
HELD IN NOVEMBER / DECEMBER-2013

COM 33 – ACCOUNTING THEORY AND STANDARDS

Answer all Questions

Duration: 03 hours

Calculator can be allowed.

Question 01

- (a) Identify the different users of information of General Purpose Financial Statements and briefly explain the nature of their information needs.
- (b) How does the nature of general purpose financial statement differ from that of a special purpose financial statement?
- (c) What do you mean by other Comprehensive Income? Explain the components of other comprehensive Income.
- (d) Explain the rationale for Other Comprehensive Income to be separately recognized in the income statement?
- (e) Explain the four principal qualitative characteristic of financial statement as stated in Framework for the Preparation and Presentation of Financial Statements.
- (f) Explain the different methods of classification proposed in LKAS-01 for presenting an analysis of expenses recognized in profit or loss of an organization?
- (g) Discuss the impact of the following accounting concepts on the preparation of financial statement.
 - i. Going Concern
 - ii. Accrual basis

(Total 20 Marks)

Question 02

- (a) State three categories of inventories that are excluded from the application of LKAS 02.

(02 Marks)

- (b) Kumara traders provide you the following information on its closing stocks as at 31st March 2012.

Item	Quantity Purchased	Qty in hand at the year end	NRV (per unit in Rs.)	Historical cost (per unit in Rs.)	Cost to sell (per unit in Rs.)
P	3000	1000	15	14	2
Q	4000	2000	20	22	2
R	5000	3000	10	09	2
Total	12000	6000	45	45	2

You are required to calculate the following as at 31st of March 2012.

- i. Fair value of inventory (02 Marks)
- ii. Value of inventory (02 Marks)

(c) The following details related to the inventory of material P,Q,R and S and the finished goods of X and Y of a manufacturing company for the year 2012.

Details	Material P	Material Q	Material R	Material S	Product A	Product B
Units of Closing Stock	2000	3000	3000	2000	4000	5000
Cost per unit in RS.	60	110	70	100	160	210
NRV per Unit in RS.	70	100	60	110	210	160

Determine the value of closing stocks of the manufacturing company as at 31st December 2012.

(05 Marks)

(d) The following transaction occurred in the purchase and issue of material X in year 2012 of Aruna Ltd.

Date	Units Received	Units Issued
02 January	4000 units @ Rs. 4.00 per unit	
20 January	500 units @ 5.00 per unit	
5 February		2000 units
10 February	6000 units @ 6.00 per unit	
2 March		1000 units
5 March		3000 units
15 March	4,500 units @ 5.50 per unit	
20 March		3000 units

Using appropriate formula prescribed in LKAS – 02, calculate the value of closing stock of Aruna ltd.

(04 Marks)
(Total 15 Marks)

Question 03

- (a) What do you mean by the concepts of “foreign currency” and “functional currency”?
(05 Marks)
- (b) Distinguish “foreign entity” and “foreign operation and show example for each of these.
(05 Marks)
- (c) The following information is the detailed foreign currency transactions of XY Ltd for the financial year ending 31st December 2012.

- i. 2500 units of material purchased on credit from a US company on January 2012 for USD. 25,000. 20% of the payment will be made in April 2012, while the balance will be paid in February 2013.
- ii. An Equipment was also purchased on from KL Ltd in March 2012 USD 40,000. 50% of the payment was made in April 2012 and balance will be paid in March 2013.
- iii. You are also given the following information.
Closing inventory s at 31st December 2102 was 500 units.

Average exchange rate in Sri Lankan Rupees (LKRS), the functional currency of the reporting entity during the relevant periods of the above transaction is as follows.

January 2012	140
February 2012	140
March 2012	142
April 2012	142.4
December 2012	144
Average for the year 2012	142

You are required to apply LKAS 21 - The Effect of Changes in Foreign Exchange Rates and pass the journal entries including the sale of material and find out the exchange rate effects (gain /loss) of these transactions.

