

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2023

(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.**
- 19-08-2023
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** Which one of the following statements is correct with reference to the basic concepts of accounting?
- (1) Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash flow are the only components of Financial Statements.
 - (2) A liability creates an obligation to the business.
 - (3) When settling an obligation, there will be only an outflow of cash.
 - (4) All the assets have a physical existence. (02 marks)
- 1.2** Which one of the following statement is correct relating to the cost accounting?
- (1) Prime cost consists of direct material cost, direct labour costs & other direct costs.
 - (2) Only historical transactions and events are used in cost accounting.
 - (3) According to the nature, cost can be divided into direct costs and indirect costs.
 - (4) A cost that has already been incurred is called as opportunity cost. (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 State three(03) objectives of cost accounting. (03 marks)

1.8 State the difference between “an Integrated Accounting System” and a “Non-Integrated Accounting System”. (03 marks)

1.9 The following information was extracted from the books of accounts of **Sarana Traders** relating to **Product A**:

Annual Demand	30,000 Units
Average Stock	10,000 Units
Economic Order Quantity (EOQ)	5,000 Units

Calculate the optimum number of orders to be placed per year for **Product A**, based on the above information. (03 marks)

1.10 State the provision for each of the following according to Section 24 of the Partnership Ordinance 1890:

- (a) Management of the business.
- (b) Introduction of capital to the business.
- (c) An admission of a new partner.
- (d) Interest on loan given by a partner to the partnership. (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 **Fine Prints**, a printing shop owned by **Artigala**:

(1) Assets and the liabilities except bank balance of **Fine Prints** are as follows:

(Rs.'000)

	As at 31.12.2022	As at 01.01.2022
Printing Machinery at Carrying Value	1,200	1,500
Inventory - Stationery	30	32
Pre-payment of Rent	20	10
Accrued Electricity	7	5
Payables to Stationery Suppliers	18	15

- (2) The following is a summary of all the transactions executed through the bank account of **Fine Prints** for the period 01st January 2022 to 31st December 2022:

	Rs.'000
Receipts:	
Cash Deposits	1,825
Payments:	
Stationery Suppliers	1,200
Electricity	65
Rent	130
Telephone Expenses	24

The company has recorded a bank overdraft of Rs.220,000/- as at 31st December 2022.

- (3) Two daily paid employees are working in the shop and are paid Rs.1,500/- each per day. After the payment of the salaries, all the cash collected through the printing services is deposited in the bank at the day end. The shop was operated 240 days during the year 2022. Except salaries, all the other payments are made through the bank account.
- (4) All the sales are made on cash basis and all stationery purchases are made on credit.

You are required to:

- (a) **Calculate** the capital (Equity) balance of the **Fine Prints** as at 01st January 2022. (03 marks)
- (b) **Calculate** the net profit for the year ended 31st December 2022 of **Fine Prints**. (07 marks)
(Total 10 marks)

Question 03

The **Blue Whale Swimming Club** is formed in January 2022, to operate the swimming pool owned by Rawana College Trincomalee.

The following information related to the club's operations during the year 2022 was extracted from the books of **Blue Whale Swimming Club**:

Membership Subscription	630,000	Electricity	96,000
Revenue from Swimming Classes	325,000	Water and Chemical Expenses	180,000
Sponsorships for the Swimming Meet	220,000	Salary for Cleaners	312,000
Swimming Meet Entrance Fee	25,000	Swimming Meet Expenses	58,000
Special Donations	250,000	Swimming Couches Fee	265,000
		Rent	84,000
		Swimming Pool Equipment	360,000
		Other Expenses	27,000
		Balance C/F as at 31 st December 2022	68,000
	1,450,000		1,450,000

The following additional information is also provided:

- (1) Annual membership fee is Rs.7,500/- per annum. 78 members obtained swimming club membership in the year 2022. Membership subscription receipts details during the year 2022 are as follows:

Paid for 2022	74 members
Paid for 2023	10 members

- (2) Swimming pool equipment was purchased on 01st June 2022 by the swimming club and it is expected to use for 3 years.
- (3) Special Donations received is relevant for the current accounting year.
- (4) Electricity bill of Rs.9,000/- for the month of December 2022 was paid in January 2023.

You are required to:

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

- (a) Membership Subscription Account. (02 marks)
- (b) Income and Expenditure Account. (08 marks)
- (Total 10 marks)

Question 04

Chanaka and **Malaka** are the partners of **C & M Hardware**, a hardware shop sharing profits / losses equally. On 01st April 2022, **Nuwan** admitted as a new partner with an initial capital investment of Rs.3,000,000/-.

- (1) The partnership agreement provides the following:
- 5% of interest is entitled on the opening balance of the capital accounts.
 - **Chanaka** is entitled for a salary of Rs.50,000/- per month for his involvement in administration of the business.
 - Profits and losses are shared among **Chanaka**, **Malaka** and **Nuwan** in the ratio of 2:3:1 respectively.
 - Interest of 10% per annum is payable on loans given by partners to the partnership.
- (2) Goodwill of the partnership was valued at Rs.2,400,000/- as at 01st April 2022 and it was decided to adjust the goodwill through partners' capital accounts without creating a goodwill account.
- (3) The following balances were extracted from the partnership: (Rs.'000)

	Dr.	Cr.
Capital Accounts as at 01 st April 2022 - Chanaka		3,200
Malaka		4,800
Current Account as at 01 st April 2022 - Chanaka	1,200	
Malaka		2,300
Capital introduced by Nuwan		3,000
Drawings - Chanaka	200	
Malaka	150	
Loan given by Malaka on 01 st April 2022		200

- (4) Net profit of the partnership before charging loan interest on loan given by **Malaka** was Rs.4,770,000/-.
- (5) No repayments on **Malaka's** loan were made during the year.

