



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2016

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

16-07-2016  
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 1.3. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** Which of the following events after the reporting period are considered as non-adjusting events as per LKAS 10- Events after the reporting period?

- (a) Dividends declared after the reporting period.
- (b) Destruction of a major production plant by fire after the reporting period.

- (1) (a) only. (2) (b) only.
- (3) Both (a) and (b). (4) None of the above. (02 marks)

**1.2** The following information is extracted from the payroll of **X Ltd.** for the month of June 2016:

	<b>Rs.</b>
Gross salaries of employees	575,000
Loan installments deducted from salaries	75,000
Employer's contribution to EPF	69,000
Employees' contribution to EPF	46,000
Employer's contribution to ETF	17,250
PAYE deducted from employees	20,000

Net salaries payable to employees for the month of June 2016 would be:

- (1) Rs.434,000/-      (2) Rs.416,750/-      (3) Rs.347,750/-      (4) Rs.454,000/-.  
(02 marks)

**1.3** You have been given the following information for a sole proprietorship for the year ended 31<sup>st</sup> March 2016:

	<b>Rs.</b>
Capital as at 01 <sup>st</sup> April 2015	250,000
Additional capital introduced during the year	50,000
Drawings during the year	30,000
Capital as at 31 <sup>st</sup> March 2016	400,000

Profit of the business for the year ended 31<sup>st</sup> March 2016 would be:

- (1) Rs.70,000/-      (2) Rs.130,000/-      (3) Rs.270,000/-      (4) Rs.230,000/-.  
(02 marks)

*Write answers to question No. 1.4 to 1.8 in your answer booklet with the number assigned to the question.*

- 1.4** State two(02) instances in which the goodwill of a partnership need to be valued and adjusted in the books of accounts. (02 marks)
- 1.5** State two(02) methods of valuing goodwill of a partnership. (02 marks)
- 1.6** State three(03) provisions of Section 24 of the Partnership Ordinance 1890. (03 marks)
- 1.7** State three(03) characteristics of a limited liability company. (03 marks)
- 1.8** A company is engaged in the business of selling product *x*. As at 01<sup>st</sup> April 2016, the company had 700 units of product *x* in its' inventory, valued at Rs.190,000/- each and the company uses First In First Out (FIFO) method to value the inventories. The following transactions have been extracted for the month of April 2016:

Date	Description	Units	Per Unit Price (Rs.'000)
11 <sup>th</sup> April 2016	Purchases	400	225
15 <sup>th</sup> April 2016	Sales	750	320

Calculate the gross profit for the month of April 2016. (04 marks)

*End of Section A*

## SECTION B

Five (05) compulsory questions

(Total 25 marks)

### Question 02

The bank statement balance of **Vindy High Tea Ltd.**, did not agree with the debit balance of Rs.107,000/- as per bank column of the cash book as at 31<sup>st</sup> March 2016. At the same date bank statement has shown a favourable balance of Rs.227,000/-.

The following reasons were revealed subsequently for the difference:

- (1) The following issued cheques had not been presented for payment to the bank as at 31<sup>st</sup> March 2016:

Cheque No.	Date Issued	Amount Rs.
750298	25.03.2016	5,500
750307	28.03.2016	70,000
750136	30.03.2016	83,000

- (2) The following cheque deposit was not realized during the month of March 2016:

Cheque No.	Date Deposited	Amount Rs.
345675	30.03.2016	25,000

- (3) The bank had erroneously debited an amount of Rs.11,000/- to **Vindy High Tea Ltd.'s** bank account on 30<sup>th</sup> March 2016.
- (4) Bank charges of Rs.2,500/- for the month of March 2016 which was charged by bank has not been recorded in the Cash Book.

