



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 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.**

23-10-2021

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 Which one of the following statements is correct with reference to Cost Accounting?

- (1) It is based on historical events and transactions.
- (2) It determines the cost of an unit.
- (3) It prepares reports according to legal requirements.
- (4) It provides information only to external parties.

(02 marks)

1.2 The following events have been occurred after the reporting date but before authorizing of the financial statements. Which one of the following is **not** an adjusting event as per LKAS 10 - Events after the Reporting Period?

- (1) A customer who owes to the company was bankrupt.
 - (2) The destruction of a major production plant by a fire.
 - (3) The discovery of a fraud after reporting period that the financial statements are incorrect.
 - (4) The part of inventory was sold below the value reported at the Statement of Financial Position.
- (02 marks)

1.3 The following information was extracted from the records of **Max (Pvt) Ltd.** for the month of April 2021:

Inventory as at 01 st April 2021	Rs.170,000/-
Inventory as at 30 th April 2021	Rs.240,000/-
Purchases	Rs.910,000/-
Gross profit	40% on sales

Sales for the month ended 30th April 2021 was:

- (1) Rs.1,176,000/-
 - (2) Rs.2,210,000/-
 - (3) Rs.1,800,000/-
 - (4) Rs.1,400,000/-
- (02 marks)

1.4 **Rosi Ltd.** acquired a motor vehicle on 01st April 2018 at a cost of Rs.3,600,000/-. The estimated useful life of the motor vehicle is 5 years and the company provides depreciation on the straight line basis at cost. Residual value of the motor vehicle at the end of 5th year was estimated to be Rs.100,000/-. The carrying value of the motor vehicle as at 31st March 2021 was:

- (1) Rs.1,500,000/-
 - (2) Rs.2,100,000/-
 - (3) Rs.1,440,000/-
 - (4) Rs.2,160,000/-
- (02 marks)

1.5 Consider the following information:

Annual demand for Product X	20,000 units
Ordering cost per order	Rs.200/-
Annual holding cost per unit	Rs.0.50

You may use the following formula,

$$EOQ = \sqrt{\frac{2DC_0}{C_h}}$$

The Economic Order Quantity (EOQ) of **Product X** is:

- (1) 3,800 units.
 - (2) 4,500 units.
 - (3) 4,000 units.
 - (4) 2,000 units.
- (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 List two(02) laws / regulations applicable for partnership businesses in Sri Lanka. (02 marks)

1.7 State two(02) advantages of an Integrated Accounting System. (02 marks)

1.8 State the provisions of the Companies Act No. 07 of 2007 regarding a private limited company relating to the following:

(i) The minimum number of shareholders.

(ii) The maximum number of directors (03 marks)

1.9 The following information has been extracted from the books of **XYZ (Pvt) Ltd.:**

Normal working hours per day	8 hours
Basic wage rate per hour	Rs.300/-
Standard time allowed to produce one (1) unit	5 minutes
Bonus	75% of time saved at basic wage rate

An employee has produced 2,040 units during the last month and has worked 20 days during the last month.

Calculate the total earnings of the employee for the last month. (04 marks)

1.10 The following information has been extracted from the records of **Toy (Pvt) Ltd.** for the quarter ended 31st March 2021:

	Rs.
Sales	5,400,000
Raw materials purchased from VAT registered suppliers	2,160,000
Other purchases from VAT registered suppliers	324,000

- All the values are exclusive of Value Added Tax (VAT) and VAT rate is at 8%.
- Credit balance of VAT control account as at 01st January 2021 was Rs.48,000/-.

Prepare the VAT control account. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

The following information was extracted from the books of **Nisala Traders** a retail shop, owned by **Nisala**:

(1) Assets and liabilities are as follows:

(Rs.'000)

	As at 31st March 2021	As at 01st April 2020
Land and Building at carrying value	10,800	11,250
Motor Vehicles at carrying value	16,650	15,750
Inventory	5,400	5,625
Trade Receivables	6,075	6,300
Cash at Bank	?	2,925
Bank Loan	1,000	-
Trade Payables	3,040	3,600
Accrued Electricity	380	495

(2) **Nisala** does not keep the proper books of accounts. The summarized information extracted from his bank statements from 01st April 2020 to 31st March 2021 was as follows:

	Rs.
Cash deposited to the bank:	
Cash Sales	7,875,000
Receipts from Trade Receivables	5,625,000
Bank Loan	1,000,000
Payments made by cheques:	
Cash Purchases	2,812,500
Payments to trade Payables	3,375,000
Electricity	562,500
Office Maintenance	630,000
Salaries and Wages	3,892,500
Purchase of a motor vehicle (acquired on 31 st March 2021)	2,250,000

(3) **Nisala** has deposited all cash receipts to the bank account and all the payments were made only through cheques.

