

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2019

(AA21) ADVANCED FINANCIAL ACCOUNTING

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

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

26-01-2019
Morning
[8.45 – 12.00]

No. of Pages : 11
No. of Questions : 10

- (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 begins 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)**

Eight (08) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.4. Write the number of the selected answer in your answer booklet with the number assigned to the question.

- 1.1 The following amounts relating to the month of March 2018 are extracted from the books of XYZ (Pvt) Ltd:

	Rs.
Gross salary before deductions	9,600,000
Pay As You Earn (PAYE) Tax deduction	325,000

The company contributes to the Employees' Provident Fund (EPF) at 12% and the Employees' Trust Fund (ETF) at 3% from the gross salary. Employees' contribution to the EPF is 8%.

Based on the above information, the net salary for the month of March 2018 was:

- (1) Rs.7,355,000/- (2) Rs.8,507,000/- (3) Rs.9,275,000/- (4) Rs.7,067,000/-

(02 marks)

1.2 Which one of the following statements shows the impact on the profit when the current year's closing stock is overstated?

- (1) Current year's profit will be understated and next year's profit will be overstated.
- (2) Current year's profit and next year's profit will not be changed.
- (3) Current year's profit will be overstated and next year's profit will be understated.
- (4) Current year's profit will not be changed and next year's profit will be overstated.

(02 marks)

1.3 The following statements are relating to long term debt instruments of a limited liability company:

- (a) The two main debt instruments are debentures and ordinary shares.
- (b) In most of the cases, the debt instruments have a fixed rate of interest.
- (c) Generally, the debt instruments do not have voting rights.

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

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

(02 marks)

1.4 Ever Rich (Pvt) Ltd receives rental income from several properties. The total rent received during the year ended 31st March 2018 was Rs.481,200/-.

The following information is also provided:

Description	As at 01 st April 2017 (Rs.)	As at 31 st March 2018 (Rs.)
Rent received in advance	28,700	31,200
Rent in arrears	21,200	18,400

The rental income that should appear in the company's Financial Statements for the year ended 31st March 2018 is:

- (1) Rs.475,900/-.
- (2) Rs.460,900/-.
- (3) Rs.486,500/-.
- (4) Rs. 501,500/-.

(02 marks)

Write answers to question No. 1.5 to 1.8 in your answer booklet with the number assigned to the question.

1.5 State two(02) criteria to be met to classify a liability as a current liability. (02 marks)

1.6 A sole trader who has counted and valued inventory as at 31st March 2018 found that part of the inventory which had a cost of Rs.2,000,000/- has become obsolete. However, it could be sold for an amount of Rs.1,800,000/- by paying an additional sales commission of 15% of the sales price to the third party.

Identify the value of the said inventory that would be shown in the books of accounts as at 31st March 2018. (03 marks)

1.7 State three(03) instances which require a reconstitution of an existing partnership. (03 marks)

1.8 State the provisions for each of the following according to the Partnership Ordinance 1890:

- (a) Change in the nature of the business.
- (b) Introducing a new partner to the partnership. (04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

The trade debtors' control account balance of **Nadun Traders** as at 01st August 2018 was Rs.585,600/-.

The following summarized transactions relating to trade debtors during the month of August 2018, are extracted from the company's records:

	Rs.
Credit sales	258,000
Return inwards	23,800
Cash received from debtors	189,000
Discounts allowed	4,900

Subsequent checking revealed that the total of the balances appearing in the individual accounts of the trade debtors' ledger was different from that of the trade debtors' control account. The following are the reasons for the said difference:

- (1) The total of the sales day book for the month of August has been over cast by Rs.20,000/-.
- (2) Cash receipt from a trade debtor amounting to Rs.28,000/- has been correctly recorded in the control account, but no entry has been made in the debtors' individual ledger accounts.
- (3) Three purchase invoices had mistakenly been entered in the sales day book as credit sales. The total of these invoices was Rs.27,000/- and this was recorded both in the debtors' individual ledger accounts and debtors' control account.