(10 marks)

(Total 20 Marks)

Question 04

(a) List out the advantages and disadvantages of Current Purchasing Power (CPP) accounting in price level changes.

[05 Marks]

(b) AMR Ltd commenced trading on 1st January 2011. As prices were changing rapidly and the chief financial officer decided to prepare a set of CPP adjusted financial statements each year, in order to illustrate the effects of changing price levels for the benefit of other directors. He decided that value to the business can be approximated reasonably well by the use of Retail Price Indices which are given for the last two years as below.

	RPI
1-1-2011	100
1-11-2011	116
31-12-2011	118
Average 2011	110
1-11-2012	142
31-12-2012	145
Average 2012	128

The financial position in historical cost for the year as at 31st December 2012 as follows;

	Rs
Non-current assets at cost	15,300
Depreciation	<u>(1,500)</u>
Net book value	<u>13,800</u>
Inventories (average purchase date: 1 November)	3,265
Trade receivable	4,488
Cash	<u>306</u>
	<u>8059</u>
Total assets	<u>21,859</u>

Equity	2,000
Accumulated profits	<u>16,218</u>
	18,218
Trade payables	<u>3,641</u>
Total equity and liabilities	<u><u>21,859</u></u>

The entity's income statement in historical cost for the year as at 31st December 2012 as follows:

		Rs
Revenue		27,234
Cost of sales		
Opening inventories	3,060	
Purchases	<u>19,176</u>	
	22,236	
Less: closing inventories	<u>(3,265)</u>	
		<u>18,971</u>
Gross profit		8,263
Depreciation		(750)
Expenses		<u>(985)</u>
Net profit		<u><u>6,528</u></u>

Further Information

- [a] The amount Rs. 7,500 of Non-current assets was purchased at commence of the business. Balancing amount was purchase at beginning of 2012.
- [b] Depreciation is charged at the rate of 10% per annum on straight line method.
- [c] Monetary assets and liabilities are not revalued.
- [d] The monetary items of 2011 was included receivables Rs.4,284, cash Rs.816 and payables Rs.2,856 in historical cost.
- [e] Accumulated profit of 2011 was Rs.10,962 after Current Purchasing Power (CPP) adjusted of 2011.

Required;

Prepare the current purchasing power financial position and income statement for the year ended 31st December 2012.

(20 Marks)

(Total 25 Marks)

Question 05

Moon Ltd prepares its financial statements for the year ended 31 December 2012 in accordance with the LKAS. Financial information for 2012 is given below.

	2012	2011
	Rs. 000	Rs. 000
Accounts receivable	725	850
Trade payables	310	425
Inventory	625	550
Increase in other expenses payable—services	15	
Increase in wages and salaries payable	65	
Increase in accrued interest	2	
Increase in current tax payable	10	
Decrease in deferred tax—asset	7	
Purchases of inventory	5,425	
Sales revenue from the sale of goods and Rendering services	16,540	
Other expenses—services	210	
Wages and salaries expense	4,690	
Interest expense	95	
Income tax expense	205	

Additional Information

- [1] Borrowed (and received) RS. 590,000 (long-term loan).
- [2] Paid Rs. 90,000 to settle long-term borrowing.
- [3] Received interest of Rs. 5,000.
- [4] Paid Rs. 265,000 for property, plant and equipment acquired.
- [5] Received Rs. 150,000 from the sale of equipment.
- [6] Paid Rs. 135,000 to acquire a software license custom-made for its production process.
- [7] Paid Rs. 345,000 to acquire an investment property.
- [8] Purchased a second investment property on credit for Rs. 345,000.

[9] Paid Rs. 110,000 as a reduction of financial lease liability.

The company had Rs. 130,000 in cash and cash equivalents at beginning of the 2012 reporting period and Rs. 5,940,000 in cash and cash equivalents at the end of the 2012 reporting period.

Prepare the cash flow statement for the year ended 31 December 2012 using the direct method of presenting operating cash flows.

(20 marks)