



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2017

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

15-07-2017
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 1.4. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 You are given the following statements in relation to limited liability companies:

- (a) Limited liability companies are managed by the shareholders who are appointed by the Board of Directors.
- (b) All the limited liability companies cannot issue shares to public to raise capital.
- (c) A private limited company can issue debentures to public to raise debt capital.

Of the above, the correct statement/s in relation to limited liability companies is/are:

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

1.2 Consider the following statements in relation to provisions of the partnership ordinance 1890:

- (a) All the partners should contribute to the capital equally.
- (b) A new partner should not be introduced to the business without the consent of all the existing partners.
- (c) Partner shall be entitled to receive remuneration for acting in the partnership business.

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

- (1) (a) and (b) only.
- (2) (a) only.
- (3) (b) and (c) only.
- (4) All of the above. (02 marks)

1.3 You are given the following statements in relation to Non-Profit Oriented Organizations (NPOs):

- (a) The net financial result from operations of an NPO is called as surplus or deficit.
- (b) The main objective of an NPO is to increase the surplus of the NPO.
- (c) NPOs may have income sources other than the membership subscription.

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

- (1) (a) and (b) only.
- (2) (a) and (c) only.
- (3) (a) only.
- (4) All of the above. (02 marks)

1.4 The following information relates to **Sun (Pvt) Ltd.** for the year ended 31st March 2017:

Inventory as at 01 st April 2016	Rs.450,000
Inventory as at 31 st March 2017	Rs.600,000
purchases for the year	Rs.900,000
Gross profit for the year	40% on sales

The value of sales for the year ended 31st March 2017 was:

- (1) Rs.1,050,000/-
- (2) Rs.1,250,000/-
- (3) Rs.750,000/-
- (4) Rs.1,470,000/- (02 marks)

Write answers to question No. 1.5 to 1.8 in your answer booklet with the number assigned to the question.

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

1.6 Anuradha is a sole trader. As at 01st January 2016, her sole proprietorship had total assets of Rs.2,569,400/- and liabilities of Rs.1,412,800/-. During the year ended 31st December 2016 she has introduced Rs.650,000/- as additional capital into the business and she has withdrawn Rs.180,000/- per month for every month of the year as drawings.

At 31st December 2016, **Anuradha's** business had total assets of Rs.2,614,100/- and liabilities of Rs.1,369,700/-.

Calculate the profit of **Anuradha's** business for the year ended 31st December 2016. (03 marks)

1.7 A, B and C were in a partnership business sharing profits and losses in the ratio of 3 : 5 : 2 respectively. **A** decided to retire from the partnership while **B** and **C** decided to continue the partnership after settling **A's** entitlement.

Calculate the new profit sharing ratio between **B** and **C**. (03 marks)

1.8 Susan (Pvt) Ltd. is a Value Added Tax (VAT) registered company. The following information is extracted for the quarter ended 31st March 2017:

VAT liable Sales:

- Cash Sales - Rs.100,000/- (exclusive of VAT).
- Credit Sales - Rs.345,000/- (inclusive of VAT).

Purchases:

- Cash Purchases - Rs.92,000/- (inclusive of VAT).
- Credit Purchases - Rs.230,000/- (inclusive of VAT).

There is no balance of VAT control account as at 01st January 2017.

(Applicable VAT rate is 15%).

Prepare the VAT control account as at 31st March 2017. (04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

Perera, Silva and Ivon were in a partnership sharing profit and loss in the ratio of 5:3:2 respectively. On 31st March 2017, **Ivon** decided to retire from the partnership and **Perera** and **Silva** agreed to share profit and loss in the ratio of 3:2 respectively. With the retirement of **Ivon**, the non-current assets were revalued on 31st March 2017 and details of those are as follows:

	Cost (Rs.'000)	Accumulated Depreciation as at 31 st March 2017 (Rs.'000)	Revalued Amount as at 31 st March 2017 (Rs.'000)
Land	1,000	-	1,500
Buildings	2,000	600	1,800
Machinery	800	500	600
Office Equipment	700	200	500

Non-current assets are carried at revalued amounts in the books of account.

