General Certificate of Education (Adv. Level) Examination, August 2012
Accounting I - Two Hours

Instructions:
- *Select the correct answer for questiion No. 1-30 and write its number on the dotted line given*
- *Write short answers for question No. 31-50 on the dotted line given*
- *Each question carries two marks.*
- *Write your Index Number in the space provided above.*

1. The primary objective of accounting is
   (1) to record all transactions of an entity in the books of accounts.
   (2) to record categorize and summarize transactions of an entity.
   (3) to analyze the information presented in financial statements of an entity.
   (4) to provide a detailed analysis of transactions of an entity to its managers.
   (5) to provide information about an entity to its users for decision making. (..........)

2. Which of the following transactions is recorded in the Purchase Journal of an entity?
   (1) All assets purchased on credit
   (2) All purchases made with the intention of resale
   (3) All credit purchases made with the intention of resale
   (4) All purchases made with the intention of resale on credit
   (5) All property, plant and equipment purchased on credit. (..........)

3. A firm sold goods for Rs. 500 000 on credit. Of this, customers returned Rs. 50 000 worth of goods stating that these did not match the given specifications. Later, customers paid cash to settle the remaining balance. The order of source documents to record these transactions is:
   (1) Invoice, Debit Note and Payment Voucher.
   (2) Invoice, Credit Note and Payment Voucher.
   (3) Invoice, Journal Voucher and Receipt.
   (4) Invoice, Debit Note and Receipt.
   (5) Invoice, Credit Note and Receipt. (..........)

4. What is the correct sequential order of the following activities in the accounting process?
   A- Entries are made in prime entry books.
   B- Source documents are prepared.
   C- Business transactions take place.
   D- Trial balance is prepared.
   E- Entries are posted to the ledger.
   (1) B, D, C, A, E
   (2) C, B, A, E, D
   (3) C, B, A, D, E
   (4) C, A, B, E, D
   (5) D, B, C, A, E (..........)

5. What are the two underlying assumptions of financial statements according to the Framework for Preparation and Presentation of Financial Statements?
   (1) Entity and Accruals.
   (2) Entity and Going Concern.
   (3) Entity and Periodicity
   (4) Accruals and Going Concern.
   (5) Periodicity and Money Measurement. (..........)

6. Which of the following accounting concepts best describes the recognition of cost of goods sold as an expense and year-end inventory as an asset?
   (1) Going Concern.
   (2) Historical Cost.
   (3) Matching
   (4) Prudence.
   (5) Realization. (..........)

7. A company bought a land 10 years ago and its fair value now is 5 times its purchase price. If the land is revalued at its fair value, which of the following qualitative characteristics of accounting information does it reflect?
(1) Comparability. (2) Relevance.
(3) Reliability. (4) Substance Over Form.
(5) Understandability.
(..........)

8. An entity paid Rs. 8 000 for maintaining a machine. The effect of this transaction is shown in the accounting equation as a
(1) decrease in assets Rs. 8 000 and decrease in liabilities Rs. 8 000.
(2) decrease in assets Rs. 8 000 and increase in liabilities Rs. 8 000.
(3) decrease in assets Rs. 8 000 and decrease in equity Rs. 8 000.
(4) decrease in assets Rs. 8 000 and increase in equity Rs. 8 000.
(5) decrease in assets Rs. 8 000 and increase in assets Rs. 8 000.
(..........)

9. The balance of the capital account of a sole trader was increased by Rs. 500 000 during a year. Which of the following transactions would not reflect this increase?
(1) The business earned a profit of Rs. 500 000.
(2) The owner introduced Rs. 500 000 as new capital.
(3) The owner brought his motor vehicle worth of Rs. 500 000 for business use.
(4) The owner paid his private debt of Rs. 500 000 from the business bank account.
(5) Rs. 500 000 due to a supplier of the business was paid from owner's private bank account.
(..........)

10. An entity carries out all its cash transactions through a bank account. Its monthly bank statement showed a credit balance of Rs. 270 000 as at 31.01.2012. On this date, cheques deposited but not realized and cheques issued but not presented for payment were Rs. 85 000 and Rs. 45 000 respectively The bank balance (debit) in the books of the entity as at 31.01.2012 is
(1) Rs. 225 000. (2) Rs. 230 000 (3) Rs. 270 000.
(4) Rs. 310 000. (5) Rs. 355 000

11. The following errors were revealed after preparing the draft financial statements of a business entity.
(i) Cash received Rs. 18 500 from a debtor has been recorded as Rs. 15 800 in the debtors account.
(ii) Credit sales of Rs. 25 000 has been credited to the sales account as Rs. 2 500.
(iii) Sales returns of Rs. 3 000 has been debited to the sales account.
Due to these errors, the profit of the entity is understated by
(1) Rs. 18 500. (2) Rs. 22 500. (3) Rs. 25 200.
(4) Rs. 25 500. (5) Rs. 28 200.
(..........)

