



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2024

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

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

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

10-08-2024
Morning
[08.45 – 12.00]

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

No. of Pages : 11
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 Which one of the following is an inventory related cost?

- (1) Ordering cost. (2) Stock out cost.
(3) Holding cost. (4) All of the above.

(02 marks)

1.2 Pluto PLC has purchased a machinery on 01st April 2021 at a price of Rs.1,200,000/-. The company follows the reducing balance method to depreciate its machinery. The useful life of the machinery is 10 years. The depreciation charge for the year ended 31st March 2024 was:

- (1) Rs.120,000/-. (2) Rs.108,000/-. (3) Rs.97,200/-. (4) Rs.87,480/-.

(02 marks)

1.3 Consider the following statements:

- (a) Income is increases in assets or decreases in liabilities that result in increases in equity.
- (b) Income is not funded by the owners of the company.
- (c) Income includes revenue but not gains.

Of the above, the correct statements relating to income are:

- (1) (a) and (b) only.
- (2) (a) and (c) only.
- (3) (b) and (c) only.
- (4) All of the above. (02 marks)

1.4 One factory of **Neptune PLC** was destroyed due to a fire occurred on 30th April 2024 and incurred a loss of Rs.4,000,000/-. The financial statements for the year ended 31st March 2024 was authorized for issue by the Board of Directors on 31st May 2024.

How the resulted loss due to the fire needs to be reflected in the financial statements for the year ended 31st March 2024?

- (1) Loss needs to be considered as an expense in the Statement of Comprehensive Income.
- (2) This is not adjusted in the financial statements and a disclosure should be made.
- (3) As this is relevant for the subsequent financial year, no adjustment or disclosure is required for this year.
- (4) Based on the accounting policies of the company, the board can decide to consider it as an expense or to disclose in the financial statements.

(02 marks)

1.5 The following information is given for **Sun Ltd.** for the year ended 31st March 2024:

	As per Cost Accounts (Rs.)	As per Financial Accounts (Rs.)
Opening Stocks:		
Raw Material	55,000	62,000
Finished Goods	75,000	60,000
Closing Stocks:		
Raw Material	45,000	55,000
Finished Goods	80,000	72,000

If the profit as per cost accounts is Rs.352,000/-, the profit as per financial accounts would be:

- (1) Rs.346,000/-.
- (2) Rs.342,000/-.
- (3) Rs.358,000/-.
- (4) Rs.362,000/-.

(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 Explain briefly what is meant by ABC Costing. (02 marks)

1.7 State the provision in the Partnership Ordinance 1890 for each of the following:

- (i) Remuneration to partners.
- (ii) Introduction of capital to partnership.
- (iii) An admission of a new partner. (03 marks)

1.8 Differentiate Cost Accounting Vs Financial Accounting under each of the following point:

- (i) Purpose.
- (ii) Coverage of transactions.
- (iii) Stock Valuation. (03 marks)

1.9 State three(03) special characteristics of a debenture. (03 marks)

1.10 XYZ (Pvt) Ltd. is a Value Added Tax (VAT) registered company. The following information is relating to quarter ended 31st March 2024:

	Rs.
Credit balance of VAT control account as at 01 st January 2024	125,000
Sales (Exclusive of VAT)	990,000
Purchases (Exclusive of VAT)	360,000
Sales returns (Exclusive of VAT)	45,000

(All purchases and sales are supported with tax invoices.)

Based on the above information, calculate VAT payable balance as at 31st March 2024 if the applicable VAT rate is 18%. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Shakthi started a business of batik clothing on 01st March 2024 and named the business as **Shakthi Batik Designs**.

Shakthi banked all cash collections, made all payments through cheques and recorded all the receipts and payments in the cash book.

The extract of cash book of **Shakthi Batik Designs** for the month of March 2024 is as follows:

Cash Book (Bank Columns)

Date	Description	Chq. No.	Dr (Rs.)	Cr (Rs.)	Balance (Rs.)
01-03-2024	Cash Deposit - Shakthi's Initial Investment		575,000		575,000
01-03-2024	Purchase of a Design Equipment	587230		120,000	455,000
01-03-2024	Office Expenses of the Batik Shop	587231		26,200	428,800
04-03-2024	Business Registration Expenses	587232		5,300	423,500
04-03-2024	Payment for Purchase of Clothes	587233		325,000	98,500
04-03-2024	Payment for Other Materials to Design Batiks	587234		68,300	30,200
11-03-2024	Cash Deposit - Sales		320,000		350,200
16-03-2024	Deposits into Shakthi's Private Bank Account	587235		65,000	285,200
17-03-2024	Payment for Purchase of Clothes	587236		333,000	(47,800)
18-03-2024	Cash deposit - Sales		225,000		177,200
25-03-2024	Cash deposit - Sales		118,500		295,700
31-03-2024	Bank Charges			2,500	293,200
31-03-2024	Showroom Expenses	587237		8,200	285,000