You are required to:

Prepare the Trade Debtors' Control Account to show the correct balance as at 31st August 2018 after adjusting for the above three items. (05 marks)

Question 03

Kasun, Dasun and Supun are in a partnership sharing profits/losses in the ratio of 4 : 3 : 3 respectively.

The partnership agreement provides the following terms:

- Interest is paid at 10% per annum on the opening capital account balances.
- **Dasun** is entitled to receive a salary of Rs.300,000/- per annum.

The following balances were extracted from the trial balance of the partnership as at 31st March 2018.

	Dr (Rs.)	Cr (Rs.)
Capital accounts as at 01 st April 2017:		
Kasun		4,000,000
Dasun		3,000,000
Supun		3,000,000
Drawings:		
Kasun	1,200,000	
Dasun	600,000	
Supun	300,000	

The net profit before appropriation of the partnership for the year ended 31st March 2018 was Rs.2,031,250/-.

You are required to:

Prepare the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2018. (05 marks)

Question 04

Widya (Pvt) Ltd. had paid their employees a net salary of Rs.27,000,000/- for the year ended 31st March 2018:

The following additional information is also relevant:

- (1) Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) contributions are calculated based on the gross salary.
- (2) The employees' contribution and company's contribution to EPF are 8% and 12% respectively.
- (3) The contribution to ETF is 3%.
- (4) It is required to deduct employees' welfare fund contribution of 2% from the gross salary from each and every employee.

You are required to:

Record the information given above in the following summarized salary sheet of **Widya (Pvt) Ltd.** for the year ended 31st March 2018.

Gross Salary (Rs.)	Welfare Fund Contribution (Rs.)	EPF Deduction (Rs.)	Net Salary (Rs.)	Company's Contribution (Rs.)	
				EPF	ETF

(05 marks)

Question 05

Debit balance (favourable balance) as at 31st May 2018 of cash control account (cash book) of **Hasitha Traders** was Rs.328,500/-and a summary of cash receipts journal and cash payments journal for the month of May 2018 is as follows:

Cash Receipts Journal			Cash Payments Journal		
Date	Receipts	Amount (Rs.)	Date	Payments	Amount (Rs.)
02.05.2018	Cash Deposit	28,000	02.05.2018	Manohara - Cheque No. 157842	50,000
05.05.2018	Ahmad - Cheque No. 343212	60,000	05.05.2018	Harendra - Cheque No. 157843	26,000
12.05.2018	Bernard (Pvt) Ltd. - Cheque No. 451678	45,000	08.05.2018	P.Donald - Cheque No. 157844	34,000
18.05.2018	Amali Printers - Cheque No. 231457	30,000	26.05.2018	M.Harsha - Cheque No. 157845	11,000
30.05.2018	W. Nihal - Cheque No.117654	35,000	29.05.2018	Manahara (Pvt) Ltd. - Cheque No. 157846	13,500
		198,000			134,500

The extract of the bank statement of **Hasitha Traders** for the month of May 2018 was as follows:

Date	Description	Debits (Rs.)	Credits (Rs.)	Balance (Rs.)
01.05.2018	Balance			265,000
03.05.2018	Cash Deposit		28,000	293,000
05.05.2018	Cheque payment - 157842	50,000		243,000
08.05.2018	Cheque deposit - 343212		60,000	303,000
12.05.2018	Cheque payment - 157843	26,000		277,000
15.05.2018	Cheque deposit - 451678		45,000	322,000
18.05.2018	Cheque payment - 157844	34,000		288,000
23.05.2018	Cheque deposit - 231457		30,000	318,000
25.05.2018	Loan installment	30,000		288,000
27.05.2018	Direct deposit - 141567		12,000	300,000
31.05.2018	Bank Charges	2,500		297,500

You are required to:

Prepare the following:

- (a) The Adjusted Cash Control Account (cash book) as at 31st May 2018. (03 marks)
- (b) The bank reconciliation statement as at 31st May 2018. (02 marks)
- (Total 05 marks)

Question 06

You are provided with the following information relating to **Sarana Welfare Society** which commenced its activities on 01st April 2015:

- (1) The annual membership subscription from a member is Rs.3,000/-.
- (2) As at 01st April 2017 annual membership subscriptions from 5 members were in arrears while the annual membership subscriptions from 3 members had been received in advance.
- (3) As at 31st March 2018, 8 members have not paid membership subscriptions for the current year out of which 3 members have not paid the membership subscriptions for the previous year as well. 5 members paid membership subscriptions for the next year in advance.
- (4) There are 153 members in the association as at 31st March 2018.

