

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2025

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

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

- (1) **Time Allowed:** Reading : 15 minutes.
Writing : 03 hours.

01-02-2025
Morning
[08.45 – 12.00]

- (2) **All questions should be answered.**

No. of Pages : 10

No. of Questions : 07

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

- 1.1** The closing inventory of **AB Ltd.** as at 31st March 2024 which had cost of Rs.8,450,000/- has become obsolete and it was sold for Rs.6,000,000/- in April 2024. A sales commission of 20% on sales value was paid for this by the company. Net Realizable Value (NRV) of the said inventory as at 31st March 2024 was:

- (1) Rs.8,450,000/-. (2) Rs.6,760,000/-. (3) Rs.4,800,000/-. (4) Rs.6,000,000/-.

(02 marks)

- 1.2** Which one of the following statements is correct with reference to the cost accounting?

- (1) It covers transactions of the whole business.
(2) According to purpose, cost can be divided into direct costs and indirect costs.
(3) Only historical transactions are used in cost accounting.
(4) All of the above.

(02 marks)

1.3 Which one of the following is **not** correct with reference to the Partnership Ordinance 1890?

- (1) Partners are entitled to introduce equal capital.
- (2) Partners are entitled to reimburse the expenses they incur on partnership activities.
- (3) Partners are entitled to receive an interest on capital introduced.
- (4) Partners should share profit or loss equally.

(02 marks)

1.4 Consider the following statements:

- (a) Batch costing is a type of specific order costing.
- (b) Job costing is suitable for a bread manufacturer.
- (c) Process costing has a continuous operation costing.

Select the correct statement / s from the above:

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

(02 marks)

1.5 Colombo Properties (Pvt) Ltd. receives rental income from several apartments. The total rent received during the year ended 31st March 2024 was Rs.962,400/-.

The following information is given for **Colombo Properties (Pvt) Ltd.:**

Description	As at 01 st April 2023 (Rs.)	As at 31 st March 2024 (Rs.)
Rent received in Advance	57,400	62,400
Rent in Arrears	42,400	36,800

The rental income for the year ended 31st March 2024 is:

- (1) Rs.973,000/-.
- (2) Rs.951,800/-.
- (3) Rs.921,800/-.
- (4) Rs.1,046,600/-.

(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 Identify two(02) examples for non-adjusting events to be disclosed in the financial statements of a company as per LKAS 10 – Events after the Reporting Period. (02 marks)

1.7 State three(03) assumptions of the Economic Order Quantity (EOQ) formula. (03 marks)

1.8 X and Y are partners of a partnership sharing profit and losses in the ratio of 3:2 respectively. On 01st April 2023, Z joined as a new partner and share profits and losses among X, Y and Z at the ratio of 4 : 3 : 3 respectively.

Calculate the sacrificing ratio of X and Y.

(03 marks)

1.9 The following information has been extracted from the books of accounts of **ABC (Pvt) Ltd.** for the month of December 2024:

	Rs.
Basic Salary	4,675,000
Overtime	850,750
Advance Personal Income Tax (APIT)	225,000
Salary Deductions on Loans and Advances	425,000

For Employees' Provident Fund (EPF), the employees contribute at 8% while the employer contributes at 12%. Further, employer contributes for Employees' Trust Fund (ETF) at 3%. EPF and ETF are contributed on basic salary of employees.

Calculate the net salary to be paid by **ABC (Pvt) Ltd.** for the month of December 2024.

(03 marks)

1.10 **XYZ Ltd.** is a manufacturer and the following information is relating to an employee of the company for last week of December 2024:

Normal working hours per day	8 hours (5 working days per week)
Basic labour rate per hour	Rs.300/-
Standard time allowed to complete a unit	20 minutes
Premium bonus	70% of saved time at basic hourly rate
Actual output	210 units

Calculate total earning of the above employee for the last week of December 2024.

(04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Lalith started a business (*a sole proprietorship*) in the name of "**Lali Cars**" on 01st April 2022 by investing Rs.2,000,000/- in cash and five vehicles amounting to Rs.10,000,000/-. The business is engaged in providing vehicles on rental basis.

Other assets and liabilities of **Lali Cars** are as follows:

(Rs.)

