

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2022

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

- **Instructions to candidates** (Please Read Carefully):
 - (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 will begin 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.**

19-03-2022

Morning

[08.45 – 12.00]

No. of Pages : 10

No. of Questions : 07

SECTION A

Objective Test Questions (OTQs)

(Total 25 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 Which one of the following elements of financial statements is directly related to the measurement of financial position of the company?

- (1) Expenses.
 - (2) Income.
 - (3) Assets.
 - (4) Cash flows.
- (02 marks)

1.2 **Mag Ltd.** has sold a motor vehicle for Rs.3,000,000/- on 01st January 2021. This was purchased at Rs.3,600,000/- on 01st April 2018. The estimated useful life of the motor vehicle is 5 years and the motor vehicles are depreciated on the straight-line basis at cost.

Based on the above information, profit on disposal of the motor vehicle is:

- (1) Rs.1,560,000/-.
 - (2) Rs.1,380,000/-.
 - (3) Rs.1,000,000/-.
 - (4) Rs.800,000/-.
- (02 marks)

1.3 Consider the following statements:

- (a) Debenture holders are considered as equity holders of the company.
- (b) Debentures have a specific fixed interest rate.
- (c) Debenture holders do not have voting rights.

Of the above, the correct statement/s, in relation to debentures is/are:

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

1.4 Which one of the following is correct with reference to the provisions of Section 24 of the Partnership Ordinance of 1890?

- (1) Profits or losses of the partnership should be shared equally among partners.
- (2) Partners are entitled to receive interest on capital employed.
- (3) A new partner can be admitted with the consent of majority of existing partners.
- (4) Partners are not entitled to reimburse the expenses they incur on partnership's activities. (02 marks)

1.5 The following information has been extracted from a manufacturing company for a period of 3 months:

	Budgeted	Actual
Production overhead (Rs.)	1,200,000	1,100,000
No. of machine hours	25,000	21,500

The production overhead is:

- (1) Over absorbed by Rs.68,000/-.
 - (2) Under absorbed by Rs.68,000/-.
 - (3) Over absorbed by Rs.168,000/-.
 - (4) Under absorbed by Rs.168,000/-.
- (02 marks)

Write the answers for question No 1.6 to 1.10 in your answer booklet with the number assigned to the question.

1.6 State two(02) criteria to be met to classify an asset as a current asset. (02 marks)

1.7 State three(03) advantages of a piece rate system. (03 marks)

- 1.8 Ruwan and Saman** were in a partnership sharing profits and losses equally. On 31st March 2021, **Wasantha** joined the partnership as a new partner and new profits and losses sharing ratio among **Ruwan, Saman and Wasantha** is 2 : 1 : 3 respectively.

Calculate the sacrificing ratio. (03 marks)

- 1.9** Explain briefly the difference between a provision and a contingent liability as per LKAS 37. (03 marks)

- 1.10 ABC Ltd.** values its inventory using the First In First Out (FIFO) method. The following information was extracted from the records of company in relation to inventory:

Date	Description	Unit Price (Rs.)	Quantity (in units)
01.01.2022	Balance	48	200
10.01.2022	Purchases	50	300
18.01.2022	Sales	-	300
22.01.2022	Purchases	49	200

Calculate the value of inventory as at 31st January 2022. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

The following information was extracted from the books of **Tharu Traders**, a sole proprietorship, owned by **Tharu**:

- (1) Cash Control Account (Cash Book) of **Tharu Traders** for the year ended 31st December 2021 is as follows:

	Dr. (Rs.)		Cr. (Rs.)
B/B/F as at 01 st January 2021	100,000	Office Equipment acquired on 01 st January 2021	75,000
Receipts from Trade Receivables	2,683,540	Payments to Trade Payables	1,744,301
		Rent	180,000
		Salaries and wages	360,000
		Electricity	27,000
		Drawings made by Tharu	385,000
		Bank Charges	6,900
		B/C/F as at 31 st December 2021	5,339
	2,783,540		2,783,540

- (2) During the year ended 31st December 2021, a customer has returned the goods purchased by him on credit for Rs.125,000/- due to different colour and **Tharu** has accepted the return. However, this has not been adjusted in the books of accounts.
- (3) Assets and liabilities as at 31st December 2021 and 31st December 2020 were as follows:

(Rs.)

