ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2018

(AA21) ADVANCED FINANCIAL ACCOUNTING

20-01-2018
Morning
[8.45 – 12.00]

- **Instructions to candidates** (Please Read Carefully)**:**

No. of Pages : 11
No. of Questions : 10

  (1) **Time Allowed:** *Reading : 15 minutes*

  Writing : 03 hours

  (2) ***All questions should be answered.***

  (3) ***Answers*** *should be in* ***one language****, in the* ***medium*** *applied for, in the* ***booklets*** *provided.*

  (4) *Submit all workings and calculations. State clearly assumptions made by you, if any.*

  (5) *Use of Non-programmable calculators is* ***only*** *permitted.*

  (6) ***Action Verb Check List*** *with definitions is attached. Each question begins with an* ***action verb*** *excluding OTQ's. Candidates should answer the questions based on the* ***definition*** *of the verb given in the Action Verb Check List.*

  (7) *100 Marks.*

SECTION A

Objective Test Questions (OTQs)

Seven (07) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. ***1.1*** *to* ***1.5****. Write the number of the selected answer in your answer booklet with the number assigned to the question.*

1.1 **Anuradha (Pvt) Ltd.** acquired a machinery on 01st April 2016 at a cost of Rs.1,000,000/-. The expected lifetime of the machinery is 5 years and estimated residual value is Rs.100,000/-:

The carrying amount of the machinery as at 31st March 2017 would be:

(1) Rs.720,000/-. (2) Rs.800,000/-. (3) Rs.820,000/-. (4) Rs.700,000/-.

(02 marks)

1.2 The following details relate to trade receivables of **Perera Ltd.** for the year ended 31st March 2017 and all the sales of the business are made on credit basis:

	Rs.
Trade receivables as at 01st April 2016	130,000
Cash received from customers	686,400
Discounts allowed	1,400
Trade receivables as at 31st March 2017	181,000

Based on the above information, total sales for the year ended 31st March 2017 would be:

(1) Rs.734,440/-. (2) Rs.736,000/-. (3) Rs.738,800/-. (4) Rs.740,360/-.

(02 marks)

1.3 **Ruchira** is not keeping proper accounting records for his retail business. All sales of the business are on cash basis. The following information was extracted for the year ended 31st March 2017:

	Rs.
Inventory as at 01st April 2016	670,000
Purchases for the year	1,840,000
Inventory as at 31st March 2017	540,000

If the business keeps a gross profit of 20% on sales, the gross profit for the year ended 31st March 2017 would be:

(1) Rs.1,970,000/-. (2) Rs.492,500/-. (3) Rs.394,000/-. (4) Rs.2,364,000/-.

(02 marks)

1.4 Which one of the following statements is correct with reference to a Non-Profit Organization (NPO)?

(1) When preparing the financial statements, Sri Lanka Accounting Standards are required to be complied with.

(2) The main source of income is not the profit earned from sales of goods and services.

(3) Members' subscription is accounted on accrual basis.

(4) All of the above. (02 marks)

1.5 **Perera (Pvt) Ltd.** is a Value Added Tax (VAT) registered company. The following information was extracted from the books of the company for the quarter ended 31st March 2017:

	Rs.
Sales (Exclusive of VAT)	4,939,940
Purchases supported with Tax Invoices (Exclusive of VAT)	1,777,900
Credit balance of VAT control account as at 01st January 2017	22,500

The applicable VAT rate is 15%.

Credit balance of VAT control account as at 31st March 2017 was:

(1) Rs.496,806/-. (2) Rs.474,306/-. (3) Rs.289,185/-. (4) Rs.451,806/-.

(02 marks)

*Write answers to question No. **1.6** to **1.7** in your answer booklet with the number assigned to the question.*

1.6 **State** the provisions for each of the following according to section 24 of the Partnership Ordinance 1890:

(a) Interest on loans given by partners.

(b) Management of the partnership.