12. A company has provided the following information as at 31.03.2012 for three items of the inventory.

Item	Cost of production (Rs.)	Expected sales (Rs.)	Expected selling expenses (Rs.)
A	13 000	15 000	5 000
B	10 000	16 000	4 000
C	17 000	19 000	7 000

According to 'item-by-item' basis, what is the value of the inventory as at 31.03.2012?
(1) Rs. 32 000. (2) Rs. 34 000 (3) Rs. 40 000.
(4) Rs. 42 000 (5) Rs. 50 000.
(..........)

- **Use the following information relating to a business entity to answer questions No. 13 and 14.**

(i) Salaries:

	Rs.
Paid during the year ending 31.03.2012	44 000
Payable as at - 31.03.2011	4 000
- 31.03.2012	24 000

(ii) Rent income:
For premises rented on 01.10.2011 received a rent of Rs. 90 000 for the 9 month period ending 30 .06 2012.

13. What are the amounts to be reported as salaries and rent income in the Income Statement for the year ending 31.03.2012?

	Salaries (Rs.)	Rent income (Rs.)
(1)	24 000.	30 000.
(2)	28 000.	30 000.
(3)	44 000.	60 000.
(4)	64 000.	60 000.
(5)	64 000.	90 000.

(..........)

14. What is the total liability to be recognized in the Balance Sheet as at 31.03.2012 in relation to the above transactions?
(1) Rs. 20 000. (2) Rs. 24 000. (3) Rs. 30 000.
(4) Rs. 54 000. (5) Rs. 60 000. (..........)

- **Use the following information to answer questions No. 15 and 16.**

Amila and Kapila entered into a partnership on 01.04.2011 and agreed on the following terms: (a) To be entitled to an annual salary of Rs. 100 000 for each partner (b) To be entitled to a 10% annual interest on partners' capital balances and (c) Share profits and losses in the ratio of 3:2 respectively. Amila and Kapila contributed Rs. 400 000 and Rs. 200 000 respectively in cash as capital. During the year ending 31.03.2012, the partnership earned a net profit of Rs. 360 000.

15. What are the Current Account balances of Amila and Kapila as at 31.03.2012?

	Amila (Rs.)	Kapila (Rs.)
(1)	140 000.	120 000
(2)	160 000.	140 000.
(3)	200 000.	160 000.
(4)	216 000.	144 000.
(5)	600 000.	360 000

(..........)

16. What would the equity of the partnership as at 31.03.2012 if Amila and Kapila have also drawn Rs. 50 000 each during the year?
(1) Rs. 260 000. (2) Rs. 500 000. (3) Rs. 600 000.
(4) Rs. 660 000. (5) Rs. 860 000. (..........)

17. Amal, Bimal and Chamal were in partnership sharing profits and losses in the ratio of 2:2:1. Chamal retired from the partnership on 31.03.2012 and Amal and Bimal agreed to continue the partnership sharing profits and losses in the ratio of 3:2. On this date, the goodwill of the partnership was estimated at Rs. 400 000 and it was adjusted through partners' capital accounts. What is the net impact of the goodwill adjustment on Capital Account balances of Amal and Bimal as at 31.03.2012?

	Amal	Bimal
(1)	No impact.	No impact
(2)	A decrease of Rs. 80 000.	No impact

(3) No impact A decrease of Rs. 80 000.
(4) An increase of Rs. 160 000. An increase of Rs. 160 000.
(5) A decrease of Rs. 240 000. A decrease of Rs. 160 000.

(..........)

18. Amara PLC had in issue 500 000 ordinary shares and the Stated Ordinary Share Capital account showed a balance of Rs. 10 000 000 as at 01 .04.2011. The company capitalized retained earnings by issuing 1 share for every 5 shares held on 01.07.2011 at a price of Rs. 20 per share. Further, a rights issue was made issuing 1 share for every 6 shares held on 01.01.2012 at a price of Rs. 15 per share. All rights were exercised by the shareholders. What is the increase/decrease in the equity of the company as at 31.03.2012 due to these transactions?
(1) A decrease of Rs. 2 000 000. (2) A decrease of Rs. 500 000.
(3) An increase of Rs. 1 500 000. (4) An increase of Rs. 2 000 000.
(5) An increase of Rs. 3 500 000.

(..........)

19. Which of the following ratios are used to measure financial stability and liquidity respectively of an entity?
(1) Debt-equity Ratio and Current Ratio.
(2) Quick Ratio and Debtors Turnover Ratio.
(3) Interest Cover Ratio and Total Assets Turnover Ratio.
(4) Return on Total Assets Ratio and Current Ratio.
(5) Debt Ratio and Total Assets Turnover Ratio. (..........)

20. When a debtor settles his dues, what is the impact on the Current Ratio and the Quick Ratio of a company

	Current Ratio	Quick Ratio
(1)	Decrease	Decrease
(2)	Increase	Increase
(3)	Increase	Decrease
(4)	Decrease	Increase
(5)	No change	No change

(..........)