The following further information is also provided:

- (1) The office building rent of Rs.12,500/- relating to March 2024 was paid in April 2024.
- (2) The inventory of finished clothes as at 31st March 2024 was Rs.244,100/- and there is no Work-In-Progress of batik cloths as at 31st March 2024.
- (3) The collection from sales of Rs.23,500/- made on 31st March 2024 was deposited on 01st April 2024 and it was not considered in the cash book.
- (4) The design equipment is to be depreciated on the straight line method at cost and useful life of the equipment is 4 years.
- (5) The bills on purchase of clothes payable as at 31st March 2024 is Rs.45,000/-.
- (6) Electrify bill of Rs.8,000/- for the month of March 2024 was paid in April 2024.

You are required to:

Calculate the following for **Shakthi Batik Designs**:

- (a) Net profit for the month ended 31st March 2024. (08 marks)
 - (b) The capital (Equity) balance as at 31st March 2024. (02 marks)
- (Total 10 marks)

Question 03

Charith, Surith and Nisith have started a partnership as **CSN Leasure** (a tourist resort) on 01st April 2023 sharing profit and loss at the ratio of 2 : 1 : 2 respectively.

- (1) The partnership agreement provides the following:
 - The partnership is managed by **Nisith** and he is entitled to receive a monthly salary of Rs.100,000/-.
 - Partners are entitled to receive interest on loans at 12% per annum on the loan given to the partnership.
 - Partners are entitled for interest on capital at 10% per annum on the initial capital introduced.
- (2) An old house owned by **Charith** was modified as the tourist resort and rented out to the partnership to provide accommodation facilities to tourists. **Charith** is entitled to an amount equivalent to 10% of the total accommodation revenue as the rent. During the year, rent relevant for the year was not paid and was not accounted.
- (3) The total accommodation revenue and net profit of the partnership for the year ended 31st March 2024 were Rs.6,000,000/- and Rs.4,330,000/- respectively.
- (4) A loan of Rs.2,400,000/- was given by **Nisith** to the partnership on 01st April 2023 and the interest for the year which was paid in April 2024 was not accounted yet.
- (5) The following balances were extracted from books of the partnership:

(Rs.'000)

	Dr	Cr
Capital introduced on 01 st April 2023:		
Charith		960
Surith		840
Nisith		1,500
Loan - Nisith		2,400
Drawings during the year:		
Charith	600	
Nisith	750	

You are required to:

Prepare the following of **CSN Leasure** for the year ended 31st March 2024:

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

Question 04

A team of environmentalists in Sri Lanka have set up an association called **Wild Life Lovers** in April 2020, to preserve the wild animals and forests in Sri Lanka.

The following information was given in relation to **Wild Life Lovers**:

- (1) There were 53 members as at 01st April 2023. Out of that, as at 31st March 2023 a total of 5 members have paid their membership fee for next three years, including the year 2023/24. As at 31st March 2024, 3 members have not paid their membership fee for the year 2023/24. During the year 2023/24 a total of 12 new members joined with **Wild Life Lovers** after paying the membership for the year 2023/24. Membership fee per member for a year is fixed at Rs.15,000/-. There were no arrears in membership as at 01st April 2023.
- (2) **Wild Life Lovers** has conducted an exhibition in Colombo in the month of August 2023 to educate the public on the wild animals. The entrance fee for the exhibition was free of charge. Sponsorships were received for the exhibition amounting to Rs.50,000/-. In addition to that, it was able to sell the photos and the publications of the members during the exhibition and collected an amount of Rs.1,500,000/-. Out of photos and publication, sale collection, 10% has been given to the respective members in the association and the balance 90% was retained with **Wild Life Lovers**.
- (3) A summary of the expenses of **Wild Life Lovers** for the year ended 31st March 2024 is as follows:

(Rs. '000)

Rent Expenses	1,300
Promotional Expenses	240
Salaries for the administration assistant	360
Electricity and Water Bills	8
Printing & Stationery	50

- (4) **Wild Life Lovers** is located in a building in Colombo and the monthly rental for the building is Rs.30,000/-. Rest of the rent expense is relating to the exhibition hall.
- (5) Promotional expense was spent solely for the exhibition and 10% of the printing and stationery costs is also relevant to the same.
- (6) **Wild Life Lovers** has purchased 2 laptops at the inception at a total cost of Rs.500,000/- The laptops are to be depreciated at a rate of 20% per annum on the straight-line basis at cost.

You are required to:

Prepare the following of the **Wild Life Lovers** for the year ended 31st March 2024:

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

Question 05

- (A) **Fabric Mall (Pvt) Ltd.** which is a fabric manufacturer, operates an integrated accounting system.

