



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2020

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

- (1) **Time Allowed:** Reading : 15 minutes  
Writing : 03 hours

18-01-2020  
Morning  
[8.45 – 12.00]

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

- (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)**

Eight (08) compulsory questions

(Total 20 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.4. Write the number of the selected answer in your answer booklet with the number assigned to the question.

- 1.1** A motor vehicle acquired on 01<sup>st</sup> April 2016 by **ABC Ltd.** was sold for Rs.1,400,000/- on 30<sup>th</sup> September 2019. Cost of motor vehicle was Rs.3,200,000/-. If the company depreciates the motor vehicles at 20% per annum on the straight-line basis at cost, profit on disposal of the motor vehicle was:

- (1) Rs.120,000/-      (2) Rs.440,000/-      (3) Rs.200,000/-      (4) Rs.760,000/-  
(02 marks)

- 1.2** Which one of the following is an example for Property, Plant and Equipment?

- (1) A partly completed vehicle in a vehicle manufacturing company.  
 (2) Furniture held for sale in a furniture shop.  
 (3) Computers held for office use.  
 (4) All of the above.

(02 marks)

**1.3** Of the following, select the correct statement with reference to a public limited company:

- (1) Maximum number of shareholders is fifty (50).
- (2) Minimum number of directors is one (01).
- (3) Shares can be issued to the public.
- (4) Issue of the annual report is not compulsory. (02 marks)

**1.4** The following statements are relating to Inventories:

- (a) The First In First Out (FIFO) basis assumes that items of inventory that were purchased or produced first are sold first.
- (b) Inventories should be measured only at the cost.
- (c) Inventories cover the assets held for office use.

Of the above, the correct statement/s, is/are as per LKAS - 02 Inventories:

- (1) (a) only.
- (2) (c) only.
- (3) (a) and (c) only.
- (4) (a) and (b) only. (02 marks)

Write answers to question No. 1.5 to 1.8 in your answer booklet with the number assigned to the question.

**1.5** Anny, Benny and Canny were partners sharing profit and losses in the ratio of 3:2:1 respectively. Benny decided to retire from the partnership and Anny and Canny decided to continue the partnership sharing profit and losses in the ratio of 5:3 respectively.

Calculate the gaining ratio of Anny and Canny of the new partnership. (03 marks)

**1.6** State three(03) provisions of Section 24 of the partnership ordinance 1890. (03 marks)

**1.7** State three(03) components of financial statements. (03 marks)

**1.8** The following information was extracted from the books of **Samanala Sports Club**, for the year ended 31<sup>st</sup> December 2019:

Number of members as at 01 <sup>st</sup> January 2019	123
Number of new members joined during the year 2019	34
Membership fees received during the year 2019	Rs.504,000/-
Annual membership fee per member	Rs.3,000/-

Composition of membership fees received during the year 2019 was as follows:

For the year 2018	9 members
For the year 2019	151 members
For the year 2020	8 members

Based on the above information, compute the members' subscription to be recognized in the income and expenditure account for the year ended 31<sup>st</sup> December 2019. (03 marks)

End of Section A

## SECTION B

Five (05) compulsory questions

(Total 25 marks)

### Question 02

Bank balance as per the cash control account of **Diana (Pvt) Ltd.** as at 31<sup>st</sup> December 2019 showed a debit balance of Rs.625,250/-. But balance appeared in the bank statement was Rs.169,750/-. The following reasons were revealed subsequently for the difference:

- (1) A cheque issued to a creditor of Rs.72,500/- had not been presented to the bank for payment.
- (2) A customer has deposited an amount of Rs.110,200/- directly to the bank and it was not recorded in the cash control account.
- (3) A standing order given to the bank for the monthly loan installment of Rs.550,000/- had not been recorded in the cash control account.
- (4) Unrealized cheque deposits as at 31<sup>st</sup> December 2019 were Rs.85,000/-.
- (5) Bank charges for the month of Rs.3,200/- had not been recorded in the cash control account.