21. The following information is available for a company for the year ending 31.03.2012.

	Rs.
Credit sales	780 000
Discounts allowed to debtors	65 000
Bad debts written off	20 000
Sales returns	35 000
Decrease in debtors' balance during the year	80 000

What is the amount of cash received from debtors for the year ending 31.03.2012?
(1) Rs. 580 000. (2) Rs. 660 000 (3) Rs. 695 000.
(4) Rs. 715 000. (5) Rs. 740 000. (..........)

22. Which of the following would be disclosed as contingent liabilities of an entity?
A - A loan obtained from a financial institution.
B - An unresolved lawsuit against the entity.
C - An agreement to act as a guarantor for a loan obtained by another firm.
D - An overdrawn balance of the bank account.
(1) A and B only. (2) A and C only. (3) B and C only.
(4) A, B and D only. (5) A, B and C only. (..........)

23. Madura PLC's financial statements for the year ending 31.03.2012 were authorized by its directors on 30.06.2012. During the period between 01.04.2012 and 30.06.2012 the following events took place in the company.

A - An announcement of a plan to discontinue the operations of a business unit which was incurring losses continuously.

B - Bankruptcy of a debtor who owed a substantial amount as at the balance sheet date.

C - Decline in the value of short-term investments owing to a drop in the market prices.

D - Decision of a court case that confirmed recognition of a liability as at the balance sheet date.

Which of the above events should be adjusted on the balance sheet date?

(1) A and C only. (2) B and D only (3) A, B and D only.
(4) B, C and D only. (5) All, A, B, C, and D. (..........)

24. How would the resulting change in the amount of annual depreciation of an asset be recorded in the financial statements when the expected useful life of a building is revised?

(1) Consider as a change in accounting estimates and adjust the profit or loss of the current and future periods
(2) Consider as a change in accounting estimates and revise the opening balance of retained earnings.
(3) Consider as an error and revise the opening balance of retained earnings.
(4) Consider as an error and adjust the profit or loss of the current period.
(5) Consider as a change in accounting policy and revise the opening balance of retained earnings.

(..........)

25. A company purchased a land on 31.03.2010 at a cost of Rs. 1 300 000. The land was revalued at its fair value of Rs. 1 100 000 as at 31.03.2011. It was revalued again at its fair value of Rs. 1 600 000 on 31.03.2012. How were these revaluations reported in the financial statements?

As at 31.03.2011	As at 31.03.2012
(1) Loss of Rs. 200 000 was recognized.	Gain of Rs. 200 000 was recognized and the balance Rs. 300 000 was treated as a revaluation reserve.
(2) Loss of Rs. 200 000 was recognized.	Revaluation reserve of Rs. 500 000 was recognized.
(3) Loss of Rs. 200 000 was recognized	Gain of Rs. 200 000 was recognized.
(4) Loss of Rs. 200 000 was written off to the Revaluation Reserve.	Revalution reserve of Rs. 500 000 was recognized.
(5) Loss of Rs. 200 000 was written off to the Revaluation Reserve.	Gain of Rs. 200 000 was recognized and the balance Rs. 300 000 was treated as a revaluation reserve.

(..........)

26. The cost of production of a product is equal to the sum of

(1) Direct costs and Overhead costs.
(2) Raw material costs and Labour costs.
(3) Prime cost and Production overhead costs.
(4) Prime cost and Manufacturing costs.
(5) Manufacturing costs and Non-manufacturing costs.

(..........)

27. The quarterly demand for raw material X is 1 250 units. The purchase price per unit of the raw material is Rs. 250. The ordering cost is Rs. 25 per order and the annual holding cost is 10% of the unit purchase price. The Economic Order Quantity of this raw meterial is
    (1) 50 units. (2) 100 units (3) 1 000 units
    (4) 2 500 units. (5) 5 000 units (..........)

28. A company produces and sells a single product. Its selling price is Rs. 75 per unit, and variable cost is Rs. 50 per unit. The fixed costs are Rs. 50 000. The Break-even Point (in units), and the Margin of Safety (Rs.) at a sales level of 5 000 units respectively are
    (1) 2 000 units and Rs. 50 000 (2) 2 000 units and Rs. 225 000
    (3) 3 000 units and Rs. 75 000 (4) 3 000 units and Rs. 225 000
    (5) 5 000 units and Rs. 375 000
    (..........)

29. Which of the following statements are correct in relation to the break-even point of a manufacturing firm?
    A - There is neither a profit nor a loss
    B - Total contribution is equal to total fixed costs
    C - Sales revenue is equal to total costs
    D - Sales revenue is equal to total variable costs
    E - Total fixed costs are equal to total variable costs
    (1) A, B and C only. (2) A, B and D only.
    (3) A, B, C and D only (4) A, C, D and E only
    (5) All A, B, C, D and E (..........)

