

**THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES HONOURS IN
ACCOUNTING AND FINANCE**

LEVEL: 04

SEMESTER II

AFU4304: INTERMEDIATE ACCOUNTING

FINAL EXAMINATION – 2024/2025

DURATION – 03 HOURS



Date: 11.01.2026

Time: 1.30pm – 4.30pm

Instructions:

- Answer the Question No. 1, and any three (03) questions from Part II.
- Show your workings clearly.
- Use of non-programmable calculators is allowed.

Part I (Compulsory Question)

Question No. 1

- (a) Explain the meaning of “Reserves” in the context of companies registered under the Companies Act No. 7 of 2007 with appropriate examples. **(05 Marks)**
- (b) Explain the objective of general-purpose financial statements. **(06 Marks)**
- (c) The following Trial Balance has been prepared from the books of accounts of Gagana PLC as at 31st March 2025.

Trial Balance as at 31st March 2025 (Rs. '000)

	Dr	Cr
Cost of sales/ Sales	18,000	40,000
Inventory as at 31 st March 2025	2,400	
Capital work-in-progress	7,000	
Administration Expenses	2,700	
Distribution Expenses	1,400	
Property, Plant and Equipment – at cost/ revaluation		
Land	12,000	
Building	19,000	
Motor Vehicles	15,000	
Office Equipment	3,000	
Accumulated Depreciation as at 1 st April 2024		
Building		5,000
Motor Vehicles		6,000
Office Equipment		400
Cash at Bank	2,100	
Cash in Hand	600	
Trade Receivables/ Trade Payables	4,000	3,200

Allowance for Impairment in Trade Receivables as at 1 st April 2024		500
Investments in equity shares	5,000	
Income Tax Paid	1,100	
Interim Dividend Paid	300	
Other Payables		600
Long-term Bank Loan		5,000
Other Expenses	1,400	
Stated Capital - 2,000,000 Ordinary Shares		24,000
Revaluation Reserve		3,000
Retained Earnings as at 1 st April 2024		7,000
Income tax payable as at 1 st April 2024		300
	95,000	95,000

The following additional information is also provided:

- On 1st April 2024, the company's motor vehicle was sold for Rs.8,000,000. The proceeds from this sale have been debited to bank account and credited to sales account. Other than that, no entries have been made in the books of accounts in this respect.
- The physical inventory count at the year-end revealed that the year-end inventory included slow moving inventories costing Rs.500,000. This inventory was sold for Rs.100,000 to a customer on 5th April 2025.
- Property, Plant and Equipment are to be depreciated on the straight-line basis at the following rates.

Building	: 5% per annum
Motor Vehicles	: 10% per annum
Office Equipment	: 20% per annum
- The company decided to write off Rs 80,000 as bad debts and maintain a provision of 10% of the remaining trade receivables to account for their impairment.
- The total income tax liability for the year of assessment 2024/25 is estimated to be Rs.1,200,000. Income tax payments made during the year ended 31st March 2025 was recorded in the "Income Tax Paid" account, which included Rs 200,000 paid as the final tax payment for the year 2023/24.
- The company's policy is to revalue its land every two years' time. According to this policy, the land was revalued on 31st March 2025 to Rs.17,000,000. However, this revaluation was not recorded in the books of accounts.

- During the year, the company completed the construction of its new administration building and used it for its operation from 1st January 2025. Total construction cost incurred on this building was recorded under the capital work-in-progress account. Part of this cost was financed through a bank loan of Rs 5,000,000 obtained on 1st January 2024 at an annual interest rate of 10%. The principal loan amount will be repaid annually in five equal amounts of Rs. 1,000,000 each, starting from 1st January 2026.

You are required to prepare the following in a form suitable for publication for Gagana PLC:

- (i) Statement of Comprehensive Income for the year ended 31st March 2025.
- (ii) Statement of Financial Position as at 31st March 2025.
- (iii) Statement of Changes in Equity for the year ended 31st March 2025.
- (iv) Statement showing movements of Property, Plant and Equipment for the year ended 31st March 2025.

(29 marks)

(Total: 40 marks)

Part II

Question No. 2

- (a) Explain the term “Cash and Cash Equivalents” as per the Sri Lanka Accounting Standard No. 07.
- (b) The Statements of Financial Position of Beeta Ltd. as at 31st March 2024 and 31st March 2025 are given below:

Beeta Ltd.
Statement of Financial Position
As at 31st March

	2025	2024
	Rs'000	Rs'000
Non-Current Assets		
Property, Plant and Equipment	5,300	4,700
Less: Accumulated Depreciation	(830)	(700)
Carrying Value	4,470	4,000
Current Assets		
Inventories	730	1,075
Trade and Other Receivables	2,100	-1,600
Cash and Cash Equivalents	1,200	1,100
	4,030	3,775
Total Assets	8,500	7,775
Equity and Liabilities		
Equity:		
Stated Capital	5,500	5,000
Retained Earnings	830	375
	6,330	5,375

