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33 - Accounting

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PREFACE

This paper has been created according to the prototype paper structure which has been issued by the department of examination of Sri Lanka in 2019 and the G.C.E Advanced level examination paper in 2020. We are expecting to maintain high-level quality in this paper by getting supervision of chartered accountants. The intention of this project is to ensure the equal rights of the education to all the students by providing high quality study materials in free of charge, and also eliminating the traditional barriers to the education by giving support to the teachers.

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General Certificate of Education (Adv. Level) Examination - 2022

Accounting

33 E I

Two Hours

Instructions:

* Answer all questions.

Select the correct answer for questions

* No. 1-30 and write its number on the dotted line.

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

* Each question carries equal marks.

* Write your Index Number in the space provided above.

Index No. :

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

(1) Which of the following statements best describes accounting?

- 1) Accounting is the overall process of providing economic related information to interested parties of an accounting entity.
- 2) It is the process of identifying, measuring and communicating the information to internal parties in order to take rational judgment.
- 3) Providing information to the management whether objectives of an organization are being met.
- 4) It is the process of measuring and controlling of scarce resource in a business.
- 5) It is the process of providing financial information to shareholders in a business in order to make economic decisions.

(2) The cost of a production machine Rs. 100,000 which was purchased on 01.10.2021 has been credited to the Production machine maintenance expense account. Machinery should be depreciated at 10% under straight line method. The answer that best represents the effect of this error on the following items is, (The accounting year ends on 31.03.2022)

| | Production cost | Cost of sales | Net profit | Working capital |
|----|------------------------|----------------------|-------------------|------------------------|
| 1) | Rs. 10,000 Lesser | Rs.10,000 Lesser | Rs. 10,000 Higher | No change |
| 2) | Rs. 5,000 Lesser | Rs. 5,000 Lesser | Rs. 5,000 Higher | No change |
| 3) | Rs.10,000 Lesser | Rs.10,000 Lesser | Rs. 10,000 Higher | Rs. 10,000 Lesser |
| 4) | Rs.95,000 Lesser | Rs.95,000 Lesser | Rs. 95,000 Higher | No change |
| 5) | Rs.95,000 Lesser | Rs.95,000 Higher | Rs. 95,000 Lesser | No change |

(3) ACCA sold a stock of goods on credit to CINEC Campus. CINEC Campus added a 10% profit on the goods and resold them to Questionbank.lk. Questionbank.lk returned half of the goods as they did not meet the specifications and the balance was paid by a cheque. CINEC Campus also returned those goods to ACCA.

The source documents related to these transactions in order to record them in prime entry books of CINEC Campus respectively are,

- 1) Credit note, debit note, sales invoice, purchase invoice and receipt voucher
- 2) Purchase invoice, sales invoice, credit note, receipt voucher and debit note
- 3) Sales invoice, credit note, receipt voucher and debit note
- 4) Sales invoice, purchase invoice, credit note, receipt voucher and debit note
- 5) Purchase invoice, sales invoice, debit note, receipt voucher and credit note

(4) Following information are relevant to ACCA business.

| | 31.03.2022 | 31.03.2021 |
|---------|-------------|-------------|
| Stock | Rs. 300,000 | Rs. 200,000 |
| Debtors | Rs. 180,000 | Rs. 140,000 |

During the year ended 31.03.2022, Rs. 920,000 were received from debtors and cash sales were Rs. 790,000. The business makes sales with a profit margin of 40% on cost. What is the amount of purchases of the business for the year ended 31.03.2022?

- 1) Rs. 1,134,000
- 2) Rs. 1,150,000
- 3) Rs. 1,350,000
- 4) Rs. 1,550,000
- 5) Rs. 1,564,000

(5) Namal is a shoe business owner. On 13 July 2022, a fire occurred in his business and all of his stocks were destroyed except a stock worth of Rs. 19,000.

