



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2019

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

20-07-2019
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** Closing inventory as at 31st March 2019 which had cost of Rs.3,000,000/- has become obsolete and is expected to sell at Rs.3,200,000/- subject to a sales commission of 20% of the sales price.

Net Realizable Value (NRV) of the said inventory as at 31st March 2019 was:

- (1) Rs.3,200,000/- (2) Rs.3,000,000/- (3) Rs.2,560,000/- (4) Rs.640,000/-

(02 marks)

- 1.2** Which one of the following is **not** included under cost of purchase of inventories as per LKAS-02, Inventories?

- (1) Purchase price. (2) Import duties.
(3) Transport charges. (4) Selling expenses.

(02 marks)

1.3 The following statements are relating to section 24 of Partnership Ordinance 1890:

- (a) All the partners should contribute to capital equally.
- (b) Every partner may take part in the management of the partnership business.
- (c) Partners' consent is not required to admit a new partner to the partnership.

Of the above, the correct statement/s, is/are:

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

1.4 Dewmi (Pvt) Ltd. acquired a machinery on 01st April 2017 at cost of Rs.2,000,000/-. It was expected to have a useful life of 5 years and residual value at the end of 5th year was estimated to be Rs.200,000/-. The machinery is depreciated on the straight-line basis.

The carrying value as at 31st March 2019 would be:

- (1) Rs.1,600,000/-.
 - (2) Rs.1,080,000/-.
 - (3) Rs.1,440,000/-.
 - (4) Rs.1,280,000/-.
- (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 a criteria that must be satisfied to recognize a provision in the financial statements. (02 marks)

1.6 Saman is the sole proprietor of Saman Traders. All the sales of the business are on credit basis. The following information was extracted for the year ended 31st March 2019:

Inventory as at 01 st April 2018	Rs.250,000/-
Purchases for the year	Rs.850,000/-
Inventory as at 31 st March 2019	Rs.375,000/-
Gross profit for the year	20% on sales

Calculate the sales for the year ended 31st March 2019. (03 marks)

1.7 Amith and Damith were in a partnership sharing profits and losses in the ratio of 3 : 2 respectively. They admitted Ramith as a new partner to share profits and losses among Amith, Damith and Ramith in the ratio of 3 : 3 : 4 respectively.

Calculate the sacrificing ratio of Amith and Damith. (03 marks)

1.8 Insight (Pvt) Ltd. is a Value Added Tax (VAT) registered company. The following information was extracted from the books of Insight (Pvt) Ltd. for the month of March 2019:

	Rs.
Sales (exclusive of VAT)	367,000
Credit purchases (exclusive of VAT)	196,000
Cash purchases (inclusive of VAT)	3,450
Credit balance of VAT control account as at 01 st March 2019	1,220

The applicable VAT rate is 15%.

Calculate the VAT payable balance as at 31st March 2019. (04 marks)

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

Creditors' Control Account balance as at 31st December 2018 in the ledger of **Fine Record (Pvt) Ltd.** was different from its total individual creditors ledger balances:

	Rs.
Balance as per Creditors Control Account	1,300,540
Total of individual creditors ledger balances	1,167,640
Difference	132,900

Subsequent checking revealed the following errors:

- (1) The total of discount received for the month, amounting to Rs.112,300/- has been entered in the control account, but has not been entered in the individual ledger accounts.
- (2) When extracting the individual ledger account balances, credit balance of Rs.43,500/- has been incorrectly treated as a debit balance.
- (3) Total of the purchases day book for the month of December 2018 had been over casted by Rs.200,000/-.
- (4) Rs.12,700/- payable to a creditor, has been off-set with a receivable amount included in the receivable ledger from the same client and correctly entered in the individual ledger accounts but no entry has been made in the control account.
- (5) A cash payment to a creditor amounting to Rs.54,500/- has been correctly recorded in the control account, but no entry has been made in relevant individual ledger account.

You are required to:

Prepare the following:

- (a) Revised Creditors Control Account. (02 marks)
 - (b) A reconciliation of Revised Control Account balance with the total of creditors' individual ledger balances. (03 marks)
- (Total 05 marks)

Question 03

Asanka, Thisanka and **Isanka** are in a partnership sharing profits and losses in the ratio of 4 : 4 : 2 respectively.

The partnership agreement provides the following terms:

- Interest is paid on opening capital balances at 12% per annum.
- **Asanka** and **Thisanka** are entitled to receive a monthly salary of Rs.12,000/- and Rs.18,000/- respectively.

The following information was extracted from the trail balance of the partnership as at 31st March 2019.

(Rs.'000)

	Dr.	Cr.
Capital Accounts as at 01 st April 2018:		
Asanka		3,200
Thisanka		2,100
Isanka		900
Current Accounts as at 01 st April 2018:		
Asanka		60
Thisanka	40	
Isanka		30
Drawings:		
Asanka	150	
Thisanka	200	
Isanka	150	

The net profit of the partnership before appropriation for the year ended 31st March 2019 was Rs.1,596,000/-.