30. Which of the following items are included in estimating the cash flows of a new project of a company?
    A - Cost of acquisition of machinery for the project.
    B - Depreciation on this machinery
    C - Expected residual value of this machinery
    D - Operating costs to be incurred due to the new project.
    E - Cost incurred to carry out a market survey on the project
    (1) A, B, and D only. (2) A, C and D only
    (3) A, C and E only (4) A, D and E only
    (5) All A, B, C, D and E (..........)

- **Write short answers for questions No. 31-50 on the dotted lines.**

31. State the difference between Financial Accounting and Management Accounting in relation to the following aspects.

Aspect	Financial Accounting	Management Accounting
(1) Users of information	....	....
(2) Reporting frequency	....	....

32. During the year the assets of a sole trader increased by Rs. 400 000 and the liabilities increased by Rs.50 000. If the profit for this year was Rs. 250 000, how much additional capital was introduced by the owner?
....

33. State two statutory bodies that have been established under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

(1) .... (2) ....

34. What is the qualitative characteristic of accounting information complied in each of the following situations by an entity?

Situation	Qualitative characteristic
(a) Equipment is depreciated on the straight-line method each year.	....
(b) An equipment acquired under a finance lease is recorded as an asset.	....

35. State the accounting concept that is related most to each of the following situations:

A - Revenue is recognised in the income statement of a company when it is earned.

B - The life span of a company is divided into periods of 12 months each for the purpose of preparing financial statements.

C - Adjustments for inflation are not made in the financial statements of a company.

D - A provision is made in the financial statements of a company in relation to possible warranty claims that may arise.

Item	Accounting concept
A -	....
B -	....
C -	....
D -	....

36. Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account' of a not-for profit organization in relation to their purpose and basis of preparation.

	Receipts and Payments Account	Income & Expenditure Account
Purpose	....	....
Basis	....	....

- **Use the following information to answer questions No. 37 and 38.**

Office expenses amounting to Rs. 60 000 incurred by an entity in March 2012 has been posted as Rs. 600 000 to Office Equipment Account. The office equipment is depreciated at 10% per annum on cost on straightline method and depreciation for this month has also been provided.

37. What is the net impact of this error on the profit for the year ending 31.03.2012?

....

38. Write the journal entry to correct the ledger accounts of Office Equipment and Office Expenses.

....

....

....

39. Amal Traders lost its entire inventory as at 31.03.2012 due to a fire. The information available on that day is as follows.

Inventory as at 01.04.2011	Rs. 200 000
Purchases during the year	Rs. 1 500 000
Sales for the year	Rs. 2 000 000

The firm's gross profit margin on sales is 20%

(a) What is the value of inventory destroyed due to the fire?

....

(b) What is the net impact on total assets of the company as at 31.03.2012, if an insurance company has agreed to indemnify 80% of the value of the inventory?

....

- **Use the following information to answer questions No. 40 and 41.**
The following information is given in relation to a manufacturing organization for the month of February 2012.

	Rs.
Raw material purchases	300 000
Direct labour	170 000
Direct expenses	30 000
Production overheads	300 000

Inventory	**29.02.2012 (Rs.)**	**31.01.2012 (Rs.)**
Raw material	50 000	100 000
Work-in-progress	150 000	100 000
Finished goods	100 000	180 000

- Assume that inventory of work-in-progress is adjusted at cost of production.
- The manufactured items are sold keeping a profit margin of 25% on cost of sales.

40. What is the prime cost and cost of production for the month of February 2012?
(a) Prime cost: .... (b) Cost of production: ....

41. What is the gross profit earned during this month?
....

- **Use the following information to answer questions No. 42 and 43.**
Extracts of the balance sheets of Sumudu PLC as at 31.03.2012 and 31.03.2011 in relation to plant and machinery are given below.

	31.03.2012 (Rs.'000)	**31.03.2011 (Rs.'000)**
Plant and machinery-at cost	1 500	1 000
Accumulated depreciation	500	400

Additional Information:
The company sold a machine which had a cost Rs. 300 000 for Rs. 160 000 on 31.03.2012. On this date, the carrying amount of the machine was Rs. 200 000. On the same day a new machine was acquired for cash.

42. State the cash inflows and outflows from investment activities relating to plant and machinery during the year ending 31.03.2012.
(a) Cash inflows ....
(b) Cash outflows ....

43. Identify a non-cash item (with value) resulting from the above transactions.
....

44. Operations of a company has resulted in polluting its work-site (land) during the year ending 31.03.2012 and Environmental Protection Authority in this area has issued an order directing the company to clean up this land. This would require the company to incur a substantial amount of money. State with reasons whether the company should make a provision in this respect for the year ending 31.03.2012.
....
....
....
....

45. Classify the following costs related to a shoe manufacturing firm as **direct** or **indirect.**
(a) Cost of processed leather ....
(b) Factory manager's salary ....
(c) Wages of machine operators ....
(d) Depreciation of machinery ....

46. The cost data for a company at two levels of production are given below.

Cost item	**10 000 units (Rs.)**	**20 000 units (Rs.)**
Direct labour	30 000	60 000
Electricity	10 000	15 000
Factory rent	15 000	15 000

Classify each of cost items as fixed, variable or semi-variable.