(c) Profits and losses. (06 marks)

1.7 A company values its inventory using the FIFO method. As at 01st December 2017 the company had 600 units in inventory, valued at Rs.140/- each. During the month ended 31st December 2017, the following transactions took place:

Date	Description	Units	Per Unit Price (Rs.)
20th December 2017	Purchases	400	220
25th December 2017	Sales	750	310
30th December 2017	Purchases	300	245

Compute the value of the inventory as at 31st December 2017. (04 marks)

———— *End of Section A* ————

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

The bank column of the cash book and the bank statement of **Tex Garments (Pvt) Ltd.** for the month of December 2017 are given below:

Tex Garments (Pvt) Ltd.
Cash Book (Bank Column) for the month of December 2017

Date	Description		Dr. (Rs.)	Cr. (Rs.)	Balance (Rs.)
01.12.2017	Initial deposit to open the account		1,000,000	-	1,000,000
02.12.2017	Cash deposit		480,760		1,480,760
09.12.2017	Payment to creditors	637101		132,580	1,348,180
15.12.2017	Rent Payment	637102		125,540	1,222,640
15.12.2017	Cash deposit		12,580		1,235,220
18.12.2017	Debtor's deposit		766,600		2,001,820
18.12.2017	Cheque deposit		154,540		2,156,360
21.12.2017	Electricity payment	637103		12,000	2,144,360
21.12.2017	Payment to creditors	637104		52,480	2,091,880
25.12.2017	Salaries - direct transfer			1,955,640	136,240
31.12.2017	Balance		-	-	136,240

Tex Garments (Pvt) Ltd.
Bank Statement for the month of December 2017

Date	Description	Reference	Dr. (Rs.)	Cr. (Rs.)	Balance (Rs.)
01.12.2017	Balance B/F		-	-	-
01.12.2017	Cash Deposit – Opening of Account			1,000,000	1,000,000
01.12.2017	Cheque Book Charges		500		999,500
02.12.2017	Cash Deposit			480,760	1,480,260
15.12.2017	Cash Deposit			12,580	1,492,840
18.12.2017	Direct Deposit	Ref.12542165		766,600	2,259,440
18.12.2017	Cheque Deposit			154,540	2,413,980
22.12.2017	Cheque Payment	637103	12,000		2,401,980
22.12.2017	Bank Charges		13,670		2,388,310
25.12.2017	Transfer	Ref.23154851	1,955,640		432,670
30.12.2017	Standing order	Loan No. 62587413	69,000		363,670
30.12.2017	Cheque Payment	637101	132,580		231,090
31.12.2017	Balance				231,090

You are required to:

Prepare the following:

(a)   The Adjusted Cash Book as at 31st December 2017.   (03 marks)

(b)   The Bank Reconciliation Statement as at 31st December 2017.   (02 marks)
                                                                                  (Total 05 marks)

Question 03

The salary details of **Pay Well (Pvt) Ltd.** for the month of December 2017 were as follows:

Basic Salary (Rs.)	Allowances (Rs.)	Gross Salary (Rs.)	Loan installments (Rs.)	EPF Deduction (Rs.)	Net Salary (Rs.)
8,700,000	5,400,000	14,100,000	(2,300,000)	(696,000)	11,104,000

The following additional information is also provided:

(1)   Contribution to Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) are calculated on the basic salary.

(2)   The employees' contribution and company's contribution to the EPF are 8% and 12% respectively.

(3)   Company's contribution to ETF is 3%.

You are required to:

Prepare the journal entries including entries for cash transactions to record the above transactions.
                                                                                  (05 marks)

Question 04

The following details were extracted from the books of accounts of **Amal Traders,** a sole proprietorship, for the month of December 2017:

	Rs.
Creditors' Control account as at 01st December 2017	2,350,000
Debtors' Control account as at 01st December 2017	1,780,000
Transactions that occurred during the month:	
Purchases on credit	6,100,000
Sales on credit	4,800,000
Discounts received from creditors	250,000
Payments made to the creditors	4,050,000
Amounts received from the debtors	3,950,000
Bad debts written-off	70,000

You are required to:

Prepare the following for the month of December 2017:

(a)   Debtors' Control Account.   (03 marks)

(b)   Creditors' Control Account.   (02 marks)
                                                                                  (Total 05 marks)

A, B and **C** were partners of **Ranmal Partnership** sharing profits and losses in the ratio of 4 : 3 : 3 respectively. **B** decided to retire from the partnership on 01st April 2017 and **A** and **C** agreed to continue the partnership sharing profits and losses equally.