You are required to:

Prepare the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2019. (05 marks)

Question 04

Udeni (Pvt) Ltd commenced its business operations on 01st April 2019. On the same date, the company acquired a machinery to be used in its operations. The following costs were incurred by the company on 01st April 2019:

	Rs.
Purchase cost of machinery	1,250,000
Transportation cost of machinery	10,000
Installation cost of machinery	8,500
Cost of sample products for testing the machinery	10,000
Cost of advertisement of the operation	17,500

You are required to:

Identify the cost to be capitalized on machinery as at 01st April 2019.

(05 marks)

Question 05

The newly appointed Accounts Assistant of **Nilendra (Pvt) Ltd.** has prepared the following bank reconciliation statement for the month of December 2018:

	Rs.
Balance as per bank statement as at 31 st December 2018	1,721,490
Less: Unpresented cheques for payments:	
Cheque No.150162	(435,000)
Cheque No.150278	(123,000)
Unidentified credit appearing in the bank statement	(190,000)
Add: Unrealized cheque Deposits	
Cheque No.506761	520,000
Bank balance as per Cash Control Account (cash book) as at 31st December 2018	1,493,490

However, the bank balance as per Cash Control Account, shown in the bank reconciliation statement was different from the actual bank balance appearing in the Cash Control Account and reasons thereon are found as follows:

- (1) The correct amount of unpresented cheque No. 150162 was Rs.453,000/- which was correctly recorded in the Cash Control Account.
- (2) The unidentified credit was identified later as a direct deposit to the bank account made by a customer. This was not recorded in the Cash Control Account.
- (3) Bank charges of Rs.6,570/- for the month of December 2018 was not recorded in the Cash Control Account.

You are required to:

- (a) **Identify** the actual bank balance that appeared in the Cash Control Account as at 31st December 2018 before adjustments. (02 marks)
- (b) **Prepare** the adjusted Cash Control Account for the month of December 2018. (03 marks)
(Total 05 marks)

Question 06

The following information relates to “**Dilenatharu**” sports club for the year ended 31st December 2018:

- (1) The annual membership subscription from a member is Rs.2,500/-. As at 01st January 2018, membership subscription in arrears and received in advance were Rs.15,000/- and Rs.5,000/- respectively.
- (2) As at 31st December 2018, 8 members have not paid membership subscription for the current year out of which 2 members have not paid the subscription for the previous year as well. 4 members have paid subscription for the next year in advance.
- (3) As at 31st December 2018, one of the members’ membership subscription remains outstanding for 3 years. The association decided to write off this amount in the current year.
- (4) There were only 49 members (after cancelling the membership of 1 member during the current year) in the club as per records as at 31st December 2018.

You are required to:

- Prepare** the Membership Subscription Account for the year ended 31st December 2018. (05 marks)

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Risky Electricals is a sole proprietorship. Accounts Assistant of business has prepared the Income Statement and arrived a net profit of Rs.1,783,000/- for the year ended 31st March 2019:

- (1) Balances as at 31st March 2019 appeared in the books of accounts of the business are as follows:

	Dr. (Rs.)	Cr. (Rs.)
Land and Buildings - Cost	3,500,000	
Motor Vehicle - Cost	2,900,000	
Accumulated depreciation:		
Buildings		875,000
Motor Vehicle		1,450,000
Inventories at cost	1,575,000	
Trade Receivables	575,000	
Cash at Bank	63,500	
Trade Payables		876,000
Capital as at 01 st April 2018		4,100,000
Drawings by owner	470,500	
Net profit for the year		1,783,000
	9,084,000	9,084,000

- (2) You are given the following additional information which were not recorded in the books of accounts:

- One of the debtors, who owed Rs.75,000/- to the business was bankrupt. Thus the amount receivable became irrecoverable. Further, it was decided to maintain an allowance for trade receivables at 2% of the balance trade receivable balance at the end of the year.
- **Senarath**, the owner of the business has decided to transfer his personal van value of Rs.1,400,000/- to the business on 31st March 2019 for delivery purpose as an additional capital.