**You are required to:**

**Prepare** the following for the month of December 2019:

- (a) Adjusted Cash Control Account (Cash Book). (03 marks)
  - (b) Bank Reconciliation Statement. (02 marks)
- (Total 05 marks)

### Question 03

- (a) The following information was extracted from the books of **HC (Pvt) Ltd.:**

Debtors' control account balance of **HC (Pvt) Ltd.** as at 01<sup>st</sup> December 2019 was Rs.297,750/- and transactions occurred during the month of December 2019 are as follows:

	Rs.
Credit sales	204,300
Returns inwards	27,675
Cash received from debtors	117,450
Discounts allowed	7,500
Bad debts written off	1,290

**You are required to:**

**Prepare** Debtors' Control Account for the month of December 2019 based on the above information. (03 marks)

- (b) Debtors' control account balance as at 31<sup>st</sup> December 2019 of **HC (Pvt) Ltd.** was different from its total individual debtors' ledger balances. Total of individual debtors' ledger balances as at 31<sup>st</sup> December 2019 was Rs.340,410/-.

Subsequent checking revealed the following errors:

- (1) The total of the sales journal (sales daybook) for the December 2019 had been overcast by Rs.17,025/-
- (2) A cash receipts from a customer amounting to Rs.9,300/- had been correctly recorded in the debtors' control account, but no entry has been made in the relevant individual ledger account.
- (3) A credit sales invoice of Rs.22,500/- had been mistakenly entered into the Purchase Journal (Purchase Daybook).

**You are required to:**

**Prepare** the revised Debtors' Control Account for the month of December 2019. (02 marks)  
(Total 05 marks)

#### Question 04

**Danny, Berny** and **Merely** are partners of partnership business **DBM Partners**, sharing profits and losses in the ratio of 5:3:2 respectively.

- (1) The partnership agreement provides the followings terms:
  - Interest on capital is 12% per annum is paid on the partners' opening capital account balances.
  - **Berny** is entitled to receive a salary of Rs.1,800,000/- per annum.
- (2) The following balances were extracted from the trial balance of the partnership as at 31<sup>st</sup> March 2019:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Capital Accounts as at 01 <sup>st</sup> April 2018:		
<b>Danny</b>		12,000
<b>Berny</b>		9,000
<b>Merely</b>		6,000
Current Account as at 01 <sup>st</sup> April 2018:		
<b>Danny</b>		3,000
<b>Berny</b>	1,200	
Drawings:		
<b>Danny</b>	1,500	
<b>Berny</b>	750	
<b>Merely</b>	1,500	

- (3) The net profit of the partnership before appropriation for the year ended 31<sup>st</sup> March 2019 was Rs.8,775,000/-.

**You are required to:**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31<sup>st</sup> March 2019. (05 marks)

### Question 05

The following information was extracted from the payroll of **Mahee (Pvt) Ltd.** for the month of December 2019:

Basic Salary (Rs.)	Overtime (Rs.)	EPF Deductions (8%) (Rs.)	Net Salary (Rs.)
10,875,000	13,650,000	870,000	23,655,000

Employer's contributions to the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) are at 12% and 3% respectively from the basic salary.

Monthly salaries are paid on the last working day of the relevant month and EPF and ETF are paid on 10<sup>th</sup> of the next month.

**You are required to:**

**Prepare** the following ledger accounts of **Mahee (Pvt) Ltd.** for the month of December 2019:

- (a) Salary Control Account. (02 marks)
  - (b) EPF Payable Account. (02 marks)
  - (c) ETF Payable Account. (01 mark)
- (Total 05 marks)

### Question 06

The following information was extracted for the month of December 2019 from the books of **What More (Pvt) Ltd.**, a company registered for Value Added Tax (VAT):

	Rs.
Sales (Exclusive of VAT)	11,250,600
VAT liable local purchases made during the month (Inclusive of VAT)	5,949,985
VAT liable services obtained during the month (Inclusive of VAT)	1,312,035
Credit balance of VAT control account as at 01 <sup>st</sup> December 2019	225,700

The applicable VAT rate is 15%.

Assume that all purchases and services are supported with Tax Invoices.

**You are required to:**

**Prepare** the VAT Control Account for the month of December 2019. (05 marks)

————— *End of Section B* —————

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Star Dancing Club** shows dramas for the public and operates a restaurant for the use of its members.