You are required to:

Prepare the Members' Membership Subscription Account for the year ended 31st March 2018.

(05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

The **Old Boys' Cricket Club** is a sports club providing sports facilities for members while operating a restaurant for the use of its members and renting the premises for outdoor sports events.

Receipts and payments account of the sports club for the year ended 31st December 2018 is as follows:

(Rs.'000)

Receipts and Payments Account			
B/B/F 01 st January 2018	18,500	Salaries	2,900
Donations	12,300	Ground maintenance	3,600
Rent income	21,500	Payments to restaurant's suppliers	24,200
Membership Subscriptions	8,400	Electricity and water – Restaurant	1,600
Restaurant sales	30,500	Restaurant's other expenses	2,500
Subscription on life membership	200	Advertising	2,500
		Purchase of sports equipment (on 31 st December 2018)	18,000
		Other expenses	4,100
		B/C/F 31 st December 2018	32,000
	91,400		91,400

Assets and liabilities were as follows:

(Rs.'000)

	As at 01st January 2018	As at 31st December 2018
Life membership subscription fund	2,200	?
Payables to restaurant's suppliers	3,200	3,800
Subscriptions in arrears	800	500
Sports equipment at carrying value	45,000	54,000
Land and building at carrying value	30,000	29,000
Inventories at restaurant (at cost)	4,500	3,200
Prepaid electricity and water – Restaurant	200	100

The following additional information is also provided:

- Donations should be recognized as an income for the year.
- There were no additions or disposals of Property, Plant and Equipment during the year, except the sports equipment purchased on 31st December 2018.
- 10% of the life membership subscription fund account at the end of the year should be recognized as an income for the year.

You are required to:

Prepare the following for the **Old Boys Cricket Club**:

- (a) Restaurant Trading Account for the year ended 31st December 2018. (03 marks)
- (b) Income and Expenditure Account for the year ended 31st December 2018. (07 marks)
- (Total 10 marks)

Question 08

Assistant Accountant of **Suvimali Fashions**, has prepared the income statement for the year ended 31st March 2018, and arrived at a net profit of Rs.1,783,000/- for the year.

- (1) Balances that appeared in the ledger accounts as at 31st March 2018 were as follows:

	As at 31 st March 2018 (Rs.)
Motor Vehicles at cost	4,900,000
Office Equipment at cost	550,000
Accumulated Depreciation:	
Motor Vehicles	2,450,000
Office Equipment	137,500
Inventories at Cost	165,000
Trade Receivables	420,000
Prepayments	11,500
Cash in hand and at Bank	125,000
Trade Payables	720,000
Accrued Expenses	65,000
Capital as at 01 st April 2017	1,190,000
Proprietor's Drawings	174,000

You are given the following additional information:

- (2) Closing inventory which was valued at cost as at 31st March 2018 was taken into the books of accounts when preparing the income statement. However, Net Realizable Value (NRV) of the inventories was Rs.150,000/-.
- (3) A motor vehicle, which was acquired for Rs.2,000,000/- on 01st April 2016 was sold on 31st March 2018 for Rs.1,300,000/- accepting a cheque dated 10th April 2018. No entries have been made in the books of accounts in this regard. Motor vehicles are depreciated at 25% per annum on the straight-line basis at cost.

You are required to:

Prepare the Statement of Financial Position of **Suvimali Fashions** as at 31st March 2018. (10 marks)

Question 09

Rashmi, Pushmi and Kushmi are in a partnership business under the name of **Mimi's Collections**.

