

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

INTERMEDIATE EXAMINATION - JANUARY 2012

(54) ACCOUNTING & CONTROL SYSTEMS

Time: 03 hours

28-01-2012

Morning

[9.00 – 12.00]

• **Instructions to candidates**

- (1) *This paper consists of three (03) Sections A, B & C.*
- (2) *Five (05) questions should be answered as follows:*
 - *Question No.01 of Section A.*
 - *Both questions of Section B.*
 - *Any two (02) questions from Section C.*
- (3) *Answers should be in one language, in the medium applied for, in the booklets provided.*
- (4) *Attach all workings and computations. State clearly assumptions made by you, if any.*
- (5) *Use of calculators is permitted.*
- (6) *100 Marks.*

No. of Pages : 08

No. of Questions : 06

SECTION - A

Multiple Choice Questions
Answer all questions of this Section
30 marks

- 01.** Select from (1), (2), (3), (4) the **most correct** answer to each of the following questions. Write the number of the selected answer in your answer booklet with the English letter assigned to the question.
- (A) Select the two underlying assumptions according to the framework issued by the ICASL for the preparation and presentation of Financial Statements:
- (1) Entity Concept and Accrual Basis.
 - (2) Accrual Basis and Historical Cost Concept.
 - (3) Going Concern and Substance over Form.
 - (4) Accrual Basis and Going concern.
- (B) Which of the following has the authority to issue Accounting Standards of Sri Lanka:
- (1) Sri Lanka Accounting and Auditing Standards Monitoring Board.
 - (2) The Institute of Chartered Accountants of Sri Lanka.
 - (3) Sri Lanka Accounting Standards Committee.
 - (4) Registrar of Companies.
- (C) Closing inventory of **ABC Limited** has been valued at cost of Rs.950,000/- as at 31st March 2011. A damaged inventory items costing Rs.40,000/- is included in the above. It is estimated that after repairing the damaged inventories at a cost of Rs.6,000/-, those can be sold for Rs.25,000/-. After taking above facts into consideration, the inventory balance that should be reflected in the balance sheet of **ABC Limited** as at 31st March 2011 is:
- (1) Rs. 910,000/-.
 - (2) Rs. 929,000/-.
 - (3) Rs. 935,000/-.
 - (4) None of the above.

- (D) Which of the following transactions is recorded in the purchase journal / day book of a firm?
- (1) All cash purchases made with the intention of resale.
 - (2) All credit purchases made with the intention of resale.
 - (3) All credit purchases made.
 - (4) All purchases made with the intention of resale.
- (E) A Debit Note received from a buyer for shortfall of the quantity of goods delivered to him will be recorded in the sellers books of accounts as:
- (1) Debit return inwards account and credit debtors account.
 - (2) Debit creditors account and credit return outward account.
 - (3) Debit sales account and credit return outward account.
 - (4) None of the above.
- (F) You are given the following information in relation to the debtors control account for the year ended 31st March 2011.

	Rs.
Balance as at 01 st April 2010 (Dr.)	791,200
Credit sales	5,000,000
Receipts from debtors during the year	3,800,000
Balance as at 31 st March 2011 (Dr.)	1,421,200
Sales return	220,000
Payments made to creditors erroneously entered in the debtors control account	200,000

As per above data, bad debts written off during the year is:

- (1) Rs.150,000/-.
 - (2) Rs.550,000/-.
 - (3) Rs.150,200/-.
 - (4) Rs. 570,000/-.
- (G) Information given below is extracted from books of **Ray Show (Pvt) Ltd.** for the month of December 2011.

	Rs.		Rs.
Basic salary	650,000	Loan instalments	52,000
Fixed allowance	175,000	PAYE	7,500
Over time	225,000	EPF 8%	66,000
		EPF 12%	99,000
		ETF 3%	24,750
	1,050,000		249,250

Based on the above information, the net salary payable to employees for the month is:

- (1) Rs. 800,750/-.
 - (2) Rs. 924,500/-.
 - (3) Rs. 825,500/-.
 - (4) Rs.249,250/-.
- (H) Which set of the following ratios is most appropriate to measure the short term liquidity of a business:
- (1) Return on equity ratio and return on assets ratio.
 - (2) Gross profit ratio and net profit ratio.
 - (3) Current ratio and gross profit ratio.
 - (4) Current ratio and quick assets ratio.

