

**ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**LEVEL II EXAMINATION - JANUARY 2024**

**(201) ADVANCED FINANCIAL ACCOUNTING & COSTING**

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

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

10-02-2024  
Morning  
[08.45 – 12.00]

- (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.**

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 1.5. 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 correct with reference to the Cost Accounting?

- (1) According to the behavior, cost can be classified as direct costs and indirect costs.
- (2) Prime cost consists of indirect cost.
- (3) Cost ascertainment is a main objective of cost accounting.
- (4) A cost that has already been incurred is called as incremental cost. (02 marks)

**1.2** You are provided the following information of **Shan Ltd.** a manufacturing company:

Re-order Quantity	4,500 units
Lead time	4 - 6 weeks
Usage	1,200 – 3,000 units

Based on the above information, maximum stock level of **Shan Ltd.** is:

- (1) 18,000 units. (2) 17,700 units. (3) 22,000 units. (4) 11,700 units.

(02 marks)

**1.3** Consider the following statements:

- (a) There is a mandatory requirement to submit an annual return to the Registrar of Companies.
- (b) The minimum number of shareholders should be 02.
- (c) The minimum number of directors should be 02.
- (d) Shares cannot be issued to the public.

Of the above, the correct statement/s relating to a private limited company is/are:

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

**1.4** The following information has been extracted from **Susara Ltd.** for the month of January 2024:

Actual overhead cost for the month	Rs.210,000/-
Budgeted overhead cost for the month	Rs.200,000/-
Budgeted machine hours for the month	10,000 hours
Actual machine hours for the month	12,000 hours

The under or over absorbed overhead cost for the month is:

- (1) Rs.30,000/- over absorbed.
- (2) Rs.30,000/- under absorbed.
- (3) Rs.10,000/- over absorbed.
- (4) Rs.10,000/- under absorbed. (02 marks)

**1.5** Of the following, select an assumption used in the Economic Order Quantity (EOQ) formula:

- (1) There is a known and constant price per unit.
- (2) Annual demand is unknown.
- (3) Average balance in stock is one third of the order quantity.
- (4) Holding cost per unit is unknown. (02 marks)

**1.6** State whether each of the following statements is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question:

- (1) As per LKAS 37, a contingent liability should be recognized in the financial statements.
- (2) As per LKAS 01, financial statements of a business are prepared assuming the business will continue to operate for an unforeseeable future period.
- (3) As per LKAS 02, inventories should be measured at cost all the time.
- (4) As per LKAS 08, a company is not allowed to change its accounting policies in any circumstances. (04 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 two(02) provisions of Section 24 of the Partnership Ordinance of 1890. (02 marks)

**1.8 Saman** and **Amal** were the partners of **SA Associates** and shared profits and losses equally. During the year, **Bimal** joined as a partner and it was decided to share the profits among **Saman, Amal** and **Bimal** at the ratio of 3:2:1 respectively.

Calculate the sacrificing ratio of **Saman** and **Amal**. (03 marks)

**1.9** The following information has been extracted from **ABC (Pvt) Ltd.** for the month of December 2023:

Basic Salary	Rs.2,200,000/-
Other Allowances	Rs.700,000/-
Loan Deductions	Rs.97,000/-
Advance Personal Income Tax (APIT) / PAYE Deductions	Rs.352,000/-

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

Calculate the Net Salary paid by **ABC (Pvt) Ltd.** for the month of December 2023. (03 marks)

**1.10** State three(03) examples of adjusting events as per LKAS 10 – Events after the Reporting Period. (03 marks)

(Total 25 marks)

End of Section A

## **SECTION B**

(Total 50 marks)

### **Question 02**

**Ramesh** who is the sole proprietor of **E-Grocery**, buys grocery items from the wholesale market and sell to the customers through an online platform. Items are delivered by the delivery person employed by **Ramesh**. Customers can make the payment by cash or credit cards upon delivery.

Assets and liabilities of **E-Grocery** are as follows:

As at	(Rs.)	
	31.03.2023	01.03.2023
Motor Bicycle at carrying value	145,000	159,000
Office Equipment at carrying value	70,000	75,000
Inventories	?	240,000
Credit Cards Receivables	?	55,000
Cash and Bank Balance	316,850	95,000
Accrued Expenses	?	0

The following information is also provided for the month of March 2023:

- (1) Purchases during the month were Rs.560,000/- and all the purchases were made in cash.
- (2) Sales during the month were Rs.770,000/- and 20% gross profit margin on selling price was kept by **Ramesh** for each sale during the month. 40% of the sales were carried out through credit cards and the balance was in cash. An amount of Rs.344,850/- was collected from the bank on credit cards receivables during the month.
- (3) **Ramesh** paid a monthly salary of Rs.25,000/- to the delivery person at the end of each month.
- (4) Water & electricity expenses for the month of March 2023 were Rs.6,500/- and settled during the subsequent month.
- (5) No property, plant & equipment were acquired or disposed during the month.