Cost item		**Classification**
(a) Direct labour	:	....
(b) Electricity	:	....
(c) Factory rent	:	....

- **Use the following information to answer questions No. 47 and 48.**
A company buys and sells a single product. The selling price per unit is Rs. 250. The opening inventory on 01.07.2012 was 100 units at Rs. 150 per unit. The company purchased 150 units on 10.07.2012 at Rs. 200 per unit. It sold 200 units on 31.07.2012.

47. State the following if First-in-First-out (FIFO) pricing method is used in issuing inventory.
(a) Cost of Sales for the month of July 2012 : ....
(b) Value of inventory as at 31.07.2012 : ....

48. What is the gross profit for the month of July 2012 if Weighted Average pricing method is used in issuing inventory?
....

49. The following are the budgeted revenue and cost data related to a single product manufactured by a company. Sales volume - 20 000 units; Selling price per unit - Rs. 20; Contribution sales ratio - 40%; Fixed costs - Rs. 100 000.
Calculate:
(a) Break-even point (units) ....
(b) Profit at the budgeted sales volume ....

50. Assuming other factors to remain unchanged, state whether each of the following items increases or decreases the net present value of an investment project.
(a) An increase in the expected cash inflows ....
(b) An increase in the discounting rate ....
(c) A decrease in the initial investment ....
(d) A decrease in the residual value of assets ....

***

General Certificate of Education (Adv. Level) Examination, August 2012
Accounting II - Three Hours

Instructions:
- *Answer six questions only, including question No. one and two.*
- *Begin each answer on a fresh sheet of paper.*
- *Relevant workings, should be attached to the answer script*

1. The trial balance of Pearl PLC as at 31.03.2012 is given below.

	Dr (Rs'000)	Cr (Rs'000)
Land (at cost)	2 200	
Furniture and fittings (at cost)	4 000	
Accumulated depreciation - Furniture and fittings as at 01.04.2011		400
Trade debtors	400	
Provision for doubtful debts as at 01.04.2011 (at cost)		50
Inventory as at 01.04.2011	500	
Cash and cash equivalents	150	
Sales		4 800
Purchases	1 500	
Expenses	1 000	
Trade ceditors		300
Stated ordinary share capital (400 000 shares)		3 000
Retained earnings as at 01.04.2011		1 200
	9 750	9 750

Additional information:

(a) The expenses in the trial balance consist of the following items:

Expense category	Rs.'000
Distribution	450
Administration	500
Finance	50
Total	1 000

(b) The change in the stated ordinary share capital during the year ending 31.03.2012 is as follows:

	Rs.'000
Balance as at 01.04.2011	2 000
Value of 100 000 shares issued during the year	1 000
Balance as at 31.03.2012	3 000

(c) The following adjustments have to be made before the preparation of financial statements for the year ending 31.03.2012.

(i) Land has been revalued at Rs. 2 500 000 on 31.03.2012 by a professional valuer.

(ii) Furniture and fittings is to be depreciated at 10% per annum on cost on straight-line method.

(iii) The policy of the company is to make a 10% provision for doubtful debts on the year-end balance of trade debtors.

(iv) Cost of inventory was Rs. 450 000 as at 31.03.2012. On this date, the net realizable value of inventory was estimated as Rs. 500 000.

(v) The company sells goods with a six-month warranty period. It has been reliably estimated that the company has to make a provision of Rs. 60 000 on this warranty.

(vi) The company acquired a motor vehicle on 01.04.2011 under a finance lease for use in the distribution of goods. On this date, the fair value of the motor vehicle was Rs. 2 500 000 and it was equal to the present value of minimum lease payments. The following infor mation is also available.

Lease period	- 5 years
Useful life of the motor vehicle	- 5 years

Annual lease installment (payable at the year end) - Rs. 600 000 (of which Rs. 100,000 is interest).

Installment paid to lease creditors during the year ending 31.03.2012 has been debited to trade creditors account. No other entries have been made in this respect. It is the policy of the company to depreciate motor vehicles at 20% on cost per annum on straight-line method.

(vii) The company insured all its non-current assets on 01.10.2011 and the company has paid an insurance premium of Rs. 120 000 for a one year period ending on 30.09.2012. The premium paid is included in the administration expenses.

(viii) It has been estimated that the income tax for the year ending 31.03.2012 is 1/3 of the profit before tax.

(ix) The board of directors has proposed a final dividend of Rs. 150 000 for the year.

(x) It has been decided to create a general reserve at the year-end by transfering Rs.1 000 000 from the retained earnings.

Required:

The following financial statements (including notes) for Pearl PLC for publication.

(1) Income Statement for the year ending 31.03.2012.

(2) Statement of Changes in Equity for the year ending 31.03.2012.

(3) Balance Sheet as at 31.03.2012. *(20 Marks)*

2. (a) Pathum and Romesh were partners of a consulting firm sharing profits and losses in the ratio of 3:2. The balance sheet of this partnership as at 31.03.2011 was as follows.