	31 st March 2024	31 st March 2023
Furniture and Equipment at Carrying Value	225,000	300,000
Stock - Fuel	25,500	32,400
Cash and Bank Balances	?	1,825,000
Trade Creditors (on Fuel Purchases)	230,000	250,000
Accrued Electricity and Water	12,500	14,000

The following additional information is also provided for the year ended 31st March 2024:

- (1) The business is operated in a rented building and monthly building rent is Rs.150,000/- as per the rent agreement. Rent relevant for the year was paid during the year.
- (2) **Lali Cars** has the following two fee categories for its customers in providing of vehicles based on number of Kilo Meters (km) travelled. Customers should pay the fee in cash after each travel:

Customer Category	Fee per kilometer (Rs.)
Individual	150
Corporate	130

- (3) The following payments were extracted from the Cash Control Account (Cash Book) for the year ended 31st March 2024:

	Rs.
Payments to Creditors on Purchase of Fuel	1,200,000
Staff Salaries	2,560,000
Electricity and Water	128,000
Vehicle Maintenance	400,000
Bank Charges	5,000
Rent	1,800,000

- (4) As per the records, the **Lali Cars** has achieved the following sales volumes during the year:

Customer Category	No. of kilometers (km)
Individual	25,000
Corporate	30,000

- (5) No Property, Plant and Equipment was purchased during the year.
- (6) The Plant and Equipment are to be depreciated on the straight-line method at cost and the useful life of assets is as follows:

Motor Vehicles	10 years
Furniture and Equipment	04 years

You are required to:

Calculate the following:

- (a) Capital (equity) balance as at 01st April 2023. (03 marks)
 - (b) Net profit of the business for the year ended 31st March 2024. (07 marks)
- (Total 10 marks)

Question 03

Sonia, Ann and Maya started a partnership as **SAM partners**, a beauty salon on 01st January 2024 sharing profits and losses among partners at the ratio of 2 : 2 : 1 respectively.

You are given the following information also:

- (1) The net profit for the year ended 31st December 2024 was Rs.1,540,000/-.
- (2) The partnership agreement provides the following:
 - **Ann** is entitled to receive a monthly salary of Rs.70,000/-.
 - An interest of 5% is entitled by partners on the opening capital accounts' balances as at 01st January 2024.

(3) The following balances were extracted from the partnership: (Rs.'000)

	Dr	Cr
Capital Account's Balances as at 01 st January 2024:		
Sonia		3,000
Ann		1,000
Maya		2,000
Current Account's Balances as at 01 st January 2024:		
Sonia		500
Ann	300	
Maya		800
Drawings made during the year ended 31 st December 2024:		
Sonia	520	
Ann	280	

- (4) On 31st December 2024, **Maya** decided to resign from the partnership and **Sonia** and **Ann** decided to continue the partnership under the same name sharing profit and losses equally. All dues to **Maya** are to be settled in full on 01st January 2025.
- (5) Goodwill of the partnership is valued at Rs.1,000,000/- as at 31st December 2024 and it should be adjusted through partners' capital accounts without maintaining a goodwill account.

You are required to:

Prepare the following of **SAM partners** for the year ended 31st December 2024:

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

Question 04

RAISE Sports Club which is a sports club providing sports activities for members was commenced in 2015. The annual membership fee per member is Rs.2,000/- and there were 350 members as at 01st January 2024.

You are provided the following information for the year ended 31st December 2024:

- (1) Details of the Membership subscription are as follows:
- 10 members paid membership fee for year 2023 during the year 2024.
 - 6 members paid membership fee for year 2025 during the year 2024.
 - 2 members paid membership fee for year 2024 during the year 2023.
 - As at 31st December 2024, there were no membership fees in arrears.

(2) Summary of the other receipts and payments of the **RAISE Sports Club** is as follows:

	Rs.
Receipts:	
Donation	620,000
Interest on Deposits	50,500
Payments:	
Payments to Coaches	355,300
Purchase of a sports equipment	135,000
Wages	369,000
Refreshment Expenses	67,000
Electricity	53,000
Ground Maintenance	350,000
Advertising	84,000

- (3) A new sports equipment was purchased on 01st October 2024 and useful life of the sports equipment is 5 years. The sports club depreciates its' sports equipment on the straight-line basis at cost. Old sports equipment were fully depreciated as at 01st January 2024.
- (4) On 01st September 2024, a special donation of Rs.620,000/- was received in cash from a Non-Governmental Organization (NGO) to promote sports activities.

You are required to:

Prepare the following of the RAISE Sports Club for the year ended 31st December 2024:

- (a) Members' Subscription Account. (04 marks)
- (b) Income and Expenditure Account. (06 marks)
- (Total 10 marks)

Question 05

(a) The following information was extracted from **Ravi Ltd.** with reference to Job No. **102**:

Direct Raw Material	10,000 kilograms @ Rs.750/- per kilogram
Direct Labour	500 hours @ Rs.1,500/- per hour
Production Overhead	150% on Total Direct Labour Cost

The company keeps a profit of 25% on cost of production.

You are required to:

Calculate the price to be charged on Job No. **102**. (03 marks)

(b) **Lassana Clothing Ltd.** has two production departments (**P1** and **P2**) and one service department (**S1**).

