



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2016

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

30-01-2016
Morning
[8.45 – 12.00]

No. of Pages : 12
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)

Six (06) 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 The following information for the year ended 31st March 2015 was extracted from the books of a sports club which is a not for-profit organization.

- (a) Annual membership subscription for the membership is Rs.9,000/-.
- (b) On 01st April 2014, subscription in arrears was Rs.81,000/- and subscription received in advance was Rs.45,000/-.
- (c) 50 members paid subscription for the current year, out of them 8 members paid arrears of the previous year also.
- (d) 7 members paid subscription for the next year as well.
- (e) There were 60 members in the sports club as per its' records as at 31st March 2015. Full subscription per year is recognized as revenue for the year in which a member joins the club.

Prepare the Subscription Account of the Sports Club as at 31st March 2015.

(03 marks)

- 1.2 The following information has been extracted from the books of **Door To Door (Pvt) Ltd.**, a local courier service provider who is a registered supplier for Value Added Tax (VAT) purpose, for the month of September 2015:

	Rs.
VAT liable courier service supplies	18,463,000
Purchases supported with valid VAT invoices	6,382,000
VAT liable other expenses supported with valid tax invoices	1,312,000

Assume the VAT rate as 12%.

Prepare the VAT control account as at 30th September 2015. (03 marks)

- 1.3 State the provisions of the Companies Act No 7 of 2007 regarding a public limited liability company with regard to the following:

- (a) The minimum number of directors.
- (b) Issue of ordinary shares to public. (04 marks)

- 1.4 State the provisions of the Partnership Ordinance 1890 with regard to the following:

- (a) Interest on capital.
- (b) Remuneration of partners. (04 marks)

- 1.5 State two(02) major differences of an equity instrument from a debt instrument. (04 marks)

- 1.6 State the two(02) recommended cost formulae as per LKAS 02 - Inventories. (02 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

As at 31st July 2015, trade payables control account appearing in the general ledger of **Aminda Fashions** showed a credit balance of Rs.118,300/-, while the total of the individual account balances as per the payables sub ledger was Rs.118,800/-. Subsequent checking revealed the following reasons for the difference.

- (1) The total of discounts received for the month of July 2015, amounting to Rs.11,700/- has been entered in the control account correctly, but has not been entered in the individual payable accounts.
- (2) The list of balances of the individual accounts of the payables sub ledger has been overcasted by Rs.7,000/-.

- (3) The purchase day book for the month of July 2015 has been overcasted by Rs.20,000/-.
- (4) During the month of July 2015, an amount of Rs.2,700/- payable to **Super Fashions**, a supplier has been offset against the amount receivable from them. This has been correctly recorded in the respective individual ledgers, but it has been omitted from the respective control accounts of the general ledger.
- (5) A cash payment to a supplier amounting to Rs.4,500/- has been correctly recorded in the respective control account, but no entry has been made in the supplier's individual ledger account.

You are required to,

Prepare the following:

- (a) The revised (adjusted) trade payables control account in the general ledger.
- (b) A statement reconciling the revised balance of the trade payables control account with the total of the individual payable sub ledger balances. (05 marks)

Question 03

The bank column of the cash book, the bank statement for the month of September 2015 and the bank reconciliation statement prepared as at 31st August 2015 of **Hi-Fi (Pvt) Ltd.** are as follows:

Hi-Fi (Pvt) Ltd.
Cash Book (Bank Column) for the month of September 2015

Date	Description		Dr (Rs.)	Cr (Rs.)	Balance (Rs.)
01/09/2015	Balance		-	-	(375,050)
02/09/2015	Cash Deposit		425,500		50,450
05/09/2015	Creditor Payment	750131		38,000	12,450
10/09/2015	VAT Payment	750132		125,200	(112,750)
12/09/2015	Creditor Payment	750133		73,350	(186,100)
15/09/2015	Rent Payment	750134		50,700	(236,800)
15/09/2015	Cash Deposit		120,000		(116,800)
18/09/2015	Debtor Deposit		123,000		6,200
18/09/2015	Cash Deposit		254,000		260,200
21/09/2015	Maintenance Payment	750135		12,000	248,200
21/09/2015	Creditor Payment	750136		83,000	165,200
25/09/2015	Salaries Direct Transfer			223,000	(57,800)
30/09/2015	Cheque Deposit	123156	50,000		(7,800)
30/09/2015	Balance		-	-	(7,800)