SECTION - B

Compulsory Questions

Answer both questions of this Section

50 marks

02. The following trial balance was extracted from the books of **Techno First (Pvt) Limited** as at 31st March 2011

Trial Balance as at 31st March 2011

	Dr. Rs.'000	Cr. Rs.'000
Stated Capital - 600,000 Ordinary Shares		72,000
General Reserves		6,000
Retained Earnings as at 01 st April 2010		3,200
Property, Plant & Equipment at Cost		
Land & Buildings (Cost of Land is Rs.25 million)	75,000	
Office Equipment	12,200	
Furniture & Fittings	8,800	
Motor Vehicles	24,200	
Provision for Depreciation as at 01st April 2010		
Buildings		20,500
Office Equipment		4,880
Furniture & Fittings		3,520
Motor Vehicles		7,800
Inventories as at 31 st March 2011	7,400	
Cost of Sales/ Turnover (Sales)	34,000	64,000
Trade Receivables / Trade Payables	8,800	7,300
Provision for Doubtful Debts as at 01 st April 2010		370
Cash in Hand & at Bank	520	
Fixed Deposits	6,750	
Income Tax paid	2,100	
Administration Expenses	3,900	
Selling & Distribution Expenses	3,500	
Finance Expenses	2,100	
12% Bank Loan		1,800
Interim Dividends Paid	3,000	
Interest Received		900
Total	192,270	192,270

The following additional information is provided:

- (1) In arriving at the value of closing stocks as at 31st March 2011 a stock sheet which includes fast moving items costing Rs.55,000/- was not taken into account due to an oversight.
- (2) A motor vehicle cost of Rs.1,200,000/- was transferred to 'X' as a part exchange for a new vehicle value of Rs.3,000,000/- from 'X' on 01st April 2010. Accumulated depreciation of the Motor Vehicle transferred was Rs.500,000/- at the date of exchange.

The agreed balance amount of this transaction of Rs.2,200,000/- was paid in cash and debited to the Motor Vehicle account. No other entries have been made in this regard.

(3) Assets are to be depreciated on straight line basis at cost as follows:

Buildings	5% per annum
Office Equipment	20% per annum
Furniture & Fittings	20% per annum
Motor Vehicles	25% per annum

(4) Bank loan was obtained on 01st March 2011 and capital is repayable in 12 equal monthly instalments along with the relevant interest thereon. Interest on outstanding balance for the previous month and capital component of the loan are payable on the first day of each month commencing from 01st April 2011.

(5) An amount of Rs.40,000/- due from **Malan** cannot be recovered and hence decided to write it off. A general provision of 5% should be made from the balance trade receivable as at 31st March 2011.

(6) Accrued expenses and prepayments as at 31st March 2011 are as follows:

	Rs.	
	Accrued Expenses	Prepayment
Selling & distribution expenses	-	102,000
Administration expenses	261,000	-

(7) Tax payable for the year is estimated as Rs.2,200,000/-.

(8) It was decided to transfer Rs.1,000,000/- to the General Reserves by the Board of Directors at its meeting held on 02nd April 2011.

You are required to prepare, the following for the use of management of Techno First (Pvt) Limited,

(a) Income Statement for the year ended 31st March 2011. (15 marks)

(b) Statement of Financial Position (Balance Sheet) as at 31st March 2011. (10 marks)

(Total 25 marks)

03. (A) List four(04) instances where valuation of Goodwill of a partnership is required. (02 marks)

(B) **Hiru** and **Sandu** were partners of **Visual Partners**, sharing profits and losses between them in the ratio of 3 : 2 respectively.

Tharu, the senior manager of the partnership was admitted as a new partner with effect from 01st July 2010 on the following conditions:

(1) The total value of the goodwill of the partnership was valued at Rs.18,000,000/- and it was agreed to make required adjustments through the capital accounts without showing the goodwill in the books of account.

(2) An amount of Rs.11,000,000/- is to be introduced by **Tharu** as his share of capital and Goodwill.

- (3) Partners are entitled for the following monthly salaries as per new partnership agreement:

Hiru : Rs. 50,000/-

Sandu : Rs. 40,000/-

Tharu : Rs. 30,000/-

- (4) Profits and losses are to be shared among the partners **Hiru, Sandu** and **Tharu** in the ratio of 3 : 2 : 1 respectively.