**You are required to:**

- (a) **Calculate** the net profit for the month ended 31<sup>st</sup> March 2023 of **E-Grocery**. (07 marks)
  - (b) **Calculate** the capital (Equity) balance as at 31<sup>st</sup> March 2023 of **E-Grocery**. (03 marks)
- (Total 10 marks)

### Question 03

**Hasith, Visith** and **Nesith** are the partners of **Ceylon Handlooms**, which is in the business of export of handlooms to international markets.

- (1) Partnership agreement provides the following:
  - Profits and losses are shared among **Hasith, Visith** and **Nesith** at the ratio of 2:2:1 respectively.
  - **Hasith, Visith** and **Nesith** are entitled to receive a monthly salary of Rs.50,000/-, Rs.75,000/- and Rs.125,000/- respectively.
  - Interest on capital at the rate of 5% is entitled by partners on the capital balances as at 01<sup>st</sup> January 2023.
  - Partners are entitled to receive interest at the rate of 15% per annum on the loans given by them to the partnership.
- (2) Partners' capital account balances and current account balances as at 01<sup>st</sup> January 2023 are as follows:

	Capital Accounts (Rs.)	Current Accounts (Rs.)
<b>Hasith</b>	2,000,000 (Cr.)	150,000 (Cr.)
<b>Visith</b>	2,500,000 (Cr.)	300,000 (Dr.)
<b>Nesith</b>	3,000,000 (Cr.)	800,000 (Cr.)

- (3) A loan of Rs.1,000,000/- was given to the partnership by **Hasith** on 01<sup>st</sup> July 2023 and the interest for the year was not accounted yet. Repayments of loan is started from 01<sup>st</sup> January 2024.
- (4) The partnership business is operated in a building owned by **Visith** and monthly rent of Rs.50,000/- is payable to him. However, the rent for the year ended 31<sup>st</sup> December 2023 was not paid to him during the year while the said expense is not accounted in the books of accounts.
- (5) A drawing of Rs.1,500,000/- has been made by **Nesith** on 01<sup>st</sup> May 2023.
- (6) For the year ended 31<sup>st</sup> December 2023, total turnover was Rs.30,000,000/- while the net profit was Rs.8,000,000/-.

**You are required to:**

**Prepare** the following of **Ceylon Handlooms** for the year ended 31<sup>st</sup> December 2023:

- (a) Profit or Loss Appropriation Account. (05 marks)
- (b) Partners' Current Accounts. (05 marks)
- (Total 10 marks)

#### Question 04

**Neeroga Medical Association** is a not-for-profit organization formed by a group of doctors to provide medical support for needy and elderly personnel.

You are provided the following information for the year ended 31<sup>st</sup> March 2023:

- (1) As at 31<sup>st</sup> March 2023, the association had 150 doctors and annual membership subscription is Rs.20,000/- per doctor. Out of the 150, 10 doctors joined during the year and paid annual subscription payments for the next two years as well.
- (2) Assets and the liabilities of the association are as follows:

As At	(Rs.)	
	31.03.2023	01.04.2022
Medical equipment at carrying value	2,790,000	3,000,000
Membership subscriptions in arrears	80,000	20,000
Membership subscription in advance	400,000	-
Inventory (Surgical consumables & medicines)	1,255,000	255,000
Accrued expenses - Electricity	11,000	9,000
Cash and bank balances	?	5,890,000

- (3) Surgical consumables and medicines worth of Rs.150,000/- were donated to the association by a non-governmental organization and Rs.7,200,000/- worth of surgical consumables were purchased during the year.
- (4) Medical equipment costing Rs.300,000/- was purchased during the year.

- (5) Two nurses are employed for the association's activities and are paid Rs.200/- per hour at the end of the day. During the year, 1,000 hours were spent by the nurses on the activities of the association. Doctors are not entitled to any remuneration for their involvement in the activities of the association.
- (6) Payments made during the year for electricity were Rs.96,000/-. Building rent per month is Rs.10,000/- and it is to be paid in the same month.

**You are required to:**

**Prepare** the following of **Neeroga Medical Association** for the year ended 31<sup>st</sup> March 2023:

- (a) Receipts and Payments Account. (04 marks)
- (b) Income and Expenditure Account. (06 marks)
- (Total 10 marks)

## Question 05

The following information was extracted from **Sunhill (Pvt) Ltd.** and it has two production departments and a service department.