**You are required to,**

**Prepare the following for Vindy High Tea Ltd.:**

- (a) Adjusted Cash Book as at 31<sup>st</sup> March 2016.
- (b) Bank Reconciliation Statement as at 31<sup>st</sup> March 2016. (05 marks)

### Question 03

Balances of Creditors' Control Account and Debtors' Control Account of **Sun Books**, a wholesale trader of stationery items as at 01<sup>st</sup> March 2016 were as follows:

	Rs.
Creditors' Control Account	2,350,000
Debtors' Control Account	1,780,000

Transactions relating to debtors and creditors of **Sun Books** during the month of March 2016 are as follows:

	<b>Rs.</b>
Purchase of stationery items on credit basis	5,200,000
Sale of stationery items on credit basis	4,800,000
Credit purchase returns	750,000
Discounts received from creditors	300,000
Payments made to creditors	3,200,000
Receipts from debtors	4,200,000
Bad debts written off	80,000

**You are required to,**

**Prepare** the following for the month of March 2016 of **Sun Books**:

- (a) Debtors' Control Account. (02 marks)
- (b) Creditors' Control Account. (03 marks)
- (Total 05 marks)

#### Question 04

**Aminda** and **Duminda** have been in a partnership for several years with a profit and loss sharing ratio of 3:2 respectively. On 01<sup>st</sup> April 2016, **Aminda** decided to limit the time spend for the partnership and accordingly it has been agreed to change the profit and loss sharing ratio to 1:3 respectively.

As at 01<sup>st</sup> April 2016, the goodwill of the partnership was valued at Rs.2,400,000/- and it was decided not to maintain a goodwill account in the books of accounts.

**You are required to,**

**Prepare** journal entries to record and eliminate the value of goodwill of the partnership. (05 marks)

#### Question 05

The statement of Income and Expenditure of **Green Sports Club** for the year ended 31<sup>st</sup> December 2015 was as follows:

<b>Income</b>	<b>Rs.'000</b>
Subscriptions	720
Donations	300
<b>Total Income</b>	<b>1,020</b>
<b>Less: Expenses</b>	
Rent	300
Salaries	140
Other expenses	120
<b>Total Expenditure</b>	<b>560</b>
<b>Surplus</b>	<b>460</b>

Assets and liabilities of the Sports Club were as follows:

(Rs.'000)

	As at 01 <sup>st</sup> January 2015	As at 31 <sup>st</sup> December 2015
Subscriptions received in advance	500	320
Subscriptions in arrears	350	230
Salaries payable	70	120
Cash at Bank	2,500	?

**You are required to:**

**Prepare** receipts and payments account of **Green Sports Club** for the year ended 31<sup>st</sup> December 2015. (05 marks)

### Question 06

**Lak Enterprises** has disposed one of its old delivery vans and replaced it with a new delivery van. Details thereon are as follows:

- (1) Old delivery van which was purchased on 01<sup>st</sup> January 2011 at a cost of Rs.2,500,000/- was disposed for Rs.700,000/- on 01<sup>st</sup> March 2016, for cash.
- (2) The new delivery van was purchased on 01<sup>st</sup> March 2016 at a cost of Rs.3,600,000/- on credit and was used from that day onwards.

**Lak Enterprises's** policy is to depreciate its Motor Vehicles at 25% per annum on the straight-line basis at cost.

**You are required to,**

**Prepare** journal entries, to record the above transactions occurred during the year ended 31<sup>st</sup> March 2016.

*(including cash transactions, profit or loss on disposal of the delivery van, depreciation on motor vehicles, etc.)* (05 marks)

End of Section B

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Anura, Binura** and **Vinura** were in a partnership sharing profit and loss in the ratio of 2:2:1 respectively.

The partnership agreement contains the following:

- Partners are entitled to interest on capital at 5% per annum on the partners' capital account balances held at the beginning of each accounting year.
- **Binura** is entitled for a salary of Rs.75,000/- per annum.

