

ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
 இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம்
 Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka
 இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரīட்சைத் திணைக்களம் இலங்கைப் பரīட்சைத் திணைக்களம்
 Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාග, 2015 අගෝස්තු
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2015 ஓகஸ்த்
 General Certificate of Education (Adv. Level) Examination, August 2015

ලේඛනවලට I
 கணக்கீடு I
 Accounting I

33 E I

පැය දෙකයි
 இரண்டு மணித்தியாலம்
 Two hours

Instructions:

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

Index No. :

For Examiner's Use Only

For paper I		Signature	Code No.
Q. Nos.	Marks	1st Examiner	
01 - 30		2nd Examiner	
31 - 50		Addl. Chief	
TOTAL		E.M.F.	
		Chief	

1. Which of the following statements is **correct** in relation to the primary function of financial accounting in a firm?
 - (1) It records the transactions of a firm in the books of account in monetary terms.
 - (2) It prepares special-purpose financial reports for the use of managers of a firm.
 - (3) It prepares general-purpose financial reports for the use of stakeholders of a firm.
 - (4) It provides past and future information to owners of a firm to make decisions.
 - (5) It provides financial information for the annual audit of a firm. (.....)
2. What is the **correct** sequence in which the following activities take place in the accounting process?
 - A - Occurrence of the transactions
 - B - Posting of journal entries to the ledger
 - C - Recording of the transactions in prime entry books
 - D - Preparation of the trial balance
 - E - Balancing of the ledger accounts

(1) A,B,C,E,D (2) A,C,B,E,D (3) C,A,B,E,D (4) C,B,A,D,E (5) C,B,A,E,D (.....)
3. Recognition of depreciation of each period in the Income Statement is done in accordance with which of the following accounting concepts?

(1) Accruals (2) Going concern (3) Matching (4) Realisation (5) Prudence (.....)
4. Which of the following accounting concepts provides the basis to recognize the sales revenue in the income statement at the point of delivery of goods to customers?

(1) Accruals (2) Matching (3) Periodicity (4) Prudence (5) Realization (.....)
5. Which of the following are considered as the **fundamental** qualitative characteristics of financial information as per the 'Conceptual Framework for Financial Reporting' followed in Sri Lanka?
 - (1) Relevance and Verifiability (2) Reliability and Timeliness
 - (3) Understandability and Comparability (4) Comparability and Faithful Representation
 - (5) Relevance and Faithful Representation (.....)
6. A firm has purchased goods with a list price of Rs. 600 000 on credit subject to a 5% trade discount and thereafter, sold for Rs. 650 000 on cash. The amount due to creditors has not been settled. The **net effect** of these transactions is shown in the accounting equation as:

Assets	Liabilities	Equity
(1) Increased by Rs. 50 000	-	Increased by Rs. 50 000
(2) Increased by Rs. 80 000	-	Increased by Rs. 80 000
(3) Increased by Rs. 80 000	Decreased by Rs. 570 000	Increased by Rs. 650 000
(4) Increased by Rs. 650 000	Increased by Rs. 570 000	Increased by Rs. 80 000
(5) Increased by Rs. 650 000	Increased by Rs. 600 000	Increased by Rs. 50 000 (.....)
7. As at 31.03.2015 the balance of the creditors control account of Thanuja PLC was Rs. 360 000. The total of the creditors balances as per the creditors ledger was Rs. 406 000 on this date. The subsequent investigation revealed the following:
 - An interest of Rs. 10 000 charged by a supplier on an overdue balance has been recorded only in the creditors ledger.
 - The total of the purchase journal Rs. 62 000 has been recorded in the creditors control account as Rs. 26 000.
 - Rs. 28 000 paid to a creditor has not been recorded in the creditors control account as well as in the creditors ledger.

The **correct** balance in the creditors control account as at 31.03.2015:

(1) Rs. 358 000 (2) Rs. 368 000 (3) Rs. 378 000 (4) Rs. 404 000 (5) Rs. 406 000 (.....)

8. The trial balance of Chathura PLC as at 31.03.2015 did not balance. The subsequent investigation revealed the following:

- A cash sale of Rs. 100 000 has been recorded only in the cash book.
- The purchase journal has been undercast by Rs. 60 000.
- Bad debts recovery of Rs. 30 000 has been recorded as an expense.
- An interest income of Rs. 10 000 has been credited twice into the interest income account.

The balance of the suspense account before rectifying the above errors:

- (1) Rs. 90 000 debit (2) Rs. 90 000 credit (3) Rs. 130 000 credit
(4) Rs. 150 000 debit (5) Rs. 150 000 credit (.....)

9. The following information relates to an inventory item of a company for the month of March 2015.

Date	Description	Quantity(Units)	Unit cost (Rs.)
01.03.2015	Balance	1 000	60
20.03.2015	Purchases	3 000	80
31.03.2015	Sales	2 000	

The company uses the 'First-in First-out' (FIFO) method to price the inventory issues. The net realizable value per unit of inventory as at 31.03.2015 was Rs. 70.

What are the cost of the inventory and its carrying amount shown in the Statement of Financial Position as at 31.03.2015 as per LKAS 2 (Inventory)?

	Cost (Rs.'000)	Carrying amount (Rs.'000)
(1)	140	140
(2)	140	160
(3)	150	140
(4)	160	140
(5)	160	160

(.....)

