

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2023

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

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

	25-02-2023
	Morning
	[08.45 – 12.00]
	No. of Pages : 11
	No. of Questions : 07
- (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.**

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 Which one of the following is an example for a Cost Centre?

- (1) A student. (2) A bakery. (3) A bread. (4) A patient.
(02 marks)

1.2 The following information was extracted from **ABC (Pvt) Ltd.** on rent of several buildings:

(Rs.)

Name of the account	As at 31 st March 2022	As at 01 st April 2021
Rent paid in advance	25,000	60,000
Accrued rent	45,000	90,000

During the year ended 31st March 2022, the company paid Rs.750,000/- as rent.

Based on the above information, rent expense for the year ended 31st March 2022 is:

- (1) Rs.720,000/-. (2) Rs.980,000/-. (3) Rs.985,000/-. (4) Rs.740,000/-.
(02 marks)

1.3 Rani Ltd. is a Value Added Tax (VAT) registered company. The following information was extracted from the books of the company for the quarter ended 31st March 2022:

	Rs.
Sales (Exclusive of VAT)	3,600,000
Purchases (Supported with tax invoices) (Exclusive of VAT)	1,600,000
Sales return (Exclusive of VAT)	45,000
Credit Balance of VAT Control Account as at 01 st January 2022	15,000

(Applicable VAT rate is 8%.)

Based on the above information, VAT credit balance as at 31st March 2022 was:

- (1) Rs.175,000/- (2) Rs.141,400/- (3) Rs.156,400/- (4) Rs.171,400/-
(02 marks)

1.4 Consider the following costing methods:

- | | |
|------------------------------|-----------------------------|
| (a) Job Costing. | (b) Batch Costing. |
| (c) Contract Costing. | (d) Process Costing. |

Of the above, Specific Order Costing method/s is/are:

- | | |
|-------------------------------------|--|
| (1) (d) only. | (2) (a) and (d) only. |
| (3) (b) and (c) only. | (4) (a), (b) and (c) only. (02 marks) |

1.5 Consider the following statements with reference to the partnership:

- (a)** Partners are entitled to receive a salary from the partnership.
- (b)** Every partner has a right to examine the books and documents of the partnership.
- (c)** Partners are entitled to receive interest on capital introduced.
- (d)** Profits or losses should be shared equally among partners.

Of the above, the correct statement/s with reference to the Section 24 of Partnership Ordinance 1890 is/are:

- | | |
|-------------------------------------|--|
| (1) (a) only. | (2) (a) and (c) only. |
| (3) (b) and (d) only. | (4) (b), (c) and (d) only. (02 marks) |

- 1.6 A and B were in a partnership sharing profit or losses in the ratio of 2 : 1 respectively. On 31st March 2022, C joined the partnership and new profit and losses sharing ratio among A, B and C is 3 : 2 : 1 respectively.

Based on the above information, sacrificing ratio of A would be:

- (1) $\frac{4}{6}$ (2) $\frac{2}{6}$ (3) $\frac{1}{6}$ (4) $\frac{3}{6}$

(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 Identify three(03) components of financial statements. (03 marks)

- 1.8 The following information is extracted from Deen (Pvt) Ltd.:

Normal working hours per day	8 hours
Basic rate of pay per hour	Rs.300/-
Standard time allowed to produce 1 unit	2.5 minutes
Bonus	80% of the time saved at basic rate

Calculate the earning per day of a worker if he makes 252 units per day. (04 marks)

- 1.9 Cargo Logistics PLC called applications for issuing of 2,000,000 ordinary shares at Rs.5/- each and received applications for 4,000,000 shares. Accordingly, the directors decided to allocate shares in the ratio of 2:1 and refunded the excess money received with application.

Prepare the journal entries to record the above transactions including cash entries. (03 marks)

- 1.10 The following information was extracted from the books of accounts of XYZ Ltd. relating to Product A:

Annual demand	:	16,000 units
Purchase price per unit	:	Rs.20/-
Ordering cost per order	:	Rs.10/-
Annual holding cost per unit	:	10% of purchase price

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) of Product A.

(03 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

The following information is extracted from the books of accounts of **Aloka Enterprise**, a sole proprietorship owned by **Aloka**. **Aloka Enterprise** is in the business of importing and distributing light fittings locally.

Assets and liabilities of **Aloka Enterprise** as at 01st January 2022 are as follows:

(Rs.'000)

	Dr.	Cr.
Buildings	25,000	
Furniture	2,500	
Accumulated Depreciation - Buildings		5,000
Accumulated Depreciation - Furniture		500
Inventories	5,620	
Cash and Bank Balances	1,580	
Bank Overdraft		2,320
Investments in Fixed Deposits	2,980	
Trade Debtors	1,300	
Trade Creditors		1,690

The following additional information is also provided:

- (1) During the year 2022, the enterprise imported light fittings worth of Rs.5,380,000/- on credit basis. 80% of the amounts due on such imported fittings together with the opening balance of the creditors were settled during the current year itself.
- (2) **Aloka** maintained a 20% gross profit margin on sales made during the year.
- (3) 60% of the sales are made on cash basis while the balance was on credit basis. Out of the credit sales, 60% of the amount due from debtors were received during the year. The amount due from debtors at the beginning of the year were also received fully during the year.
- (4) Inventories as at 31st December 2022 were valued at Rs.3,580,000/-.

