



UNIVERSITY OF KELANIYA – SRI LANKA
Centre for Distance and Continuing Education
Faculty of Commerce & Management Studies

Bachelor of Commerce (Honors) Degree First Year Examination (External) – 2024

April – 2026

BCOM 18035 - Financial Accounting

No. of Questions: Seven (07)

Time: 03 hours

Part A is compulsory

Select any three (03) questions from Part B

Part A

Question No. 01

- a) Describe four stakeholders of an organization and explain why each stakeholder requires financial information from that organization.

(02 Marks)

- b) Despite the significant costs incurred in preparing and presenting financial information, organizations are always required to produce high-quality financial reports. Explain why this requirement exists and justify its importance to users of financial statements

(03 Marks)

- c) Name and explain the qualitative characteristics of useful financial statements as outlined in the Conceptual Framework for Financial Reporting.

(10 Marks)

- d) Aruna and Bimsara are equal partners of Athuru Enterprise decided to amalgamate with Mithuru Enterprise having Chathura and Damith as partners who are sharing profit and losses on the ratio of 3:2. At the date of amalgamate independent statements of financial position of two partnerships were as follows.

	Athuru Rs.	Mithuru Rs.	Assets	Athuru Rs.	Mithuru Rs.
Capital accounts			Land	1000,000	1200,000
Aruna	800,000	-	Building	750,000	765,000
Bimsara	800,000	-	Machinery	325,000	-
Chathura	-	1013,000	Furniture	214,000	215,000
Damith	-	755,000	Stock	239,000	141,000

Current accounts			Debtors	334,000	95,000
Aruna	20,000	-	Cash at hand	20,000	80,000
Bimsara	(13,000)	-			
Chathura	-	-			
Damith	-	10,000			
Revaluation Reserve	1500,000	234,000			
Bank Loan	850,000	-			
Creditors	425,000	484,000			
	<u>2882,000</u>	<u>2496,000</u>		<u>2882,000</u>	<u>2496,000</u>

Athuru Enterprise and Mithuri Enterprise amalgamated and formed a new firm called "Athuru Mithuru Enterprise". The terms and conditions of amalgamation are as follows.

- i. Athuru Mithuru Enterprise does not take over bank loans as its liability. Since Athuru Mithuru Enterprise hasn't had sufficient cash to settle the bank loan, Aruna and Bimsara take over this liability.
- ii. Chathura takes over the furniture of Mithuru Enterprise.
- iii. The new firm takes over assets and liabilities as follows.

	<u>Athuru</u>	<u>Mithuru</u>
Land	Rs.1500,000	Rs. 1450,000
Building	Rs.710,000	Rs.732,000
Machinery	Rs.410,000	-
Furniture	Rs.220,000	-
Stock	Rs.243,000	Rs.137,000

- iv. Other assets and liabilities are taken over at the book value by the new firm.
- v. For amalgamating Athuru Enterprise's and Mithuru Enterprise's goodwill valued as Rs. 300,000 and Rs. 500,000, respectively. The new firm should show goodwill in its books of accounts.
- vi. The new profit-sharing ratio among Aruna, Bimsara, Chathura and Damith will be 2:2:1:1, respectively.
- vii. Capital balance of the new firm should be Rs.6000,000 and it should be barred by each partner at their profit-sharing ratio. If there are deficits or surpluses, those should be adjusted to the current accounts of the partners.

By using the above information, you are required to,

- a) Calculate Purchase Considerations of Athuru Enterprise and Mithuru Enterprise. (06 Marks)
- b) Close the books of Athuru Enterprise and Mithuru Enterprise separately. (14 Marks)

c) Prepare the Statement of Financial Position of “Athuru Mithuru Enterprise”

(05 Marks)

(Total 40 Marks)

Part B

Question No. 02

a) Explain the following concepts as required by LKAS 1 – Presentation of Financial Statements:

- i. Going Concern Assumption
- ii. Accrual Basis of Accounting
- iii. Aggregation

(3x02 Marks)

b) Explain the criteria used to classify assets and liabilities as current or non-current under LKAS 1 - Presentation of Financial Statements. Support your answer with at least one example for each category.

(06 Marks)

c) Name and explain the three (03) valuation approaches permitted under SLFRS 13 - Fair Value Measurement for measuring the fair value of an asset or liability.

(03 Marks)

d) Perera Manufacturing (Pvt) Ltd owns a specialized industrial packaging machine that was purchased 6 years ago. The company is preparing its financial statements for the year ended 31st March 2026 and is required to measure the fair value of the machine in accordance with SLFRS 13.

The following information is available:

- A brand-new machine with equivalent service capacity is currently available in the market for Rs. 15,000,000
- The machine has a total estimated useful life of 15 years
- Due to advancements in automation technology, the machine can now only operate at 80% of its original designed capacity resulting in a functional obsolescence of Rs. 800,000
- The Sri Lankan packaging industry has experienced a significant decline in export demand over the past two years, reducing the economic utility of such machines. The estimated economic obsolescence is Rs. 450,000

Calculate the fair value of the packaging machine as at 31st March 2026 using the Cost Approach under SLFRS 13.