Trial balance as at 31st March 2011 was as follows:

Trial Balance as at 31st March 2011 *(Rs. '000)*

	Dr.	Cr.
Inventories as at 01 st April 2010	2,550	
Purchases	19,280	
Sales (Rs.10,000,000/- relates to first three months)		50,000
Administration Expenses including partners' salaries	14,628	
Showroom Rent	1,980	
Selling Expenses	2,425	
OD Interest	600	
Investment income		240
Capital Accounts:		
- Hiru		18,000
- Sandu		14,800
- Tharu		11,000
Current Accounts:		
- Hiru		5
- Sandu		400
Trade Receivables / Payables	8,560	3,650
Bank overdraft		2,611
Property, Plant & Equipment at Cost:		
Land & Buildings (Cost of Land is Rs.25 million)	35,000	
Office Equipment	10,000	
Motor Vehicles	10,800	
Accumulated Depreciation (as at 01 st April 2010):		
Buildings		1,600
Office Equipment		2,400
Motor Vehicles		3,400
Investments	2,420	
Provision for Doubtful Debts as at 01 st April 2010		363
Cash In Hand & At Bank	226	
	108,469	108,469

The following additional information is provided:

- (1) Depreciation on Property Plant & Equipment is to be provided on a straight-line basis at cost as follows:

Buildings 5% per annum

Office Equipment 10% per annum

Motor Vehicle 25% per annum

- (2) The monthly rent for the showroom is Rs.180,000/- and the rent agreement commenced on 01st January 2008 for a period of five years.
- (3) Receivable amount of Rs.460,000/- should be written off as bad debts as at 31st March 2011 and the provision for the doubtful debts should be provided at 5% on the remaining balance.
- (4) All expenses and income should be apportioned on the time basis except the following expenses:

Selling & Distribution Expenses	Sales Basis
Bad debts written off and Provision for Doubtful Debts	Related to new partnership period

- (5) The inventories are as at 31st March 2011 is Rs.3,830,000/-.
- (6) Partners salaries have been paid in cash on the last working day of each month.

You are required to prepare, the following financial statements of **Visual Partners**:

- (a) Trading and Profit & Loss Account and Appropriation Account of the partnership in columnar form for the year ended 31st March 2011. (11 marks)
- (b) The Balance Sheet of the partnership as at 31st March 2011. (05 marks)
- (c) Partners' Capital Accounts and Current Accounts in columnar form for the year ended 31st March 2011. (07 marks)
- (Total 25 marks)

SECTION - C

Answer any two (02) questions only from this Section
20 marks

04. (A) The following information is extracted from the books of **Vatco (Pvt) Ltd.** for the month of March 2011.

	Rs.
Opening Credit Balance of the Value Added Tax (VAT) Control Account	92,000
Local Sales:	
Credit Sales (including VAT)	3,472,000
Cash Sales (excluding VAT)	1,000,000
Cost of Imported Raw Materials (includes VAT of Rs.108,000/-)	1,008,000
Local Purchases (including VAT)	3,696,000

(VAT rate is 12%)

You are required to prepare, the VAT control account for the month of March 2011. (05 marks)

- (B) The following information is extracted from the books of **Ray Show (Pvt) Ltd.** for the year ended 31st March 2011:

	Rs.'000
Credit Sales of the year	12,045
Cash Sales of the year	2,500
Debtors at the beginning of the year	1,100
Debtors at the end of the year	1,540
Cost of Sales of the year	8,030
Inventories at the beginning of the year	816
Inventories at the end of the year	790
Average Creditors of the year	1,540
Current Assets at the end of the year	5,250
Current Liabilities at the end of the year	3,568

(Number of days per year = 365)

You are required to calculate,

- (a) Debt collection period.
- (b) Creditors settlement period.
- (c) Inventory Turnover Ratio.
- (d) Current Asset Ratio.
- (e) Quick Asset Ratio

for the year ended 31st March 2011.

(05 marks)

(Total 10 marks)

- 05.** (A) Briefly explain the following components of Internal Control System:

- (a) Accounting System.
- (b) Monitoring.

(04 marks)

- (B) Briefly explain six(06) internal control measures of Purchases and Trade Payables.

(06 marks)

(Total 10 marks)

- 06.** (A) Briefly explain the importance of communication between the external and internal auditors.

(03 marks)

- (B) Briefly explain the following internal controls:

- (a) Authorisation and Approval.
- (b) Segregation of duties.

(04 marks)

- (C) List three(03) limitations of the Internal Control.

(03 marks)

(Total 10 marks)