	Rs.'000	Rs.'000
Non-current assets		
Property plant and equipment-at cost	1 300	
Accumulated depreciation	(260)	1 040
Current assets		
Iventory - stationary	100	
Consultancy fees-receivable	300	
Cash	60	460
		1 500
Capital accounts		
Pathum	600	
Romesh	400	1 000
Current accounts		
Pathum	150	
Romesh	150	300
Current liabilities		
Accrued office expenses		200
		1 500

Additional Information:

(i) On 01.04.2011, Sandun was admitted to the business as a partner and he contributed Rs. 400,000 in cash as capital. The goodwill of the partnership was estimated as Rs. 1 000 000 as at 01.04.2011 and all adjustments in this regard should be made through partners' capital accounts. The following are the terms agreed among Pathum, Romesh and Sandun in the new partnership agreement.

(a) Each partner is entitled to a monthly salary of Rs. 10 000.

(b) Profits and losses are shared among Pathum, Romesh and Sandun in the ratio of 2:2:1.

(ii) A summary of the cash transactions of the partnership for the year ending 31.03.2012 was as follows.

	Rs.'000
Receipts	
Consultancy fees (including amount receivable on 31.03.2011)	1 300
Amount received from Sandun on admission as a partner	400
Payments	
Purchase of stationery	200
Salaries of office employees	140
Office expenses	400
Drawings:	
Pathum	125
Romesh	110
Sandun	105
Amount deposited in a fixed deposit on 01.10.2011. (for a one year period at 12% annual interest)	500

(iii) Property, plant and equipment are depreciated at 20% per annum on cost on straight-line method.

(iv) Current assets and current liabilities as at 31.03.2012.

(a)	Inventory - stationery	Rs.	50 000.
(b)	Consultancy fees receivable	Rs.	500 000.
(c)	Accrued office expenses	Rs.	150 000.

Required:

The following for the Pathum, Romesh and Sadun Partnership.

(1) Income Statement for the year ending 31.03.2012 (including appropriations to the partners).

(2) Partners' Capital Accounts and Current Accounts for the year ending 31.03.2012.

(10 Marks)

(b) Roshan PLC has two production departments, Assembly and Finishing, and a store. The company produces two types of dolls, small size and large size. Whilst being produced, they pass through the two production deparments. The following information is given.

Estimated annual overhead costs:	Rs.
Factory rent	120 000
Depreciation of machinery	80 000
Insurance premium of employees	50 000
Indirect material - Assembly	106 000
- Finishing	59 000
- Store	11 000

Other relevant information:

(i)

	Assembly	Finishing	Store
Cost of machinery (Rs.)	300 000	500 000	-
Floor area (Square metres)	10 000	6 000	4 000
Number of employees	60	30	10
Budgeted machine hours	5 000	2 000	-
Budgeted labour hours	2 000	8 000	-

(ii) The store provides services to Assembly and Finishing departments at 60% and 40% respectively.

(iii) Overhead costs are absorbed on the following bases:
Assembly Department - Machine hours
Finishing Department - Labour hours

(iv) Required hours per unit (large size doll):
Machine hours: Assembly department 4 hours
Labour hours: Finishing Department 5 hours

(v) Actual direct cost relating to manufacture of a large size doll:
Direct material Rs. 100
Direct labour Rs. 150

(vi) Selling price of large size doll Rs. 600.

Required:
(1) Overhead analysis sheet showing the basis of apportionment used (including the reapportionment of overhead costs of the store).
(2) Production cost of a large size doll.
(3) Profit or loss from the sale of 200 large size dolls. *(10 marks)*

(Total 20 Marks)

3. (a) The cash book of a business showed a debit bank balance of Rs. 20 000 as at 31.03.2012. On this date, the bank statement showed an overdrawn balance of Rs. 10 000. The subsequent investigation revealed the following:
(i) Cheques deposited in the bank amounting to Rs. 80 000 have not been realized.
(ii) Cheques issued to suppliers for Rs. 40 000 have not been presented to the bank for payment.
(iii) Interest on fixed deposit of Rs. 25 000 directly remitted to the bank has not been recorded in the cash book.
(iv) A payment of Rs. 5 000 made by the bank as insurance premium on a standing order has not been recorded in the cash book.
(v) A cheque for Rs. 10 000 deposited in the bank has been dishonoured, but no entry has been made in the cash book.

Required:
(1) Adjusted balance of the Cash Book as at 31.03.2012.
(2) Bank Reconciliation Statement for the month of March 2012.

(05 Marks)

(b) The balance sheet of Dilani Traders, a sole proprietorship, as at 01.01.2012 is given below.

Balance Sheet as at 01.01.2012

	Rs.'000
Assets	
Furniture and fittings (Cost Rs. 180 000)	120
Inventory	70
Debtors	10
Cash	30
	230
Equity	180
Liabilities	
Creditors	50
	230

The following transactions and events took place during month of January 2012.