You are required to:

Prepare required Journal Entries to record the above revaluation. (05 marks)

Question 03

The Bank Reconciliation Statement as at 28th February 2017 of **Siva (Pvt) Ltd.** was as follows:

	Rs.	Rs.
Balance as per Cash Book as at 28 th February 2017		(12,300)
Add: Cheques issued but not presented for payments:		
No. 251371	12,000	
No. 251372	13,200	25,200
Less: Cheques deposited but not realized		
No. 265971		(50,000)
Balance as per bank statement (overdraft) as at 28 th February 2017		(37,100)

The following information is also provided for the month of March 2017:

- (1) As per the bank statement for March 2017, the bank has deducted cheque book charges of Rs.3,000/- which was not recorded in the cash book.
- (2) The following cheques which were issued during the month of March 2017 were not presented for payments by 31st March 2017:

Cheque No.	Date of Cheque	Amount (Rs.)
251433	27.03.2017	4,500
251439	31.03.2017	12,890

- (3) The following cheque deposited during the month of March 2017 has not been realized by 31st March 2017:

Cheque No.	Date of Cheque	Amount (Rs.)
452316	30.03.2017	12,200

- (4) The unrealized deposit of Rs.50,000/- which was included in the bank reconciliation as at 28th February 2017 has been realized during the month of March 2017.
- (5) The following cheque which was issued during the month of February 2017 remained unpresented as at 31st March 2017:

Cheque No.	Date of Cheque	Amount (Rs.)
251372	17.02.2017	13,200

- (6) Favorable balance of the bank column as per the cash book of **Siva (Pvt) Ltd.** as at 31st March 2017 was Rs.107,000/-.

You are required to:

Prepare the following:

- (a) The adjusted Cash Book as at 31st March 2017. (01 mark)
 - (b) The Bank Reconciliation Statement as at 31st March 2017. (04 marks)
- (Total 05 marks)

Question 04

Summary of the payroll of **Silver (Pvt) Ltd.** for the month of March 2017 was as follows:

Basic Salary (Rs.)	Overtime (Rs.)	EPF Deductions @ 8% (Rs.)	Net Salary (Rs.)
725,000	91,000	(58,000)	758,000

The company contributes at 12% to the Employees' Provident Fund (EPF) and at 3% to the Employees' Trust Fund (ETF) from the basic salary.

You are required to:

Prepare required Journal Entries including entries for cash transactions to record the above Salary, EPF and ETF of **Silver (Pvt) Ltd.** (05 marks)

Question 05

On 01st April 2014, **Eagle (Pvt) Ltd.** acquired a machinery and incurred the following expenses:

	Rs.
Purchase price of the machinery	1,325,000
Custom Duty and Clearing expenses	35,600
Installation cost	43,900

At the date of acquisition, the useful life of the machinery and the residual value of the machinery are estimated to be 10 years and Rs.200,000/- respectively.

On 01st April 2016, the company purchased an upgrade package at a cost of Rs.260,400/- for the machinery originally purchased in 2014. This upgrade led to a reduction in the production time per unit of the goods being manufactured using the machinery. Due to the upgrading, the estimated remaining useful life of the machinery as at 01st April 2016 has estimated at 12 years with the same residual value.