(4) A bank loan of Rs.1,000,000/- was obtained on 01st March 2021. Interest is paid at the rate of 9% per annum and 1st installment of the loan was paid on 01st April 2021.

You are required to:

Prepare the Trial Balance of Nisala Traders as at 31st March 2021.

(10 marks)

Question 03

Damith and **Udith** are in a partnership **DU Passion** sharing profits and losses in the ratio of 2:1 respectively. On 01st January 2020, **Meena** admitted as a new partner to the partnership with an initial cash investment of Rs.8,000,000/-.

- (1) The following balances were extracted from the books of accounts of the partnership:

(Rs'000)

	Dr.	Cr.
Capital accounts as at 01 st January 2020:		
Damith		12,000
Udith		8,000
Capital introduced by Meena on 01 st January 2020		8,000
Current accounts as at 01 st January 2020:		
Damith		1,500
Udith	800	
Drawings made during the year ended 31 st December 2020:		
Damith	900	

- (2) Goodwill of the partnership was valued at Rs.2,400,000/- as at 01st January 2020 and it was decided to adjust through the partners' capital accounts without creating a goodwill account.

- (3) Non-current assets of the partnership were revalued on 01st January 2020 as follows:

(Rs.'000)

	Revalued Amount as at 01 st January 2020	Cost	Accumulated Depreciation as at 01 st January 2020
Land and Buildings	6,000	4,000	600
Motor Vehicles	1,400	2,000	1,000

It was agreed that the non-current assets were carried at revalued amounts in the partnership accounts.

- (4) The new partnership agreement provides the following:

- Interest on capital at 10% per annum is to be paid on the capital account balances as at 01st January 2020.
- **Udith** is entitled to receive a monthly salary of Rs.40,000/-.
- Profits and losses are to be shared among **Damith**, **Udith** and **Meena** in the ratio of 4 : 3 : 3 respectively.

- (5) The net profit of the partnership for the year ended 31st December 2020 was Rs.6,480,000/-.

You are required to:

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

- (a) Partners' current accounts. (05 marks)
- (b) Partners' capital accounts. (05 marks)

(Total 10 marks)

Question 04

The following information have been extracted from the books of **Green Golf Club** for the year ended 31st December 2020:

- (1) The receipts and payments account of the **Green Golf Club** for the year ended 31st December 2020 was as follows:

Receipts and Payments Account		(Rs.'000)	
Balance B/F 01.01.2020	15,300	Telephone expenses	1,010
Donations	1,575	Electricity	3,150
Membership subscriptions	20,025	Coaching fee	4,725
Restaurant sales	60,000	Other administration expenses	2,250
		Restaurant suppliers' payments	38,700
		Sports Equipment	5,250
		Balance C/F 31.12.2020	41,815
	96,900		96,900

- (2) Other Assets and Liabilities of the club are as follows: (Rs.'000)

	as at 31 st December 2020	as at 01 st January 2020
Land & Building at carrying value	100,000	120,000
Sports Equipment at carrying value	26,250	24,000
Inventory	10,500	7,500
Membership subscriptions in Arrears	900	1,350
Membership subscriptions in Advance	675	450
Payables for Restaurant Suppliers	18,000	12,000

- (3) Donations should be recognized as an income for the year.
- (4) There were no additions and disposals of Property, Plant and Equipment to the club during the year other than purchase of Sport Equipment.
- (5) 1/3rd of electricity expenses and an amount of Rs.1,125,000/- of other administration expenses are to be accounted under the restaurant operation.

You are required to:

Prepare following for the **Green Golf Club** for the year ended 31st December 2020:

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

Question 05

(A) **PQ Garments** accepted an order to supply 1,000 T-shirts at a price of Rs.750/- per T-shirt.

The following information is provided with reference to this order:

- (1) 0.45 meter of fabric is required for a T-shirt and the relevant fabric can be bought at a price of Rs.700/- per meter.
- (2) Packing cost is Rs.25/- per T-shirt.
- (3) Direct labour cost per hour is Rs.200/-. 0.5 direct labour hours are required to manufacture a T-shirt.
- (4) Production overhead per T-shirt is 50% of direct labour cost.

You are required to:

- (a) **Calculate** the cost per T-shirt. (03 marks)
- (b) **Calculate** the profit or loss of this order. (02 marks)

(B) **Dilanka (Pvt) Ltd.** operates an Integrated Accounting System.

The following information was extracted from the books of accounts **Dilanka (Pvt) Ltd.** for the month of May 2021:

- (1) Stock valuation as at 01st May 2021 is as follows: (Rs.)