10. Which of the following statement/statements is **correct** in relation to defining property, plant and equipment as per LKAS 16 (Property, Plant and Equipment)?

A - They are tangible items.

B - They are held for use in the production of goods or supply of services or for administrative purposes.

C - They are expected to be used for more than one financial year.

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

11. The following information relates to the acquisition of a machine on 31.03.2015 by a business registered for Value Added Tax (VAT).

	Rs.
Price paid inclusive of VAT	777 000
Transport cost from port to the business premises	40 000
Cost of site preparation	120 000
Cost of installation	80 000
Expenses of the opening ceremony	30 000
Cost of the initial testing of the machine	10 000

The applicable VAT rate is 11%.

The cost of the machine at initial recognition as per LKAS 16 (Property, Plant and Equipment):

- (1) Rs. 931 530 (2) Rs. 950 000 (3) Rs. 971 530 (4) Rs. 980 000 (5) Rs. 1 027 000 (.....)

12. The following information has been extracted from the payroll of a manufacturing company for the year ending 31.03.2015.

Description	Employee category:	
	Production Workers (Rs.'000)	Production Supervisors (Rs.'000)
Basic salary	4 000	2 000
Incentive payment (based on a piece rate for a special order completed)	1 500	-
Overtime	-	800
Bonus (based on company profits)	200	100
Gross Salary	5 700	2 900
Deductions: EPF contribution (10%)	400	200
Net Salary	5 300	2 700
Company contributions:		
EPF (15%)	600	300
ETF (3%)	120	60

What are the amounts of direct wages and salaries included in the production overheads of the company for the year ending 31.03.2015?

	Direct Wages (Rs.'000)	Salaries included in Production Overheads (Rs.'000)
(1)	5 300	2 700
(2)	5 500	2 800
(3)	5 700	2 900
(4)	6 220	3 160
(5)	6 420	3 260

(.....)

13. The following information relates to the subscription of a sports club for the year ending 31.03.2015.
The composition of subscription received in year 2014/2015:

Year	Rs.
2013/2014	9 000
2014/2015	50 000
2015/2016	20 000
	<u>79 000</u>

	As at 31.03.2015 (Rs.)	As at 31.03.2014 (Rs.)
Subscription receivable	15 000	10 000
Subscription received in advance	?	10 000

What is the amount of subscription income recognized for the year ending 31.03.2015?
(1) Rs. 50 000 (2) Rs. 74 000 (3) Rs. 79 000 (4) Rs. 84 000 (5) Rs. 94 000 (.....)

- Use the following information to answer questions No. 14 and 15.

Lal, Neil and Raju are partners of a business sharing profits and losses equally. The balances of capital and current accounts of the partnership as at 01.04.2014 were as follows:

Rs.'000			
Account	Lal	Neil	Raju
Capital	3 000	2 000	1 000
Current	600	400	200

During the year ending 31.03.2015 the partnership earned a profit of Rs. 2 700 000. Each partner is entitled to an annual salary of Rs. 400 000 and 10% interest on their opening capital balance.

Drawings of the partners during the current year : Lal Rs. 60 000, Neil Rs. 40 000 and Raju Rs. 30 000.

Raju retired from the partnership on 31.03.2015. His share of goodwill was estimated as Rs. 200 000 on this date. The amount due to Raju was transferred to a loan account.

14. Current account balances of Lal and Neil as at 31.03.2015:

	Lal (Rs.'000)	Neil (Rs.'000)
(1)	1 540	1 260
(2)	1 600	1 300
(3)	2 130	1 850
(4)	2 140	1 860
(5)	2 190	1 890

(.....)

15. The capital account balance of Lal and the loan account balance of Raju as at 31.03.2015:

	Capital Account - Lal (Rs.'000)	Loan Account - Raju (Rs.'000)
(1)	2 900	1 200
(2)	2 900	2 170
(3)	2 900	2 770
(4)	3 000	1 200
(5)	3 000	2 170

(.....)

16. The financial statements of Nalanda PLC for the year ending 31.03.2015 were authorized by the directors on 15.05.2015. The Annual General Meeting of the company was held on 30.05.2015. The following events took place in the company after 31.03.2015.

A - A debtor who owed Rs. 750 000 as at 31.03.2015 was declared bankrupt on 20.04.2015.

B - Inventory with a cost of Rs. 800 000 as at 31.03.2015 was sold for Rs. 720 000 on 30.04.2015.

C - The judgement of a court case was delivered on 25.05.2015 confirming a liability of Rs. 500 000 as at 31.03.2015.

D - A final dividend of Rs. 3 per ordinary share was declared on 15.05.2015.

Which of the above events should be adjusted in the financial statements of the company for the year ending 31.03.2015 as per LKAS 10 (Events after the reporting period)?

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

17. Which of the following items are recognized as provisions in the Statement of Financial Position of a company as per LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets)?

A - Provision for doubtful debts B - Provision for a compensation claimed by employees
C - Provision for depreciation D - Provision for warranty claims

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

18. The following information is given in relation to a company for the year ending 31.03.2015.

Description	Rs.'000
Profit for the year	750
Provision for income tax for the year	50
Loss on sale of office equipment	20
Income tax paid	20
Depreciation on office equipment	70
Increase in inventory	230
Decrease in trade creditors	120

What is the net cash flow generated from operating activities of the company for the year ending 31.03.2015 as per LKAS 7 (Statement of Cash Flows)?

