

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2021

(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.**

20-03-2021

Morning

[08.45 – 12.00]

No. of Pages : 11

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 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Two (02) components of Financial Statements are:

- (1) Assets and Equity.
- (2) Income and Expenses.
- (3) Statement of Financial Position and Statement of Comprehensive Income.
- (4) Trial Balance and Cash Book.

(02 marks)

1.2 The following balances were extracted from the records of **Senara (Pvt) Ltd.** as at 01st April 2019:

(Rs.'000)

	Dr.	Cr.
Motor vehicle at cost	5,000	
Accumulated depreciation as at 1 st April 2019		1,500

On 31st March 2020, the company sold this motor vehicle for Rs.3,200,000/-. The estimated useful life of the motor vehicle was 10 years.

The profit / loss on disposal of the motor vehicle was:

- (1) Rs.200,000/- (profit). (2) Rs.200,000/- (loss).
(3) Rs.300,000/- (profit). (4) Rs.300,000/- (loss). (02 marks)

1.3 Consider the following statements relating to a private limited company:

- (a) A company can issue its shares publicly.
(b) A company could be incorporated with a single shareholder.
(c) There is no restriction on the maximum number of shareholders in a company.

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

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

1.4 The following information was extracted in relation to **Material A**:

Maximum usage	400 units per month
Minimum usage	150 units per month
Lead time	2 - 4 months
Re-Order Quantity	700 units

The Re-Order Level (ROL) of **Material A** is:

- (1) 1,600 units. (2) 1,000 units. (3) 800 units. (4) 1,500 units.
(02 marks)

1.5 The correct double entry, in an integrated accounting system in recording of the purchase of raw materials on credit:

	Debit	Credit
(1)	Creditors' control account.	Material control account.
(2)	Material control account.	Creditors' control account.
(3)	Work-In-Progress (WIP) control account.	Material control account.
(4)	Material control account.	Work-In-Progress (WIP) control account.

(02 marks)

Write the answers for question No **1.6** to **1.10** in your answer booklet with the number assigned to the question.

1.6 State two(02) provisions of section 24 of the Partnership Ordinance of 1890. (02 marks)

1.7 State three(03) rights of a partner as per the Partnership Ordinance 1890. (03 marks)

1.8 State three(03) differences between Financial Accounting and Cost Accounting. (03 marks)

1.9 The following information has been extracted from the records of **ABC (Pvt) Ltd.** for the month ended 31st March 2020:

	Rs.'000
VAT on sales	9,000
VAT on purchases	5,500
VAT on returned goods sold	550

Credit Balance of VAT control account as at 01st March 2020 was Rs.4,500,000/-.

Prepare the Value Added Tax (VAT) control account. (03 marks)

1.10 **Sumudu** is employed by **Silky Wear Ltd.** and being paid weekly on the basis of her daily production output. During the last week which comprised of 5 working days, her daily output was as follows:

Day	Pieces
1	7
2	8
3	9
4	7
5	11

The following additional information is also provided:

(1) Production up to 10 pieces per day is paid at Rs.150/- per piece and guaranteed minimum payment of **Sumudu** is Rs.1,200/- per day.

(2) On any excess beyond 10 pieces per day is paid an additional incentive payment of 20%.

Calculate the total wages of **Sumudu** for the above week. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Anuhas, Dewmi and Lihini are in a partnership **ADL Partners** sharing profits or losses in the ratio of 5:3:2 respectively.

- (1) The partnership agreement provides the following:
- Interest on capital of 10% per annum, is paid on the opening capital account balances.
 - **Dewmi** is entitled to receive a monthly salary of Rs.50,000/-.
- (2) The following balances were extracted from the trial balance of the partnership as at 31st December 2020:

	Dr. (Rs'000)	Cr. (Rs'000)
Capital account as at 01 st January 2020:		
Anuhas		6,000
Dewmi		4,500
Lihini		3,000
Current account as at 01 st January 2020:		
Anuhas		1,200
Dewmi	900	
Lihini		600
Drawings:		
Anuhas	1,400	
Dewmi	800	
Lihini	400	

- (3) The net profit of the partnership for the year ended 31st December 2020 was Rs.4,500,000/-.
- (4) On 31st December 2020, **Lihini** decided to retire from the partnership due to her family commitments and **Anuhas** and **Dewmi** agreed to continue the partnership sharing profit and losses in the ratio of 3:2 respectively.
- (5) Goodwill of the partnership was valued at Rs.1,500,000/- as at 31st December 2020 and it was decided to adjust through the partners' capital account without creating a goodwill account.
- (6) Non-current assets of the partnership were revalued on 31st December 2020 as follows:

(Rs.'000)

	Revalued Amount as at 31 st December 2020	Cost	Accumulated Depreciation as at 31 st December 2020
Land and buildings	6,000	8,000	2,500
Motor vehicles	3,000	4,000	1,400

Non-current assets were agreed to be carried at revalued amounts in the partnership accounts.