- (1) The company has estimated budgeted production overhead for the month of March 2024 as follows:

	<b>Rs.</b>
Electricity	380,000
Rent	368,500
Staff Welfare	69,000
Employees Supervision	138,000
Depreciation on Machinery	154,700
	<b>1,110,200</b>

- (2) The following budgeted data are provided for the month of March 2024:

	<b>Production</b>		<b>Service Department</b>	<b>Total</b>
	<b>Department 1</b>	<b>Department 2</b>		
Indirect Materials (Rs.)	575,000	485,000	340,000	1,400,000
Number of Employees	28	13	5	46
Cost of Machinery	8,960,000	4,810,000	1,700,000	15,470,000
Usage of Electricity (Kilowatts)	2,800	1,523	427	4,750
Floor Area Occupied (square feet)	3,700	1,550	250	5,500
Direct Labour Hours	4,000	2,000	-	-
Apportionment of Cost - Service	55%	45%	-	-

**You are required to:**

- (a) **Prepare** a statement showing how the overheads are allocated and apportioned to each of the department. (07 marks)
- (b) **Calculate** the overhead absorption rate for each of the production department based on the direct labour hours. (03 marks)
- (Total 10 marks)

## Question 06

- (a) The following information is related to Job No. **RMX600** of **XYZ Ltd.:**

Direct Raw Material	3,800 kilograms @ Rs.1,600/- per kilogram
Direct Labour – Department I	250 hours @ Rs.2,000/- per hour
– Department II	400 hours @ Rs.1,800/- per hour
Production Overhead	150% on Total Direct Labour Cost

The company keeps a profit of 25% on selling price.

**You are required to:**

**Calculate** the price to be charged on Job No. **RMX600**. (05 marks)

- (b) **Tharushi Garments (Pvt) Ltd.** is a garment manufacturer.

The following information of an employee is provided for the last week:

Normal working hours per day	8 hours (5 working days per week)
Basic labour rate per hour	Rs.300/-
Standard time allowed to produce one shirt	15 minutes
Premium bonus	80% on the saved time at basic pay
During the last week, the employee produced 275 shirts.	

**You are required to:**

**Calculate** total earnings of the employee for the last week. (05 marks)

(Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 25 marks)

### **Question 07**

The Trial Balance of **Global Trading (Pvt) Ltd.** as at 31<sup>st</sup> March 2023 is as follows:

	<b>Dr. (Rs.'000)</b>	<b>Cr. (Rs.'000)</b>
Stated Capital (1,000,000 Ordinary Shares)		5,000
Retained Earnings as at 01 <sup>st</sup> April 2022		9,550
<b>Plant and Equipment at Cost:</b>		
Motor Vehicles	12,000	
Office Equipment	14,355	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2022:</b>		
Motor Vehicles		3,671
Office Equipment		8,611
Motor vehicle Disposal Account		3,500
Cash at Banks	8,201	
Trade Receivables	8,290	
Trade Payables		3,219
Sales		38,325
Cost of Sales	12,694	
Inventory as at 31 <sup>st</sup> March 2023 at cost	4,350	
Water and Electricity	136	
Transport Expenses	459	
Advertising Expenses	1,182	
Sales Commission Expenses	1,526	
Office Maintenance	381	
Salaries, Wages, EPF and ETF	10,339	
Bank Charges	16	
Office Rent	725	
Interim Dividends	1,800	
Other Administration Expenses	304	
Allowance for Trade Receivables as at 01 <sup>st</sup> April 2022		207
Income Tax Paid	1,450	
EPF and ETF Payable		125
Bank Loan (Interest at 20% per annum)		6,000
	<b>78,208</b>	<b>78,208</b>



The following additional information is also provided:

- (1) Net Realizable Value (NRV) of inventory as at 31<sup>st</sup> March 2023 was Rs.4,275,000/-.
- (2) On 31<sup>st</sup> December 2022, a motor vehicle which was purchased on 01<sup>st</sup> January 2021 at Rs.3,000,000/- was sold for Rs.3,500,000/-. The sales proceed was credited to motor vehicle disposal account and other than that no entries were recorded in respect of disposal of motor vehicle. A new motor vehicle was bought on the same day at a cost of Rs.4,500,000/- and it has been correctly debited to the motor vehicle account.
- (3) 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	4 years
Office Equipment	5 years

- (4) The following pre-payments and accruals are to be adjusted as at 31<sup>st</sup> March 2023:

	<b>Rs.</b>
Pre-paid Rent	175,000
Accrued Electricity	25,000

- (5) Income tax liability for the year of assessment 2022/23 was estimated to be Rs.2,560,000/-. During the year an amount of Rs.1,450,000/- has been paid as income tax for the year of assessment 2022/23.
- (6) It was decided by the Board of Directors to write-off an amount of Rs.400,000/- as a bad debt due to bankruptcy of a customer. Further, it was decided to provide an allowance of 5% on remaining trade receivable balance as at 31<sup>st</sup> March 2023.
- (7) The company has obtained a bank loan on 01<sup>st</sup> January 2023 with a grace period of one year to pay the capital amount. However, the company has not paid the interest relevant for the year.
- (8) The financial statements were authorized for issue by the Board of Directors on 30<sup>th</sup> June 2023.

**You are required to:**

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

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income) for the year ended 31<sup>st</sup> March 2023. (13 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2023. (12 marks)

(Total 25 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.