(1) Rs. 470 000 (2) Rs. 520 000 (3) Rs. 540 000 (4) Rs. 1 170 000 (5) Rs. 1 220 000 (.....)

● Use the following information relating to Amal PLC for the year ending 31.03.2015 to answer questions No. 19 and 20.

Description	Rs.'000
Sales revenue	1 000
Surplus on revaluation of motor vehicles	200
Trade discounts received from the suppliers	100
Gain on the sale of a building	300
Total expense	500

The company has recorded a deficit of Rs. 150 000 on the revaluation of motor vehicles for the year ending 31.03.2014 and this has been recognised as an expense.

19. What are the total income and other comprehensive income recognized by the company for the year ending 31.03.2015?

	Total Income (Rs.'000)	Other Comprehensive Income (Rs.'000)	
(1)	1 450	50	
(2)	1 500	50	
(3)	1 500	200	
(4)	1 600	50	
(5)	1 600	200	(.....)

20. What are the total comprehensive income and retained earnings of the company for the year ending 31.03.2015?

	Total Comprehensive Income (Rs.'000)	Retained Earnings (Rs.'000)	
(1)	950	950	
(2)	1 000	800	
(3)	1 000	950	
(4)	1 100	900	
(5)	1 100	1 050	(.....)

21. The following information relates to a machine owned by a company.

Cost (Rs.'000)	6 000
Accumulated depreciation as at 31.03.2014 (Rs.'000)	2 400
Expected residual value (Rs.'000)	400
Expected useful life (years)	14

On 01.04.2014, the company incurred Rs. 1 800 000 for a major improvement of the machine. As a result, its remaining useful life was increased to 10 years. However, its residual value remained unchanged.

What is the depreciation of this machine for the year ending 31.03.2015 and its carrying amount as at 31.03.2015?

	Depreciation (Rs.'000)	Carrying amount (Rs.'000)	
(1)	100	4 500	
(2)	100	4 900	
(3)	320	3 280	
(4)	500	4 500	
(5)	500	4 900	(.....)

22. What does a high debtors turnover ratio of a company indicate?

- (1) Its debtors are making the payments quickly.
- (2) Its debtors are not making the payments quickly.
- (3) A large portion of its sales are made on credit basis.
- (4) Its debt collection period is high.
- (5) Its sales are increasing.

(.....)

23. The current ratio and the quick assets ratio of a company were 1.2 times and 0.8 times respectively. What is the effect of purchasing goods on credit on these two ratios while all other factors remaining unchanged?

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

24. The total cost of a product is equal to the sum of:

- (1) Direct costs and production overheads. (2) Direct costs and variable overheads.
 (3) Prime cost and variable overheads. (4) Prime cost and period cost.
 (5) Prime costs, variable overheads and fixed overheads. (.....)

25. When the production quantity of an item decreases, its unit variable cost:

- (1) Remains constant. (2) Increases by a fixed amount.
 (3) Decreases by a fixed amount. (4) Increases proportionately with the production.
 (5) Decreases proportionately with the production. (.....)

26. Which of the following statement/statements is/are correct in relation to the economic order quantity (EOQ) model?

- A - Total ordering cost directly varies with the number of orders placed.
 B - Total holding cost directly varies with the average inventory level.
 C - When the order size increases, total holding cost decreases and total ordering cost increases.

- (1) A only (2) B only (3) A and B only (4) A and C only (5) B and C only (.....)

27. The following information relates to a product manufactured by a company.

	Rs.'000
Direct raw material used	240
Direct labour	?
Production overheads	?
Total manufacturing cost	<u>600</u>

The company policy is to absorb production overheads at the rate of 80% of the direct labour cost. What is the direct labour cost included in the total manufacturing cost?

- (1) Rs. 72 000 (2) Rs. 120 000 (3) Rs. 200 000 (4) Rs. 360 000 (5) Rs. 480 000 (.....)

28. A furniture manufacturing company incurred the following costs during the month of March 2015.

	Rs.'000
Raw material used:	
Wood	2 000
Nails	100
Paint	400
Wages:	
Carpenters	800
Production supervisors	400
Depreciation of machinery	300
Sales commission	200
Administrative staff salaries	300

The product cost and the period cost for the month of March 2015:

	Product Cost (Rs.'000)	Period Cost (Rs.'000)	
(1)	2 500	2 000	
(2)	2 800	1 700	
(3)	3 300	1 200	
(4)	3 700	800	
(5)	4 000	500	(.....)

29. The following information relates to a product manufactured by a company.

	Rs.'000
Sales	1 200
Variable costs	<u>(600)</u>
Contribution	600
Fixed cost	<u>(240)</u>
Profit	<u>360</u>

The break-even point and the margin of safety at the current activity level in rupees:

	Break-even Point (Rs.'000)	Margin of Safety (Rs.'000)	
(1)	120	1 080	
(2)	180	1 020	
(3)	480	720	
(4)	600	600	
(5)	800	400	(.....)

30. A company is considering to replace its old machine used in production with a new machine. The useful life of the old machine as well as the new machine is 4 years. The following information is also given.

