



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2015

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

- (1) **Time:** 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.**

01-08-2015

Morning

[9.00 – 12.00]

No. of Pages : 11

No. of Questions : 10

SECTION A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Question 01

Write answers to question No. 1.1 to 1.6 in your answer booklet with the number assigned to the question.

- 1.1** State the registration requirement of a partnership under the Prevention of Frauds Ordinance. (02 marks)
- 1.2** State three(03) circumstances in which an existing partnership is considered to have ended and a reconstitution is needed. (03 marks)
- 1.3** State three(03) criteria that need to be satisfied in order to recognize a provision in the financial statements as per the LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets. (03 marks)
- 1.4** The Past Pupils' Association of **Leaders College** received the following donations during the financial year ended 31st December 2014:

	Rs.
For general purposes	22,222
For the Scholarship Fund	44,450

Write the journal entries, to record the above transactions, inclusive of cash transactions, in the books of accounts of the association. (02 marks)

1.5 Following balances are related to **Gemunu Sports Club**:

	Rs.
Net Book Value as at 01 st January 2014:	
Buildings	110,000
Furniture & fittings	30,500
Sports items	19,000
Accrued expenses as at 31 st December 2014	1,000
Bank favorable balance as at 31 st December 2014	9,000
Depreciation for the year ended 31 st December 2014	5,400
Deficit for the year ended 31 st December 2014	5,000

No Property, Plant & Equipment has been acquired or disposed during the year.

What is the balance of the Accumulated Fund Account as at 31st December 2014? (03 marks)

1.6 The following information is extracted from the records of **Vatco (Pvt) Ltd.**

	Rs.
Gross Income during the quarter ended 31 st December 2014:	
VAT Liabile Supplies (inclusive of VAT @ 12%)	1,118,880
VAT Exempt Supplies	441,120
Purchases during the quarter ended 31 st December 2014:	
Supported with tax (VAT) invoices (inclusive of VAT @ 12%)	671,328
Not supported with tax invoices (all inclusive price)	112,672

There is no brought forward unclaimed input VAT as at 01st October 2014.

What is the balance VAT payable / overpaid for the quarter ended 31st December 2014? (02 marks)

Select the most correct answer for question No. 1.7 and 1.8. Write the number of the selected answer in your answer booklet with the number assigned to the questions.

1.7 A sole trader who does **not** keep complete accounting records wishes to calculate his sales revenue for the year:

The following information is provided:

	Rs.
Opening inventory	170,000
Closing inventory	240,000
Purchases	910,000

Gross profit margin is 40% on sales revenue.

Which one of the following is the sales revenue for the year?

- (1) Rs.1,176,000/- (2) Rs.1,400,000/- (3) Rs.1,800,000/- (4) Rs.2,210,000/-

(02 marks)

- 1.8 On 31st March 2015, **Fernando** had a closing inventory of Rs.1 million valued at cost. Some items of inventory which had cost Rs.300,000/- had been damaged in a flood. Due to this reason, those are not expected to sell at their normal selling price which is calculated to achieve a gross profit margin of 20% on the normal selling price. These damaged goods will be sold at 70% of the normal selling price.

At what value will the closing inventory of **Fernando** be reported in his Statement of Financial Position as at 31st March 2015?

- (1) Rs.1,000,000/- (2) Rs. 962,500/- (3) Rs.952,000/- (4) Rs.700,000/-

(03 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

As at 31st March 2015, cash book of **Perfect (Pvt) Ltd.** shows a debit bank balance of Rs.156,400/- which is different from the bank statement balance.

Examination of the records revealed the following reasons for the said difference;

- (1) The bank has charged bank charges of Rs.3,000/-.
- (2) Cheque book charges erroneously charged by the bank is Rs.750/-.
- (3) Direct deposit of Rs.10,000/- into the bank account by a customer has not been recorded in the cash book.
- (4) Following deposited cheques were not realized during the month:
 - No. 750121 : Rs. 25,000/-
 - No. 141510 : Rs. 110,000/-
- (5) Following issued cheques were not presented for payments:
 - No. 500221 : Rs.65,000/-
 - No. 500300 : Rs.27,000/-

You are required to:

Prepare the Bank Reconciliation Statement and **identify** the balance that appeared in the bank statement as at 31st March 2015. (05 marks)

Question 03

As at 31st March 2015, the balance on **Shantha's** Receivables Control Account of the general ledger was Rs.225,200/-. The total of the balances appearing in the individual accounts of the receivables ledger amounted to Rs.247,400/-.