You are required to:

Prepare the following of **C & M Hardware** for the year ended 31st March 2023:

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

Question 05

- (A) **Nuwan (Pvt) Ltd.** uses the non-integrated accounting system. The profit shown in the cost accounts for the year ended 31st March 2023 was Rs.450,000/- while profit as per financial accounts was Rs.409,000/-.

Reasons for the difference are as follows:

- (1) Stock valuation: (Rs.)

	As per Cost Accounts	As per Financial Accounts
Opening Stock	47,500	52,500
Closing Stock	122,500	143,500

- (2) Director fee of Rs.50,000/- has been charged only in financial accounts.
- (3) Depreciation charge as per cost accounts was Rs.245,000/- and it was Rs.300,000/- as per financial accounts.
- (4) Fixed deposit interest income of Rs.48,000/- was considered only in financial accounts.

You are required to:

Prepare the profit reconciliation statement between financial accounts and cost accounts. (05 marks)

- (B) The following information was extracted from **RAM Ltd.** with reference to **Product A** for the month of June 2023:

Date	Description	Quantity (in units)	Unit Price (Rs.)
01.06.2023	Opening Balance	220	670
10.06.2023	Purchases	500	619.60
15.06.2023	Issues	600	-
20.06.2023	Purchases	200	690

You are required to:

Prepare the stock ledger for **Product A** using the Weighted Average Cost (WAC) method. (05 marks)

(Total 10 marks)

Question 06

(A) You are provided the following information with reference to **Product Y** of **Sam (Pvt) Ltd.:**

Annual Demand	180,625 units
Purchase price per unit	Rs.12.50
Usage	2,000 - 10,000 units
Annual Holding cost per unit	20% of the unit price
Ordering Cost	Rs.500/- per order
Lead Time	2 - 4 months

You are required to:

Calculate the following:

- (a) Economic Order Quantity (EOQ). (03 marks)
- (b) Re-order Level. (01 mark)
- (c) Minimum Stock Level. (02 marks)

(B) The following information was extracted with reference to **Job No. 9000** of **X Ltd.:**

Direct Raw Material	250 kilograms @ Rs.250/- per kilogram
Direct Labour	125 hours @ Rs.1,000/- per hour
Production Overheads - Department A	200% on Direct Labour Cost
- Department B	75% on Direct Labour Cost

The company keeps a 20% profit on selling price.

You are required to:

Calculate the price to be charged on **Job No. 9000**.

(04 marks)
(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Win World (Pvt) Ltd.** as at 31st March 2023 is as follows:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Stated Capital (1,200,000 Ordinary Shares) as at 01 st April 2022		4,800
Retained Earnings as at 01 st April 2022		10,614
Plant and Equipment at Cost:		
Motor Vehicles	10,000	
Office Equipment	5,550	
Accumulated Depreciation as at 01st April 2022:		
Motor Vehicles		5,000
Office Equipment		2,220
25% Bank Loan (obtained on 01 st April 2022)		4,650
Cash at Banks	3,511	
Trade Receivables	6,280	
Trade Payables		1,559
Inventory as at 31 st March 2023	650	
Sales		20,825
Cost of Sales	6,047	
Office Rent	725	
Fuel Expenses	426	
Advertising and Marketing Expenses	1,182	
Sales Commission Expenses	926	
Water and Electricity	132	
Office Maintenance Expenses	372	
Salaries, Wages, EPF and ETF	7,697	
Bank Charges	18	
Fixed Deposits 22% per annum (Invested 01 st April 2022)	10,000	
Other Administration Expenses	296	
Allowance for Trade Receivables as at 01 st April 2022		125
Income Tax Paid	55	
EPF and ETF Payable		74
Other Income		4,000
	53,867	53,867

The following additional information is also provided:

- (1) The company has made a right issue during the year to all existing ordinary shareholders and issued one share each for every 20 shares held as at 01st April 2022 at Rs.60/- per share. All shareholders have taken up the rights and collected cash from all shareholders during the year. Cash received has been debited to cash account and credited to other income account. Other than that no entries were made on this regard.
- (2) As at 31st March 2023, the rent payable was Rs.50,500/- while prepaid electricity was Rs.13,500/-.
- (3) 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:

Motor Vehicles	4 years
Office Equipment	5 years

- (4) The estimated income tax liability for the year of assessment 2022/23 was Rs.207,000/-. During the year, the company has paid Rs.55,000/- as quarterly income tax installments.
- (5) At the board meeting held on 25th March 2023, the Board of Directors approved to transfer Rs.7,500,000/- to General Reserve account from retained earnings.
- (6) The management of the company has decided to maintain allowance for trade receivables at 10% on balance trade receivable as at 31st March 2023.
- (7) The interest receivable on fixed deposit and interest payable on bank Loan have not been accounted in the books of accounts. There is no repayments of loan during the year.
- (8) The financial statements were authorized for issue by the Board of Directors on 10th June 2023.

You are required to:

Prepare the following of **Win World (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 2023. (13 marks)
 - (b) Statement of Financial Position as at 31st March 2023. (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.