- (7) It was decided to transfer the amount payable to **Lihini** at her retirement to a loan account.

You are required to:

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

- (a) Partners' current account. (04 marks)
- (b) Partners' capital account. (06 marks)
- (Total 10 marks)

Question 03

The following information was extracted from the books of **Wenura Traders**, a Furniture Shop, owned by **Wenura**.

- (1) Assets and Liabilities are as follows: (Rs.'000)

	As at 01 st April 2019	As at 31 st March 2020
Land and Building at carrying value	7,300	6,500
Motor vehicles at carrying value	5,000	6,400
Inventory	1,700	1,300
Trade Receivables	1,800	1,400
Bank balance	1,500	?
Trade Payables	1,200	1,450
Accrued Electricity	340	570

- (2) **Wenura Traders** does not keep proper books of accounts. The summarized information extracted from his bank statements from 01st April 2019 to 31st March 2020 is as follows:

(Rs.'000)

Cash deposited to the bank:	
Cash Sales	4,200
Receipts from trade debtors	3,100
Payments made by cheque:	
Cash purchases	1,320
Payments to trade creditors	1,410
Purchase of a motor vehicle	1,800
Electricity	580
Salaries and wages	1,200
Stationery	250

- (3) **Wenura** has deposited all cash receipts to the bank account, except Rs.40,000/- per month withdrawn for his personal use from cash collection as drawings.

You are required to:

Prepare the Trial Balance as at 31st March 2020 of **Wenura Traders**. (10 marks)

Question 04

Future Stars Sports Club commenced its operations in year 2015.

You are given the following information of the Club for the year ended 31st December 2020:

- (1) The club had 350 members as at 01st January 2020 where the membership fee of a member is Rs.2,000/- per year.
- (2) The following information is available with regards to the membership fees:
 - (i) 2 members paid their membership fees of year 2020 during the year 2019.
 - (ii) 10 members paid their unpaid membership fee of year 2019 during the year 2020.
 - (iii) 6 members paid their membership fees for the year 2021 during the year 2020.
 - (iv) On 31st December 2020 there was no unpaid membership fee for the year 2019 as well as for the year 2020.
 - (v) New members have not joined the **Future Stars Sports Club** during the year 2020.
- (3) A summary of receipts and payments account of the Club for the year ended 31st December 2020 is as follows:

Receipts:	
Donations	720,000
Interest on Deposits	432,500
Membership Fees	?
Payments:	
Electricity & Ground Maintenance	397,000
Purchase of Sports Equipments on 01.01.2020	115,000
Payments for Coaches	45,000
Printing and stationery	50,000
Wages	400,000
Advertising	25,000

- (4) Donations should be recognized as an income for the year.
- (5) Sports equipments are to be depreciated over useful life of 5 years and depreciation has been fully charged for other Property, Plant and Equipments held on 01st January 2020.

You are required to:

Prepare following for the **Future Stars Sports Club** for the year ended 31st December 2020:

- (a) Membership Account. (05 marks)
 - (b) Income and Expenditure Account. (05 marks)
- (Total 10 marks)

Question 05

- (a) **Riyana** wants to organize her birthday party through **Party 4You**, an event management company which has sent the following information for the function:

Cost of food items	Rs.300/- per person subject to minimum of 25 persons
Cost of band, music equipment & decorations	Rs.8,500/- per event
Photography	Rs.10,000/- per event
Hall Charges	Rs.15,000/- per event
Allocation of servicing staff	Rs.2,500/- per employee
Allocation of other overheads	Rs.3,950/- per event

Riyana expect that 32 persons will participate the event and she expects to get 2 servicing staff to cover the event.

You are required to:

Calculate the Total Cost to be paid by **Riyana** for her birthday party. (05 marks)

- (b) **Bakers Cookies (Pvt) Ltd.** which is a company engaged in manufacturing of bakery items, uses the Non-Integrated Accounting System. The profit shown in the cost accounts for the year ended 31st December 2020 was Rs.120,300/- while a profit of Rs.147,900/- was recorded as per financial accounts.

Reasons for the difference are as follows:

- (1) Stock valuation,

	As per Cost Accounts (Rs.)	As per Financial Accounts (Rs.)
Opening Stock	139,450	125,500
Closing Stock	163,400	175,200

- (2) Interest income received on fixed deposit of Rs.35,850/- has been recorded only in the financial accounts:
- (3) Consulting fee of Rs.39,000/- has been charged into the financial accounts whereas, it has not been charged to the cost accounts.
- (4) Overhead cost as per cost accounts was Rs.545,000/- and it was Rs.540,000/- as per financial accounts.