You are required to:

Compute the following:

- The cost that appeared in the Machinery Account as at 01st April 2016 after recording the adjustments relating to upgrade of the machinery. (03 marks)
- The depreciation to be charged on the machinery for the year ended 31st March 2017. (02 marks)
(Total 05 marks)

Question 06

The following information was extracted from the books of accounts of **Sharp**, books shop which is a Sole proprietorship:

(1)

	Balance as at 01 st March 2017 (Rs.'000)
Debtors' Control Account (Debit)	2,560
Creditors' Control Account (Credit)	3,200

(2) During the month of March 2017, the following transactions have taken place:

	Rs.'000
Purchases on credit	5,200
Sales on credit	6,200
Credit Purchases returns	750
Discounts Received from creditors	350
Payments made to creditors	4,500
Payments received from debtors	3,200

You are required to:

Prepare the following for the month of March 2017:

(a) Debtors' Control Account. (02 marks)

(b) Creditors' Control Account. (03 marks)

(Total 05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

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

(1) Assets and liabilities of the business are as follows:

(Rs.'000)

	As at 01 st April 2016	As at 31 st March 2017
Land and Building (at carrying value)	5,000	4,800
Motor Vehicles (at carrying value)	7,000	7,400
Inventory	2,500	2,400
Trade Receivables	2,800	2,700
Cash at Bank	1,300	?
Trade Payables	1,600	1,350
Accrued Electricity	220	170

- (2) **Amali** does not keep proper books of accounts for her business, **Amali Traders**. She has analyzed the bank statements of the business from 01st April 2016 to 31st March 2017 and summarized the transactions as follows:

	Rs.'000
Deposits:	
Out of cash sales	3,500
Receipts from trade receivables	2,500
Receipt of a loan	1,000
Payments made by cheques:	
Cash purchases	1,250
Payments to trade payables	1,500
Purchase of a motor vehicle on 31 st March 2017	1,000
Electricity	280
Wages	1,400
Sundry expenses	330

- (3) **Amali** had deposited all cash receipts into the bank account with the exception of taking Rs.25,000/- per month as drawings out of cash sales.
- (4) **Amali** obtained a bank loan of Rs.1,000,000/- on 01st July 2016 at an interest rate of 15% per annum, in which the interest is to be paid monthly. However, no interest has been paid during the year ended 31st March 2017. Repayment of loan will be started from 01st April 2017.

You are required to:

Prepare the Trial Balance of **Amali Traders** as at 31st March 2017.

(10 marks)

Question 08

Gayesha and **Nimesha** are partners of **Sha Sha Partners** sharing profits and losses in the ratio of 3 : 2 respectively. On 01st January 2016, **Adhesha** was admitted as a partner on the following terms:

- (1) Partners are entitled to receive the following annual salaries:

Gayesha : Rs.360,000/-

Nimesha : Rs.120,000/-

Adhesha : Rs.800,000/-

- (2) Partners are entitled to receive interest on capital at 5% per annum.
- (3) Profits and losses are to be shared equally among the partners.
- (4) The goodwill of the partnership as at 01st January 2016 is to be valued at Rs.2,400,000/- and it is to be adjusted through the partners' capital account without creating a goodwill account.

- (5) The following balances were extracted from the Trial Balance of the partnership as at 31st December 2016: (Rs.'000)

	Dr.	Cr.
Capital introduced by Adhesh on 01 st January 2016		3,600
Capital Accounts as at 01 st January 2016:		
Gayesh		40,000
Nimesha		20,000
Current Accounts as at 01 st January 2016:		
Gayesh		10,000
Nimesha	6,000	
Drawings during the year:		
Gayesh	1,500	
Nimesha	1,000	
Adhesh	600	

- (6) Net Profit before appropriations for the year ended 31st December 2016 was Rs.20,000,000/-.

You are required to:

Prepare the following of **Sha Sha Partners** for the year ended 31st December 2016:

- (a) Profit and loss appropriation account. (04 marks)
- (b) Partners' Current Account. (03 marks)
- (c) Partners' Capital Account. (03 marks)
- (Total 10 marks)

Question 09

Rainbow Swimming Club commenced its operations on 01st January 2016 after completing the construction of the swimming pool.