The following errors have been discovered:

- (1) An invoice for Rs.5,600/- has been correctly recorded in the sales day book, but recorded in the individual customer's account as Rs.6,500/-.
- (2) A cheque for Rs.5,500/- from a customer has been dishonoured. This has been correctly recorded in the Receivables Ledger but Receivables Control Account has not been updated.
- (3) Discounts allowed totaling to Rs.1,200/- has not been entered in the control account.
- (4) The sales day book was under cast by Rs.1,000/-.
- (5) Cash received of Rs.8,000/- has been debited to the individual customer's account in the Receivables Ledger.

You are required to:

Prepare a Revised Receivables Control Account of the general ledger and **reconcile** the Receivables Ledger balance with Receivables Control Account balance. (05 marks)

Question 04

On 01st April 2010 **Ken (Pvt) Ltd.** acquired a machinery under the following terms:

	Rs.
Listed price	1,250,000
Transport Cost	55,000
Electrical installation cost	25,000
Pre-production testing cost	20,000

Trade discount on listed price is 20%.

It was estimated that the useful life of the machinery is 8 years and the residual value at the end of year 8 is Rs.20,000/-. The company depreciates its machinery on straight line basis at cost.

On 01st April 2014, **Ken (Pvt) Ltd.** decided to upgrade the machinery by adding new components at a cost of Rs.200,000/-. This upgrade led to a reduction in the production time per unit of the goods manufactured using this machinery. Due to upgrade, the remaining useful life of the machinery has increased to 5 years while the residual value remains the same.

You are required to calculate:

- (a) Carrying value of the machinery as at 31st March 2014.
- (b) Depreciation of the machinery for the year ended 31st March 2015. (05 marks)

Question 05

Andy, Randy and Candy are in a partnership where the partnership agreement provides the following:

- (1) Profits and losses of the partnership are to be shared among **Andy, Randy and Candy** in the ratio of 3 : 2 : 1 respectively.
- (2) All partners are entitled to interest on capital at 10% per annum computed on the balance at the beginning of the year.
- (3) **Andy and Randy** are paid, monthly salaries of Rs.4,000/- and Rs.6,000/- respectively.
- (4) Interest on drawings is charged at 6% per annum.

The following information was extracted from the Trail Balance of the partnership as at 31st March 2015:

	Dr. (Rs.'000)	Cr.(Rs.'000)
Partners' Capital accounts as at 01 st April 2014:		
Andy		1,800
Randy		1,200
Candy		600
Partners' Current Accounts as at 01 st April 2014:		
Andy		30
Randy	50	
Candy		70
Drawings:		
Andy (on 01 st July 2014)	50	
Randy (on 01 st October 2014)	20	
Candy (on 01 st January 2015)	30	

The net profit of the partnership for the year ended 31st March 2015 was Rs.594,000/-.

You are required to:

Prepare Partners' Current Accounts in columnar form for the year ended 31st March 2015. (05 marks)

Question 06

Been and Deen were in a partnership sharing profits and losses in the ratio of 2 : 3. A capable business person, **Reen** has joined the partnership as a new partner to share 50% of the profits and losses and agreed to invest the required capital to match with his share of the value of the existing partnership.

The value of the existing partnership is as follows:

	Been (Rs.)	Deen (Rs.)
Partners' capital accounts (Cr.)	500,000	75,000
Partners' current accounts (Cr.)	212,000	318,000

The goodwill not accounted for in the books of accounts is valued as Rs.500,000/-.