Description	Old Machine (Rs.'000)	New Machine (Rs.'000)
Purchase price	9 000	10 000
Current disposal value	4 000	-
Expected residual value at the end of year 4	-	2 000
Annual operating cost (excluding depreciation)	4 500	3 000

If the new machine is purchased the initial net cash outflow and the cash inflow in year 4:

	Initial net cash outflow (Rs.'000)	Cash inflow in year 4 (Rs.'000)
(1)	5 000	3 500
(2)	6 000	1 500
(3)	6 000	3 500
(4)	10 000	1 500
(5)	10 000	3 500

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

31. Indicate whether the following statements relating to the role of management accounting in a firm are **true** or **false**.

Statement	True/False
A - It provides information for the managers of a firm to take decisions.
B - It provides both past and future information about a firm.
C - It provides information prescribed in the accounting standards.
D - It provides information on demand for all stakeholders of a firm.

32. Sumudu has commenced a business on 01.04.2014 investing Rs. 500 000 cash. During the year, Sumudu provided a Rs. 200 000 worth photocopier for the business and withdrew Rs. 50 000 from the business as drawings. The business earned a profit of Rs. 120 000 during the year ending 31.03.2015.

(a) State the **two** items (with values) that contribute to increase in equity of the business as at 31.03.2015 :

1. 2.

(b) What is the net assets of the business as at 31.03.2015? Rs.

33. State the source document applicable to the following prime entry books.

Prime entry book	Source document
A - Sales Journal
B - General Journal
C - Cash Payments Journal
D - Purchase Returns Journal

34. State **four** types of transactions or events relating to property, plant and equipment that would be recorded in the general journal of a business.

1.
 2.
 3.
 4.

35. The balance of the bank account of a business as at 31.03.2015 was higher than the balance that appeared in its bank statement. (Assume there were no errors either in the bank account of the business or in the bank statement.)

State **two** possible reasons for this difference.

1.
 2.

36. State the differences between the Receipts and Payments Account and the Income and Expenditure Account of a not-for-profit organization based on the following aspects.

Aspect	Receipts and Payments Account	Income and Expenditure Account
(a) Purpose of preparation
(b) Basis of preparation

37. State the accounting concepts that are applicable in presenting the information indicated below with letters A, B, C and D in the Statement of Comprehensive Income of Ahamed PLC.

Ahamed PLC	A
Statement of Comprehensive Income for the year ending 31.03.2015	B
Rs'000	C
Sales revenue	}
Cost of sales	
	xxx
	(xxx)

Accounting Concept

- A -
- B -
- C -
- D -

38. State the **three** characteristics of a liability as per the 'Conceptual Framework for Financial Reporting' followed in Sri Lanka.

1.
2.
3.

39. The following information relates to Sunimal's business of manufacturing school bags which was commenced on 01.04.2014.

Description	Rs.'000
Raw material purchases	500
Direct wages	200
Inventory of raw material as at 31.03.2015	100
Inventory of work-in-progress as at 31.03.2015 (valued at prime cost)	150
Production overheads	450

Calculate the following for the year the ending 31.03.2015:

- (a) Prime cost Rs. (b) Production cost Rs.

40. State **two** items that are presented under equity in the Statement of Financial Position of a partnership.

1. 2.

41. The following information relates to the partnership of Ashan and Kushan carried out sharing profits and losses equally.

	Current Account balances:	
	as at 31.03.2015 (Rs.'000)	as at 31.03.2014 (Rs.'000)
Ashan	750	500
Kushan	450	300

As per the partnership agreement, Ashan is entitled to an annual salary of Rs. 150 000. Ashan and Kushan withdrew Rs. 100 000 and Rs. 50 000 respectively during the year.

Calculate the following:

- (a) Profit of the partnership for the year ending 31.03.2015 Rs.

- (b) Profit share of Ashan and Kushan for the year ending 31.03.2015:

Ashan Rs. Kushan Rs.

42. A company issued 200 000 ordinary shares at Rs. 20 per share during the year ending 31.03.2015. Applications for 300 000 shares were received with the full amount of money. The company incurred Rs. 50 000 as share issue expenses. The company allotted 200 000 shares proportionately and the excess money was returned to the applicants.

State the following:

- (a) The journal entry to record the allotment of shares (*Narration is not required.*)

.....

.....

- (b) **Net Increase** in equity during the year owing to the above transactions Rs.

43. Classify the cash inflows arising from following transactions of a manufacturing company under operating, investing and financing activities as per LKAS 7 (Statement of Cash Flows) indicating with a '✓' in the appropriate column.

Transaction	Activity :		
	Operating	Investing	Financing
A - Receipt of cash from the issue of ordinary shares
B - Receipt of cash from the trade debtors
C - Receipt of cash from the sale of a motor vehicle
D - Receipt of interest on a fixed deposit

44. State whether the following situations of a company would represent a change in accounting estimates as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

Situation	Change in Accounting Estimates (Yes/No)
A - The change in the profit due to the overstatement of opening inventory
B - The change in the rate at which doubtful debts are provided on year-end debtors' balance
C - The change in the inventory valuation method from First-in First-out (FIFO) to weighted average method
D - The change in expected useful life of buildings from 30 to 35 years

- Use the following information of a company to answer questions No. 45 and 46.