Hi-Fi (Pvt) Ltd.
Bank Statement for the month of September 2015

Date	Description		Dr (Rs.)	Cr (Rs.)	Balance (Rs.)
01/09/2015	Balance		-	-	(172,550)
01/09/2015	Cheque Deposits	148350	-	50,000	(122,550)
01/09/2015	Cheque Payment	750128	125,000		(247,550)
02/09/2015	Cash Deposits			425,500	177,950
11/09/2015	Cheque Payment	750132	125,200		52,750
15/09/2015	Cash Deposits			120,000	172,750
18/09/2015	Direct Deposit	Ref. 12465974		123,000	295,750
18/09/2015	Cash Deposits			254,000	549,750
22/09/2015	Cheque Payment	750135	12,000		537,750
23/09/2015	Direct Deposit	Ref. 26487582		93,000	630,750
23/09/2015	Cheque Payment	750131	38,000		592,750
25/09/2015	Transfer	Ref. 32648751	223,000		369,750
30/09/2015	Standing Order	Loan No. 62587413	57,000		312,750
30/09/2015	Overdraft Interest & Charges		2,500		310,250
30/09/2015	Cheque Payment	750133	73,350		236,900
30/09/2015	Cheque Payment	750134	50,700		186,200
30/09/2015	Balance				186,200

Hi-Fi (Pvt) Ltd.
Bank Reconciliation Statement as at 31st August 2015

	Rs.	Rs.
Balance as per Cash Book [Adjusted] 31-08-2015 (Overdraft)		(375,050)
Add: Unpresented Cheques:		
750120	127,500	
750128	125,000	252,500
Less: Unrealized Deposits:		
148350		(50,000)
Balance as per Bank Statement 31-08-2015 (Overdraft)		(172,550)

You are required to,

Prepare the following:

(a) The Adjusted Cash Book for the month of September 2015.

(b) The Bank Reconciliation Statement as at 30th September 2015.

(05 marks)

Question 04

The summary of payroll for **Hirun (Pvt) Ltd.** for the month of December 2015 is given below:

	Rs.
Gross Salary	7,570,000
Deductions:	
EPF 8%	(605,600)
Net Salary	6,964,400

Company is contributing EPF @ 12% and ETF @ 3%.

You are required to,

Prepare journal entries to record the salary, EPF and ETF payments of **Hirun (Pvt) Ltd.** including cash related entries. (05 marks)

Question 05

Viraj , Ranga and Indika were in a partnership sharing profits and losses equally. On 31st March 2015 **Indika** decided to retire from the partnership:

(1) The following balances were extracted from the books of the partnership as at 31st March 2015:

Property, Plant and Equipment:	Cost (Rs.)	Accumulated Depreciation (Rs.)
Land	2,300,000	-
Buildings	1,575,000	393,000
Motor vehicle	2,500,000	1,000,000

Balances:	Viraj	Ranga	Indika
Capital Account (Cr) (Rs.)	2,000,000	2,000,000	2,000,000
Current Account (Dr) (Rs.)	50,000	25,000	30,000

(2) As at the date of retirement, non-current assets were revalued and the revalued amounts are as follows:

Land	Rs.2,950,000/-
Buildings	Rs.1,700,000/-
Motor Vehicle	Rs.1,250,000/-

- (3) As at 31st March 2015, the goodwill was valued at Rs.600,000/-. Partners decided not to show the goodwill in the books of accounts, but instead to consider the value of the goodwill only for the purpose of computing the amount payable to **Indika**.
- (4) After **Indika's** retirement, **Viraj** and **Ranga** decided to change the profit and loss sharing ratio to 3:2 respectively.
- (5) Partnership agreement states that no interest be paid on capital amount payable to the retiring partner.

You are required to:

Prepare the partners' capital accounts and current accounts in columnar form as at 31st March 2015.
(05 marks)

Question 06

Imraz, Buddika and **Mahee** are in a partnership. The partnership agreement provides for the following:

- (1) Profit and loss sharing ratio is 2 : 2 : 1 among **Imraz, Buddika** and **Mahee** respectively.
- (2) No interest is to be paid on partners' capital.
- (3) Partners are charged with interest on drawings at 5% per annum.
- (4) **Buddika** and **Mahee** are entitled to a monthly salary of Rs.2,000/- each.

