

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2022

(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.**

20-08-2022

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

- 1.1 Ameen Ltd.** purchased a machinery at the cost of Rs.840,000/- on 01st April 2018. Machinery is depreciated over useful life under the straight-line basis. Useful life of the machinery is 5 years and residual value at the end of useful life of this machinery was estimated to be Rs.40,000/-.

The carrying value of the machinery as at 31st March 2022 was:

- (1) Rs.160,000/-. (2) Rs.128,000/-. (3) Rs.200,000/-. (4) Rs.320,000/-.
(02 marks)

- 1.2** Which one of the following is **not** correct with references to LKAS 02 - Inventories?

- (1) Inventories should be recognized at cost or net realizable value whichever is higher.
(2) Inventories are held for sale in the ordinary course of business.
(3) Cost of purchase of inventories comprises the purchase price, import duties and other taxes.
(4) The First In First Out (FIFO) is used to value the inventories. (02 marks)

1.3 The following information is given related to a machinery of **ABC Company PLC**:

Purchase price : Rs.500,000/-

Useful life : 4 years

Residual value : Rs.20,000/-

The depreciable value of the machinery is:

- (1) Rs.120,000/-. (2) Rs.520,000/-. (3) Rs.480,000/-. (4) Rs.500,000/-.

(02 marks)

1.4 Consider the following statements:

(a) Prime cost consists of indirect labour cost.

(b) Overheads can be divided into manufacturing and non-manufacturing overheads.

(c) A cost that has already been incurred is called as sunk cost.

Of the above, the correct statements are:

(1) **(a)** and **(b)** only. (2) **(a)** and **(c)** only.

(3) **(b)** and **(c)** only. (4) All of the above. (02 marks)

1.5 The following information is related to **Material A** of a manufacturing company:

Maximum Usage	400 units
Minimum Usage	150 units
Lead time	4 - 8 months
Re-order quantity	700 units

Re-order level of **Material A** is:

- (1) 1,600 units. (2) 3,200 units. (3) 2,800 units. (4) 1,300 units.

(02 marks)

1.6 Consider the following statements:

(a) A partner can receive an interest of 5% per annum for the loans granted by a partner to the partnership.

(b) A partner is entitled to take part in the management of the partnership.

(c) A partner can introduce a new partner to the partnership with his / her own consent.

Of the above, the correct statements with reference to partners' rights as per the Partnership Ordinance 1890 are:

(1) **(a)** and **(b)** only. (2) **(a)** and **(c)** only.

(3) **(b)** and **(c)** only. (4) All of the above. (02 marks)

Write the answers for question No **1.7** to **1.10** in your answer booklet with the number assigned to the question.

1.7 Differentiate Cost Accounting from the Financial Accounting based on the following criteria:

(a) Time Span. (b) Purpose. (02 marks)

1.8 List three(03) basic contents included in a partnership agreement. (03 marks)

1.9 **XY Ltd.** is a Value Added Tax (VAT) registered company. The following information is extracted for the month of March 2022:

	Rs.
Sales (exclusive of VAT)	1,296,000
Purchase (exclusive of VAT)	750,000
Return on Credit Sale (exclusive of VAT)	300,000
Credit Balance of VAT Control Account as at 01 st March 2022	245,000

All purchases and sales are supported with tax invoices and the applicable VAT rate is 8%.

Calculate the VAT payable account balance as at 31st March 2022. (04 marks)

1.10 The following information was extracted from **Nadun Ltd.** with reference to **Job No. 2000**:

Direct raw material : 8,000 kilograms @ Rs.40/- per kilogram
 Direct labour - Department I : 300 hours @ Rs.800/- per hour
 Direct labour - Department II : 450 hours @ Rs.1,200/- per hour
 Production overhead : 75% on total direct labour cost

The company keeps a 20% profit on cost.

Calculate the price to be charged on **Job No. 2000**. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

The following information is extracted from the books of **Safety Distributors**, a sole proprietorship owned by **Hansi. Safety Distributors** made all sales on cash basis keeping a fixed margin of 20% on cost and purchases are made on credit basis.

Assets and liabilities of the sole proprietorship are as follows: (Rs.)