Description	Rs.'000
For the year ending 31.03.2015:	
Profit	500
Interest expense	150
Income tax expense	100
Interim dividend paid on ordinary shares	300
Stated ordinary share capital as at 31.03.2015	1 800
Retained earnings as at 01.04.2014	2 500
Total assets as at 31.03.2015	7 500

45. Calculate the following:
 (a) Interest cover ratio (times)
 (b) Return on total assets ratio - based on year-end assets (%)

46. Calculate the following:

(a) Equity as at 31.03.2015 Rs. (b) Debt ratio (%)

47. The following information relates to product 'P' manufactured by a company.

Economic Order Quantity (EOQ)	200 units
Annual demand	8 000 units
Ordering cost	Rs. 250 per order
Holding cost	Rs. 100 per unit

Calculate the following:

(a) Total ordering cost Rs. (b) Total holding cost Rs.

48. A machine operator in a garment factory is paid Rs. 50 per hour and Rs. 60 for each hour of overtime. The usual working hours for a week is 40. The machine operator has worked 45 hours during the first week of March 2015.

Calculate the following:

(a) Machine operator's total wages for the first week of March 2015 Rs.

(b) Direct labour cost included in the machine operator's wages Rs.

49. The following information is relevant for a company that manufactures a single product.

Variable cost per unit:		Fixed costs:	
Selling and Administration	Rs. 20	Selling and Administration	Rs. 120 000
Production	Rs. 40	Production	Rs. 150 000

The company produced and sold 5 000 units and earned a profit Rs. 180 000 at this level of activity.

Calculate the following:

(a) Contribution per unit Rs. (b) Selling price per unit Rs.

50. A company is planning to purchase a new machine for Rs. 1 000 000 that has a useful life of 5 years and a residual value of Rs. 300 000. It is expected to generate an annual profit of Rs. 110 000 each year from this machine. It is also expected that the cash flows arising from this machine will accrue evenly over its useful life. Calculate the following for this project:

(a) Net cash flow of year 5 Rs. (b) Payback period (years)

සියලු ම හිමිකම් ඇවිරිණි / முழுப் பதிப்புரிமையுடையது / All Rights Reserved

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 Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2015 අගෝස්තු
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2015 ஓகஸ்ட்
 General Certificate of Education (Adv. Level) Examination, August 2015

ගිණුම්කරණය II
 கணக்கீடு II
 Accounting II

33 E II

පැය තුනයි
 மூன்று மணித்தியாலம்
 Three hours

Instructions:

- * Answer six questions only, including questions 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 as at 31.03.2015 of Saranga PLC is given below.

	Dr. (Rs.'000)	Cr. (Rs.'000)
Purchases.....	7 500	
Rent	960	
Salaries	1 000	
Motor vehicle maintenance expenses	321	
Lease interest	720	
Income tax paid for the first three quarters of the current year	90	
Property, plant and equipment as at 01.04.2014	10 000	
Inventory as at 01.04.2014	2 400	
Trade receivables	3 000	
Cash at bank	241	
Three-month treasury bills (Invested on 31.03.2015)	1 000	
Sales		12 300
Stated ordinary share capital as at 01.04.2014		5 000
Retained earnings as at 01.04.2014		1 794
Revaluation reserve on land as at 01.04.2014		1 000
Lease creditors		1 788
Trade payables		4 000
Employee Provident Fund (EPF) payable (only 10% employees' contribution)		100
Accumulated depreciation as at 01.04.2014		1 000
Provision for doubtful debts as at 01.04.2014		250
	<u>27 232</u>	<u>27 232</u>

Additional Information:

Before preparation of the financial statements for the year ending 31.03.2015 adjustments for the following have to be made.

- (i) The office of the company was shifted to a new premises on 01.04.2014. Two-years' rent was paid on this date and the entire amount was recorded as rent of the current year.
- (ii) The composition of property, plant and equipment and their accumulated depreciation as at 01.04.2014 is as follows:

Description	Cost/Value (Rs.'000)	Accumulated Depreciation (Rs.'000)
Land-at fair value	6 000	—
Motor vehicle (Leasehold basis)	3 000	600
Office equipment	1 000	400
Total	<u>10 000</u>	<u>1 000</u>

All depreciable property, plant and equipment are depreciated on straight line method at 20% per annum. Depreciation has to be provided for the current year.

- (iii) The land was revalued on 31.03.2015 at Rs. 4 500 000 by a professional valuer.
- (iv) The motor vehicle was acquired on 01.04.2013 under a finance lease for a 4 year period for delivery of goods. The annual lease instalment payable is Rs. 720 000. The current year's lease instalment has been paid and debited to the lease interest account. The lease interest applicable for the current year and the next two years is as follows:

Year	Interest (Rs.'000)
2014/2015	179
2015/2016	125
2016/2017	68

- (v) As at 31.03.2015, the cost and the net realizable value of the inventory were Rs. 1 800 000 and Rs. 2 000 000 respectively. However, the entire inventory was sold on 20.04.2015 at Rs. 1 600 000. The directors authorised the financial statements of the company on 15.05.2015.
- (vi) A 10% provision is made for doubtful debts on the year-end balance of trade receivables.
- (vii) The following expenses have been debited to the sales account.

Item	Amount (Rs.'000)
Sales commission for agents	1 400
Discount allowed for trade receivables	300
Total	<u>1 700</u>

- (viii) 50 000 ordinary shares have been issued at Rs. 10 per share to the existing shareholders by capitalizing the retained earnings.
- (ix) The company sells goods with a six month warranty period. It has been reliably estimated that 2% of the sales value should be provided for this warranty.
- (x) The company's contribution for EPF and ETF has not yet been provided for the entire year. The company contributes for EPF and ETF at 15% and 3% respectively on the gross salary of employees.
- (xi) It has been estimated that the income tax for the current year is 1/3 of the profit before tax.