The following information is extracted from the books of the partnership:

	Dr. (Rs.'000)	Cr.(Rs.'000)
Partners' Capital Accounts as at 01 st April 2014:		
Imraz		2,000
Buddika		2,000
Mahee		1,000
Partners' Current Accounts as at 01 st April 2014:		
Imraz	50	
Buddika	25	
Mahee		10
Partners' Drawings: Imraz (on 01 st June 2014)	48	
Buddika (on 01 st May 2014)	24	
Mahee (on 15 th December 2014)	60	

The net profit for the year ended 31st March 2015 is Rs.695,000/-.

You are required to,

Prepare the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2015.
(05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Ranil, Anura and Namal are in a partnership named **Ranmal Traders**, sharing profits and losses in the ratio of 3 : 1 : 2 respectively.

The partnership agreement provides the following:

- **Anura** acts as the manager of **Ranmal Traders** and is paid a salary of Rs.50,000/- per annum.
- An interest of 5% per annum to be paid for the capital account balances at the end of the year.

The Trial Balance of **Ranmal Traders** as at 31st March 2015 is as follows:

Trial Balance as at 31st March 2015

	Dr. (Rs.'000)	Cr.(Rs.'000)
Property, Plant and Equipment at Cost:		
Land	1,300	
Buildings	900	
Office Equipment	300	
Accumulated Depreciation as at 01 st April 2014:		
Buildings		45
Office Equipment		120
Trade Payables		274
Trade Receivables	304	
Inventory as at 01 st April 2014	67	
Bank Balance	30	
Purchases / Sales	367	580
Sales Returns	15	
Administration expenses	115	
Distribution expenses	45	
Finance expenses	11	
Partners' Capital Accounts as at 01 st April 2014:		
Ranil		1,200
Anura		400
Namal		800
Partners' Current Accounts as at 01 st April 2014:		
Ranil		45
Anura		35
Namal	45	
Total	3,499	3,499

The following additional information is also provided:

- (1) It was decided to write off an amount of Rs.4,000/- as bad debts and to provide 1% of the remaining debtors as an allowance for doubtful debts.
- (2) Property, Plant and Equipment are to be depreciated on the straight-line method at cost as follows:

Buildings	:	2.5% per annum
Office Equipment	:	20% per annum.
- (3) Inventory as at 31st March 2015 was Rs.119,500/- at cost.

You are required to,

Prepare the following of **Ranmal Traders** for the year ended 31st March 2015:

- (a) Statement of Income.
- (b) Profit or Loss Appropriation Account. (10 marks)

Question 08

The following summarized Trial Balances are extracted from the books of **Northern Traders**, a sole proprietorship, after preparing the Comprehensive Income Statements:

Trial Balances

	As at 31 st March 2015 (Rs.)	As at 31 st March 2014 (Rs.)
Office Equipment – at cost	550,000	550,000
Motor Vehicles - at cost	4,900,000	4,900,000
Office Equipment - Accumulated depreciation	(275,000)	(137,500)
Motor Vehicles - Accumulated depreciation	(2,450,000)	(980,000)
Inventories at cost	165,000	105,000
Trade Receivables	860,000	420,000
Cash and Bank	320,000	125,000
Trade Payables	(695,000)	(720,000)
Accruals	(13,000)	(65,000)
Prepayments	12,000	11,500
Capital	(4,209,000)	(2,600,000)
Drawings by owner	860,000	174,000
Profit For The Year	(25,000)	(1,783,000)
	-	-

The following additional information is also provided:

- (1) One of the motor vehicles, purchased for Rs.2,000,000/- and depreciated for two years at the rate of 25% per annum on cost was disposed on 31st March 2015 at a price of Rs.1,300,000/- on credit. However, the bookkeeper has forgotten to record this transaction in the books of accounts.
- (2) After preparing the Comprehensive Income Statement for the year ended 31st March 2015, it was found that though, the cost of an item of inventory is Rs.10,000/- as at 31st March 2015, the Net Realizable Value (NRV) of the same is only Rs.3,500/- on that date.