Following information are provided.

| | |
|--|-------------|
| Stocks at 01st April 2022 | Rs. 21,000 |
| Purchases from 01 April 2022 to 13 July 2022 | Rs. 450,000 |
| Sales from 01 April 2022 to 13 July 2022 | Rs. 490,000 |

Additional information:

- A. From above purchases Rs. 20,000 costs of goods were in transit when the business caught fire.
- B. During the month of April 2022, a new year discount sales week was held. Sales were made at 10% off from the normal selling price during this period. Total sales during this week were Rs. 90,000.
- C. Thieves entered to the business on 10 June 2022 and stole a large number of shoes. The selling price of these shoes were Rs. 25,000.
- D. A purchase invoice of Rs 20,000 relevant to shoe purchases on 15 May 2022 has not been recorded in the books of accounts.
- E. Selling price of the business is set by adding 25% on the cost.

What is the value of damaged stocks of this business due to the fire on 13 July 2022?

- 1) Rs. 31,500 2) Rs. 30,500 3) Rs. 32,000
 4) Rs. 65,500 5) Rs. 53,000

(6) Select the correct answer that indicates accounting concepts related to the following transactions and events respectively (A, B, C, & D) is,

- A. As per the SLFRS 15 an income which is received in cash and performance obligation is not satisfied should be recorded as a liability.
 B. To recognize the expense in this year for the production defects occurring in future years for the sales made in the current year.
 C. Mentioning the dividends paid to shareholders of a company in the statement of changes in equity.
 D. Separately identifying assets of the business as current and non-current assets.

- 1) Going concern concept, prudence concept, entity concept and realizable concept
 2) Realizable concept, prudence concept, entity concept and going concern concept
 3) Revenue Concept, accrual concept, entity concept and going concern concept
 4) Prudence concept, accrual concept, entity concept and going concern concept
 5) Realizable concept, prudence concept, accrual concept and going concern concept

(7) Following are the values of statement of financial position of ACCA business as at 01.01.2022.

| Non current assets | + | Current assets | = | Non-current liabilities | + | Current liabilities | + | Equity |
|--------------------------|---|-------------------|---|----------------------------|---|------------------------|---|---------|
| 600,000 | | 200,000 | | 200,000 | | 100,000 | | 500,000 |

Following transactions were occurred on 02 January 2022.

- Paid bank loan installment was Rs. 52,000. Interest included in it was Rs. 2,000.
- Rs. 2,000 worth of stationary stocks were taken to office usage.
- Received Rs. 18,000 from a debtor. Discount allowed was 10%

After recording the above transactions, the accounting equation of ACCA business is (,000)

| 1) | Non current assets | + | Current assets | = | Non- current liabilities | + | Current liabilities | + | Equity |
|----|--------------------------|---|-------------------|---|--------------------------------|---|------------------------|---|--------|
| | 600 | | 146 | | 148 | | 100 | | 500 |
| | 600 | | 146 | | 150 | | 100 | | 496 |
| | 600 | | 126 | | 148 | | 100 | | 478 |
| | 600 | | 126.2 | | 150 | | 100 | | 476.2 |
| | 600 | | 126 | | 150 | | 100 | | 476 |

(8) As at 31.03.2022, the balance of the company's cash account was Rs. 34,000. But the bank statement balance did not match with the cash account balance. Subsequent investigation revealed the following information.

- Cheques issued but not presented for payments was Rs. 50,000
- Debit amount mistakenly posted by the bank to the business's bank account was Rs. 40,000
- Cheques deposited but not realized was Rs. 80,000
- Direct remittances made by debtors directly to the bank was Rs. 25,000

Correct balance of the bank statement as at 31.03.2022 is,

- | | | |
|-----------------|---------------|---------------|
| 1) (Rs. 11,000) | 2) Rs. 14,000 | 3) Rs. 34,000 |
| 4) Rs. 29,000 | 5) Rs. 29,000 | |

Use the following information to answer the below two questions.

Debtor Control Account Balance as at 31.03.2022 was Rs. 98,000 in Kavinda's business and the total of the debtor balance list prepared as at that date showed a different balance. A subsequent investigation revealed the following facts.

- Rs. 3,000 of bad debt written off has not been recorded in the personal account of the debtor.
- Rs. 2,500 of a sales invoice has been completely omitted from the books.
- Return inwards of Rs. 8,000 has not been recorded in the debtor control account.
- Debit balance of Rs. 1,000 have been recorded in the debtors list as a credit balance.