You are required to:

- (a) **Calculate** the capital (Equity) of the **Aloka Enterprise** as at 01st January 2022. (02 marks)
- (b) **Calculate** the sales for the year ended 31st December 2022 of **Aloka Enterprise**. (02 marks)
- (c) **Prepare** the following of **Aloka Enterprise** as at 31st December 2022:
 - (i) Trade Debtors' Control Account. (03 marks)
 - (ii) Trade Creditors' Control Account. (03 marks)

(Total 10 marks)

Question 03

Sumudu, Malindu and Chamindu have set up a partnership called **SMC Construction** on 01st January 2021. You are given the following information relating to **SMC Construction** for the year 2022:

(1) Capital introduced by each partner at the commencement of the business was as follows:

	Rs.
Sumudu	2,000,000
Malindu	1,500,000
Chamindu	1,200,000

(2) The following information has been extracted from the partnership agreement:

- Each partner is entitled to a monthly salary of Rs.85,000/-.
- Interest at 12% per annum is to be paid on the capital introduced at the commencement of the business by the respective partners.
- Interest at 15% per annum is to be paid on any loan provided to the business by the partners.
- Profit/Loss is shared among **Sumudu, Malindu and Chamindu** in the ratio of 2:1:1 respectively.

(3) **Malindu** has provided a loan of Rs.1,000,000/- to the business on 01st July 2022. However, interest on loan has not been recorded in the books of accounts.

(4) Partners' Current Accounts balances as at 01st January 2022 were as follows:

(Rs'000)

	Dr.	Cr.
Current Accounts:		
Sumudu	500	
Malindu		1,500
Chamindu	400	

(5) Profit for the year ended 31st December 2022 of **SMC Construction** is Rs.23,200,000/-. In arriving at profit, the partnership has charged the salaries entitled to partners during the year under the administration expenses.

You are required to:

Prepare the following of the **SMC Construction** for the year ended 31st December 2022:

(a) Profit or Loss Appropriation Account. (06 marks)

(b) Partners' Current Accounts. (04 marks)

(Total 10 marks)

Question 04

Care for the Innocents is a not-for-profit organization which helps street animals. The Receipts and Payments Account of the organization for the year ended 31st December 2022 is as follows:

Receipts and Payments Account for the year ended 31st December 2022 (Rs.'000)

Balance B/F 01 st January 2022	56	Staff salary expenses	1,620
Donations	2,950	Vaccination Expenses	894
Membership Fee Receipts	206	Medicines	224
Income from selling souvenirs	1,295	Rental, Electricity & Water	216
		Fuel for VET Mobile service	348
		Equipment Rental	412
		Balance C/F 31 st December 2022	793
	4,507		4,507

The following additional information is also provided:

(1) The organization consists of 205 veterinary doctors continue from the inception who contributes a nominal membership fee of Rs.1,000/- per annum.

- The composition of the membership fee receipts during the year is as follows:

Related Year	Number of Members
For year 2021	4
For year 2022	199
For year 2023	3

- The membership fee receivable as at 31st December 2021 have been received fully during the year 2022 and no prepaid membership fees by members were there as at 31st December 2021.
- (2) All donations received during the year are related to the current year of 2022.
- (3) The organization owns one vehicle bought for a cost of Rs.3,250,000/- on 01st July 2018 and it is being used as the VET Mobile Service. It is depreciated at the rate of 20% per annum on the straight line basis on cost.
- (4) Electricity & water bills of Rs.36,000/- for the month of December 2022 are to be accounted for.

You are required to:

Prepare the following for the year ended 31st December 2022:

- (a) Income and Expenditure Account. (06 marks)
- (b) Membership Fee Account. (04 marks)

(Total 10 marks)

Question 05

(A) **Rashmi Ltd.** is engaged in manufacturing of Toys. The following information is given for its raw material **X** for the month of February 2022:

- 01st February - Opening Stock Balance 800 units @ Rs.10.75.
- 05th February - Purchased 120 units @ Rs.12/-.
- 12th February - Issued 200 units.
- 17th February - Issued 150 units.
- 22nd February - Purchased 300 units at Rs.15/-.
- 28th February - Issued 200 units.