Capital and current account balances as at 01<sup>st</sup> April 2015 were as follows:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Partners' Capital Accounts:		
<b>Anura</b>		4,000
<b>Binura</b>		2,400
<b>Vinura</b>		1,800
Partners' Current Accounts:		
<b>Anura</b>		230
<b>Binura</b>		160
<b>Vinura</b>	50	

The following additional information is also provided:

(1) On 31<sup>st</sup> March 2016, **Vinura** decided to retire from the partnership and remaining partners agreed on the following conditions:

- Profit and losses are to be shared equally.
- It was agreed to continue Interest on capital and **Binura's** salary as per the earlier agreement without any change.
- Goodwill is valued at Rs.1,000,000/- and it is to be adjusted through the partners' capital accounts without creating the Goodwill Account.
- On 31<sup>st</sup> March 2016, non-current assets were revalued and details of those are as follows:

	Revalued Amount as at 31 <sup>st</sup> March 2016 (Rs.)	Cost (Rs.)	Accumulated Depreciation as at 31 <sup>st</sup> March 2016 (Rs.)
Land	3,200,000	3,000,000	-
Building	4,250,000	4,500,000	1,000,000
Plant	1,000,000	2,500,000	1,250,000

- Non-current assets will be carried at revalued amounts in the books of account of the partnership.
  - Total amount payable to retiring partner should be kept in the partnership as a loan provided to the partnership.
- (2) The net profit (before appropriations) of the partnership for the year ended 31<sup>st</sup> March 2016 was Rs.500,000/-.

**You are required to,**

**Prepare** the following in columnar form as at 31<sup>st</sup> March 2016:

- (a) Partners' Current Accounts.
- (b) Partners' Capital Accounts.

(10 marks)

**Question 08**

**Sikuru Club** is a sports club. In addition, a drama is organized by this sports club annually. Receipts and Payments Account of the **Sikuru Club** for the year ended 31<sup>st</sup> December 2015 is as follows:

Balance B/F 01 <sup>st</sup> January 2015	7,500	Rent on Office Premises	3,600
Donations	6,300	Drama Production Costs - 2015	3,800
Drama Ticket Sales	6,800	Fees of Guest Artists for the drama	1,200
Membership subscriptions	50,400	Stationery, Printing & Advertising	2,100
		Other Expenses	7,100
		Purchase of Theatre Equipment	15,000
		Balance C/F 31 <sup>st</sup> Dec. 2015	38,200
	<b>71,000</b>		<b>71,000</b>

Other assets and liabilities of **Sikuru Club** as at 01<sup>st</sup> January 2015 and 31<sup>st</sup> December 2015 were as follows:

	<b>As at 01<sup>st</sup> January 2015</b>	<b>As at 31<sup>st</sup> December 2015</b>
<b>Assets:</b>		
Theatre Equipment	-	15,000
Membership subscriptions in Arrears	500	300
Rent Paid in Advance	2,800	2,200
<b>Liabilities:</b>		
Payables to Guest Artists	1,200	1,400
Drama Production Costs Payable	1,200	2,200

The following additional information is also provided:

- Donations received should be recognized as an income in the year of receipt.
- Theatre Equipment has been purchased on 31<sup>st</sup> December 2015.

**You are required to,**

**Prepare** the following for the **Sikuru Club**:

- (a) Income and Expenditure Account for the year ended 31<sup>st</sup> December 2015.
- (b) Statement of Financial Position as at 31<sup>st</sup> December 2015. (10 marks)

### Question 09

The following information was extracted from the books of **Prakash Traders**, a wholesale sugar business owned by **Prakash**:

Assets and liabilities of the business are as follows:

	As at 01 <sup>st</sup> January 2015 (Rs.)	As at 31 <sup>st</sup> December 2015 (Rs.)
Trade Receivables	2,250,000	1,570,000
Trade Payables	1,220,000	3,100,000
Accrued Expenses	52,000	26,000
Cash at Bank	175,000	?
Inventory	550,000	720,000

The following transactions were extracted from his business during the year 2015:

	Rs.
Purchases	26,690,000
Sales	34,100,000
Other expenses	2,572,000

During the year, **Prakash Traders** has deposited all its collection to the bank account while all the payments have been made by cheques through the bank account.