(9) Debtor balance to be shown in the financial position statement as at 31.03.2022,

- | | | |
|----------------|---------------|----------------|
| 1) Rs. 106,000 | 2) Rs. 93,500 | 3) Rs. 100,500 |
| 4) Rs. 92,500 | 5) Rs. 90,000 | |

(10) Balance of the debtors list before correcting the above errors as at 31.03.2022 and balance after the corrections as at 31.03.2022 respectively,

- | | | |
|--------------------------|--------------------------|--------------------------|
| 1) Rs. 89,500 Rs. 98,000 | 2) Rs. 91,500 Rs. 92,500 | 3) Rs. 91,000 Rs. 92,500 |
| 4) Rs. 91,500 Rs. 89,500 | 5) Rs. 95,000 Rs. 89,500 | |

Use following information to answer the below two questions.

Namal and Hasna entered into a partnership business on 01.04.2019 on the basis of sharing profits equally and thereafter Amal joined with the business as a new partner on 01.04.2021 for 2/8 share of the profits. On joining the partnership, Amal contributed Rs. 500,000 in cash as capital. A capital interest of 10% is paid based on the adjusted capital balance at the end of the year.

The following information relates to the year ended 31.03.2022 of the partnership.

| | |
|---|-------------|
| Total capital (after adjusting goodwill) | |
| Namal | 1,040,000 |
| Hasna | 980,000 |
| Amal | 450,000 |
| Current account balances (before adjusting distributable profit) | |
| Namal | 40,000 |
| Hasna | 20,000 (Dr) |
| Distributable profit | 325,000 |

- The business does not maintain a goodwill account and all the adjustments were made through capital accounts.

(11) The value of the estimated goodwill when Amal joined with the partnership is,

- | | | |
|----------------|----------------|----------------|
| 1) Rs. 200,000 | 2) Rs. 50,000 | 3) Rs. 150,000 |
| 4) Rs. 25,000 | 5) Rs. 100,000 | |

(12) Total capital balances of Namal and Amal after making all the adjustments as at 31.03.2022 are respectively,

- | | | |
|----------------------------------|----------------------------------|------------------------------|
| 1) Rs. 1,170,000 and Rs. 515,000 | 2) Rs. 1,140,000 and Rs. 495,000 | 3) Rs. 170,000 and Rs. 5,000 |
| 4) Rs. 1,070,000 and Rs. 470,000 | 5) Rs. 40,000 and Rs. 20,000 | |

(13) Cost of Machines as at 01.04.2021 in Rantharu business was Rs. 400,000 and the accumulated depreciation was Rs. 160,000. This machine was revalued for the first time on 31.03.2022 at Rs. 350,000 and impact on the following items due to that revaluation is,

Additional information :

Machinery is depreciated 10% on cost.

| | Total assets | Net profit | Total comprehensive income |
|----|-------------------------|------------------------|-----------------------------------|
| 1) | Decrease by Rs. 50,000 | No change | Decrease by Rs. 50,000 |
| 2) | Increase by Rs. 110,000 | Increase by Rs. 50,000 | No change |
| 3) | Decrease by Rs. 110,000 | No change | Increase by Rs. 110,000 |
| 4) | Increase by Rs. 150,000 | No change. | Increase by Rs. 150,000 |
| 5) | No change | No change | No change |

(14) Rantharu sports club has 200 members and a member should pay Rs.1,000 monthly as membership fee. There are 50 lifetime members at Rantharu Sport club. Lifetime membership fee per member is Rs. 4,000. It is the policy of the club to identify lifetime membership fees equally in 5 years. During the year 2021/2022, arrears of membership fees written off was Rs. 3,000. No new members were admitted during the year.

What is the total membership fee income to be credited to the income and expense statement for the year 2021/2022?

- | | | |
|----------------|----------------|---------------|
| 1) Rs. 280,000 | 2) Rs. 240,000 | 3) Rs. 25,000 |
| 4) Rs. 277,000 | 5) Rs. 237,000 | |

(15) Which of the following statement is true?

- A. The concept that substance is more important than legal form of a transaction, then financial statements should reflect the economic substance of a transaction, not just its legal form.
- B. The prudence concept states that it is desirable to understate assets and overstate liabilities when preparing financial statements.
- C. The historical cost concept means that only items that can be measured in monetary value should be recognized in the financial statements.