You are required to:

Prepare the Stores Ledger for the raw material **X** under Weighted Average Cost (AVCO) method for the month of February 2022. (06 marks)

(B) **Mihiri** (Employee Number 7890) is a supervisor assigned to the production division of **Rashmi Ltd.**

The following information is related to her salary for the month of December 2022:

- (1) The basic salary of **Mihiri** is Rs.85,000/- which includes 10% basic salary increment received from the month of December 2022.
- (2) In addition to the basic salary, she is entitled for a food allowance of Rs.2,500/- per week and a uniform allowance of Rs.10,000/- per month.
- (3) During the month she has earned Rs.15,500/- as overtime payment.
- (4) **Mihiri** has obtained a loan from the company in the month of November 2022 and the capital repayment and the interest for the month of December on that loan is Rs.12,000/- and Rs.1,800/- respectively. At the time of obtaining the loan, she has given her consent to recover it monthly against her salary.
- (5) Employer's and Employee's contribution for the EPF is 12% and 8% respectively on the gross salary. Employer's contribution to ETF on gross salary is 3%.

You are required to;

Calculate the net salary of **Mihiri** for the month of December 2022. (04 marks)

(Total 10 marks)

Question 06

Ramzi Ltd. which is a manufacturer of bags has two Production Departments (Sewing and Finishing) and a Service Department (Technical).

The budgeted data on overheads for the month ending 30th April 2023 is as follows:

Basis	Departments		
	Production		Service
	Sewing	Finishing	Technical
Indirect Material (Rs.)	325,000	450,000	75,000
Indirect Labour (Rs.)	390,000	500,000	125,000
Floor Area Occupied (Square feet)	1,600	720	480
Number of Employees	150	50	50
Machine Values (Rs.)	1,800,000	1,200,000	600,000
Usage of Electricity (kilowatts)	1,200	600	200
Direct Labour Hours	12,000	8,000	-
Apportionment of Cost - Technical	55%	45%	-

Estimated budgeted overhead cost for the month of April 2023 is given below:

Cost Item	Cost (Rs.)
Staff Welfare	250,000
Machine Depreciation	720,000
Electricity	120,000
Rent	280,000
Machine Maintenance	360,000

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)

End of Section B

SECTION C

(Total 25 marks)

Question 07

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

	Dr. (Rs.)	Cr. (Rs.)
Stated Capital (1,000,000 Ordinary Shares)		26,000,000
Retained Earnings as at 01 st April 2021	2,836,000	
Property, Plant and Equipment at Cost:		
Land & Building (Land Value - Rs.10 million)	20,000,000	
Motor Vehicles	12,000,000	
Office Equipment	2,550,000	
Accumulated Depreciation as at 01st April 2021:		
Building		2,000,000
Motor Vehicles		4,000,000
Office Equipment		1,020,000
Inventory as at 31 st March 2022 at Cost	3,587,000	
Cash at Bank	1,274,000	
Trade Receivables	6,037,000	
Trade Payables		1,225,000
Bank Loan		4,650,000
Sales		33,540,000
Cost of Sales	13,416,000	
Office Rent Paid	333,000	
Fuel Expenses	732,000	
Advertising and Marketing Expenses	725,000	
Sales Commission Expenses	1,006,000	
Water and Electricity	432,000	
Office Maintenance Expenses	365,000	
Salaries, EPF and ETF	9,084,000	
Bank Charges	12,000	
Bank Loan Interest	1,076,000	
Other Administration Expenses	89,000	
Allowance for Trade Receivables as at 01 st April 2021		208,000
Income Tax Paid	625,000	
EPF and ETF Payable		11,000
Motor Vehicle Disposal		3,525,000
	76,179,000	76,179,000

The following additional information is also provided:

- (1) Net realizable value of inventory as at 31st March 2022 was Rs.3,500,000/-..
- (2) On 01st January 2022, the company obtained a new sales office on a monthly rent of Rs.37,000/-. As per the rent agreement, the company had to pay 6 months rent in advance. Accordingly, the company paid an amount equivalent to 9 months rent during the year on this building.
- (3) One of the company's vehicles, purchased on 01st January 2020 for Rs.4,000,000/- was sold on 31st December 2021 for Rs.3,525,000/- and the sale proceed has been credited to Motor Vehicle Disposal Account. Other than this, no entries were recorded in the books of accounts regarding the disposal of motor vehicle.
- (4) Property, Plant and Equipment are to be depreciated on the straight-line method at cost and the useful life of Property, Plant and Equipment is as follows:

Building	25 years
Motor Vehicles	4 years
Office Equipment	5 years

- (5) The electricity bill of Rs.30,000/- for the month of March 2022 is to be accounted for in the books of accounts.
- (6) The income tax liability for the year of assessment 2021/22 was computed as Rs.827,000/- and this has not been accounted for. During the year, the company has paid Rs.625,000/- as the quarterly income tax installments.
- (7) After reviewing of the trade receivables, the management has decided to maintain an allowance for the trade receivables at 5% on balance trade receivables as at 31st March 2022.
- (8) The Board of Directors decided to transfer an amount of Rs.350,000/- to General Reserve Account from retained earnings at the Board meeting held on 20th March 2022.
- (9) The financial statements were authorized for issue by the Board of Directors on 10th June 2022.

You are required to:

Prepare the following of **C-Lanka (Pvt) Ltd.** for the use of 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.