You are required to:

Prepare the Statement of Financial Position of **Risky Electricals** as at 31st March 2019. (10 marks)

Question 08

The receipts and payments account for the year ended 31st December 2018 and Statement of Financial Position as at 01st January 2018 of **Echo Dancing Club** are as follows:

(Rs.'000)

Receipts and Payments Account			
B/B/F 01 st January 2018	5	Dinner dance expenses	300
Dinner dance ticket sale	525	Advertising expenses on dinner dance	45
Fees from dancing classes	1,050	Payment for dancing teachers	600
Donation	180	Electricity and Water	648
Membership fees	525	Administration Fee - Coordinator	220
		B/C/F 31 st December 2018	472
	2,285		2,285

Statement of Financial Position

as at 01st January 2018

(Rs.'000)

Assets:	
Building at carrying value (Cost - Rs.2,700,000/-)	2,300
Membership Fee Receivables	50
Prepaid Electricity Expenses	12
Bank Balance	5
	2,367
Accumulated Fund and Liabilities:	
Accumulated Fund	2,367
	2,367

You are given the following additional information:

- (1) Monthly administration fee of Rs.20,000/- is paid to the Coordinator. However December 2018 payment has not been paid by 31st December 2018. No other pre-payments or payables were available as at 31st December 2018.
- (2) All the membership fee receivables as at 01st January 2018 were received during the year 2018. Membership fee of Rs.65,000/- relating to the year 2018 was in arrears as at 31st December 2018.
- (3) On 01st December 2018, the part of the building was given on rent for a bookshop for a monthly rent of Rs.15,000/-. Rent income is to be receivable as at the year end.
- (4) Building is to be depreciated at 5% per annum on straight line basis at cost.
- (5) Donation should be recognized as an income for the year.

You are required to:

Prepare the Income and Expenditure Account for the year ended 31st December 2018 for **Echo Dancing Club**.

(10 marks)

Question 09

Sunil, Vinil and Ranil were partners of partnership business **Suvira Motors** sharing profits / losses in the ratio of 2:1:1 respectively.

- (1) Their partnership agreement provides the following terms:
 - **Sunil** is entitled to receive a monthly salary of Rs.30,000/- per month.
 - Partners are entitled to receive an interest of 10% per annum on opening capital account balances.
- (2) The following balances were extracted from the trial balance of **Suvira Motors** as at 31st March 2019:

	Dr. (Rs'000)	Cr. (Rs'000)
Capital accounts as at 01 st April 2018:		
Sunil		1,500
Vinil		1,000
Ranil		500
Current accounts as at 01 st April 2018:		
Sunil	365	
Vinil		288
Ranil	350	
Partners' drawings:		
Vinil	80	
Ranil	60	

- (3) The net profit of the partnership before appropriation for the year ended 31st March 2019 was Rs.874,000/-.
- (4) On 31st March 2019, **Ranil** decided to retire from the partnership. The goodwill of the partnership as at 31st March 2019 was valued at Rs.3,000,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.
- (5) After retirement of **Ranil**, profits and losses are to be shared between **Sunil** and **Vinil** in the ratio of 2 : 1 respectively.
- (6) It was decided to transfer the full amount payable to **Ranil**, to a loan account after his retirement.

You are required to:

Prepare the following for **Suvira Motors** for the year ended 31st March 2019:

- (a) Partners' Capital Accounts. (04 marks)
 - (b) Partners' Current Accounts. (06 marks)
- (Total 10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

The Trial Balance of **Design Mart (Pvt) Ltd.** as at 31st March 2019 is given below:

(Rs.'000)

	Dr.	Cr.
Stated capital (1,000,000 Ordinary shares)		10,000
Retained Earnings as at 01 st April 2018		12,550
Debentures		10,000
Machinery at cost	6,000	
Motor vehicles at cost	4,000	
Office equipment at cost	2,000	
Accumulated depreciation as at 01 st April 2018:		
Machinery		3,600
Motor vehicles		2,000
Office equipment		1,000
Inventory as at 31 st March 2019	10,200	
Trade Receivables	17,150	
Allowance for trade receivables as at 31 st March 2019		430
Cash in hand and at Bank	12,690	
Trade Payables		4,400
Provision for Income Tax as at 01 st April 2018		40
Interim Dividends for ordinary shares	4,000	
Sales		46,000
Cost of Sales	28,200	
Administration Expenses	3,630	
Distribution Expenses	1,600	
Finance Expenses	500	
Income Tax paid	50	
	90,020	90,020

The following additional information is also provided:

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

Machinery	:	5 years
Motor vehicles	:	4 years
Office equipment	:	5 years

- (2) The following transactions are to be incorporated in to the books of accounts as at 31st March 2019:

Rent Payable	:	Rs.40,000/-
Prepayment of insurance	:	Rs.70,000/-

- (3) On 01st January 2019, the company issued 100,000 numbers of 15% debentures at Rs.100/- each, for which the interest is to be paid quarterly. For the first quarter, the interest is to be paid on 01st April 2019.

- (4) The total income tax liability for the year of assessment 2018/19 is estimated as Rs.90,000/-.

- (5) An ex-employee sued the company, claiming compensation for health damages caused to him due to a chemical which was used for the production. Though the judgment was not given as at 31st March 2019, the lawyers are of the view that the company will have to pay an amount of Rs.500,000/- as compensation to the employee.

- (6) The financial statements were authorized for issue by the Board of Directors on 31st May 2019.

You are required to:

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2019. (11 marks)
- (b) Statement of Financial Position as at 31st March 2019. (14 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.