



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2018

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

21-07-2018
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)

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 The following information is related to **Siripala Traders** for the year ended 31st March 2018:

	Rs.
Opening inventory	40,000
Closing inventory	30,000
Purchases	350,000
Sales	600,000

The gross profit margin of **Siripala Traders** for the year ended 31st March 2018 is:

- (1) 60%. (2) 40%. (3) 37%. (4) 53%.

(02 marks)

1.2 Consider the following statements related to companies:

- (a) Preference shareholders of a company have the right to vote at the annual general meeting of the company.
- (b) Debenture holders are paid the interest only if the company has made profits.
- (c) There is no any obligation to pay fixed dividends for ordinary shareholders.

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

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

1.3 Which one of the following statements is correct with reference to Non-Profit Organizations (NPOs)?

- (1) NPOs earn income only from the membership subscriptions.
- (2) Donations received to NPOs are recorded in the Accumulated Fund.
- (3) The main objective of an NPO is to increase the surplus of the NPO.
- (4) None of the above. (02 marks)

1.4 The following information is extracted from the Trial Balance of **B Ltd.**, as at 01st April 2017:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Motor Vehicle at cost (purchased on 01 st April 2014)	5,000	
Accumulated Depreciation - Motor Vehicle		1,500

The useful life time of the motor vehicle is estimated to be 10 years. The company sold this motor vehicle for Rs.3,200,000/- on 31st March 2018.

Based on the above information, profit or loss on disposal of the motor vehicle would be:

- (1) Profit of Rs.200,000/-.
 - (2) Loss of Rs.200,000/-.
 - (3) Profit of Rs.300,000/-.
 - (4) Loss of Rs.300,000/-.
- (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 **Amal, Bimal** and **Chamal** were in a partnership sharing profits and losses in the ratio of 3:5:2 respectively. **Bimal** decided to retire from the partnership and **Amal** and **Chamal** decided to continue in the partnership sharing profit and losses in the ratio of 3:2 respectively.

Calculate the Gaining Ratio of **Amal** and **Chamal** of the new partnership. (02 marks)

1.6 State three(03) differences between a private limited company and a partnership. (03 marks)

- 1.7 A company values its inventory using the FIFO method. As at 01st April 2018, the company had 500 units of a particular item of inventory, which were valued at a cost of Rs.170/- per unit.

During the month of April 2018, the following transactions took place:

Date	Purchases	Sales
05 th April	-	300 units
10 th April	150 units @ Rs.150/- per unit	-
27 th April	-	250 units

Calculate the value of the inventory as at 30th April 2018. (03 marks)

- 1.8 The management of **XYZ Ltd.** has authorised the financial statements for the year ended 31st March 2018 for issue on 15th June 2018.

State whether, each of the following events that occurred after the reporting period and before the authorization of financial statements for issue of **XYZ Ltd.** are adjusting events or not as per LKAS 10 - Events after the reporting period:

- (1) The company declared dividends to ordinary shareholders.
- (2) Sale of inventories at a price lower than the cost.
- (3) Bankruptcy of a customer.
- (4) The destruction of a major production plant by a fire.

(04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

The following information is extracted from the books of **Recon Traders**:

- (1) Bank Reconciliation Statement as at 30th April 2018

	(Rs.)	(Rs.)
Balance as per Cash Control Account (cash book) as at 30 th April 2018		15,200
Add: Cheques issued but not presented for payments:		
265975	12,300	
265985	15,350	27,650
Less: Unrealized deposits:		
Cheque deposit 257461		(65,000)
Balance as per Bank Statement as at 30th April 2018		(22,150)

- (2) On 31st May 2018, the bank has deducted cheque book charges of Rs.3,500/- and this was not recorded in the cash book.

(3) The following issued cheques were not presented to the bank by 31st May 2018:

Cheque No.	Date of Issue	Amount, Rs.
265975	15.04.2018	12,300
266105	15.05.2018	3,200
266115	31.05.2018	60,000

(4) All the unrealized deposits as at 30th April 2018 have been realized during the month of May 2018.