You are required to:

- (a) **Identify** the new profits and losses sharing ratio after the joining of **Reen**.
- (b) **Compute** the sacrificing ratio of the existing partners.
- (c) If partners agree to show the goodwill in the books of accounts, **compute** the total value of investment inclusive of share of goodwill to be invested by **Reen**. (05 marks)

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Amal, Nimal and Kamal formed a partnership named **Anka** to run a business to share profits and losses in the ratio of 2 : 2 : 1 respectively. Their partnership agreement provides the following:

- **Amal and Kamal** are to be paid monthly salary of Rs.3,000/- and Rs.5,000/- respectively.

The Trial Balance of **Anka** as at 31st March 2015 is given below:

Trial Balance as at 31st March 2015

	Dr. (Rs.'000)	Cr.(Rs.'000)
Property, Plant and Equipment at Cost:		
Land	100	
Buildings	200	
Delivery Vehicles	400	
Accumulated Depreciation as at 01 st April 2014:		
Buildings		60
Delivery Vehicles		80
Trade Receivables	94	
Trade Payables		349
Cash at Bank	75	
Inventories as at 31 st March 2015 at cost	75	
Cost of sales	570	
Sales		922
Administration and Establishment Expenses	50	
Selling and Distribution Expenses	14	
Finance Expenses	10	
Partners' Capital Accounts as at 01 st April 2014:		
Amal		120
Nimal		160
Kamal		80
Partners' Current Accounts as at 01 st April 2014:		
Amal		5
Nimal		5
Kamal	7	
Partners' Drawings: Amal	42	
Nimal	24	
Kamal	24	
Partners' salaries	96	
Total	1,781	1,781

The following additional information is also provided:

- (1) The net realizable value of the inventories as at 31st March 2015 is estimated to be Rs.70,000/-.
- (2) Property, Plant and Equipment are to be depreciated on the straight line-basis at cost. The estimated useful life of the assets are as follows:

Building : 20 years.

Delivery Vehicles : 5 years.

- (3) An amount of Rs.4,000/- is to be written off as bad debts.
- (4) Details of prepayments and accruals as at 31st March 2015 are as follows:

	Accrued (Rs.)	Pre-Payment (Rs.)
Vehicle Insurance Premium	5,000	-
Office Expenses	-	6,000

You are required to prepare:

- (a) Statement of Income of **Anka** for the year ended 31st March 2015.
- (b) Profit or Loss Appropriation Account of **Anka** for the year ended 31st March 2015. (10 marks)

Question 08

Silver Star Sports Club, formed in the year 2004, had 75 ordinary members and 25 life members as at 01st January 2014. Ordinary members are charged an annual subscription of Rs.250/- per member while the life members are charged a life membership fee of Rs.5,000/-.

As per the constitution of the Club, 1/20th of the life membership fee to be recognized as an income during a period of 20 years starting from the year of joining to the life membership.

On 01st January 2014, 25 ordinary members had not yet paid their subscription for the year 2013. In the year 2013, 3 ordinary members had paid their subscriptions in advance for 2014. As at 01st January 2014, the life membership fee account shows a credit balance of Rs.87,500/-.

In the year 2014, the Club received subscriptions in cash as follows:

- (1) 20 ordinary members paid their annual subscription for the year 2013.
- (2) 65 ordinary members paid their annual subscription for the year 2014.
- (3) 5 ordinary members paid their annual subscriptions for the year 2015.
- (4) 10 new life members joined the club during the year 2014 by paying their life membership fee.

You are required to:

Prepare for the year ended 31st December 2014 the following:

- (a) Members' Subscription Account, and,
- (b) Life Membership Fee Account.

Showing clearly the workings for the calculations shown below:

- (i) Ordinary membership fee income for the year 2014.
- (ii) Ordinary membership fee received during the year 2014.
- (iii) Ordinary membership fee in arrears for 2013 and 2014 as at 31st December 2014.
- (iv) The amount of life membership fee to be recognized as an income of the year 2014.

(10 marks)

Question 09

- (a) **State** any four(04) criteria that need to be satisfied for a liability to become a current liability.