Required:

The following financial statements (including notes) of Saranga PLC for publication as per LKAS 1 (Presentation of Financial Statements):

- (1) Statement of Comprehensive Income for the year ending 31.03.2015
- (2) Statement of Changes in Equity for the year ending 31.03.2015
- (3) Statement of Financial Position as at 31.03.2015

(20 marks)

2. (a) Anju and Sanju commenced a partnership on 01.04.2014. The terms of the partnership agreement are as follows:

- Profits and losses are shared between Anju and Sanju in the ratio of 2:1.
- Each partner is entitled to a monthly salary of Rs. 40 000.
- Partners are entitled to an interest of 10% per annum on capital.
- Partners are entitled to an interest of 6% per annum on the loans given by them.
- All transactions relating to partners should be recorded through their current accounts.

The trial balance of the partnership as at 31.03.2015 is as follows:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Property, plant and equipment (PPE) - at carrying amount	4 800	
Depreciation on PPE.....	600	
Trade receivables	900	
Cash at bank	130	
Capital accounts - Anju		1 800
- Sanju		1 300
Loan given by Anju on 01.08.2014		1 000
Trade payables		340
Sales		6 100
Purchases	2 500	
Operating expenses	820	
Salaries paid to Anju	200	
Interest paid on Anju's loan	30	
Interest paid on capital to Sanju	100	
Rent paid to Anju.....	100	
Rent paid to new office	360	
	<u>10 540</u>	<u>10 540</u>

Additional Information:

- (i) The business was commenced in a building owned by Anju. The annual rent of Rs. 240 000 is payable to Anju in this respect. However, the business was shifted to a new premises on 01.10.2014 for an annual rent of Rs. 360 000 and the full amount was paid on the same day.
- (ii) As per the inventory records, the cost of the inventory as at 31.03.2015 was Rs. 250 000. However, the goods obtained by Anju and Sanju with a cost of Rs. 30 000 and Rs. 20 000 respectively have not been included in the inventory records.

- (iii) An advance of Rs. 100 000 received by the business for the goods agreed to be delivered in the month of April 2015 has been recorded as sales of the current year.
- (iv) All cash transactions of the partnership are carried out through a bank account. The balance of the bank account of the business and the balance of the bank statement as at 31.03.2015 has not agreed. The subsequent investigation revealed the following:
- A cheque of Rs. 40 000 has been directly deposited in the bank by a customer.
 - A cheque of Rs. 60 000 received from a customer has been dishonoured.
 - A cheque of Rs. 50 000 issued to a supplier has not been presented for payment.
 - A cheque of Rs. 10 000 issued to pay the life insurance premium of Anju has not been recorded in the bank account of the business.

Required:

- (1) Income Statement of the partnership for the year ending 31.03.2015 (including appropriation to partners)
- (2) Current accounts of partners for the year ending 31.03.2015
- (3) Correct balances of cash at bank and trade receivables of the partnership as at 31.03.2015

(10 marks)

- (b) A company has two production departments - Assembly and Finishing and a service department - Maintenance. The production departments are situated in the same premises whereas the maintenance department is located separately. The following incomplete overheads analysis sheet has been prepared for the two production departments:

Overheads	Basis of apportionment	Total (Rs.'000)	Assembly (Rs.'000)	Finishing (Rs.'000)
Allocated production overheads	Direct	9 800	5 000	4 800
Production manager's salary		6 000		
Rent		4 800		
Electricity		2 400		
Machinery depreciation		6 000		
Employee welfare expenses		3 000		

Additional Information:

- (i) Overheads apportionment bases between Assembly and Finishing Departments:

- Production manager's salary is divided equally.
- Other bases:

Description	Assembly	Finishing	Total
Floor space (Sq. Meters)	20 000	10 000	30 000
Kilowatt hours	40 000	20 000	60 000
Machinery value (Rs.'000)	50 000	10 000	60 000
No. of employees	50	100	150
Maintenance hours	20 000	80 000	100 000

- (ii) Total overheads allocated to Maintenance Department was Rs. 6 000 000. It has to be apportioned between the two production departments based on maintenance hours.
- (iii) Assembly Department and Finishing Department use machine hours and labour hours respectively to absorb overheads. The budgeted machine hours for Assembly Department are 400 000 and the budgeted labour hours for Finishing Department are 200 000.
- (iv) The following information is related to Product 'A' manufactured by the company.

Budgeted production	1 000 units
Selling price per unit	Rs. 2 500
Prime cost per unit	Rs. 500
Budgeted hours for production of a unit:	
- Machine hours	3
- Labour hours	5
Budgeted non-manufacturing overheads:	
- Variable overheads per unit	Rs. 300
- Fixed overheads	Rs. 400 000

Required:

- (1) The completed Overhead Analysis Sheet for the two production departments
- (2) Overhead absorption rate for each production department
- (3) A statement showing the expected profit or loss from Product 'A'

(10 marks)
(Total 20 marks)

3. Narada opened a stationary shop in part of his home on 01.03.2015 by investing Rs. 150 000 in cash. He also brought Rs. 60 000 worth of furniture for use in the business on this date. He opened a bank account in the name of the business and carried out all cash transactions through this account. The following transactions took place during the first month of operations.

