



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2020

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

- **Instructions to candidates** (Please Read Carefully):
 - (1) **Time Allowed:** Reading : 15 minutes.
Writing : 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 will begin 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.**

03-10-2020

Morning

[08.45 – 12.00]

No. of Pages : 10

No. of Questions : 07

SECTION A

Objective Test Questions (OTQs)

(Total 25 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.3. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Select the correct statement with reference to LKAS 02 - Inventories:

- (1) Computers held for office use are considered as inventory.
- (2) Inventories are valued at cost only.
- (3) Cost of inventories consists of purchase cost of inventories only.
- (4) Inventories are valued at cost or net realizable value whichever is less.

(02 marks)

1.2 ABC (Pvt) Ltd., has obtained two buildings on rent. During the year ended 31st March 2020, the company has paid Rs.4,812,000/- as rent.

The following balances were appeared in the books of accounts of **ABC (Pvt) Ltd.:**

(Rs.)		
Name of the account	As at 01 st April 2019	As at 31 st March 2020
Rent paid in advance	287,000	312,000
Rent in arrears	212,000	184,000

The correct rent expense to be shown in the statement of income for the year ended 31st March 2020 would be:

(1) Rs.4,609,000/-. (2) Rs.4,759,000/-. (3) Rs.4,865,000/-. (4) Rs.5,015,000/-.
(02 marks)

1.3 A motor vehicle acquired for Rs.5,000,000/- on 01st October 2016 was sold for Rs.3,000,000/- on 31st March 2020 by a company. If the company depreciates the motor vehicles at 25% per annum on the straight-line basis at cost, the profit on disposal of motor vehicle was:

(1) Rs.2,375,000/-. (2) Rs.3,000,000/-. (3) Rs.750,000/-. (4) Rs.1,750,000/-.
(02 marks)

Write the answers for question No 1.4 to 1.10 in your answer booklet with the number assigned to the question.

1.4 State two(02) objectives of cost accounting. (02 marks)

1.5 Define the term "liability". (02 marks)

1.6 State the provision of the Partnership Ordinance 1890 in relation to each of the following:

(a) Capital of the Partnership.

(b) Salaries to Partners. (02 marks)

1.7 A and B are partners of a partnership sharing profit and losses in the ratio of 2 : 1 respectively. On 01st April 2019 C joined as a new partner and agreed to share profit and losses in the ratio of 5 : 3 : 2 respectively.

Calculate the sacrificing ratio of A and B. (03 marks)

1.8 State whether each of the following events that occurred after the reporting period but before the authorization of financial statements for issue are adjusting event or non-adjusting events as per LKAS 10:

(a) Dividend proposed for ordinary shareholders.

(b) Some inventories held at the end of the reporting period were sold below the cost.

(c) A debtor of the company as at the end of the reporting date was declared bankrupt.

(03 marks)

1.9 The following information was extracted from the books of accounts of a company relating to **product X**:

Annual demand	:	12,500 units
Annual holding cost per unit	:	Rs.2/-
Ordering cost per order	:	Rs.20/-
Purchase price per unit	:	Rs.125/-

You may use the following formula,

Economic Order Quantity:

$$\sqrt{\frac{2DC_o}{C_h}}$$

Based on the above, calculate the Economic Order Quantity (EOQ). (03 marks)

1.10 The following information was extracted with reference to **Job 2500** of **Rose Ltd.**:

Direct raw material	:	5,000 kilograms @ Rs.25/- per kilogram
Direct labour	:	200 hours @ Rs.500/- per hour
Production overhead	:	150% of direct labour cost

The company keeps a 20% profit on cost.

Calculate the price to be charged on **Job 2500**. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

(a) The following information relates to the **Product D001** of **Deco (Pvt) Ltd.** for the month of January 2020:

Date	Description	Quantity (Units)	Unit Price (Rs.)
01.01.2020	Opening Balance	5,000	75.00
06.01.2020	Purchases	7,500	74.00
10.01.2020	Issues	5,600	-
18.01.2020	Purchases	5,000	72.00
25.01.2020	Issues	4,000	-

The company prepares the stocks ledger using Weighted Average Cost (WAC) method.

You are required to:

Prepare stocks ledger for **Product D001** for the month of January 2020. (05 marks)

- (b) The following information relates to four employees of **Black Mark (Pvt) Ltd.** for the month of February 2020:

Name	Wage Rate Per normal working hour	Hours worked during the month
S.M. Kavindra	Rs.100/- per hour	180
L.V. Gayesha	Rs.110/- per hour	170
T.B. Yamuna	Rs.115/- per hour	160
S.P. Roshan	N/A (Fixed basic salary of Rs.35,000/-)	N/A

The following additional information is also provided:

- (1) A typical working month (basic salary) consists of 160 normal working hours. Overtime is calculated at 140% on the normal hourly wage rate.
- (2) Employer's contribution and employees' contribution to the Employees' Provident Fund (EPF) are 12% and 8% respectively on basic salary. Employees' Trust Fund (ETF) contribution is 3% on basic salary.
- (3) In addition to the basic monthly salary, all employees are entitled to a cost of living allowance of Rs.3,000/- per month.
- (4) **S.M. Kavindra** and **T.B. Yamuna** had subscribed to an insurance scheme and their monthly contribution of Rs.500/- each should be deducted from their salary.