The following information is extracted from the books of **Star Dancing Club**:

- (1) The receipts and payments account of the **Star Dancing Club** for the year ended 31<sup>st</sup> December 2019 is as follows:

(Rs.'000)

Receipts and Payments Account			
Balance B/F 01 <sup>st</sup> January 2019	11,250	Secretarial expenses	900
Donations	12,450	Rent on building	5,400
Ticket sales	32,250	Payments made to Restaurant suppliers	27,300
Members' Subscriptions	8,100	Restaurant expenses	4,800
Restaurant sales	42,450	Fees for guest artists	1,500
		Printing and stationery expenses	2,250
		Theatre equipment (acquired on 31 <sup>st</sup> December 2019)	22,500
		Drama production expenses	27,000
		Other expenses on dramas	6,150
		Balance C/F 31 <sup>st</sup> December 2019	8,700
	<b>106,500</b>		<b>106,500</b>

- (2) Other assets and liabilities as at 01<sup>st</sup> January 2019 and 31<sup>st</sup> December 2019 were as follows:

(Rs.'000)

As at	01 <sup>st</sup> January 2019	31 <sup>st</sup> December 2019
Payable to restaurant suppliers	1,800	2,100
Members' subscriptions received in advance	300	75
Members' Subscriptions in arrears	750	450
Theatre equipment at carrying value	67,500	81,000
Inventories at cost - restaurant	4,200	3,300

- (3) Donations should be recognized as an income for the period.
- (4) There was no disposal of theatre equipment during the year.
- (5)  $\frac{1}{2}$  of the rent on building is relevant to restaurant premises.

**You are required to:**

**Prepare** the following for the **Star Dancing Club** for the year ended 31<sup>st</sup> December 2019:

- (a) Restaurant Trading Account. (03 marks)
- (b) Income and Expenditure Account. (07 marks)

(Total 10 marks)

## Question 08

**Saduni, Kasuni and Naduni** were partners of partnership business **Moon Trading** sharing profit and losses in the ratio of 2:2:1 respectively.

The following information is provided:

- (1) The partnership agreement provides the following terms:
  - Partners are entitled to receive an interest of 12% per annum on partners' opening capital balances.
  - **Kasuni** is entitled to receive a monthly salary of Rs.60,000/-.
- (2) The following balances were extracted from the trial balance of **Moon Trading** as at 31<sup>st</sup> December 2019:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Capital accounts as at 01 <sup>st</sup> January 2019:		
<b>Saduni</b>		7,500
<b>Kasuni</b>		9,000
<b>Naduni</b>		10,000
Current accounts as at 01 <sup>st</sup> January 2019:		
<b>Saduni</b>		3,000
<b>Kasuni</b>	1,200	
<b>Naduni</b>		1,500

- (3) On 31<sup>st</sup> December 2019, **Naduni** decided to retire from the partnership due to her personal commitments. After retirement of **Naduni**, profits and losses are to be shared between **Saduni** and **Kasuni** in the ratio of 3:2 respectively.
- (4) On 31<sup>st</sup> December 2019, the goodwill of the partnership was valued at Rs.1,500,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.
- (5) Non-current assets were revalued on 31<sup>st</sup> December 2019 as follows:

	Revalued Amount as at 31 <sup>st</sup> December 2019 (Rs.'000)	Cost as at 31 <sup>st</sup> December 2019 (Rs.'000)	Accumulated Depreciation as at 31 <sup>st</sup> December 2019 (Rs.'000)
Land and Buildings	5,400	7,500	4,200
Motor Vehicles	900	2,250	750

Non-current assets are carried at revalued amounts in the books of the partnership.

- (6) It was decided to transfer amounts payable to **Naduni** at her retirement to loan account.
- (7) The net profit of the partnership before appropriation for the year ended 31<sup>st</sup> December 2019 was Rs.4,500,000/-.