(1) The partnership agreement contained the following terms:

- Partners are entitled to receive interest on capital at 6% per annum on their opening capital account balances.
- **Pushmi** and **Kushmi** are entitled to receive a monthly salary of Rs.35,000/- per person for their involvement in managing the business.
- The profits or losses are shared among **Rashmi, Pushmi** and **Kushmi** in the ratio of 3 : 1 : 1 respectively.

(2) The following balances were extracted from the trial balance of **Mimi's Collections** as at 31st March 2018:

	Dr. (Rs'000)	Cr. (Rs'000)
Capital accounts as at 01 st April 2017:		
Rashmi		1,500
Pushmi		500
Kushmi		500
Current accounts as at 01 st April 2017:		
Rashmi	65	
Pushmi		5
Kushmi	50	

(3) The following additional information is also provided:

- The net profit of the business before appropriations for the year ended 31st March 2018 was Rs.1,490,000/-.
- On 31st March 2018, according to partners' involvement in managing the business, partners have decided to change their profit sharing ratio to 2 : 1 : 1 among **Rashmi, Pushmi** and **Kushmi** respectively.
- On the same day, they have valued the goodwill of the partnership at Rs.1,000,000/- and it was decided to adjust the goodwill through the partners' capital accounts, without creating a goodwill account.

You are required to:

Prepare the following for **Mimi's Collections** for the year ended 31st March 2018 to record the above transactions:

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

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

The Trial Balance of **Bhasha (Pvt) Ltd.** as at 31st March 2018 is given below:

(Rs. '000)

	Dr.	Cr.
Stated Capital – 500,000 Ordinary Shares		5,000
Retained Earnings as at 01 st April 2017		7,325
General Reserves		850
Money received from Application of Shares		2,400
Motor vehicles at cost	32,500	
Office equipment at cost	2,000	
Accumulated depreciation as at 01 st April 2017:		
Motor vehicles		22,500
Office equipment		1,600
Inventory as at 31 st March 2018	6,615	
Trade Receivables / Trade Payables	8,220	1,350
Allowance for Trade Receivables as at 01 st April 2017		57
Cash in hand and at Bank	3,190	
12% Debentures		5,000
Dividends Paid – Interim and Final	375	
Sales		47,125
Cost of sales	23,500	
Administration Expenses	3,050	
Distribution Expenses	2,047	
Debenture Interest paid	300	
Other Finance Expenses	210	
6 months Fixed Deposits (invested on 31 st March 2018)	11,000	
Income Tax for the year (settled in full)	200	
Total	93,207	93,207

The following additional information is also provided:

- (1) For enhancing finance facilities, the bank requested the company to increase its stated capital. Accordingly, the Board has issued 200,000 new shares at Rs.10/- per share on 31st January 2018. It was further decided to refund the excess money received and to allocate the shares on 01st March 2018. However, other than recording the collection of share application money, no other entries have been made in the books of accounts in this regard.
- (2) On 01st April 2017, the company issued 50,000 numbers of 12% debentures at Rs.100/- each. Interest is to be paid bi-annually on 01st April and on 01st October of each year.
- (3) As an expansion program, the Board of Directors has decided to move towards the manufacturing process, and accordingly, the company purchased new machinery costing Rs.50,000,000/- on credit terms on 15th February 2018, and commenced the production on 01st March 2018. The cost of the machinery and the installation cost of Rs.2,800,000/- should be settled by 15th of April 2018. However, no entries have been made in the books of accounts in this regard.
- (4) Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets are estimated as follows:

Motor vehicles	:	05 years
Office equipment	:	10 years
Machinery	:	10 years

- (5) The following accruals and pre-payments as at 31st March 2018 are to be recorded in the books of accounts:

Rent Payable	:	Rs.45,000/-
Insurance Prepaid	:	Rs.8,000/-
- (6) It was decided to increase the allowance for Trade Receivables as at 31st March 2018 to Rs.123,000/-.
- (7) The Board of Directors of the company has approved the Financial Statements for issue on 15th June 2018.

You are required to:

Prepare the following for the use of the management of **Bhasha (Pvt) Ltd.:**

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2018. (11 marks)
 - (b) Statement of Financial Position as at 31st March 2018. (14 marks)
- (Total 25 Marks)

End of Section D

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.