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

(16) The following transactions and events took place during the year ended 31.03.2022 in ACCA Company having 90,000 ordinary shares.

- On 07.01.2022, a public issue of shares of 10,000 shares at Rs.10 per share was made and the company received applications for 15,000 shares. On 01.02.2022 the shares were divided proportionately.
- A rights issue of Rs. 8 each was made for one share for every 5 shares held on 01.03.2022. All rights were subscribed by shareholders.
- Paid an interim dividend of Rs. 1 per share to all the shares held on 15.03.2022.
- A bonus share issue was made on 31.03.2022 at the rate of 1 share for every 6 shares held.

The increase in ACCA's net assets due to these transactions is,

- | | | |
|----------------|----------------|----------------|
| 1) Rs. 140,000 | 2) Rs. 260,000 | 3) Rs. 380,000 |
| 4) Rs. 120,000 | 5) Rs. 190,000 | |

(17) Which of the following conditions for making a provision in accordance with Sri Lanka Accounting Standard No. 37 should be satisfied?

- 1) Probable obligation, the existence of a probability of an outflow of future economic benefits and a reliable estimate of value.
- 2) Present obligation, the existence of a probability of an outflow of future economic benefits and the value can be reliably estimated.
- 3) Obligation, ability to pay and the value can be reliably estimated.
- 4) Adequacy, probability for future economic benefits outflow and ability to pay
- 5) Possible obligations, adequacy and relevance

(18) A business has provided the following information regarding an inventory item for the month of March 2022.

| Date | Description | Quantity (units) | Cost (Rs.) |
|-------|-------------|---------------------|------------|
| 03.01 | Balance | 300 | ? |
| 03.05 | Purchase | 500 | 6 000 |
| 03.15 | Sales | 400 | 4 200 |
| 03.18 | Purchase | 200 | 2 800 |

The business follows the First In First Out method as an issuing method of inventory. The net realizable value of a stock unit as at 31.03.2022 was Rs. 10. What is the cost of inventory as at 01.03.2022 and the value of inventory to be shown in the statement of financial position as at 31.03.2022?

| | Cost of inventory as at 01.03.2022 (Rs.) | Value to be shown in the balance sheet as at 31.03.2022 (Rs.) |
|----|---|---|
| 1) | 2,800 | 5,500 |
| 2) | 3,000 | 6,000 |
| 3) | 3,200 | 6,400 |
| 4) | 3,500 | 6,500 |
| 5) | 3,000 | 7,600 |

- Use the following information to answer the below two questions.

| | Rs. '000 |
|---|----------|
| Profit for the period | 1,400 |
| Income tax expense | 300 |
| Dividend payments | 100 |
| Retained earnings (as at 01.04.2021) | 1,800 |
| Machine revaluation reserve (as at 01.04.2021) | 300 |
| Stated ordinary share capital | 2,000 |

A revaluation loss of Rs. 200,000 have been recorded in machinery revaluation for the year ended 31.03.2022 and There was a revaluation gain of Rs. 100,000 from first time revaluation of motor vehicle.

(19) What is the other comprehensive income and total comprehensive income shown in the profit or loss and other comprehensive income statement for the year ended 31.03.2022?

- | | |
|-------------------------------------|-------------------------------------|
| (1) Rs. 100,000 and Rs. 1,500,000 | (2) (Rs. 100,000) and Rs. 1,300,000 |
| (3) (Rs. 100,000) and Rs. 1,000,000 | (4) Rs. 100,000 and Rs. 1,200,000 |
| (5) Rs. 100,000 and Rs. 1,000,000 | |

(20) Total equity of the business as at 31.03.2022 is,

- | | | |
|-------------------|-------------------|-------------------|
| (1) Rs. 5,600,000 | (2) Rs. 5,500,000 | (3) Rs. 5,200,000 |
| (4) Rs. 5,400,000 | (5) Rs. 5,300,000 | |

(21) The board of directors of a limited company signed to publish financial statements for the year ended 31.03.2022 on 30.06.2022. The financial statements were approved by the shareholders in the annual general meeting held on 01.08.2022. Information about the following events is provided.