The following additional information is also provided:

- (1) During the year, bank charges of Rs.3,100/- which was charged by the bank, were not recorded in the books.
- (2) All the sales and purchases are made on credit basis.
- (3) During the year, **Prakash** has introduced an additional capital of Rs.500,000/- to the business and he has withdrawn an amount of Rs.300,000/- in cash as drawings.
- (4) As a policy **Prakash** is not purchasing any of the property, plant and equipment, instead all such assets are hired on rental basis and rental paid was included in other expenses.

**You are required to,**

**Prepare** the trial balance as at 31<sup>st</sup> December 2015 for **Prakash Traders**.

(10 marks)

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*End of Section C*

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## SECTION D

A compulsory question

(25 marks)

### Question 10

The Trial Balance extracted from the books of accounts of **Blueco (Pvt) Ltd.** as at 31<sup>st</sup> March 2016 is given below:

(Rs. '000)

	<b>Dr.</b>	<b>Cr.</b>
Stated Capital (1,000,000 Ordinary Shares)		35,000
Retained Earnings as at 01 <sup>st</sup> April 2015		15,600
General Reserve		7,500
10% Debentures		8,000
Property, Plant and Equipment - at cost:		
Land	43,000	
Building	20,500	
Motor Vehicles	4,500	
Accumulated Depreciation as at 01 <sup>st</sup> April 2015:		
Building		3,750
Motor Vehicles		2,000
Inventory as at 31 <sup>st</sup> March 2016	6,200	
Trade Receivables / Trade Payables	5,650	1,880
Cash at Bank	950	
Sales		25,000
Cost of Sales	10,700	
Administration Expenses	3,920	
Distribution Expenses	2,800	
Interest on Debenture	400	
Income Tax Paid	110	
<b>Total</b>	<b>98,730</b>	<b>98,730</b>

The following additional information is also provided:

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

Building	: 20 years
Motor Vehicles	: 4 years

- (2) The following accrued and prepaid expenses as at 31<sup>st</sup> March 2016 are to be accounted for:

	Rs.
Prepaid Rent	25,000
Accrued Electricity	8,000

- (3) Further information on Income tax are as follows:

- Income tax liability for the year of assessment 2015/16 is estimated to be Rs.250,000/- and is to be recorded in the books of accounts.
  - All income tax payments made during this accounting year have been debited to income tax paid account.
  - The income tax for the year of assessment 2014/15 was under provided by Rs.50,000/- and it is to be adjusted for.
- (4) A trade receivable balance of Rs.50,000/- as at 31<sup>st</sup> March 2016 from **Perera** was decided to be written-off as bad debt. Provision for doubtful debts of 5% should be provided on balance trade receivable balance at the end of the year.
- (5) On 01<sup>st</sup> April 2015, the company issued 80,000 debentures of Rs.100/- each. Interest is to be paid bi-annually on 30<sup>th</sup> September and on 31<sup>st</sup> March of every year. However, cheque in relation to the interest for the half year ended 31<sup>st</sup> March 2016 has been raised on 01<sup>st</sup> April 2016.
- (6) On 10<sup>th</sup> April 2016, the Board of Directors has decided to pay a final dividend of Rs.5/- per ordinary share against the profit for the year ended 31<sup>st</sup> March 2016.
- (7) The financial statements were authorised for issue by the Board of Directors on 05<sup>th</sup> May 2016.

**You are required to,**

**Prepare** the following for the use of the Management of **Blueco (Pvt) Ltd.:**

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2016. (12 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2016. (13 marks)
- (Total 25 Marks)

## **ACTION VERB CHECK LIST**

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<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).	

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<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.

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<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.