You are required to:

Prepare the Statement of Financial Position of **Northern Traders** as at 31st March 2015. (10 marks)

Question 09

The Receipts and Payments Account of the **Royal Tennis Club** for the year ended 31st December 2015 is as follows:

Receipts and Payments Account (Rs.'000)

01.01. 2015 B/B/F	2,300	Cleaner's wages	430
Donations	3,400	Building maintenance	200
Tournament fees	1,880	Payables of Tennis Consumables	930
Subscriptions	2,360	Invested in bank deposit account	2,400
		Ground person's wages	950
		Tournament expenses	2,150
		31.12.2015 B/C/F	2,880
	9,940		9,940

Other assets and liabilities of **Royal Tennis Club** as at 01st January 2015 and 31st December 2015 were as follows:

	01 st January 2015 (Rs.'000)	31 st December 2015 (Rs.'000)
Assets:		
Land	4,000	4,000
Buildings	6,500	6,000
Tennis Equipment	4,400	?
Subscriptions in Arrears	0	280
Inventories of Tennis Consumables	950	835
Tournament Expenses Prepaid	100	130
Liabilities:		
Payable for Tennis Consumables	(2,270)	(1,960)
Subscriptions in Advance	(480)	(350)

The following additional information is also provided:

- (1) The entire donation should be recognized as an income for the period.
- (2) No additions or disposals have been made to the buildings during the year.
- (3) Remaining useful life of Tennis Equipment as at 01st January 2015 is 10 years and it is assumed that the equipment will have no residual value at the end of the 10th year.

You are required to,

Prepare following for the **Royal Tennis Club**:

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

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

The Trial Balance of **Rumesh (Pvt) Ltd.** as at 31st March 2015 is given below:

	Dr. (Rs'000)	Cr. (Rs'000)
Revenue		436,000
Cost of sales	290,930	
Distribution expenses	33,500	
Administrative expenses	51,650	
Dividends paid	2,200	
Interest on bank overdraft	100	
Property, Plant and Equipment - at cost:		
Land	30,000	
Building	70,000	
Office Equipment	55,500	
Accumulated depreciation as at 01 st April 2014:		
Building		25,000
Office Equipment		23,500
Cash in hand	1,000	
Inventory as at 31 st March 2015	60,000	
Trade receivables / Trade payables	63,000	62,200
Allowance for receivables as at 01 st April 2014		1,600
Accrued Expenses as at 01 st April 2014		330
Bank overdraft		5,000
Ordinary shares (500,000 ordinary shares as at 01 st April 2014)		50,000
Retained earnings as at 01 st April 2014		45,750
Income tax provision for the year ended 31 st March 2014		8,500
Total	657,880	657,880

The following additional information is also provided:

- (1) One of the customers who owed Rs.1,500,000/- to the company died on 01st July 2015, and the amount due from him became irrecoverable. It was decided to maintain the allowance for receivables at 5% of the year-end balance.
- (2) 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:

Buildings : 20 years
Office equipment : 5 years

- (3) The composition of the Accrued Expenses as at 01st April 2014 is as follows:

	Rs.
Insurance premium	130,000
Equipment maintenance expenses	200,000

During the year ended 31st March 2015, the company has paid Rs.260,000/- as insurance premium and Rs.350,000/- for equipment maintenance and both the expenses have been included under administration expenses.

As at 31st March 2015, an amount of Rs.35,000/- is payable for the insurance premium while an amount of Rs.20,000/- has been paid in advance on equipment maintenance.

- (4) The income tax liability for the previous year of assessment (i.e. 2013/14) has been finalized as Rs.8,250,000/- and paid in full in the current year of assessment. However, the bookkeeper has charged the said payment to administration expenses.

The total income tax liability for the year of assessment 2014/15 is estimated to be Rs.9,300,000/-.

- (5) On 01st August 2014, the company made a right issue of two new shares for every five shares held as at 01st April 2014 at Rs.100/- each. The right issue was fully subscribed and the proceeds were credited to trade payables.

You are required to,

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

- (a) Statement of Comprehensive Income for the year ended 31st March 2015. (13 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.