- A. Rs. 300,000 cost of computer systems have been damaged due to floods on 25.04.2022.
- B. The decision related to a case filed by a customer in the year 2021 was given on 15.05.2022. Accordingly, the court decided that a compensation of Rs. 360,000 should be paid by the company.
- C. A debtor with a balance of Rs. 500,000 as at 31.03.2022 was declared to be bankrupt on 15.07.2022. As at the balance sheet date, the company had made a full provision for this.
- D. In a listed company, the market value of investments made by the company have dropped by Rs. 400,000 as at 30.04.2022.

According to Lanka Accounting Standards No. 10, which of the above events should be adjusted in the financial statements as at 31.03.2022?

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

(22) Which of the following statements is/are correct?

- A. Accounting Standard LKAS – 01 “Presentation of Financial Statements” recommends the minimum requirements to be contained in the financial statements.
- B. Necessary guidance is given in LKAS – 02 Inventory standard on determination of cost of inventory carried forward as an asset.
- C. According LKAS 16 PPE standard, cost or revaluation models can be used for different assets included in same class of assets.

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

(23) According to the draft comprehensive income statement for the year ended 31.03.2022, the gross profit and total comprehensive income were Rs. 800,000 and Rs. 280,000 respectively. Stock as at 31.03.2022 was underestimated by Rs. 20,000. Rs. 50,000 of gain received from land revaluation was not recorded in the books. (This land has received a revaluation loss of Rs. 10,000 from previous revaluation.)

Correct gross profit and total comprehensive income for the year ended 31.03.2022 is,

| | Gross profit (Rs.) | Total comprehensive income (Rs.) |
|----|-------------------------------|---|
| 1) | 820,000 | 340,000 |
| 2) | 820,000 | 350,000 |
| 3) | 830,000 | 340,000 |

| | | |
|----|---------|---------|
| 4) | 870,000 | 350,000 |
| 5) | 830,000 | 300,000 |

(24) Which of the following costs which were incurred to build a new production process can be capitalized as development costs?

- A. Raw materials used to develop the manufacturing process
- B. Training costs incurred to familiarize workers with the production process
- C. Consulting Fees incurred for feasibility evaluations of manufacturing Process
- D. Depreciation of laboratory equipment used to establish the manufacturing process

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

(25) The following information relevant to Saman PLC for the year ended 31.03.2022.

| | |
|---------------------------------------|-------|
| Sales (all sales are on credit basis) | 2,400 |
| Gross profit | 1,400 |
| Average stock | 200 |

The debt collection period for the year ended 31.03.2022 is 45 days. Assume that there are 360 days in a year. Inventory holding period and average debtors of this company for the year ended 31.03.2022 are,

| | Inventory holding period (Days) | Average debtors (Rs.) |
|----|---------------------------------|-----------------------|
| 1) | 30 | 53,333 |
| 2) | 30 | 125,000 |
| 3) | 30 | 300,000 |
| 4) | 72 | 53,333 |
| 5) | 72 | 300,000 |

(26) The actual overhead cost of a company which is producing products A and B were Rs. 60,000. The estimated overhead absorption rate per direct labor hour is Rs. 10.

| | A | B |
|----------------------------|---------|---------|
| No,of direct labour hours | 2 | 3 |
| Unit prime cost Rs. | 130 | 70 |
| Production and sales units | 2,000 | 1,000 |
| Total sales Rs. | 400,000 | 150,000 |

Profit margin of products A and B respectively (on selling price)

- 1) 25% and 33% 2) 30 % and 25% 3) 30% and 25%
 4) 25% and 35% 5) 35% and 25%

(27) Total direct labor cost and direct materials cost per unit is Rs. 160. A production royalty fee of Rs. 50 each must also be paid. The time spent in the respective departments and the overhead absorption rate for a unit are given below. What is the production cost per unit of this product?

| Department | Labour hours | Machine hours | Overhead absorption rate |
|------------|--------------|---------------|--------------------------|
| Machinery | 8 | 10 | Rs. 15 per machine hour |
| Assembly | 10 | 5 | Rs. 12 per machine hour |
| Finishing | 6 | 2 | Rs. 5 per labour hour |

- 1) Rs. 350 2) Rs. 400 3) Rs. 430
 4) Rs. 450 5) Rs. 480

(28) A company has given the following information regarding a raw material used.

| | |
|-----------------------------|-----|
| Re-order level (units) | 240 |
| Average consumption (units) | 20 |
| Average lead time (weeks) | 5 |

If the difference between the maximum stock level and the minimum stock level is 400 units, what is the maximum stock level in units?