	As at 31 st December 2021	As at 31 st December 2020
Office Equipment at Carrying Value	725,000	700,000
Inventory at Cost	341,050	327,250
Trade Receivables	452,800	250,725
Cash at Bank	5,339	100,000
Trade Payables	320,458	150,475
Accrued Electricity	7,000	16,000

You are required to:

Prepare the Trial Balance of Tharu Traders as at 31st December 2021. (10 marks)

Question 03

Rajith, Malith & Udith were in a partnership business under the name of **RMU Partners** sharing profits & losses in the ratio of 1:2:2 respectively.

- (1) The partnership agreement provides the following:
- **Malith** is entitled to receive a monthly salary of Rs.35,000/-.
 - Interest on capital at 6% per annum is paid on opening capital account balances.
- (2) Partners' Capital and Current Accounts balances as at 01st January 2021 were as follows:

(Rs'000)

	Dr.	Cr.
Capital Accounts:		
Rajith		3,000
Malith		6,000
Udith		6,000
Current Accounts:		
Rajith		125
Malith	560	
Udith		25

- (3) On 31st December 2021, **Malith** decided to retire from the partnership and **Rajith** and **Udith** decided to continue the business under the same business name sharing profits & losses equally.

- (4) The net profit of the partnership after charging **Malith's** salary for the year ended 31st December 2021 was Rs.7,000,000/-.
- (5) On 31st December 2021, goodwill of the Partnership was valued at Rs.1,750,000/- and it was agreed to adjust through the partners' capital accounts without creating a goodwill account.
- (6) Non-current assets of **RMU Partners** were revalued on 31st December 2021 as follows:

(Rs.'000)

	Cost	Accumulated Depreciation as at 31 st December 2021	Revalued amount as at 31 st December 2021
Land and Building	8,000	1,500	8,000
Motor vehicles	5,000	3,000	7,500

Non-current assets were agreed to be carried at revalued amounts in the partners' books of accounts.

- (7) It was decided to transfer the amount payable to **Malith** at his retirement to a loan account.

You are required to:

Prepare the following of the **RMU Partners** for the year ended 31st December 2021:

- (a) Partners' Capital Accounts. (06 marks)
- (b) Partners' Current Accounts. (04 marks)
- (Total 10 marks)

Question 04

Happy Sport Club is a sports club providing sports activities for members while operating a restaurant for the members. The following information was extracted from the books of **Happy Sport Club**:

- (1) Receipts and Payments of **Happy Sport Club** for the year ended 31st December 2021 were as follows:

Receipts	Rs.	Payments	Rs.
Sales on Restaurant	1,575,000	Salaries & Wages	1,500,000
Membership Fee	2,250,000	Purchases to Restaurant	682,500
Income on Renting the Playground	557,000	Rent on Building	350,000
		Electricity and Water	291,000
		Playground Maintenance	228,000
	4,382,000		3,051,500

(2) Other assets of the sport club are as follows: (Rs.)

	As at 31 st December 2021	As at 01 st January 2021
Inventory – Restaurant	33,500	52,000
Sport Equipment at Carrying Value	1,300,000	1,550,000
Furniture in Restaurant at Carrying Value	300,000	325,000

(3) As at 01st January 2021, there were no subscription in arrears or received in advance. Out of the total club members of 372, only 300 members paid their membership fee for the year 2021. Annual membership fee per member is Rs.7,500/-.

(4) The following expenses are to be distributed to the Restaurant as follows:

Salaries and Wages	30%
Electricity and Water	40%
Rent on Building	25%

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

You are required to:

Prepare following for the **Happy Sport Club** for the year ended 31st December 2021:

(a) Income Statement of the Restaurant. (04 marks)

(b) Income and Expenditure Account. (06 marks)

(Total 10 marks)

Question 05

(A) The employees of **Win (Pvt) Ltd.** are getting the basic wages based on the working hours. In addition to this, a bonus is paid on the saved time based on the number of units produced.