As at 01st April 2017, the goodwill of the partnership was valued at Rs.930,000/- and it was decided not to maintain a goodwill account in the books of accounts.

In addition, motor vehicles were revalued on 01st April 2017 and details of the Motor vehicles of the partnership were as follows:

	Cost	Accumulated Depreciation as at 01st April 2017	Revalued amount as at 01st April 2017
Motor Vehicles	1,800,000	900,000	1,200,000

Motor vehicles were carried at revalued amounts in the books of accounts.

You are required to:

Prepare journal entries to record the above goodwill and revaluation. (05 marks)

Question 06

Details of Motor Vehicles of **Sri Haran Enterprise** are as follows:

(1) Delivery van which was purchased on 01st July 2014 at a cost of Rs.3,200,000/- was disposed on 01st July 2016 for Rs.2,000,000/-.

(2) A new delivery truck was purchased on 01st October 2016 at a cost of Rs.4,500,000/-.

(3) The policy of the business is to depreciate motor vehicles at 25% on the straight line basis at cost.

(4) Assume that there are no other motor vehicles in the business.

You are required to:

Compute the following for the year ended 31st March 2017:

(a) Profit (Loss) on the Motor Vehicle Disposal. (03 marks)

(b) Depreciation charge for the year on motor Vehicles. (02 marks)
(Total 05 marks)

———— *End of Section B* ————

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Happy Sports Club is a club providing sports facilities to its members while running a restaurant and renting its sports equipment for external events:

Receipts and payments account of **Happy Sports Club** for the year ended 31st December 2017 was as follows:

Receipts and Payments Account (Rs.'000)

B/B/F 01st January 2017	6,000	Payments to suppliers of the restaurant	7,200
Donations	7,500	Other expenses of the restaurant	1,200
Rent income on sport equipment	8,200	Secretarial expenses	600
Membership subscriptions	26,300	Stationery, printing and advertising expenses	1,500
Sales of restaurant	14,700	Sports equipment (Purchased on 31st December 2017)	18,000
		Sundry expenses	5,100
		B/C/F 31st December 2017	29,100
	62,700		**62,700**

Assets and liabilities were as follows: (Rs.'000)

	01st January 2017	31st December 2017
Trade payables (suppliers) of the restaurant	1,200	1,400
Membership subscriptions received in advance for the subsequent year	400	200
Membership subscriptions in arrears	600	300
Sports equipment	54,000	57,000
Inventories at Restaurant (at cost)	3,200	2,600
Accrued expenses (stationery, printing and advertising)	500	800

Donations should be recognized as an income for the period. There were no additions or disposals of the Property, Plant and Equipment during the year, except the sports equipment purchased on 31st December 2017.

You are required to:

Prepare the following:

(a)   Restaurant trading account for the year ended 31st December 2017.   (03 marks)

(b)   Income and expenditure account for the year ended 31st December 2017 for the **Happy Sports Club**.   (07 marks)

(Total 10 marks)

Question 08

The following information was extracted from **Gami Collections**, a sole proprietorship for the year ended 31st March 2017:

(1) Assets and Liabilities of the business are as follows:

	As at 01st April 2016 (Rs.)	As at 31st March 2017 (Rs.)
Office equipment (at carrying value)	550,000	495,000
Inventory	192,000	180,000
Cash in Hand	230,000	?
Cash at Bank	300,000	?
Trade payables	160,000	282,000
Accrued electricity	-	3,000

(2) All sales are made on cash basis keeping a gross profit of 50% on cost.

(3) During the year ended 31st March 2017 an amount of Rs.456,000/- has been deposited in the bank account out of cash sales.

(4) The following payments were made by cheques during the year:

	Rs.
Trade Payables	190,000
Electricity	13,000
Other expenses	55,000

(5) In addition to the above, the following payments were made by cash:

	Rs.
Trade Payables	168,000
Wages	90,000
Drawings	10,000

(6) All purchases were made on credit basis.