	As at 01 st May 2021
Raw material	42,000
Work-in-progress (WIP)	32,000

- (2) The following transactions were occurred during the month of May 2021:

	Rs.
Purchases of raw materials on credit	325,000
Raw material issued to production	275,000
Direct wages paid on production	120,000
Production overhead cost	145,000
Production cost of finished goods	545,000

You are required to:

Prepare the following:

- (a) Raw Material Stock Control Account. (02 marks)
- (b) Work-In-Progress (WIP) Control Account. (03 marks)

(Total 10 marks)

Question 06

Techno Lanka (Pvt) Ltd. which is a manufacturer of antitheft device for automobiles has two Production Departments (Manufacturing and Packing) and a Service Department (Technical).

(1) The company has estimated its annual production overhead of Rs.18,000,000/- as follows:

Cost item	Cost (Rs.)
Machinery depreciation	6,500,000
Factory rent	4,800,000
Quality inspection cost	1,500,000
Electricity	5,200,000
Total production overhead costs	18,000,000

(2) The estimated direct cost for a device is as follows:

Per Unit	(Rs.)
Direct material	1,500
Direct labour	2,100
Prime cost	3,600

(3) Overhead apportion bases are given below:

Basis	Production Division		Service Division	Total
	Manufacturing	Packing	Technical	
Machine hours	12,000	8,000	5,000	25,000
Floor Space (square feet)	2,000	1,500	1,500	5,000
Electricity (kilo watts)	15,000	8,000	2,000	25,000
No. of quality inspections	8	4	-	12
Direct Labour hours (hours)	10,000	8,000	-	-
Apportionment of cost - Technical	65%	35%	-	-
No. of direct labour hours per unit	1.5	2	-	-

You are required to:

- (a) **Prepare** a statement showing how the overheads are allotted and apportioned to production departments. (05 marks)
- (b) **Calculate** the overhead absorption rates for manufacturing and packing divisions based on direct labour hours. (03 marks)
- (c) **Calculate** the estimated total cost of an antitheft device. (02 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Dream Zone (Pvt) Ltd.** as at 31st March 2021 is as follows:

(Rs.'000)

	Dr.	Cr.
Stated Capital (1,000,000 Ordinary Shares)		10,000
Retained Earnings as at 01 st April 2020		7,834
General Reserve as at 01 st April 2020		3,200
Plant and Equipment at cost:		
Motor vehicles	25,000	
Machinery	22,500	
Office Equipment	1,500	
Accumulated Depreciation as at 01 st April 2020:		
Motor vehicles		13,125
Machinery		3,000
Office Equipment		300
Inventory as at 31 st March 2021	1,050	
Trade Receivables	2,870	
Trade Payables		1,873
Cash in hand and at bank	1,057	
14% Debentures		5,000
Sales		31,520
Cost of Sales	15,391	
Salaries and Wages	1,800	
Electricity	400	
Office rent	600	
Telephone	900	
Office Maintenance	250	
Advertising	800	
Sales Commission to sales team	1,025	
Debenture Interest Paid	350	
Other Finance Expenses	29	
Income Tax Expense for the year 2020/21	330	
	75,852	75,852

The following additional information is also provided:

- (1) Net Realizable Value (NRV) of the inventory as at 31st March 2021 was Rs.950,000/-.
- (2) On 01st April 2020, the company issued 50,000, 14% debentures at Rs.100/- each. The interest is to be paid bi-annually.
- (3) A motor vehicle at a cost of Rs. 3 million met with an accident on 01st January 2021. This motor vehicle was purchased on 01st January 2017 and was completely condemned due to the accident. The insurance company has agreed to pay 80% of the cost of the motor vehicle on 31st March 2021 as the insurance claim. No entries were made in this regard.
- (4) Plant and Equipment (PE) are to be depreciated on the straight-line basis at cost and the useful life time of Plant and Equipment is as follows:

Motor Vehicles	04 years
Machinery	08 years
Office Equipment	05 years

- (5) The following accrued and prepaid expenses are to be accounted as at 31st March 2021:

	Rs.
Advertising prepaid	8,000
Audit fees payable	70,000

- (6) Due to COVID-19 pandemic, there is a doubt regarding the credibility on payments of some customers. Therefore, the board of directors has decided to provide an allowance of 10% on the balance of trade receivables as at 31st March 2021.
- (7) The financial statements were authorized for issue by the Board of Directors on 31st May 2021.

You are required to:

Prepare the following of **Dream Zone (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 2021. (13 marks)
 - (b) Statement of Financial Position as at 31st March 2021. (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.