Transaction No.	Transaction
1	Purchased stationary items for Rs. 100 000 on cash.
2	Sold stationary items with a cost of Rs. 70 000 for Rs. 100 000 on cash.
3	Purchased stationary items for Rs. 150 000 on credit.
4	Returned Rs. 30 000 stationary items to the supplier due to defects.
5	Purchased a computer on 15.03.2015 for Rs. 120 000 on credit. This amount is payable over period of 18 months.
6	Sold stationary items with a cost of Rs. 100 000 for Rs. 140 000 on credit.
7	Paid Rs. 15 000, the monthly salary of the office assistant.
8	Obtained Rs. 30 000 from the business for personal use of Narada.
9	Paid the stationary supplier subject to a 5% discount on the outstanding balance.
10	Received the amount due from debtors after allowing a 5% discount.

Additional Information:

- The telephone bill of the business for the month of March, 2015 amounting to Rs. 3 000 was received on 02.04.2015.
- The property, plant and equipment of the business should be depreciated on straight line method at 20% per annum.

Required:

- (1) Using the accounting equation, show the impact of above transactions from no. 1 to 10 (with values) and state whether each value increases (+) or decreases (-) in front of the value. (Use the following format for this purpose.)

Transaction No.	Assets				Liabilities		Equity
	Property, plant and equipment	Inventory	Trade receivables	Bank	Trade payables	Loans	

- (2) Income statement of the business for the month ending 31.03.2015
(3) Composition of equity of the business as at 31.03.2015 using the following format:

Rs.'000	
Opening Capital	
Profit/(Loss) for the period	
Less: Drawings	
Equity as at 31.03.2015	

(Total 15 marks)

4. (a) The following information relates to a raw material used by a company.

(i) The summary of the stock ledger for March 2015:

Date	Description	Quantity (Units)	Price per unit (Rs.)
01.03.2015	Balance	4 000	12
10.03.2015	Purchases	8 000	15
20.03.2015	Issues	7 000	?
25.03.2015	Purchases	8 000	20
31.03.2015	Balance	13 000	

(ii) The company uses weighted average method to price the inventory issues.

(iii) Other information:

	Consumption (units per month)	Lead time (months)
Maximum	3 000	4
Minimum	1 000	2

Required:

- (1) Re-order quantity
- (2) Value of inventory issued on 20.03.2015
- (3) Re-order level
- (4) Maximum stock level
- (5) Minimum stock level

(05 marks)

(b) Sithum commenced a trading business on 01.03.2015 by investing Rs. 600 000 from his personal savings. A summary of transactions carried out during the month of March 2015 is given below.

(i) Cash receipts and payments:

	Rs.'000
Receipts:	
Sales	1 800
Cash received from debtors	5 600
Payments:	
Purchases	1 200
Cash paid to creditors	3 400
Expenses	1 400

(ii) While a cash discount of Rs. 400 000 was received from creditors, a cash discount of Rs. 200 000 was allowed to debtors.

(iii) Totals of other prime entry books:

Prime entry book	Total (Rs.'000)
Purchase Journal	10 800
Sales Journal	10 000
Purchase Return Journal	300
Sales Return Journal	200

(iv) As at 31.03.2015, the balances of the creditors control account and the debtors control account did not agree with the totals of balances of respective subsidiary ledgers. The subsequent investigation revealed the following:

1. Purchase of a lorry for Rs. 1 800 000 on credit has been recorded in the purchase journal.
2. Bad debts Rs. 100 000 written off during the month has not been recorded in the debtors control account.
3. The total of the sales return journal of Rs. 200 000 has been recorded in the debtors control account as Rs. 2 000 000.

Required:

- (1) Cash receipts journal and cash payments journal for the month of March 2015
- (2) Journal entries to rectify the errors (*Narration is required*)
- (3) Creditors Control Account and Debtors Control Account after rectifying errors

(10 marks)
(Total 15 marks)

5. (a) The following information relates to Pearl PLC.

Description	As at 31.03.2015 (Rs.'000)	As at 31.03.2014 (Rs.'000)
Trade receivables	540	420
Inventory	1 800	2 200
Cash and cash equivalent	660	380
Trade payables	1 200	1 800
Interest payable	300	200

For the year ending 31.03.2015:	Rs.'000
Total sales	8 000 (of which 60% is credit sales)
Purchases	3 600
Profit	2 400

Assume the number of working days per year as 360.

Required:

For the year ending 31.03.2015

- (1) Net profit ratio
- (2) Gross profit ratio
- (3) Current ratio
- (4) Trade receivables (Debtors) turnover ratio
- (5) Inventory residence period

(05 marks)

(b) Mr. Nagendran is planning to start a private school in Colombo. The expected income and costs of the school are as follows:

Fees per student:

Registration fee	Rs. 12 000 per annum
Facilities fee	Rs. 12 000 per annum
Course fee	Rs. 10 000 per month

Costs:

Printing of course manuals	Rs. 4 000 per month per student
Stationary	Rs. 3 000 per month per student
Sports expenses	Rs. 1 000 per month per student
Rent of the building	Rs. 40 000 per month
Salaries	Rs. 30 000 per month
Advertising and promotion	Rs. 10 000 per month

Required:

- (1) Annual contribution per student
- (2) Annual total fixed cost of the school
- (3) The number of students required to be admitted to cover the total annual cost
- (4) The number of students required to be admitted to earn a profit of Rs. 240 000
- (5) If 50 students are admitted and the course fee of 10 of them are waived off, the expected profit or loss

(10 marks)

(Total 15 marks)

6. The summarized Statements of Financial Positions of Sumudu PLC as at 31.03.2015 and 31.03.2014 are given below:

	As at 31.03.2015 (Rs.'000)	As at 31.03.2014 (Rs.'000)
Property, plant and equipment (PPE) - at cost	19 600	13 100
Accumulated depreciation - PPE	(3 800)	(2 800)
Inventory	1 500	1 400
Trade receivables.....	1 600	1 800
Cash and cash equivalent	400	500
Total assets	19 300	14 000
Stated ordinary share capital	9 500	8 000
Retained earnings	5 500	4 400
Loan for land	2 400	-
Trade payables.....	1 750	1 600
Interest payable on loan.....	150	-
Total liabilities and equity	19 300	14 000

Additional Information:

- (i) Office equipment costing Rs. 1 000 000 was sold for Rs. 300 000 on cash during the year. On the date of the sale, the carrying amount of this equipment was Rs. 600 000.
- (ii) A land worth Rs. 3 000 000 was purchased on 01.04.2014 on credit. This loan is payable in 5 equal instalments of Rs. 600 000 from the current year. Further, 5% annual interest is payable on the principal amount of the loan.
- (iii) All other acquisitions on PPE during the year have been made in cash.
- (iv) An interim dividend of Rs. 400 000 was paid during the year.
- (v) The composition of ordinary shares issued during the year was as follows:

Type of issue	Amount (Rs.'000)
Rights issue of shares	1 000
Issue of shares by capitalizing retained earnings	500
Total	1 500

All rights were exercised by the shareholders and cash was duly received.

- (vi) The company is operating on a tax holiday period.

Required:

- (1) Statement of Cash Flows of Sumudu PLC for the year ending 31.03.2015 as per LKAS 7 (Statement of Cash Flows)
- (2) Office Equipment Disposal Account

(Total 15 marks)

7. (a) A company is planning to start a printing press. The cash flows associated with the purchase of the printing machine required for this purpose are as follows:

	Rs.'000
Purchase price	2 000
Site preparation expenses	200
Installation charges	300

The expected residual value and the useful life of the machine are Rs. 500 000 and 4 years respectively. Working capital required at the beginning of the project is Rs. 500 000 and it will be recovered at the end of the project.

Expected income and operating expenses of the printing press are as follows:

Year	Rs.'000			
	1	2	3	4
Income	3 500	4 500	6 000	7 500
Operating expenses (including depreciation)	2 000	3 000	3 500	4 000

Discounting factors at 10% required rate of return of the project (at first decimal place):

Year	1	2	3	4
Discounting factor	0.9	0.8	0.7	0.6

Required:

The following in respect of the project:

- (1) Initial total cash outflow showing each item included separately
- (2) Annual cash inflows and outflows from year 1 to 4
- (3) Net present value
- (4) Recommendation as to the viability of the project based on its net present value

(05 marks)

- (b) The receipts and payments account of Rantharu Sports Club for the year ending 31.03.2015 was as follows:

Receipts and Payments Account (Rs.'000)

Balance b/f	80	Pavilion renovation	300
Donation for sports equipment	500	Salary:	
Subscription	390	- Groundsman	360
Entry fees	120	- Manager	240
Ground hire fees	660	Office expenses	50
		Ground maintenance	150
		Sports equipment	500
		Balance c/f	150
	<u>1750</u>		<u>1750</u>

Additional Information:

- (i) The following information relates to property, plant and equipment available as at 01.04.2014:

	Cost (Rs.'000)	Accumulated Depreciation (Rs.'000)	Expected useful life (years)
Sports-ground	2000	-	-
Pavilion	1500	750	20
Sports equipment	500	300	5

- (ii) The renovation of the pavilion was completed on 01.04.2014 and it was used from this day. This amount is not yet recognised in the pavilion account. Further, the remaining useful life of the pavilion has increased to 15 years from this date.
- (iii) The cash donation was received on 01.04.2014 to purchase sports equipments and these items were purchased on 01.10.2014. The expected useful life of these equipment is 5 years. It is the policy of the sports club to recognise donations in income over a period of 5 years from the year of receipt.
- (iv) The annual subscription per member is Rs. 6000. The number of members of the club as at 01.04.2014 was 40. On this day, another 10 members joined and they paid two-years subscription at once. Subscription received during the current year also includes Rs. 30000 received in respect of year 2013/2014. There were no subscription receivables as at 31.03.2015.
- (v) The sports ground is hired to outsiders by charging Rs. 300000 per sports festival. 60% of this amount is payable as an advance at the time the ground is booked and the balance on the day of the sports festival. The details of these sports festivals are as follows:

Festival No.	Stage of the festival	Receipt of cash during the current year
1	Completed on 01.07.2014	Full amount including the advance was received
2	Completed on 08.11.2014	Only the advance was received
3	To be held in the first week of April 2015	The advance was received in March 2015

Required:

The following for Rantharu Sports Club:

- (1) Accumulated Fund as at 01.04.2014
- (2) Income Statement for the year ending 31.03.2015
- (3) Statement of Financial Position as at 31.03.2015

(10 marks)
(Total 15 marks)

* * *