You are required to:

Prepare the Trial Balance of **Gami Collections** as at 31st March 2017.   (10 marks)

Manu and **Anu** were partners of **MA partnership** sharing profits or losses in the ratio of 3 : 1 respectively. On 01st April 2016, they agreed to admit **Danu** as a partner, on the following terms and run the partnership under the name of **MAD Partners**:

(1) Profit and losses are to be shared among **Manu, Anu** and **Danu** in the ratio of 5 : 3 : 2 respectively.

(2) Interest is paid on capital at 12% per annum on the opening capital account balances.

(3) **Manu** is entitled to a monthly salary of Rs.30,000/-.

The following balances were extracted from the trail balance of the partnership as at 31st March 2017:

	Dr. (Rs.)	Cr. (Rs.)
Capital accounts as at 01st April 2016:		
Manu		8,000,000
Anu		4,000,000
Danu		6,000,000
Current accounts as at 01st April 2016:		
Manu		1,000,000
Anu	400,000	
Drawings During the year:		
Manu	300,000	
Anu	200,000	
Danu	100,000	

The net profit before appropriation of the partnership for the year ended 31st March 2017 was Rs.3,000,000/-.

You are required to:

Prepare the followings of the **MAD Partners** partnership for the year ended 31st March 2017:

(a) Profit and Loss Appropriation Account. (04 marks)

(b) Partners' Current Accounts. (06 marks)

(Total 10 marks)

───────── *End of Section C* ─────────

SECTION D

A compulsory question

(25 marks)

Question 10

The following Trial Balance of **Lucky 13 (Pvt) Ltd.** as at 31st March 2017 is given below:

(Rs.'000)

	Dr.	Cr.
Stated Capital (300,000 Ordinary Shares)		32,000
Retained Earnings as at 01st April 2016		12,000
12% Debentures		20,000
Land and Buildings at Cost (Land - Rs.30 million)	80,000	
Office Equipment at Cost	40,000	
Accumulated Depreciation as at 01st April 2016:		
Buildings		5,000
Office Equipment		25,000
Inventory as at 31st March 2017 at cost	60,000	
Trade Receivables	43,000	
Allowance for Trade Receivables as at 01st April 2016		1,600
Cash at bank	1,000	
Income Tax Paid	3,200	
Sales		463,600
Cost of Sales	265,500	
Distribution Expenses	51,700	
Administration Expenses	68,000	
Debenture Interest Paid	1,200	
Trade Payables		50,900
Income Tax Provision as at 01st April 2016 (for year of assessment 2015/16)		3,500
	613,600	**613,600**

The following additional information is also provided:

(1) The net realizable value (NRV) of the inventories as at 31st March 2017 was estimated to be Rs.59,200,000/-.

(2) One of the customers who owed Rs.1,500,000/- to the company as at 31st March 2017 has been declared bankrupt on 20th May 2017 thus making the entire amount due becoming irrecoverable. It was further decided to maintain the allowance at 5% of the balance of trade receivables.

(3) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

Buildings	:	25 years
Office equipment	:	10 years

There were no additions or disposals of Property, Plant and Equipment during the year.

(4) The company has issued 200,000 numbers of 12% debentures at Rs.100/- each on 01st April 2016 for which the interest is to be paid biannually. Interest paid during the year has been charged to the debenture interest paid account.

(5) The following accrued and prepaid expenses are to be accounted as at 31st March 2017:

	Rs.
Accrued advertising expenses	800,000
Prepaid Insurance	120,000

(6) The total income tax liability for the year 2015/16 was finalized at Rs.3,200,000/- and fully settled during the year ended 31st March 2017. The amount paid has been charged to the income tax paid account. The total income tax liability for the year 2016/17 is estimated to be Rs.3,800,000/-.

(7) The Directors of the company have approved the financial statements for publication on 30th June 2017.

You are required to:

Prepare the following for the use of the management of **Lucky 13 (Pvt) Ltd.**:

(a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2017.   (10 marks)

(b) Statement of Financial Position as at 31st March 2017.   (15 marks)

(Total 25 Marks)

–––––––––––––––––––––––––––– *End of Section D* ––––––––––––––––––––––––––––

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	**Define**	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
	Summarize	Give a brief statement of the main points (in facts or figures).

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	**Apply**	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	**Analyze**	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.