You are required to:

Prepare a Profit Reconciliation Statement between Financial Accounts and Cost Accounts.

(05 marks)
(Total 10 marks)

Question 06

Safe Hands (Pvt) Ltd. which is a medium scale manufacturer of sanitizer bottles has two (2) Production Departments (Manufacturing and Packing) and a Service Department (Technical).

- (1) The company has estimated an annual production overhead cost of Rs.7,500,000/- as follows:

Cost item	Cost (Rs.)
Machinery depreciation	2,500,000
Building rent	2,400,000
Quality control expenses	800,000
Electricity	1,800,000
Total Production Overhead Cost	7,500,000

- (2) Overhead apportionment bases are given below:

Basis	Production Departments		Service Department	Total
	Manufacturing	Packing	Technical	
Machine hours	300,000	150,000	50,000	500,000
Floor area (square feet)	1,600	500	400	2,500
Use of Electricity (kilo watts)	1,000	600	200	1,800
No. of quality inspections	12	8	-	20
Direct labour hours	100,000	200,000	-	300,000
Apportionment of cost - Technical	60%	40%	-	100%
Direct labour hours per bottle	1	2	-	-

- (3) The estimated direct costs for a bottle is as follows:

Per Bottle	Rs.
Direct material	20
Direct labour	15
Prime Cost	35

You are required to:

- (a) **Prepare** a statement showing how the overheads are allocated and apportioned to each department. (05 marks)
- (b) **Calculate** the overhead absorption rate per direct labour hour for each of the production department. (02 marks)
- (c) **Calculate** the estimated total production cost of a sanitizer bottle. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

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

(Rs.'000)

	Dr.	Cr.
Stated Capital (2,000,000 Ordinary Shares)		108,000
Retained Earnings as at 1 st April 2019		45,600
General Reserve as at 1 st April 2019		20,000
10% Debentures		20,000
Land and Buildings at cost (Land - Rs.40 million)	100,000	
Motor Vehicles at cost	75,000	
Plant and Equipment at cost	120,000	
Accumulated Depreciation as at 01 st April 2019:		
Buildings		32,000
Motor Vehicles		30,000
Plant and Equipment		48,000
Allowance for Trade Receivables as at 01 st April 2019		5,080
Inventory as at 31 st March 2020	54,900	
Trade Receivables	84,300	
Cash in hand and at bank	15,230	
Trade Payables		8,000
Sales		919,500
Cost of Sales	648,300	
Travelling and Transport	15,400	
Advertising	10,600	
Sales Commission	7,600	
Salaries and Wages	56,000	
Printing and Stationery	2,400	
Electricity and Water	8,600	
Telephone Charges	3,800	
Bank Charges	250	
Repair and Maintenance	2,400	
Insurance Expenses	3,600	
Debenture Interest	1,000	
Interim Dividends Paid to Ordinary Shares	27,500	
Income Tax Provision as at 01 st April 2019		16,000
Income Tax Paid	15,300	
	1,252,180	1,252,180

The following additional information is also provided:

- (1) Closing inventory as at 31st March 2020 was counted and valued at its cost. Part of the inventory included in the closing stock which was bought for Rs.4,900,000/- had become obsolete and is expected to be sold at Rs.4,200,000/- in April 2020. However, this was not adjusted in the books of account.
- (2) One of its customers who owed Rs.2,300,000/- to the business was declared bankrupt on 20th April 2020. Following a final review of the trade receivables, it was decided to maintain an allowance for the trade receivables at 10% on balance trade receivables as at 31st March 2020.
- (3) The following accrued and prepaid expenses are to be accounted for as at 31st March 2020.

	Rs.
Accrued Electricity	100,000
Prepaid Repair and Maintenance	200,000

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

Buildings	20 years
Motor Vehicles	10 years
Plant and Equipment	15 years

- (5) The final income tax liability for the year of assessment 2018/19 was Rs.15,300,000/- which was paid during the current year. The total income tax liability for the year of assessment 2019/20 is estimated to be Rs.11,500,000/-.
- (6) On 01st April 2019, the company issued 20,000 numbers of 10% debentures at its par value of Rs.1,000/- each. Interest is to be paid bi-annually and the interest paid during the period have been charged to the debenture interest account.
- (7) On 31st March 2020, the Board of Directors has decided to transfer Rs.10,000,000/- from Retained Earnings to General Reserve.
- (8) The Board of Directors approved to issue the financial statements for the year ended 31st March 2020 on 31st July 2020.

You are required to:

Prepare the following of **Udara (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. (13 marks)
- (b) Statement of Financial Position as at 31st March 2020. (12 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.