(5) On 29th May 2018, the bank has erroneously debited an amount of Rs.13,200/- to **Recon Trader's** bank account.

(6) The following cheque which has been deposited to the bank account by the company on 27th May 2018 has not been realized by 31st May 2018:

Cheque No.	Amount, Rs.
452122	25,000

(7) The debit balance (favourable balance) of cash control account (cash book) as at 31st May 2018 was Rs.49,000/-.

You are required to:

Prepare the following:

(a) The Adjusted Cash Control Account (cash book) as at 31st May 2018. (02 marks)

(b) The Bank Reconciliation Statement as at 31st May 2018. (03 marks)

(Total 05 marks)

Question 03

The following information is extracted from the books of **Sewana Hardware** for the month of May 2018:

	Rs.
Sales on credit	750,000
Purchases on credit	350,000
Payments to Creditors	450,000
Discounts received from creditors	4,300
Payment received from Debtors	725,200
Discounts given to debtors	14,800

The following additional information is also provided:

(1) Control Account balances as at 01st May 2018 are as follows:

	Rs.
Debtors' Control Account	1,565,000 (Dr.)
Creditors' Control Account	860,000 (Cr.)

(2) A cheque paid to a creditor with a value of Rs.12,600/- was found returned by the bank on 31st May 2018 due to insufficient balance. **Sewana Hardware** has agreed to settle the due with a new cheque in the month of June 2018.

You are required to:

Prepare the following for the month of May 2018:

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

Question 04

The following balances were extracted from the books of accounts of **Southpole (Pvt) Ltd.** for the month of March 2018:

	Rs.
Basic salary prior to PAYE, loan installments and EPF (8%) deductions	7,320,000
PAYE deduction	180,000
Loan installments deduction	50,000

8% from the basic salary of employees is deducted for the Employees' Provident Fund (EPF). The company contributes at 12% to the EPF and 3% to the Employees' Trust Fund (ETF) from the basic salary. Employees' salaries were paid on 31st March 2018 and contributions for EPF and ETF were paid on 10th April 2018.

You are required to:

Prepare the following ledger accounts for the month of March 2018:

- (a) Salary Control Account. (03 marks)
- (b) EPF Payable Account. (02 marks)
- (Total 05 marks)

Question 05

Amal, Kamal and **Nimal** are in a partnership sharing profits and losses in the ratio of 2:2:1 respectively.

The partnership agreement provides the following terms:

- (1) Interest is paid on capital at 10% per annum on the partners' opening capital account balances.
- (2) Partners' are entitled to receive the following salaries:

Kamal	-	Rs.60,000/- per month
Nimal	-	Rs.25,000/- per month

- (3) The following balances were extracted from the trial balance of the partnership as at 31st March 2018:

(Rs.'000)

	Dr.	Cr.
Capital Accounts as at 01 st April 2017:		
Amal		2,000
Kamal		2,000
Nimal		1,000
Drawings during the year:		
Amal	800	
Kamal	600	

- (4) The net profit before appropriation of the partnership for the year ended 31st March 2018 was Rs.2,329,000/-.

You are required to:

Prepare the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2018. (05 marks)

Question 06

Sun and **Moon** were in a partnership under the name of **Bright Lights** sharing profits and losses in the ratio of 2 : 1 respectively.

Up to 01st April 2018, **Sun** was managing the daily activities of the partnership. On that date **Sun** decided to retire from managing daily activities of the partnership and **Moon** agreed to take over the same by changing the profit and losses sharing ratio on 01st April 2018.

In order to accommodate the said changes between **Sun** and **Moon**, they have agreed on the following:

- (1) The goodwill of the partnership as at 01st April 2018 was valued at Rs.3,000,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.
- (2) The ratio of sharing profits and losses between **Sun** and **Moon** is to be changed to 1:2 respectively.
- (3) **Moon** transferred his personal van valued at Rs.2,000,000/- to the partnership on 01st April 2018 as an additional capital.