The following information of an employee is provided:

Normal working hours per week	8 hours per day and 5 working days a week
Basic Wage Rate per hour	Rs.275/-
Standard time allowed for one unit	12 minutes
Bonus	120% of the saved time at basic wage rate
Number of units produced by the employee during the last week	265 units

Based on the above information,

You are required to:

Calculate the total earnings of the employee for the last week. (05 marks)

(B) You are given the following information with reference to **Product X** of **Flex (Pvt) Ltd.:**

Annual Demand	4,000 units
Purchase price per unit	Rs.12,500/-
Ordering Cost	Rs.450,000/- per order
Lead Time	3 - 4 months
Annual Holding cost per unit	20% of the purchase price
Usage	150 - 400 units

You are required to:

Calculate the following:

(a) Economic Order Quantity (EOQ). (03 marks)

(b) Re-order Level. (02 marks)

(Total 10 marks)

Question 06

(A) **B (Pvt) Ltd.** has two production departments and one service department.

(1) The company has estimated the following production overhead cost for the month of April 2022:

Cost Item	Cost (Rs.)
Depreciation on Machinery	24,000
Factory Rent	350,000
Supervision Cost	120,000
Electricity	150,000
Total	644,000

(2) Overhead apportionment basis are given below:

Description	Basis	Production		Service	Total
		Manufacturing	Packaging	Maintenance	
Floor Area Occupied	Square Feet	1,400	3,350	250	5,000
Employees	No. of Employees	40	100	20	160
Value of Machinery	Rs.	620,000	930,000	50,000	1,600,000
Electricity	Kilowatts	1,000	300	200	1,500
Apportionment of cost - Maintenance		60%	40%		

You are required to:

Prepare a statement showing how the overheads are allocated and apportioned to each Production Department. (06 marks)

(B) The following information was extracted with reference to **Job No.100** of **Z Ltd.:**

Direct Raw Material	1,800 kilogram @ Rs.120/- per kilogram
Direct Labour	300 hours @ Rs.800/- per hour
Production Overheads	80% on Direct Labour Cost

The company keeps a 15% profit on cost.

You are required to:

Calculate the price to be charged on **Job No. 100.**

(04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Go Lanka (Pvt) Ltd.** as at 31st March 2021 is as follows:

(Rs.'000)

	Dr.	Cr.
Stated Capital (5,000,000 Ordinary Shares)		250,000
Retained Earnings as at 01 st April 2020		108,000
12% Debentures		15,000
Motor Vehicles	75,000	
Office Equipment	53,000	
Accumulated Depreciation as at 01st April 2020:		
Motor vehicles		19,000
Office Equipment		27,500
Trade Receivables	357,500	
Trade Payables		287,425
Inventory as at 31 st March 2021	189,841	
Cash at Bank	144,319	
Sales		850,000
Cost of Sales	603,500	
Incentives to Sales Team	8,500	
Office Rent	1,125	
Advertising	25,500	
Water and Electricity	1,225	
Bank Charges	560	
Debenture Interest	900	
Salaries, EPF and ETF	95,744	
Other Administration Expenses	27	
Income Tax Provision for the year 2019/20		55
Income Tax Paid	3,055	
Allowance for Trade Receivables as at 01 st April 2020		2,750
EPF and ETF Payables		66
	1,559,796	1,559,796

The following additional information is also provided:

- (1) Plant and Equipment are to be depreciated on the straight-line basis at cost and the useful life of Plant and Equipment is as follows:

Motor Vehicles	4 years
Office Equipment	5 years

- (2) On 20th March 2021, a batch of inventories costing Rs.250,000/- was destroyed by flood and it was decided to write off these inventories from the books of accounts. An amount of Rs.160,000/- was approved for this damage by the insurance company as an insurance claim which is receivable as at 31st March 2021. No accounting entries have been recorded in the books of accounts in this regard.
- (3) After considering the business disruptions occurred due to COVID-19, the Board of Directors has decided to increase the allowance for Trade Receivables by another Rs.560,000/- as at 31st March 2021.
- (4) Monthly office rent is Rs.75,000/-. As at 31st March 2021, the company had paid three months' rent in advance.
- (5) The income tax of Rs.55,000/- for the year of assessment 2019/20 and Rs.3,000,000/- for the year of assessment 2020/21 totaling to Rs.3,055,000/- have been paid during the year. The income tax for the year of assessment 2020/21 was estimated as Rs.3,825,000/-.
- (6) The company issued 12% debentures on 01st April 2020 and its par value is Rs.100/- per debenture. Interest is to be paid bi-annually.
- (7) The Financial Statements were authorized for issue by the Board of Directors on 31st May 2021.

You are required to:

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income) for the year ended 31st March 2021. (13 marks)
- (b) Statement of Financial Position as at 31st March 2021. (12 marks)
- (Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.