**You are required to:**

**Prepare** the following for **Moon Trading** for the year ended 31<sup>st</sup> December 2019:

- (a) Partners' Capital Accounts. (05 marks)  
(b) Partners' Current Accounts. (05 marks)  
(Total 10 marks)

### Question 09

The following information was extracted from the books of **Pavani Traders** a sole proprietorship:

- (1) Assets and liabilities are as follows: (Rs.'000)

	As at 01 <sup>st</sup> April 2018	As at 31 <sup>st</sup> March 2019
Land and Buildings at carrying value	7,500	7,200
Motor vehicles at carrying value	10,500	11,100
Inventory	3,750	3,600
Trade Debtors	4,200	4,050
Insurance Prepaid	750	900
Bank Balance	1,950	?
Trade Creditors	2,400	2,025
Accrued Electricity	330	255

- (2) **Pavani** does not keep proper books of accounts and bank statements from 01<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 are summarized as follows:

Receipts	Rs.
Cash Sales	5,250,000
Receipts from trade debtors	3,750,000
<b>Payments:</b>	
Payments to trade creditors	1,875,000
Cash purchases	2,250,000
Purchase of a new motor vehicle	1,500,000
Insurance	375,000
Electricity	420,000
Wages	2,100,000
Other expenses	495,000

- (3) **Pavani** had deposited all cash receipts into the bank account and all the payments are made through cheques.

**You are required to:**

**Prepare** Trial Balance as at 31<sup>st</sup> March 2019 for **Pavani Traders**. (10 marks)

End of Section C



## SECTION D

A compulsory question

(25 marks)

### Question 10

The Trial Balance of **Aseni (Pvt) Ltd.** as at 31<sup>st</sup> March 2019 is given below:

(Rs.'000)

	Dr.	Cr.
Stated capital (2,000,000 Ordinary Shares)		108,000
Retained earnings as at 01 <sup>st</sup> April 2018		25,600
12% Debentures		40,000
Land and buildings at cost (land - Rs.20 million)	100,000	
Motor vehicles at cost	75,000	
Accumulated depreciation as at 01 <sup>st</sup> April 2018:		
Buildings		32,000
Motor vehicles		30,000
Inventory at cost as at 31 <sup>st</sup> March 2019	184,900	
Trade receivables	74,300	
Cash in hand and cash at banks	14,730	
Trade payables		162,300
Allowance for trade receivables as at 01 <sup>st</sup> April 2018		1,800
Sales		839,780
Cost of sales	641,350	
Distribution expenses	43,600	
Electricity and water	12,200	
Directors' fees	12,000	
Staff salaries	35,800	
Printing and stationery	3,700	
Telephone charges	2,800	
Vehicle maintenance expenses	3,300	
Audit fees	1,100	
Other administration expenses	8,200	
Interim dividends paid to ordinary shares	18,500	
Debenture interest paid	2,400	
Income tax provision as at 01 <sup>st</sup> April 2018		12,700
Income tax paid	18,300	
<b>Total</b>	<b>1,252,180</b>	<b>1,252,180</b>

The following additional information is also provided:

- (1) The Net Realizable Value (NRV) of the inventories as at 31<sup>st</sup> March 2019 was estimated to be Rs.184,200,000/-.
- (2) One of customers who owed 2,300,000 to the business was declared bankrupt on 20<sup>th</sup> July 2019 and that amount receivable became irrecoverable. Further it was decided to maintain an allowance for trade receivables at 5% of the balance trade receivables.
- (3) The following accrued and pre-paid expenses are to be accounted as at 31<sup>st</sup> March 2019:  

Vehicle maintenance expenses paid in advance	:	Rs.200,000/-
Accrued electricity	:	Rs.100,000/-
- (4) Buildings and motor vehicles are depreciated on the straight-line basis at cost and useful lifetime of the assets is estimated as follows:  

Buildings	:	20 years
Motor vehicles	:	10 years
- (5) The total income tax liability for the year 2017/18 was Rs.13,300,000/- and the entire amount was paid during the year. The total income tax liability for the year of assessment 2018/19 is estimated to be Rs.11,500,000/-.
- (6) On 01<sup>st</sup> April 2018, 40,000 numbers of 12% debentures at Rs.1,000/- each were issued and interest is to be paid biannually.
- (7) The financial statements were authorized for issue by the Board of Directors on 31<sup>st</sup> July 2019.

**You are required to:**

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2019. (13 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2019. (12 marks)
- (Total 25 Marks)

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*End of Section D*

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## ACTION VERB CHECK LIST

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

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

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