

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BMSHONS IN ACCOUNTING AND FINANCE
AFU6421 ADVANCED FINANCIAL ACCOUNTING
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS**



Date: 29th November 2025

Total Marks: 100

Time: 09.30 am – 12.30 pm

INSTRUCTIONS:

- Answer any four (04) questions only.
- Marks have been mentioned at the end of each question.
- All the workings should be shown clearly.
- Start each answer from a new page.
- Use of non-programmable calculators is allowed.
- Number of Questions 06 and Number of pages 08.

Question No. 01

- a) State the objective of general-purpose financial reporting and explain who the primary users of financial statements are. **(5 Marks)**
- b) Define the Accrual Basis of Accounting and explain how it differs from the cash basis with one example. **(4 Marks)**
- c) Explain the qualitative characteristic Faithful Representation, including its three components. **(5 Marks)**
- d) Explain the concept of Materiality and describe how materiality affects the presentation of financial information. **(4 Marks)**
- e) List four (04) key elements of the Regulatory Framework for companies operating in Sri Lanka. **(4 Marks)**
- f) Mention three (03) responsibilities of the Registrar of Companies under the Companies Act No. 07 of 2007. **(3 Marks)**

(Total 25 Marks)

Question No. 02

- a) Jupiter PLC acquired 80% of the ordinary shares of Mercury Ltd on 1 April 2024 for Rs. 24 million. At the date of acquisition, Mercury Ltd's net assets had a fair value of Rs. 26 million. NCI is measured at fair value, and the fair value of NCI at acquisition was Rs. 5.8 million.

You are required to; Calculate the **Goodwill** on the acquisition.

(05 Marks)

- b) The Statements of Financial Position of the **Jupiter PLC** and **Mercury Ltd** as at 31st March 2025 are as follows:

Statements of Financial Position
as at 31st March, 2025

	Jupiter PLC (Rs. '000)		Mercury Ltd (Rs. '000)	
<u>Assets</u>				
<u>Non-Current Assets</u>				
Plant	42,000		18,500	
Investment in Ordinary Shares of Mercury Ltd	24,000			
<u>Current assets</u>				
Inventory at cost	10,600		5,800	
Trade Receivables	8,900		4,100	
Bank Balance	2,500	22,000	500	10,400
Total Assets	88,000		28,900	
<u>Equity and Liabilities</u>				
<u>Equity</u>				
Ordinary Share of Rs. 1.00 each	50,000		12,000	
Retained Earnings	24,400	74,400	12,400	24,400
<u>Current Liabilities</u>				
Trade Payables		13,600		4,500
Total Equity and Liabilities	88,000		28,900	

The following information is also available.

- i. At acquisition, a building in Mercury Ltd with a carrying amount of Rs. 6 million had a fair value of Rs. 7.2 million. Remaining useful life: 12 years.
- ii. In March 2025, Mercury Ltd sold goods costing Rs. 4 million to Jupiter PLC for Rs. 5 million. 40% remained in Jupiter's closing inventory.
- iii. Inter-company receivables/payables amounted to Rs. 600,000.
- iv. NCI is measured at fair value, based on the market value per share = Rs. 2.90, applied to Mercury's total shares.

You are required to; Prepare the Consolidated Statement of Financial Position as at 31st March 2025.

(20 Marks)
(Total 25 Marks)

Question No. 03

Trial Balance of **Sapphire Industries PLC** as at 31.03.2025 is as follows.

	Dr.	Cr.
	(Rs. '000)	(Rs. '000)
Land at Cost	30,000	
Building at Cost	18,500	
Plant & Machinery at Cost	52,800	
Motor Vehicles at Cost	8,200	
Furniture & Fittings at Cost	3,600	
Provision for Depreciation as at 01.04.2024		
Buildings		6,200
Plant & Machinery		27,300
Motor Vehicles		4,600
Furniture & Fittings		1,450
Inventory as at 01.04.2024	26,900	
Trade Receivables & Payables	38,750	15,680
Cash and Bank	9,850	
Bank Overdraft		2,300
10% Debentures		20,000

Debenture Interest Paid	1,000	
Ordinary Share Capital (Rs. 1.00 each)		40,000
General Reserve		38,860
Retained Earnings (01.04.2024)		14,200
Sales		158,400
Purchases	96,300	
Salaries & Wages	22,600	
Director's Fees	2,200	
Insurance	1,050	
Selling & Distribution Expenses	5,800	
Administrative Expenses	4,970	
Audit Fees	420	
Electricity	3,350	
Disposal Proceeds – Motor Vehicle		750
Other Operating Expenses	3,450	
Totals	329,740	329,740

The following additional information is also provided.

- i. Closing inventory as at 31.03.2025 was Rs. 21,600,000 with a net realizable value of Rs. 20,800,000.
- ii. A motor vehicle purchased on 01.10.2020 for Rs. 3,000,000 was sold on 31.12.2024 for Rs. 750,000. No entries were recorded except the sale proceeds. Depreciation rate is 20% per annum Straight Line Method (SLM).
- iii. Depreciation rates under Straight Line Method (SLM),
 - Building – 10% per annum
 - Plant & Machinery – 10% per annum
 - Motor Vehicles – 20% per annum
 - Furniture & Fittings – 12.5% per annum
- iv. Insurance prepaid as at 31.03.2025 amounted to Rs. 80,000.
- v. Accrued expenses as at 31.03.2025,
 - Audit Fees – Rs. 180,000
 - Electricity – Rs. 95,000

vi. Create a provision for impairment of trade receivables at 4% of total receivables.

vii. Income tax expense for the year was estimated to be Rs. 4,900,000.

viii. On 10.04.2025, the Board proposed,

- Transfer Rs. 2,000,000 to General Reserve
- Declare a dividend of Re. 1.50 per Ordinary Share

ix. The financial statements were authorized for issue on 15.07.2025.