You are required to:

Prepare the payroll for the month of February 2020 showing required information.

(05 marks)
(Total 10 marks)

Question 03

Be Safe (Pvt) Ltd. manufactures a single product, face masks, which sells as a pack of 100 pieces. It has two production departments, namely cutting and sewing and a service department, namely, technical services. The following budgeted information for the month of December 2020 was extracted from the company's records:

Basis	Total	Departments		
		Production		Service
		Cutting	Sewing	Technical
Indirect cost (Rs.)	150,000	45,000	60,000	45,000
Floor area (Square meter)	4,800	1,600	2,800	400
Number of employees	250	90	120	40
Usage of Electricity (kilowatts)	2,200	600	1,400	200
Machine value (Rs.'000)	500	100	400	-
Apportionment of cost - Technical	100%	45%	55%	-
Direct labour hours	7,000	2,000	5,000	-

Budgeted other overheads for the month are as follows:

	Rs.
Machine maintenance	100,000
Building rent	360,000
Electricity	66,000
Staff Welfare	400,000

You are required to:

- (a) **Prepare** a statement showing how the overheads are allotted and apportioned to each of the production departments. (07 marks)
- (b) **Calculate** the overhead absorption rate per direct labour hour of each production department. (03 marks)
- (Total 10 marks)

Question 04

Gamunu Cricket club is a sports club providing sports facilities for members while operating a restaurant for the members. The Receipts and Payments Account of **Gamunu Cricket Club** for the year ended 31st December 2019 is as follows:

Balance B/F 01 st January 2019	10,200	Secretarial expenses	1,500
Donations	1,050	Telephone expenses	675
Membership subscriptions	13,350	Electricity expenses	2,100
Restaurant sales	40,000	Coaching expenses	3,150
		Payments on restaurant supplies	25,000
		Salaries and wages	12,720
		Balance C/F	19,455
	64,600		64,600

Assets and Liabilities were as follows:

	As at 01 st January 2019	As at 31 st December 2019
Building at carrying value	80,000	78,000
Sports equipment at carrying value	20,000	17,500
Payable for restaurant supplies	8,000	12,000
Inventory (restaurant)	5,000	7,000
Members' subscriptions in arrears	900	600
Members' subscriptions in advance	300	450
Accrued electricity	300	600

The following additional information is also provided:

- (1) Donations should be recognized as an income for the year.
- (2) There were no additions or disposals of Property, Plant and Equipments during the year.
- (3) $\frac{1}{3}$ of electricity expenses and $\frac{1}{2}$ of the salaries & wages are related to the restaurant.

You are required to:

Prepare following for the **Gamunu Cricket Club** for the year ended 31st December 2019:

- (a) Restaurant's Trading Account. (03 marks)
- (b) Income and Expenditure Account. (07 marks)
- (Total 10 marks)

Question 05

Ranjith, Sunil and Thilak were in a partnership sharing profits and losses in the ratio of 5:3:2 respectively. **Ranjith** and **Sunil** are entitled to receive a monthly salary of Rs.20,000/- each.

The following additional information is also provided:

- (1) Net profit of the partnership for the year ended 31st March 2020 is Rs.1,600,000/-.
- (2) The following balances were appeared in the books of the partnership as at 31st March 2020:

	Dr. (Rs.)	Cr. (Rs.)
Capital Accounts as at 01 st April 2019:		
Ranjith		2,250,000
Sunil		1,350,000
Thilak		900,000
Current Account as at 01 st April 2019:		
Ranjith		95,000
Sunil	500,000	
Thilak	200,000	
Drawings:		
Ranjith	780,000	
Sunil	260,000	
Thilak	60,000	

- (3) **Thilak** decided to retire from the partnership on 31st March 2020 and **Ranjith** and **Sunil** decided to continue the partnership sharing profits and losses in the ratio of 5:3 respectively, after the retirement of **Thilak**.
- (4) On 31st March 2020, goodwill of the partnership was valued at Rs.1,200,000/-. However, it was decided not to maintain the goodwill account in the books of the partnership.
- (5) It was decided to transfer amounts payable to **Thilak** at his retirement to loan account.