You are required to:

Prepare the Journal Entries to record the above transactions occurred on 01st April 2018. (05 marks)

End of Section B

SECTION C

Three (03) compulsory questions
(Total 30 marks)

Question 07

Rose Club is a members' club formed to promote theatre industry while running a restaurant for the use of its members.

The following Receipts and Payments Account shows the transactions of the **Rose Club** for the year ended 31st December 2017: (Rs. '000)

Receipts and Payments Account			
B/B/F 01 st January 2017	3,500	Purchase of restaurant supplies	18,000
Donations	6,000	Other expenses of restaurant	3,400
Drama ticket sales	25,000	Fees of guest artists for the dramas	5,000
Membership subscriptions	4,000	Advertising on dramas	1,500
Restaurant sales	30,000	Theatre equipment (purchased on 31 st December 2017)	10,000
		Dramas production expenses	15,000
		Electricity	1,500
		B/C/F 31 st December 2017	14,100
	68,500		68,500

Assets and liabilities were as follows:

(Rs. '000)

	As at 01 st January 2017	As at 31 st December 2017
Land and buildings at carrying value	70,000	68,000
Theatre equipment at carrying value	12,000	17,000
Membership subscriptions in arrears	700	500
Membership subscriptions in advance	300	200
Inventory at Restaurant at cost	7,000	5,000

- Donations should be recognized as an income for the year and 1/3rd of electricity expenses are to be charged to the restaurant.
- There were no additions and disposals of the Property, Plant and Equipment except the theatre equipment purchased during the year.

You are required to:

Prepare the following for the **Rose Club**:

- (a) Restaurant Trading Account for the year ended 31st December 2017. (03 marks)
- (b) Income and Expenditure Account for the year ended 31st December 2017. (07 marks)
- (Total 10 marks)

Question 08

Fatty Collection is a farm shop owned and run by **Mr. Perera**, who is not maintaining proper books of accounts.

The following information was extracted from the records of **Fatty Collection**:

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

(Rs.'000)

	As at 01 st April 2017	As at 31 st March 2018
Land and Building at carrying value	15,000	13,000
Motor Vehicles at carrying value	7,000	9,000
Inventory at cost	5,000	7,000
Bank Balances	6,000	?
Trade Receivables	6,000	7,000
Trade Payables	7,000	9,000
Accrued Electricity	500	750

- (2) On 01st October 2017, a motor vehicle was purchased at a cost of Rs.5,000,000/- for use of the business. Other than that there were no additions or disposal of Property, Plant and Equipment during the year.
- (3) He withdrew Rs.1,000,000/- for his personal use during the year from the business's bank account.
- (4) Other Bank Payments made during the year were as follows:

	Rs.'000
Payments to trade payables	45,000
Repair and maintenance	500
Electricity	1,500
Salaries	5,000

- (5) All purchases and sales are on credit basis.
- (6) On all sales, **Mr.Perera** keeps a gross profit of 50% on cost.
- (7) All the transactions are made through the business bank account.

You are required to:

Prepare the Trial Balance of **Fatty Collection** as at 31st March 2018.

(10 marks)

Question 09

Ashan, Hashan and Roshan were partners of **The Shans**, sharing profits or losses in the ratio of 2:2:1 respectively.

(1) The partnership agreement contained the following:

- Partners are entitled to receive interest on capital at 5% per annum on the partners' opening capital account balances.
- Hashan** is entitled to receive a monthly salary of Rs.15,000/-.

(2) On 31st March 2018, **Roshan** decided to retire from the partnership and **Ashan** and **Hashan** agreed on the following conditions:

- The goodwill of the partnership as at 31st March 2018 was valued at Rs.1,800,000/- and it is to be adjusted through the partners' capital account without creating a goodwill account.
- Land and buildings as at 31st March 2018 were revalued as follows: (Rs.'000)

	Revalued Amount as at 31 st March 2018	Cost	Accumulated Depreciation as at 31 st March 2018
Land and buildings	2,400	1,800	300

The land and buildings are carried at revalued amounts.