The company has estimated the budgeted production overhead for the month of March 2025 as follows:

	Rs.
Electricity	787,500
Rent	275,000
Employees' welfare	303,000
Depreciation on Machinery	60,000

The following budgeted data are provided for the month of March 2025:

	P1	P2	S1	Total
Indirect Materials (Rs.)	725,000	875,000	250,000	1,850,000
No. of Employees	25	30	5	60
Cost of Machinery (Rs.)	10,000,000	12,000,000	8,000,000	30,000,000
Usage of Electricity (kilowatts)	12,000	8,000	2,500	22,500
Floor Area Occupied (square feet)	2,500	2,300	200	5,000
Apportionment of Cost – S1	65%	35%	-	-

You are required to:

Prepare a statement showing how the overheads are allotted and apportioned to each production department.

(07 marks)

(Total 10 marks)

Question 06

(A) You are given the following information with reference to **Product Q** of **Smith Ltd.** a mattress manufacturer:

Annual Demand	4,000 units
Purchase price per unit	Rs.12,500/-
Usage	400 - 900 units
Lead Time	2 - 4 months
Annual Holding cost per unit	10% of the purchase price
Ordering Cost	Rs.506,250/- per order

You are required to:

Calculate the following:

- (a) Economic Order Quantity (EOQ). (02 marks)
- (b) Re-order Level. (02 marks)
- (c) Maximum Stock Level. (02 marks)

(B) The following information is given for the Raw Material **"X"** of **Wellington (Pvt) Ltd.** for the month of April 2024:

01 st April 2024	Opening stock balance - 500 units @ Rs.12/-
12 th April 2024	Purchased 300 units @ Rs.15/-
20 th April 2024	Issued 400 units
23 rd April 2024	Purchased 150 units @ Rs.16/-
28 th April 2024	Issued 250 units

You are required to:

Prepare the Stores Ledger for the raw material **"X"** for the month of April 2024 under the First In First Out (FIFO) method.

(04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Everbright (Pvt) Ltd.** as at 31st March 2024 is as follows: (Rs.)

	Dr.	Cr.
Stated Capital (1,000,000 Ordinary Shares) as at 01 st April 2023		10,000,000
Retained Earnings as at 01 st April 2023		13,550,000
Application and Allotment Account - Right Issue		4,000,000
Plant and Equipment at cost:		
Machinery	7,000,000	
Motor Vehicles	5,500,000	
Accumulated Depreciation as at 01st April 2023:		
Machinery		2,600,000
Motor Vehicles		2,000,000
Inventory	1,425,300	
Trade Receivables / Trade Payables	16,524,500	6,900,000
Cash in Hand and Banks	26,444,300	
Allowance for Trade Receivables as at 01 st April 2023		430,000
Interim Dividends Paid	2,000,000	
Sales		57,645,000
Cost of Sales	32,375,000	
Salaries and Wages	3,530,000	
Office Maintenance	200,000	
Sales Commission	450,000	
Advertising Expenses	316,000	
Electricity	675,000	
Water	125,000	
Travelling and Transport Expenses	205,900	
Bank Charges	84,000	
Office Rent	1,170,000	
Income Tax Paid	900,000	
Machinery Disposal Account		1,800,000
	98,925,000	98,925,000

The following additional information is also provided:

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

Machinery	5 years
Motor Vehicles	4 years

- (2) A machine purchased for Rs.2,100,000/- on 01st July 2022 was sold on 01st January 2024 for Rs.1,800,000/- and the entire sale proceed was credited to the Machinery Disposal account. Other than that, no entries were made in the books of accounts.

- (3) The following expenses have not been accounted as at 31st March 2024 in the books of the accounts:

	Rs.
Prepaid Rent	90,000
Audit Fee for the year ended 31 st March 2024	80,000

- (4) On 31st January 2024, the Company has made a right issue to all existing ordinary shareholders and issued one share each for every 2 shares held as at 01st April 2023 at Rs.8/- per share. All shareholders have taken up the right issue and collected cash from all shareholders during the year. Cash received has been credited to Application and Allotment account - Right Issue.
- (5) The estimated Income Tax liability for the Year of Assessment 2023/24 is Rs.2,150,000/- and out of that Rs.900,000/- has been paid as quarterly installments during the year.
- (6) The company has paid an interim dividend of Rs.2/- per share on 31st December 2023.
- (7) The Board of Directors decided to maintain the allowance for trade receivables at 10% of trade receivables as at 31st March 2024.
- (8) The financial statements were authorized for the issue by the Board of Directors on 30th June 2024.

You are required to:

Prepare the following of Everbright (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 2024. (14 marks)
- (b) Statement of Financial Position as at 31st March 2024. (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.