	As at 31 st March 2022	As at 31 st March 2021
Furniture and office Equipment	378,000	310,000
Inventories	?	98,500
Rent paid in Advance	?	40,000
Cash at Bank	?	27,500
Trade Creditors	19,200	11,500
Accrued Bills (Water and Electricity)	5,000	3,000

The following additional information is also provided:

- (1) The entire sales income collected on a particular day is deposited into the bank account on the same day.
- (2) On 31st March 2022, an air conditioner for Rs.150,000/- was purchased out of **Hansi's** own money for the use of the business.
- (3) The shop is in a rented building and as per the agreement, the annual rent is paid in advance on the 01st day of September in every year. Monthly rent is Rs.8,000/-.
- (4) A summary of the transactions appeared in the business's bank statements for the year is as follows:

	Rs.
Receipts:	
Cash Deposited	5,000,000
Payments:	
Trade Creditors	3,800,000
Rent	96,000
Salaries and Wages	360,000
Telephone Bills	12,000
Water and Electricity Bills	75,000
Hansi's Drawings	420,000

You are required to:

Prepare the Trial Balance of Safety Distributors as at 31st March 2022. (10 marks)

Question 03

Ranga, Nanga & Dulga were in a partnership business under the name of **Randu Fashions** sharing profits & losses in the ratio of 2:2:1 respectively. You are given the following further information:

- (1) Partnership agreement provides the following:
 - Interest at 10% per annum is to be paid on the capital balances as at 01st January 2021.
 - **Nanga** is entitled to a monthly salary of Rs.50,000/- for involving in the management of the business.
- (2) On 31st December 2021, **Dulga** decided to retire from the partnership where **Ranga** and **Nanga** decided to continue the partnership under the same name on the following agreements:
 - All dues to **Dulga** are to be settled in full on 01st January 2022.
 - Profits and losses of the new partnership are to be shared among **Ranga** and **Nanga** equally.
- (3) Goodwill of the partnership is valued at Rs.3,000,000/- as at 31st December 2021 and it was agreed to adjust it through the partners' capital accounts without maintaining a goodwill account.

- (4) The following balances are extracted from the books of accounts of the partnership:
(Rs'000)

	Dr.	Cr.
Capital Accounts as at 01 st January 2021:		
Ranga		8,000
Nanga		8,000
Dulga		4,000
Current Accounts as at 01 st January 2021:		
Ranga	226	
Nanga		632
Dulga	50	
Drawings made during the year ended 31 st December 2021:		
Nanga	550	

- (5) Non-current assets of the partnership were revalued on 31st December 2021 as follows and it was agreed to be carried at revalued amounts in the books of accounts: (Rs.'000)

	Cost	Accumulated Depreciation as at 31 st December 2021	Revalued Value
Land and Building	6,000	200	7,000
Motor vehicles	2,000	500	2,600

- (6) The net profit of the partnership for the year ended 31st December 2021 is Rs.3,800,000/-.

You are required to:

Prepare the following of the **Randu Fashions** for the year ended 31st December 2021:

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

Question 04

Past pupils of Sri Rohana National School, Kandy who are living in Colombo formed an Association called "**Rohanians Colombo**" on 01st January 2019 to facilitate the networking among themselves:

You are given the following information:

- (1) Annual membership fee is Rs.15,000/-. 100 members were joined at the inception of the Association in 2019 and 20 members and 10 members respectively were newly joined in years 2020 and 2021.
- (2) Membership fee of 15 members for the year 2020 were in arrears as at 31st December 2020. Out of them, 12 members paid their arrears membership fees together with 2021 membership fees in 2021, while 3 members were migrated in early 2021 without paying the membership fee for year 2020. At the executive committee meeting held on 01st June 2021, it was decided to cancel their membership and write off the amount receivable as at 01st January 2021.

- (3) During the year 2020, 20 members paid their membership fee for the year 2021 in advance. Further in the year 2021, 4 members paid their membership fee for the year 2022 in advance.
- (4) At the inception of the Association a laptop was purchased by the association at a cost of Rs.230,000/- and it was expected to use for 5 years. It was decided to depreciate based on the straight-line method at cost.
- (5) The following expenses are incurred by the Association for the year 2021:
- Stationery : Rs.45,000/-
 - Postage Costs : Rs.36,000/-
 - Travelling Expenses : Rs.12,000/-
 - Telephone Charges : Rs.15,000/-
- (6) Annual get-together of the Association was held on 30th September 2021, where the related transactions were as follows:
- 90 members have participated for this event by paying Rs.2,000/- each.
 - Rs.50,000/- was paid to the hotel while Rs.20,000/- was paid to the music team and no other expenses were incurred on the annual get-together.

You are required to:

Prepare following for the **Rohanians Colombo Association** for the year ended 31st December 2021:

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

Question 05

- (A) **Ram & Company** is a garment factory which produces kids wear. The company has following departments:
- Cutting Department.
 - Sewing Department.
 - Packing Department.
 - Stores.
 - Maintenance Department.
 - Finance and Human Resource Department.