- Total amount payable to **Roshan** should be settled in full after one month of the retirement.
 - The profits and losses are to be shared between **Ashan** and **Hashan** in the ratio of 3:2 respectively.
- (3) The net profit of the partnership before appropriation for the year ended 31st March 2018 was Rs.2,500,000/-.
- (4) The following balances were extracted from the trial balance of the partnership as at 31st March 2018:

	Dr. (Rs'000)	Cr. (Rs'000)
Capital accounts as at 01 st April 2017:		
Ashan		5,000
Hashan		3,000
Roshan		2,000
Current accounts as at 01 st April 2017:		
Ashan		500
Hashan		300
Roshan	200	

You are required to:

Prepare the following for **The Shans** partnership for the year ended 31st March 2018 to record the above transactions:

- (a) Partners' Current Accounts. (04 marks)
- (b) Partners' Capital Accounts. (06 marks)

(Total 10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

The following trial balance as at 31st March 2018 is extracted from the books of accounts of **Jaya (Pvt) Ltd.**, a company engaged in trading business:

(Rs. '000)

	Dr.	Cr.
Stated Capital (300,000 ordinary shares)		45,000
Retained Earnings as at 01 st April 2017		10,000
Interim Dividends Paid	2,500	
10% Debentures		25,000
Land and Buildings at cost (land - Rs.20 million)	70,000	
Motor Vehicles	90,000	
Accumulated Depreciation as at 01 st April 2017:		
Buildings		14,000
Motor Vehicles		36,000
Inventory as at 31 st March 2018	55,000	
Trade Receivables	45,500	
Allowance for Trade Receivables as at 01 st April 2017		1,250
Income Tax Paid	2,650	
Sales		368,000
Cost of Sales	235,000	
Distribution Expenses	15,000	
Administration Expenses	43,000	
Debenture Interest Paid	1,250	
Cash in hand and at bank	750	
Trade Payables		48,000
Suspense Account		11,000
Income Tax Provision as at 01 st April 2017		2,400
	560,650	560,650

The following additional information is also provided:

- (1) Closing inventory which was counted and valued at cost as at 31st March 2018 was taken into the books of accounts. Subsequent review conducted on 20th April 2018 revealed that a part of the above inventory which had a cost of Rs.5,000,000/- had become obsolete and expected to be sold at Rs.4,200,000/- on 30th April 2018.

- (2) The company issued 250,000 10% debentures at Rs.100/- each, on 01st April 2017. Interest is to be paid bi-annually on debentures. The interest paid during the year has been charged to the debenture interest paid account.
- (3) Property, Plant and Equipment (PPE) are to be depreciated on the straight-line basis at cost. The useful life of the assets are estimated as follows:

Buildings	:	25 years
Motor Vehicles	:	10 years

The entire depreciation for the year has been debited to administration expenses and credited to Suspense Account.

- (4) One of its customers who owed Rs.500,000/- to the company died on 05th May 2018, thus the amount receivable became irrecoverable. Further, it was decided to maintain an allowance for trade receivables at 5% of the balance trade receivables at the end of the year.
- (5) The following accrued and prepaid expenses are to be accounted as at 31st March 2018:

	Rs.
Accrued building maintenance expenses	400,000
Prepaid advertising expenses	150,000

- (6) The total income tax liability for the year of assessment 2016/17 was finalized to Rs.2,650,000/- and settled in full during the year ended 31st March 2018. The amount paid has been charged to the income tax paid account. The total income tax liability for the year of assessment 2017/18 is estimated to be Rs.2,800,000/-.
- (7) The board of directors of the company has approved the financial statements for issue on 30th June 2018.

You are required to:

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2018. (12 marks)
- (b) Statement of Financial Position as at 31st March 2018. (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.