You are required to prepare following Financial Statements for the Internal Management purposes.

a.) **Statement of Comprehensive Income** for the year ended 31.03.2025

b.) **The Statement of Financial Position** as at 31.03.2025

(Total 25 Marks)

Question No. 04

The Statements of Financial Position of **Emerald Foods PLC** as at 31st March 2024 and 2025 are as follows.

(Rs. '000)

	31.03.2024	31.03.2025
<u>Assets</u>		
<u>Non-Current Assets</u>		
Property, plant & equipment	32,500	36,200
Investments	1,800	2,400
<u>Current Assets</u>		
Inventory	6,900	8,300
Account Receivables	5,200	4,650
Cash in hand	150	120
Cash at Bank	320	980
Total Assets	46,870	52,650
<u>Equity & Liabilities</u>		
<u>Equity</u>		
Stated Capital - Ordinary Shares	25,000	28,000

Retained Earnings	11,420	12,860
Total equity	36,420	40,860
<u>Non-Current Liabilities</u>		
12% Bank Loan	3,500	5,200
Provisions for Gratuity	1,100	1,450
<u>Current Liabilities</u>		
Accounts Payables	3,750	3,250
Accrued Expenses	500	390
Income Tax Payable	1,600	1,500
Total Equity & Liabilities	46,870	52,650

Additional Information

- During the year, PPE with an original cost of Rs. 3,800,000 which has a net book value of Rs. 1,200,000 was sold for Rs. 1,350,000. The profit on disposal is included in the profit for the year.
- Depreciation for the year amounted to Rs. 4,900,000.
- Investment income of Rs. 160,000 is included in the profit for the year.
- During the year, the company issued new Ordinary Shares worth Rs. 3,000,000.
- A new bank loan was obtained, increasing the loan balance by Rs. 2,000,000 during 2024/25.
- Gratuity payments during the year amounted to Rs. 180,000.
- Income tax expense for the year was Rs. 1,300,000. Tax paid during the year was Rs. 1,400,000.
- A dividend of Rs. 900,000 was paid during the year.
- Interest expense for the year was Rs. 420,000, fully paid in cash.

You are required to; Prepare the Statement of Cash Flows for the year ending 31.03.2025.

(25 Marks)

Question No. 05

- a) Explain the importance of ratio analysis in evaluating a company's financial performance. Discuss three major categories of ratios and describe how each category helps stakeholders make informed decisions.

(9 Marks)

- b) **Metro Furnishings PLC** is a well-established company in the premium furniture and interior décor industry in Sri Lanka.

The company designs, manufactures and sells high-end wooden, engineered wood and upholstered furniture for residential and commercial clients. Over the past three years, **Metro Furnishings PLC** has expanded its retail outlets, introduced modern design collections and strengthened its supply chain by partnering with sustainable timber suppliers. The extracts of the company's financial statements for the years 2023–2025 are given below.

Metro Furnishings PLC**Statement of Comprehensive Income****For the year ended 31st March****(‘000)**

	2023	2024	2025
Revenue	320,000	380,000	450,000
- Cost of Sales	(208,000)	(251,600)	(304,200)
Gross Profit	112,000	128,400	145,800
- Operating Expenses & Taxes	(87,200)	(99,500)	(111,600)
Profit After Tax	24,800	28,900	34,200

Metro Furnishings PLC**Statement of Financial Position****As at 31st March****(‘000)**

	2023	2024	2025
<u>Assets</u>			
<u>Non-Current Assets</u>			
Property, plant and equipment	148,000	165,000	180,000
Total Non-Current Assets	148,000	165,000	180,000
<u>Current Assets</u>			
Inventories	30,000	33,500	37,300
Trade receivables	25,000	30,000	34,700

Cash in hand and at bank	7,000	6,500	8,000
Total Current Assets	62,000	70,000	80,000
Total Assets	210,000	235,000	260,000
<u>Equity and Liabilities</u>			
<u>Equity</u>			
Stated Capital – Ordinary Shares	152,000	142,500	158,000
Total Equity	152,000	142,500	158,000
<u>Liabilities</u>			
Trade payables	19,000	21,400	23,200
Other current liabilities	61,000	71,100	78,800
Total Liabilities	80,000	92,500	102,000
Total Equity and Liabilities	210,000	235,000	260,000

Market Price per Share,

- 2023 – Rs. 18.50
- 2024 – Rs. 20.00
- 2025 – Rs. 23.40

You are required to;

c) Calculate following financial ratios for the years ending 31st March 2024 and 2025.

- | | |
|-------------------------|--------------------------------|
| i. Gross Profit Margin | v. Inventory Turnover |
| ii. Net Profit Margin | vi. Debt to Equity Ratio |
| iii. Quick Assets Ratio | vii. Return on Total Assets |
| iv. Current Ratio | viii. Earnings per Share (EPS) |

(16 Marks)

(Total 25 Marks)

Question No. 06

Write **short notes** on the following accounting concepts/standards.

- a) Recognition criteria for assets and liabilities under the Conceptual Framework
- b) Events After the Reporting Period (LKAS 10)
- c) Impairment of Assets (LKAS 36)
- d) Borrowing Costs eligible for capitalization (LKAS 23)
- e) Revenue recognition under SLFRS 15 – Five-Step Model

(5 X 5 Marks)

(Total 25 Marks)

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