(05 Marks)

(Total 20 Marks)

Question No. 03

- a) Define inventories according to LKAS 2 - Inventories. (03 Marks)
- b) What are the different types of inventory costs recognized under LKAS 2-Inventories? (03 Marks)
- c) XYZ Manufacturing (Pvt) Ltd incurred the following costs during the year:
- i. Purchase price of raw materials - Rs. 500,000
 - ii. Trade discount received - Rs. 40,000
 - iii. Non-refundable import duties - Rs. 20,000
 - iv. Transport and handling costs - Rs. 8,000
 - v. Direct labour cost - Rs. 300,000
 - vi. Factory overheads (production-related) - Rs. 90,000
 - vii. Abnormal wastage of materials - Rs. 35,000
 - viii. Selling and distribution expenses - Rs. 50,000
 - ix. Administrative expenses (not related to production) - Rs. 45,000
 - x. Variable production overheads (e.g., electricity) - Rs. 15,000

Calculate the total cost of inventory to be recognized in the financial statements in accordance with LKAS 2.

(10 Marks)

- d) A company has 60 units of inventory at the year end.
- Cost per unit - Rs. 3,000
 - Estimated selling price per unit - Rs. 3,200
 - Estimated cost to complete per unit - Rs. 150
 - Estimated selling expenses per unit - Rs. 100

Calculate the value of closing inventory in accordance with LKAS 2 Inventories.

(04 Marks)

(Total 20 marks)

Question No. 04

- a) Define Property, Plant and Equipment (PPE) according to LKAS 16. (04 Marks)
- b) What costs are included in the initial measurement of property plant and equipment (PPE)? (06 Marks)
- c) An item of machinery has a carrying amount of Rs. 2,500,000. During the year, it was revalued and its fair value increased to Rs. 3,100,000. Previously, a revaluation decrease of Rs. 200,000 had been recognized in profit or loss relating to this asset. Explain the accounting treatment for the revaluation increase and show how it should be recorded in the financial statements. (05 Marks)

- d) Explain the disclosure requirements for Property, Plant and Equipment in the financial statements according to LKAS 16.

(05 Marks)

(Total 20 Marks)

Question No. 05

- a) Explain following concepts as per LKAS 23 – Borrowing Costs

- i. Borrowing Costs
- ii. Qualifying Assets

(2 x 02 Marks)

- b) Explain when an entity should

- i. Commence capitalization of borrowing cost
- ii. Suspend Capitalization
- iii. Cease Capitalization

In accordance with LKAS 23 – Borrowing Cost

(3 x 02 Marks)

- c) Aloka PLC obtained a loan of Rs. 2,000,000 from a commercial bank on 1 April 2025 at an effective annual interest rate of 12% to finance the construction of a new manufacturing plant.

The funds were utilized as follows:

- Rs. 1,200,000 was used immediately for construction of the plant.
- The remaining Rs. 800,000 was temporarily invested in a fixed deposit earning 8% per annum until required.
- Construction of the plant was completed on 31 December 2025, and the plant was ready for its intended use on that date. The temporary investment was withdrawn on the same date and paid to the contractor.
- The company commenced commercial production on 1 April 2026 from new plant.

You are required to calculate the following

- i. the amount of borrowing costs to be capitalized

(04 Marks)

- ii. amount to be recognized as an expense for the year ended 31 March 2026, in accordance with LKAS 23 Borrowing Costs.

(03 Marks)

- iii. Prepare relevant extracts from Statement of Financial Position as of 31 March 2026 and Statement of Profit or Loss for the year ended 31 March 2026

(03 Marks)

(Total 20 Marks)

Question No. 06

- a) Explain the five-step model introduced by SLFRS 15 - Revenue from Contracts with Customers for revenue recognition. (06 Marks)
- b) Distinguish between performance obligations satisfied over time and at a point in time, with two examples for each case. (06 Marks)
- c) Amaya (Pvt) Ltd entered a contract on 1st April 2025 to sell goods to a customer for Rs. 1,200,000. The contract includes:
- Delivery of goods (stand-alone selling price: Rs. 1,000,000)
 - One-year free maintenance service (stand-alone selling price: Rs. 300,000)
 - The goods were delivered on 1st April 2025, and maintenance service is provided evenly over the year.

You are required to calculate

- i. Allocate the transaction price to each performance obligation. (04 Marks)
- ii. Calculate the revenue to be recognized for the year ended 31st March 2026. (04 Marks)
- (Total 20 Marks)**

Question No. 07

- a) Explain the term "Lease" as defined in SLFRS 16 Leases. (02 Marks)
- b) State and explain the recognition exemptions available under SLFRS 16 Leases. (04 Marks)
- c) From the lessor's perspective, leases are classified as finance leases or operating leases. Explain this classification, clearly distinguishing between the two types (04 Marks)
- d) Platinum PLC entered into a lease agreement to acquire machinery on 1 April 2025. The following information is available:
- Initial payment on 01.04.2025 Rs. 100,000
 - Annual lease payments Rs. 70,000 payable at the end of each year for 4 years (first payment on 31.03.2026)
 - Guaranteed residual value payable at the end of lease is Rs. 15,000
 - Initial direct cost incurred by lessee is Rs. 25,000
 - Interest rate implicit in the lease is 10% per annum

You are required to calculate

- i. Lease liability at commencement date. (02 Marks)
 - ii. Amount to be recognized as the right-of-use (ROU) asset (04 Marks)
 - iii. Prepare extracts of financial statements of Platinum PLC for the year ended 31 March 2026 (04 Marks)
- (Total 20 Marks)**