Non-Current Liabilities		
Debentures	1,200	1,200
Lease liability	400	570
	1,600	1,770
Current Liabilities		
Trade Payables	250	320
Current proportion of lease liability	120	170
Income Tax Payable	200	140
	570	630
Total Equity and Liabilities	8,500	7,775

The following additional information is also provided:

- An equipment was disposed for Rs.1,200,000 on 1st June 2024. The cost of the equipment was Rs.1,400,000 and accumulated depreciation as at 1st June 2024 was Rs.150,000. In addition to this transaction, the difference in Property, plant and equipment represents a purchase of a motor vehicle during the year ended 31st March 2025.
- Interest expenses on debentures and leases for the year amounted to Rs. 210,000, which has already been paid during the year.
- The income tax expense for the year ended 31st March 2025 was Rs. 250,000.
- The company paid a dividend of Rs 105,000 during the year ended 31st March 2025.

You are required to prepare Statement of Cash Flows for Beeta Ltd. for the year ended 31st March 2025 using the indirect method.

(16 Marks)

(Total: 20 marks)

Question No. 3

The following information has been extracted from the Financial Statements of Silva (Pvt) Ltd. as at/ for the year ended 31st March 2024 and 31st March 2025.

For the year ended 31st March 2025 (Rs'000)

Sales	22,170
Cost of sales	12,620
Other income	1,600
Administrative expenses	3,590
Distribution expenses	2,070
Finance cost	780
Income tax expense	1,250

	As at 31 st March 2024 (Rs'000)	As at 31 st March 2025 (Rs'000)
Property, plant and equipment	21,300	20,600
Inventory	1,450	1,130
Trade receivables	1,640	1,310
Cash and cash equivalents	710	600
Bank loans	5,750	6,340
Trade payables	1,480	1,570
Stated capital – Ordinary shares	16,000	15,000
Retained earnings	1,870	730

The following ratios have been calculated for the year ended 31st March 2024:

Gross profit margin	51%	Quick ratio	1.8 times
Net profit margin	18%	Inventory turnover	9.1 times
Return on assets	22%	Trade receivables turnover	7.4 times
Return on equity	10%	Property, plant and equipment turnover	1.9 times
Current ratio	2.2 times	Interest coverage ratio	2.5 times

You are required to;

(a) Calculate the following ratios based on the above information for the year ended / as at 31st March 2025:

- | | |
|-------------------------|---|
| (i) Gross profit margin | (vi) Quick ratio |
| (ii) Net profit margin | (vii) Inventory turnover |
| (iii) Return on assets | (viii) Trade receivables turnover |
| (iv) Return on equity | (ix) Property, plant and equipment turnover |
| (v) Current ratio | (x) Interest coverage ratio |

(10 Marks)

(b) Analyze the performance of Silva (Pvt) Ltd. for the year ended/as at 31st March 2025 based on the financial ratios calculated above.

(10 Marks)

(Total: 20 marks)

Question No. 4

(a) Discuss the application of Section 24 of the Partnership Ordinance in relation to distribution of profit or loss of a particular financial year.

(06 Marks)

(b) Nelum and Olu are conducting a business as a partnership sharing profits and losses in the ratio of 3:2 respectively. On 1st April 2024, Manel was admitted to the business as a partner with a capital of Rs.1,400,000 in cash. The new partnership agreement includes the following conditions.

- Partners are entitled to receive 5% interest on capital provided to the business.

- The monthly salaries of partners are: Rs. 10,000 to Nelum, Rs. 15,000 to Olu, and Rs. 10,000 to Manel.
- The profit-sharing ratio among Nelum, Olu and Manel is 2:2:1 respectively.
- Upon the admission of Manel, the business's goodwill was valued to Rs.1,500,000.

The partnership earned a profit of Rs 1,340,000 during the year ended 31st March 2025. The partners' capital and current account balances as at 1st April 2024 (before making any of the above adjustments) are provided below.

Capital account balances;	Rs. '000
Nelum	1,500
Olu	1,100
Current account balances;	
Nelum	800 Cr
Olu	500 Dr

You are required to prepare the following for the year ended 31st March 2025;

- Profit or loss appropriation account.
- Partners' capital and current accounts.

(14 Marks)

(Total: 20 marks)

Question No. 5

- State two (02) objectives of Integrated Reporting. **(04 Marks)**
- Explain three (03) qualitative characteristics that enhance the usefulness of financial information. **(06 Marks)**
- Explain the accounting treatments for research and development costs as per the Sri Lanka Accounting Standard No. 38. **(04 Marks)**
- Explain how revenue is measured and recognized as per the Sri Lanka Financial Reporting Standard No. 15. **(06 Marks)**

(Total: 20 marks)

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