The following information was extracted from the books of accounts:

- (1) Receipt and Payments Account: (Rs.'000)

Donations for club	10,000	Electricity	712
Pool daily admission fee	5,500	Water	535
Membership fee	780	Wages - Cleaners	648
Donations for swimming sports meet	215	Total cost of construction of swimming pool	13,200
Swimming sports meet entrance fee	75	Swimming sport meet expenses	92
Swimming Class Fees	325	Rent - Office	240
		Printing and stationery expenses	94
		Coaches' fee	565
		Sundry expenses	265
		Balance C/F as at 31.12.2016	544
	16,895		16,895

- (2) The annual membership fee of the club is Rs.6,000/- per member.
- (3) 120 members have joined the club during the year 2016 and their membership fee payments details are as follows:

Number of members who paid the membership fee only for the year 2016	110
Number of members who paid the membership fee for both the years, 2016 and 2017	10

- (4) The management of the club has decided to depreciate the swimming pool under the straight-line basis at cost over 10 years.
- (5) Daily admission fee should be paid by non-members of the swimming club.
- (6) The following expenses are accrued as at 31st December 2016:

	Rs.
Electricity bill for the month of December 2016	60,000
Water bill for the month of December 2016	30,000

You are required to:

Prepare the Statement of Income and Expenditure for the year ended 31st December 2016 for the **Rainbow Swimming Club**. (10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

The following Trial Balance of **Silicon (Pvt) Ltd.** as at 31st March 2017 is given below:

(Rs. '000)

	Dr.	Cr.
Ordinary share capital (300,000 shares)		80,000
Retained earnings as at 01 st April 2016		32,000
8% Debentures		70,000
Property, Plant and Equipment (at cost):		
Land and buildings (land - Rs.38 million)	88,000	
Motor vehicles	220,000	
Accumulated depreciation as at 01st April 2016:		
Buildings		15,000
Motor vehicles		83,000
Inventory as at 31 st March 2017	63,000	
Trade receivables	78,000	
Allowance for trade receivables as at 01 st April 2016		2,300
Bank balance		1,000
Income tax paid	2,900	
Sales		569,000
Cost of sales	363,000	
Distribution expenses	60,000	
Administration expenses	38,000	
Debenture interest paid	2,800	
Interest on bank overdraft	300	
Trade payables		61,300
Income tax provision as at 01 st April 2016		2,400
	916,000	916,000

The following additional information is also provided:

- (1) Inventory as at 31st March 2017 was physically verified and valued at cost. However, subsequent review conducted on 30th April 2017 revealed that out of the said inventory items, some items which were purchased for Rs.3,000,000/- had become obsolete and are expected to be sold for Rs.2,700,000/-.
- (2) One of the customers who owed Rs.2,000,000/- to the company was declared bankrupt on 15th April 2017 and the amount due from him became irrecoverable. Further, it was decided to maintain the allowance for receivables at 5% of balance trade receivables at the end of year.
- (3) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets are as follows:

Buildings	:	10 years
Motor Vehicles	:	5 years

- (4) On 01st April 2016, the company has issued 700,000 debentures at Rs.100/- each. Interest at 8% is to be paid on debentures bi-annually on 01st of April and on 01st of October. The interest paid during the year has been debited to the debenture interest paid account.
- (5) The following accrued and prepaid expenses are to be accounted as at 31st March 2017:

	Rs.
Accrued Advertising expenses	1,000,000
Prepaid Telephone Expenses	500,000

- (6) The total income tax liability for the year of assessment 2015/16 of Rs.2,900,000/- which was paid during the year ended 31st March 2017 has been debited to the income tax paid account. The total income tax liability for the year of assessment 2016/17 was estimated to be Rs.2,800,000/-.
- (7) The financial statements were authorized for issue by the Board of Directors on 31st May 2017.

You are required to:

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

- (a) Statement of Comprehensive Income for the year ended 31st March 2017. (12 marks)
 - (b) Statement of Financial Position as at 31st March 2017. (13 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.