You are required to:

Identify production cost centers and the service cost centers of the company from the above list. (04 marks)

- (B) The Board of Directors of **Ram & Company** has decided to apply an Integrated Management Accounting system.

The following transactions were occurred in the business for the month of December 2021:

	Rs.
Stock as at 01 st December 2021:	
- Raw Material	250,000
- Work-In-Progress (WIP)	300,000
Purchase of Raw material - on credit	500,000
- in cash	175,000
Materials issued for the Production	550,000
Direct Wages on Production	600,000
Production Overhead Costs	250,000
Production Cost of Finished Goods	1,600,000
Cost of Goods Sold	1,550,000

You are required to:

Prepare the following accounts for the month of December 2021:

- (a) Raw Materials Control Account. (03 marks)
- (b) WIP Control Account. (03 marks)
- (Total 10 marks)

Question 06

- (A) The following information is extracted from **Fine (Pvt) Ltd** related to material **RM 5**, which is used to produce **Product A**:

Cost of Purchases	Rs.120/- per kilogram
Ordering Cost	Rs.28,900/- per order
Annual Inventory Holding Cost	Rs.20/- per kilogram
Annual Production (Product A)	100,000 units

250 grams of **RM 5** is used to produce a unit of **Product A**.

You are required to:

Calculate the following for Material **RM5**:

- (a) Annual Demand. (02 marks)
- (b) The Economic Order Quantity (EOQ). (03 marks)

- (B) **Fine (Pvt) Ltd** pays for labour using piece rate basis. The following information is extracted from the records relating to the month of March 2022:

Normal working hours per day	8 hours
Basic Pay	Rs.125/- per hour
Standard time allowed per unit	4 minutes
Premium bonus rate	60% on time saved at basic pay
Number of working days per month	20 days
Units produced during the month	2,850

You are required to:

Calculate the total earnings pay for the month of March 2022.

(05 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Pearl (Pvt) Ltd.** as at 31st March 2022 is as follows:

(Rs.'000)

	Dr.	Cr.
Stated Capital (3,000,000 Ordinary Shares)		300,000
Retained Earnings as at 01 st April 2021		80,000
15% Debentures		40,000
Office Equipment	15,000	
Motor Vehicles	85,000	
Accumulated Depreciation as at 01st April 2021:		
Office Equipment		9,000
Motor vehicles		37,100
Trade Receivables	359,470	
Trade Payables		105,618
Inventory as at 31 st March 2022	190,552	
Cash in Hand and at Bank	157,169	
Sales		973,880
Cost of Sales	606,254	
Fuel and Transport Expenses	8,540	
Office Rent	1,125	
Advertising and Sales Commission	25,287	
Water and Electricity	1,309	
Bank Charges	751	
Salaries and Wages	88,244	
Other Administration Expenses	3,602	
Debenture Interest	3,000	
Income Tax Paid	3,445	
Allowance for Trade Receivables as at 01 st April 2021		3,150
	1,548,748	1,548,748

The following additional information is also provided:

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

Office Equipment	5 years
Motor Vehicles	4 years

- (2) Closing inventory which was valued at cost as at 31st March 2022 was recorded in the books of accounts. Subsequently, on 15th April 2022, it was revealed that part of the inventory valued at a cost of Rs.2,700,000/- has become obsolete and is expected to be sold at Rs.2,100,000/- during the month of April. However, this was not adjusted in the books of accounts.
- (3) The Board of Directors has decided to write-off the balance receivable of Rs.70,000/- from a customer due to bankruptcy. Further, it was decided to provide an allowance of 5% on the balance trade receivables as at 31st March 2022.
- (4) The final income tax liability for the year of assessment 2021/22 is Rs.3,825,000/-. During the current year, an amount of Rs.3,000,000/- was paid as the income tax relating to 2021/22. Under provided income tax of Rs.445,000/- for the last year of assessment was recognized and settled during the current year, but, it was not considered the income tax provision made in the books of accounts of the last financial year.
- (5) The company issued 15% debentures on 01st April 2021 and interest is paid bi-annually.
- (6) Accrued electricity expenses of Rs.65,000/- are to be accounted as at 31st March 2022.
- (7) The financial statements were authorized for issue by the Board of Directors on 31st May 2022.

You are required to:

Prepare the following of **Pearl (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 2022. (13 marks)
- (b) Statement of Financial Position as at 31st March 2022. (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.