No.	Date January	Transaction / Event
(i)	04	Sold goods for cash for Rs. 40 000. The cost of these goods was Rs. 30 000.
(ii)	08	Purchased goods worth Rs. 35 000 on credit.
(iii)	12	Returned to the supplier Rs. 5 000 worth of goods purchased on 08.01.2012.
(iv)	15	Sold goods on credit for Rs. 50 000. The cost of these goods was Rs. 40 000.
(v)	18	Received Rs. 9 000 cash from debtors and Rs. 1 000 was writeen off as bad debts.
(vi)	20	Paid Rs. 12 000 as salaries of employees.
(vii)	25	Paid cash to settle the creditors balance as at 01.01.2012 and Rs.5 000 was received as cash discount.
(viii)	28	The owner withdrew Rs. 5 000 in cash for personal use.
(ix)	30	Received in cash the amount written off as bad debts on 18.01.2012.
(x)	31	Provided depreciation of Rs. 3 000 on furniture and fittings for the month of January.

Required:

(1) Using the accounting equation show the impact of above transactions and events (with values) and state whether each value increases (+) or decreases (-) in front of the value. (Use the following format).

No.	Assets				Liabilities	Equity
	Furniture and fittings	Inventory	Debtors	Cash	Creditors	
(i)						
(ii)						
.....						
.....						

(2) Using net assets basis,calculate net profit or loss for the month of January 2012.

(10 Marks)
(Total 15 Marks)

4. (a) The following information is related to two items of property, plant and equipment of Kamalan PLC as at 31.03.2011.

Asset	Cost (Rs.'000)	Carrying amount (Rs.'000)	Expected useful life (Years)
Buildings	2 000	1 000	20
Office equipment	500	400	5

These assets are depreciated at cost on straight-line method. (ignore their residual value)
The following transactions/events took place during the year ending 31.03.2012 in relation to these assets.

Date	Transaction / Event
01.04.2011	Buildings were renovated incurring Rs. 800 000. As a result the remaining useful life of the buildings was reestimated as 15 years.
31.03.2012	New office equipment was acquired for Rs. 600 000 by exchanging the existing equipment and paying in addition a cash amount of Rs. 300 000. The expected useful life of the new equipment is 5 years.

Required:

(1) Journal entries to record above transactions and events (including cash)
(2) Impact of above transactions and events on profit for the year ending 31.03.2012.

(05 Marks)

(b) Athula, Kamal and Eranda are three employees of a company. The following information is given in relation to their salaries for the month of March 2012.

(i) Hours worked:

Employee	Weekdays	Weekends
Athula	40	-
Kamal	40	10
Eranda	40	20

(ii) Hourly rates:

- Rate for weekdays - Rs. 200 per hour
- Overtime rates for the weekend - One and half times of the week day rate

(iii) Employees Provident Fund (EPF) contribution by employer and employee are 15% and 10% respectively. Employee Trust Fund (ETF) contribution by the employer is 3%. Overtime payments are not considered in calculating EPF and ETF.

(iv) Deductions:

- Employee contributions to the Welfare Society per month - Rs. 200 (per employee).
- Monthly loan instalments of Eranda - Rs. 4 000.

Required:

(1) Pay sheet for the month of March 2012.
(2) Salaries Control Account, EPF Payable Account and ETF Payable Account for the month of March 2012.
(3) Employees related total expenses for the month of March 2012.

(10 Marks)
(Total 15 Marks)

5. (a) The following information has been extracted from the financial statements of Amila PLC for the year ending 31.03.2012.

	Rs.'000
Stated ordinary share capital	600
Retained earnings	400
15% debentures	500
Current liabilities	300
Non-current assets	1 250
Current assets:	
Inventory	300
(Inventory as at 01.04.2011 - Rs. 500 000)	
Debtors	400
Cash and cash equivalent	50
Sales	3 000
Cost of sales	2 200
Income tax for the year	200
Profit for the year	400

Required:

(1) Quick Ratio
(2) Inventory Turnover Ratio
(3) Return on Total Assets Ratio
(4) Debt equity Ratio
(5) Interest Cover Ratio

(05 Marks)

(b) The summarised balance sheets of Ganga PLC as at 31.03.2012 and 31.03.2011 are as follows:

	31.03.2012 (Rs.'000)	31.03.2011 (Rs.'000)
Land	1 250	1 600
Buildings	250	150
Accumulated depreciation-buildings	(115)	(90)
Plant and machinery	400	400
Accumulated depreciation-plant and machinery	(120)	(80)
Inventory	125	150
Debtors	750	600
Cash at bank	100	70
Total	2 640	2 800
Stated ordinary share capital	800	800
Retained earnings	480	300
Long-term loan (obtained on 31.03.2011)	800	1 000
Creditors	450	620
Interest payable	60	-
Income tax payable	50	80
Total	2 460	2 800

Additional Information:

(i) Profit before income tax for the year ending 31.03.2012 was Rs. 200 000.

(ii) Of the interest payable on the loan for the year ending 31.03.2012 only half has been paid.