- 1) 400 units 2) 440 units 3) 480 units
 4) 500 units 5) 540 units

(29) When AB company increased its sales by 50,000 units, which was currently incurring losses, the loss will be reduced by Rs. 1,000,000. Fixed cost per unit at operating level of 10,000 units is Rs.40. The correct answer from the following is,

| | BEP units | Margin of safety when 24,000 units (units) | Profit at 24,000 units of sales Rs. |
|----|-----------|--|-------------------------------------|
| 1) | 20,000 | 4,000 | 80,000 |
| 2) | 10,000 | 2,000 | 40,000 |
| 3) | 2,500 | 21,500 | 230,000 |
| 4) | 20,000 | 4,000 | 160,000 |
| 5) | 10,000 | 4,000 | 160,000 |

(30) Which of the following statements is incorrect?

- 1) Under marginal costing, the production cost is calculated on the basis of variable cost only.
- 2) Under absorption costing fixed production overhead costs are also considered as part of production cost.
- 3) Under marginal costing finished and work in progress inventory is included only variable costs.
- 4) Profits under marginal costing and absorption costing are equal.
- 5) Contribution cannot be calculated as cost of goods sold is deducted from sales under absorption costing.

(31) State a similarity and a difference between liabilities and equity.

(a) Similarity

(b) Difference

(32) State the letter corresponding to the accounting principle given below that best describes each situation given in the table.

- A** - Comparability
- B** - Substance is important than form
- C** - Prudence
- D** - Relevance

| Situation | Corresponding letter |
|---|----------------------|
| 1. Recognition of an asset at its market value | |
| 2. Identifying assets acquired under a finance lease with its corresponding liabilities | |
| 3. Reporting last year's figures in financial statements | |
| 4. Assessing the recoverability of debtors and making adjustments | |

(33) Bank balance of a company as at 31.03.2022 was Rs. 450,000. It did not tally with the bank statement balance as at that date. A comparison of these balances revealed the following.

- A debtor has deposited a cheque of Rs. 80,000 directly to the bank.
- Standing order payments paid by bank is Rs. 40,0000.
- A cheque of Rs. 60,000 deposited in the bank has been dishonoured.
- A cheque of Rs.60,000 deposited in the bank has not been realized yet.
- A cheque pf Rs.30,000 issued for payments and has not been yet presented.

Calculate the following as at 31.03.2021.

(a) Adjusted bank balance Rs.

(b) Balance as per bank statement Rs.

(34) The inventory of a company consists of two items **A** and **B**. The following information is given related to the stock balances as at 31.03.2022.

| Inventory item | Physical balance (units) | Balance as per the books (units) | Unit costs (Rs) | Expected unit selling price (Rs) | Expected unit selling expenses (Rs) |
|----------------|--------------------------|----------------------------------|-----------------|----------------------------------|-------------------------------------|
| A | 1,000 | 1,000 | 40 | 75 | 15 |
| B | 800 | 900 | 70 | 65 | 5 |

(a) If stock is valued under the item method, the stock value to be shown in the balance sheet as at 31.03.2022 is,
Rs.....

(b) Write journal entries to adjust the inventory difference in the books, assuming that the difference between the physical and book balances of stock item B is recovered from the storekeeper at the expected selling price.

.....
.....

(35) Some of the cost elements of a dairy products company are given below. Assuming that the cost unit is ice cream, mark “√” in the relevant column to distinguish whether the cost element is direct or indirect.

| Cost element | Direct cost | Indirect cost |
|--|-------------|---------------|
| Depreciation of the Ice-cream production machine | | |
| Fresh milk purchased | | |
| Rates of the factory | | |
| Monthly salary paid to factory manager | | |

(36) As at 31.03.2022, the total assets and total liabilities of the company are Rs. 1,000,000 and Rs. 300,000 respectively. The following mistakes have been made in arriving at these figures.