You are required to:

Prepare the following for the year ended 31st March 2020:

- (a) Profit and Loss Appropriation Account. (03 marks)
 - (b) Partners' Capital Account. (04 marks)
 - (c) Partners' Current Account. (03 marks)
- (Total 10 marks)

Question 06

Annie is employed as a secretary of a company. While she was lockdown at home due to COVID-19 situation of the country, she started a business "**Online Foods by Annie**" on 01st April 2020 for baking cakes and delivering to customers investing Rs.100,000/-. **Annie** uses cheques for all the payments and she recorded all the cash payments and receipts in the cash book. **Annie's** Cash Book for the three months ended 30th June 2020 is as follows:

Online Foods by Annie Cash Book

Date	Description	Cheque No.	Receipts (Rs.)	Payments (Rs.)
01.04.2020	Deposit - Annie's capital investment		100,000	-
01.04.2020	Rent (3 months' office rent)	637131		31,500
01.04.2020	Payment for direct raw material (Flour, Sugar and Butter)	637132		36,000
01.04.2020	Payment for other direct raw materials	637133		5,600
01.04.2020	Purchase of equipment	637134		50,000
15.04.2020	Cash deposit - Sales		13,000	
30.04.2020	Cash deposit - Sales		14,000	
30.04.2020	Bank charges			1,500
30.04.2020	Advertising	637135		3,500
30.04.2020	Monthly delivery charges	637136		7,500
30.04.2020	Payment for other direct raw materials	637137		4,500
15.05.2020	Cash deposit - Sales		7,000	
31.05.2020	Cash deposit - Sales		14,000	
31.05.2020	Payment for other direct raw materials	637138		12,600
31.05.2020	Monthly delivery charges	637139		7,500
15.06.2020	Cash deposit - Sales		17,950	
24.06.2020	Payment for direct raw materials (Flour and Sugar)	637140		13,750
29.06.2020	Cash deposit - Sales		20,500	
29.06.2020	Monthly delivery charges	637141		7,500
30.06.2020	Balance C/F			5,000
			186,450	186,450
01.07.2020	Balance B/F		5,000	

You are given the following further information:

- (1) As at 30th June 2020, the cost of raw material stock was Rs.6,750/- and there was no stock of finished goods.
- (2) Water bills of Rs.1,350/- and electricity bills of Rs.7,200/- were received on 01st July 2020 for the period from April to June 2020 and those were paid during the month of July 2020.
- (3) **Annie** obtained Rs.6,200/- out of cash collection on sales without banking, for her personal expenses during these three months.
- (4) Rs.7,800/- was collected from sales on 30th June 2020, however, it was deposited to the bank on 01st July 2020.
- (5) Useful life of the equipment is 2 years and equipment is depreciated on the straight-line basis at cost.
- (6) All purchases and sales are made on cash basis.

You are required to:

Prepare the Trial Balance of "**Online Foods by Annie**" as at 30th June 2020.

(10 marks)

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Beauty Mart (Pvt) Ltd.** as at 31st March 2020 is as follows:

(Rs. '000)

	Dr.	Cr.
Stated capital as at 01 st April 2019 (2,000,000 Ordinary Shares)		16,000
Retained Earnings as at 01 st April 2019		11,710
Plant and Equipment - at cost:		
Machinery	20,000	
Motor Vehicles	8,800	
Accumulated Depreciation as at 01 st April 2019:		
Machinery		8,000
Motor Vehicles		2,200
Inventory as at 31 st March 2020	6,200	
Trade Receivables	9,650	
Cash in hand and at Bank	9,720	
Trade Payables		1,500
Allowance for trade receivables as at 01 st April 2019		430
Income Tax Payable		150
Sales		27,000
Cost of Sales	10,700	
Office Rent	900	
Electricity	940	
Water & Telephone	425	
Advertising	800	
Salaries and Wages	2,200	
Incentives to Sales Team	500	
Bank Charges	50	
Debenture Interest paid	300	
Insurance	240	
Printing and Stationery	365	
12% Debentures		5,000
Income Tax Expense for the Year	200	
	71,990	71,990

The following additional information is also provided:

- (1) Closing inventory which was counted and valued at cost as at 31st March 2020 was taken into accounts. However, it was revealed subsequently on 05th April 2020 that a part of inventory which had a cost of Rs.40,000/- had expired. No adjustments have been made in this regard in the books of account.
- (2) Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of Plant and Equipments are as follows:

Machinery	:	5 years
Motor Vehicles	:	4 years
- (3) Accrued electricity expenses of Rs.80,000/- are to be accounted as at 31st March 2020.
- (4) Due to COVID-19 pandemic, it was decided to write-off trade receivables amounts to Rs.270,000/- as irrecoverable. Further, an allowance for trade receivables at 5% is to be made on balance trade receivables as at 31st March 2020.
- (5) An amount of Rs.200,000/- is recorded in the books of accounts as the income tax expenses for the year of assessment 2019/20. However, subsequent re-estimation was revealed that it should be Rs.275,000/- for the year of assessment 2019/20.
- (6) On 01st April 2019, the company issued 50,000 numbers of 12% debentures at Rs.100/- each and interest is to be paid bi-annually.
- (7) At the meeting held on 01st March 2020, the Board of Directors decided to capitalize an amount of Rs.8,000,000/- out of the retained earnings by issuing bonus shares at Rs.10/- per share. Though all the legalization steps have been duly taken on 31st March 2020, no accounting entries have been incorporated in the books of accounts in this regard.
- (8) The board of directors approved to issue the financial statements on 22nd May 2020.

You are required to:

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income) for the year ended 31st March 2020. (14 marks)
 - (b) Statement of Financial Position as at 31st March 2020. (11 marks)
- (Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.