(iii) During the year ending 31.03.2012 an extension has been made to the building incurring a cost of Rs. 100 000. Further, during the year, a block of land belonging to the company has been sold for Rs. 600 000 on cash.

(iv) No plant and machinery have been acquired or sold during the year ending 31.03.2012.

(v) There have not been share issues or dividend payments during the year ending 31.03.2012.

Required:

Cash Flow Statement for the year ending 31.03.2012, according to the relevant Sri Lanka Accounting Standard.

(10 Marks)

(Total 15 Marks)

6\. (a) The Commerce Society of a school in Kandy is organizing a three-day educational trip to Jaffna. The Society has a balance of Rs. 20 000 in its bank account and the members have agreed to spend it for hiring buses for travel.

The following estimates are also available:

Hiring charges for buses	-	Rs. 45 000 per bus (50 students per bus)
Rent for the guest house for 3 days	-	Rs. 20 000 per guest house (25 students per guest house)
Meal expenses	-	Rs. 600 per day per student
Water-bottle expenses	-	Rs. 200 per day per student
Other expenses	-	Rs. 600 per student

Assume that 100 students will participate in the trip.

Required:

(1) In order to reach the break-even level with 100 students, what is the amount of money to be charged from each student?

(2) If there is a surplus the society is willing to donate this money to religious places during the trip. What is the amount that can be donated if Rs. 5 000 is charged per student?

(05 Marks)

(b) The following information has been extracted from the records of Udara Welfare Association, a not-for-profit organization involved in conducting programmes to improve English Language proficiency among youth.

(i) The number of members of the Association as at 31.03.2012 is 50 and the annual subscription fee per member is Rs. 2 000.

(ii) Assets and liabilities of the Association:

	As at 31.03.2012 (Rs.'000)	As at 31.03.2011 (Rs.'000)
Subscription in arrears	6	10
Subscription received in advance	12	8
Inventory-English Language books	60	50
Furniture and fittings (carrying amount)	160	180
Cash at bank	?	10

(iii) The following expenses were incurred and paid in cash during the year ending 31.03.2012:

	Rs.'000
English Language books purchases	100
Office rent	60
Salary of accounts clerk	60
Office expenses	30

(iv) Donations amounting to Rs. 200 000 were received by the Association during the year ending 31.03.2012. The policy of the Association is to recognize donations as an income in the year in which they are received.

Required:

(1) Accumulated Fund as at 01.04.2011.

(2) Cash at bank as at 31.03.2012.

(3) Income and Expenditure Account for the year ending 31.03.2012.

(10 Marks)

(Total 15 Marks)

7. (a) A company is considering to buy either machine A or machine B to use in its operations. Each machine could be purchased for Rs. 400 000.

The following information is also given:

(i) Expected net cash inflows:

Year	Machine A (Rs.'000)	Machine B (Rs.'000)
1	100	75
2	150	100
3	180	205
4	150	240

(ii) Sum of present values of expected net cash inflows of four years (at a discount rate of 10%)

	(Rs.'000)
Machine A	452
Machine B	468

Required:

(1) Calculate the payback period of each machine and state with the reason which machine is more desirable to buy based on this method.

(2) Calculate the net present value of each machine and state with the reason which machine is more desirable to buy based on this method.

(3) If the above answers (1) and (2) are different to each other, state with the reason which machine the company should select.

(05 Marks)

(b) The total of balances of the Debtors Ledger of Akalanka PLC as at 01.03.2012 were as follows.

Debtors	Balance as at 01.03.2012 (Rs.'000)
Asoka	100
Sunimal	150
Samanala	50
Total	300

Details of credit sales and related transactions for the month of March 2012 extracted from the prime entry books of the company are as follows. (All amounts are given in Rs.'000)

Debtor	Sales	Sales returns	Cash received	Discount allowed	Bad debts written off
Asoka	125	25	100	-	-
Kumara	120	20	-	-	-
Sunimal	90	-	50	-	-
Kamal	265	-	135	20	-
Samanala	-	-	-	-	50
Total	600	45	285	20	50

The total of debtors ledger balances agreed with the Debtors Control Account balance as at 01.03.2012. However, these two balances did not agree as at 31.03.2012. Subsequent investigation revealed that the debtors control account has been prepared correctly. However, following errors have been made in recording the transactions in the debtors' ledger.

(i) The goods returned by Asoka have not been recorded.

(ii) Sales to Sunimal have been recorded at the list price of goods sold (List price of these goods was Rs. 100 000).

(iii) The opening balance of Samanala written off as bad debts has not been recorded.

The policy of the company is to make a 10% provision for doubtful debts on the month-end balance of debtors. Bad debts written off is also recorded through the Provision for Doubtful Debts Account.

Required:

(1) Debtors Control Account and Provision for Doubtful Debts Account for the month of March 2012.

(2) Total of Debtors Ledger balances as at 31.03.2012, before rectifying the errors given above.

(10 Marks)

(Total 15 Marks)

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