The following balances were extracted from the accounting system:

Stock	As at 01 st March 2024 (Rs.)
Raw material Stock	950,750
Work-In-Progress (WIP) stock	275,600
Finished goods stock	1,850,300

The following transactions were carried out during the month of March 2024:

	Rs.
Purchase of Raw Material on Credit	2,300,000
Material Issued for the Production	1,550,000
Direct Wages on Production	700,000
Production Overhead Cost	350,000
Production Cost of Finished Goods	2,800,000
Cost of Goods Sold	2,450,000

You are required to:

Prepare the following accounts:

- (a) Raw Material Control Account. (02 marks)
- (b) WIP Control Account. (03 marks)
- (c) Finished Goods Control Account. (02 marks)

- (B) The following information was extracted from **ABC Ltd.** with reference to Job No. **A10000**:

Direct Raw Material	7,500 kilograms @ Rs.400/- per kilogram
Direct Labour – Department A	250 hours @ Rs.1,500/- per hour
– Department B	500 hours @ Rs.750/- per hour
Production Overhead	80% on Total Direct Labour Cost

The company keeps a profit of 20% on selling price.

You are required to:

Calculate the price to be charged on Job No. **A10000**.

(03 marks)

(Total 10 marks)

Question 06

(A) **Moon Ltd.** buys **Raw Material A** for its production from an outside supplier at Rs.60/- per unit. The following information is also provided relating to **Raw Material A**:

- Annual demand for **Raw Material A** is 6,400 units.
- Rent and insurance cost on the storage facility of a unit of raw material per year is Rs.2/-.
- Cost of placing an order is Rs.100/-.

You are required to:

Calculate the following for **Raw Material A**:

(a) Economic Order Quantity (EOQ). (03 marks)

(b) Optimum Number of Orders to be placed. (02 marks)

(B) The following wage details of an employee have been extracted from the records of **Moon Ltd.**

Hourly wage rate	Rs.200/-
Standard time taken per piece	24 minutes
Actual output for the week	120 pieces
Weekly working hours	40 hours

You are required to:

Calculate the weekly earnings of the employee, if employee is entitled for a bonus on saved time at 150% of hourly wage rate. (05 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 2024 is as follows: (Rs.)

	Dr.	Cr.
Stated Capital (1,000,000 Ordinary Shares)		1,000,000
Retained Earnings as at 01 st April 2023		5,269,000
Motor vehicles, at cost	12,000,000	
Office Equipment, at cost	2,550,000	
Accumulated Depreciation as at 01st April 2023:		
Motor Vehicles		6,000,000
Office Equipment		1,020,000
Bank Loan		4,650,000
Cash at Bank	4,937,000	
Trade Receivables	6,140,000	
Trade Payables		726,000
Sales		32,865,000
Cost of Sales	13,146,000	
Office Rent Paid	633,000	
Fuel Expenses	431,000	
Advertising and Marketing Expenses	729,000	
Sales Commission	978,000	
Water and Electricity	132,000	
Office Maintenance	357,000	
Salaries, EPF and ETF	9,395,000	
Bank Charges	15,000	
Bank Loan Interest	674,000	
Other Administration Expenses	97,000	
Allowance for Trade Receivables as at 01 st April 2023		208,000
Income Tax Paid	625,000	
EPF and ETF Payable		12,000
Motor vehicle Disposal Account		3,525,000
Inventory as at 31 st March 2024	2,436,000	
	55,275,000	55,275,000

The following additional information is also provided:

- (1) Closing inventory which was valued at cost as at 31st March 2024 was recorded in the books of accounts. Later, it was revealed that one third $\left(\frac{1}{3}\right)$ of the inventory was damaged and it was sold those at a 50% discount on cost during the April 2024. However, this was not adjusted in the books of accounts.
- (2) From 01st April 2023, the existing office premises was obtained on rent at Rs.25,000/- per month. Further, the company was rented out a new sales office also for 5 years on 01st January 2024 at a monthly rental of Rs.37,000/-. In addition to the monthly rent, 6 months' rent in advance was paid for new sales office. The company duly settled all rentals and debited to office rent paid 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) A vehicle, purchased for Rs.4,000,000/- on 01st January 2022, is sold for Rs.3,525,000/- on 31st December 2023 and the entire sale proceed was credited to the Motor Vehicle Disposal Account. Other than this, no entries were made in the books of accounts.
- (5) The electricity bill for the month of March 2024 was Rs.13,000/- and was settled in mid-April 2024.
- (6) The company has estimated it's income tax liability for the year of assessment 2023/24 as Rs.827,000/- and out of that, Rs.625,000/- has been paid as the quarterly installments during the year.
- (7) The Board of Directors decided to maintain the allowance for Trade Receivables at 5% of the Trade Receivables balance as at 31st March 2024.
- (8) On 31st March 2024, the Board of Directors decided to transfer an amount of Rs.1,000,000/- to general reserve account.
- (9) The financial statements were authorized for issue by the Board of Directors on 31st May 2024.

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 2024. (13 marks)
- (b) Statement of Financial Position as at 31st March 2024. (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.