(02 marks)

- (b) Following information was extracted from the books of **Candy Stores** (a sole proprietorship), for the year ended 31st March 2015:

	31 st March 2015 (Rs.)	01 st April 2014 (Rs.)
Inventory	10,500	9,000
Trade Receivables	40,000	36,000
Revenue	275,000	
Purchases	150,000	
Bank Balance/ (Overdraft)	(3,000)	5,000
Miscellaneous Expenses for the year: [other than salaries, Employees' Provident Fund (EPF) & Employees' Trust Fund (ETF)]	11,300	
Discount Received	3,000	
Discount Allowed	1,500	

The following additional information is also provided:

- (1) It has been decided to write off an amount of Rs.2,000/- as bad debts and provide 5% of the remaining Trade Receivables as allowance for doubtful debts. The above balances have been extracted before adjusting for bad debts and provision for doubtful debts.
- (2) **Candy Stores** has only one employee who is registered for EPF and ETF and is contributing at standard rates. Gross salary paid during the year was Rs.44,500/-.

You are required to:

Prepare Statement of Comprehensive Income for the year ended 31st March 2015. (08 marks)

(Total 10 marks)

SECTION D

One (01) Compulsory Question

(25 marks)

Question 10

- (a) **State** three(03) advantages of issuing equity shares as a long term source of financing. (03 marks)
- (b) The Trial Balance of **Fair Deal (Pvt) Ltd.** as at 31st March 2015 is as follows:

Trial Balance as at 31st March 2015

	Dr (Rs.'000)	Cr (Rs.'000)
Stated Capital - 1,000,000 ordinary shares		59,000
Retained Earnings as at 01 st April 2014		11,200
Property, Plant and Equipment at cost:		
Land and Buildings (land value Rs.10 million)	60,000	
Plant	94,500	
Accumulated Depreciation as at 01 st April 2014:		
Buildings		20,000
Plant		24,500
Inventory as at 31 st March 2015	43,700	
Trade Receivables	42,200	
Cash at Bank	8,300	
Trade Payables		51,700
Provision for doubtful debt as at 01 st April 2014		1,000
Revenue		550,000
Cost of Sales	403,900	
Distribution Expenses	21,500	
Administrative Expenses	30,900	
Finance Expenses	700	
Dividend Paid	20,000	
Provision for Income tax as at 01 st April 2014		7,400
Income Tax paid during the year	7,600	
Provision for employee compensation		500
Suspense Account		8,000
	733,300	733,300

The following additional information is also provided:

- (1) One of its trade debtors who owed Rs.200,000/- as at 31st March 2015 was declared bankrupt on 20th April 2015. Provision for doubtful debts of 5% should be provided on trade receivable balance at the end of the year.
- (2) During the year, company has paid Rs.300,000/- and Rs.200,000/- for Insurance and Electricity respectively, and these payments are included in the Administrative Expenses.
- (3) Accruals and pre-payments as at 31st March 2015 are as follows:

	Accrual (Rs.)	Pre-Payment (Rs.)
Insurance	-	100,000
Electricity	90,000	-

- (4) Property, Plant and Equipment are to be depreciated on the straight line basis at cost. The estimated useful life of the assets are as follows:
Buildings : 10 years
Plant : 5 years
- (5) The total income tax liability for the year of assessment 2013/14 of Rs.7,600,000/- was paid during the year through the bank current account. The total income tax liability for the year of assessment 2014/15 is estimated to be Rs.6,000,000/-.
- (6) An employee has filed a case against the company for losing a leg in an accident at work on 01st March 2015. The company initially estimated a claim of Rs.500,000/- and provided for in the accounts on the assumption that there is a 80% chance of losing the case as the accident has occurred since the required safety equipment were not provided by the employer. On 30th May 2015 the court ordered the company to pay a claim of Rs.750,000/- to the employee.
- (7) The balance in the suspense account represents the proceeds from the issue of 100,000 ordinary shares during the year.
- (8) The financial statements were authorized for issue by the Board of Directors on 31st August 2015.

You are required to:

Prepare for the use of the management:

- (a) Statement of Comprehensive Income for the year ended 31st March 2015. (10 marks)
 - (b) Statement of Financial Position as at 31st March 2015. (12 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.