- Rs. 20,000 of advance received from a customer for sale of goods in April 2022 have been recognized as a revenue.
- Electricity bill unpaid for the month of March 2022 has been omitted from the books of accounts.
- Rs.10,000 of a sales invoice has been recorded twice in the sales journal.

Calculate total assets and total liabilities after correcting the above errors.

(a) Total assets

(b) Total liabilities

(37) State the accounting concept which is most applicable to each of the following situations in a garment factory.

- A. Classifying fabric stock as current assets and sewing machines as non-current assets.
- B. Recognize a portion of the factory rent paid during the year as a pre-paid payment.
- C. Valuation of year-end fabric inventory at the lower of cost and net realizable value.
- D. Recognition of sales revenue at the time the garment is sold.

| Item | Accounting concept |
|------|--------------------|
| A - | |
| B - | |

C -

D -

(38) Following are the current account balances of Namal and Hasna partnership.

| | As at 31.03.2022 (Rs.) | As at 31.03.2021 (Rs.) |
|-------|------------------------|------------------------|
| Namal | 960,000 | 500,000 |
| Hasna | 940,000 | 600,000 |

Following are the terms of partnership agreement.

- Namal and Hasna is entitled to a remuneration of Rs. 240,000 and Rs. 360,000 respectively.
- Namal and Hasna share profits and losses in the ratio of 3:2 respectively.

For the year ended 31.03.2022, Namal and Hasna has been paid salary of Rs. 200,000 and Rs. 300,000 respectively.

What is the profit earned by the partnership for the year ended 31.03.2021?

.....

(39) State the three basic characteristics that an asset should have according to the conceptual framework for preparing and presenting financial statements.

- I.
- II.
- III.

(40) Indicate whether the following statements are true or false according to the relevant Sri Lanka Accounting Standard by placing a '✓' mark in the appropriate column.

| Statement | True | False |
|--|-------|-------|
| 1. A provision is an obligation with uncertainty of time and amount. | | |
| 2. Contingent liabilities are recognized in an entity's financial statements. | | |
| 3. Changes in accounting estimates are adjusted in an entity's financial statements in the current year and future accounting periods. | | |
| 4. Determining the accounting policies of an organization is always at the discretion of managers. | | |

(41) After R joined the partnership in which P and Q shared profits and losses equally, the new profit and loss ratio was 5:3:2. If R brought his goodwill share of Rs. 100,000 in cash, how should it be divided between P and Q?

.....

(42) The balance of lifetime membership fee account of Dimuthu Sports Club as at 31.03.2021 was Rs. 300,000. 10% of it is added annually to the membership fee income. The annual membership fee per member of the sports club is Rs. 2,000 and as at 31.03.2022 the number of members excluding life time members was 200. As at 31.03.2021, there were 25 members who did not pay membership fees and there were 30 members who paid membership fees for the next year also. As at 31.03.2022, there were 20 members who did not pay membership fees and 15 members who paid membership fees for the next year.

- I. Membership fee that should be included in the income statement for the year ended 31.03.2022.
Rs.....
- II. Membership fee received in cash for the year ended 31.03.2022.
Rs.....

(43) The balance in the Debtors Control Account of a business as at 31.03.2022 has been compared with the total of the debtors ledger balances as follows. The subledger is correctly prepared.

| Description | Rs. 000 |
|---|---------|
| Balance as per debtors control account | 8,000 |
| ADD : under estimation of sales | 800 |
| LESS : underestimation of sales returns | -300 |
| Balance as per debtors ledger | 8,500 |

10% on the debtor control account balance before the above comparison have been provided for allowance for impairment losses on trade receivables. Ignoring the above comparison, the draft income statements showed a profit of Rs. 2,000,000.

What is the profit for the year after correcting the above errors?

Rs.

(44) The following information is provided in relation to a product manufactured by a company.

| | |
|---------------------------|-------------|
| Prime cost | Rs. 900,000 |
| Budgeted overhead costs | |
| Assembly department | Rs. 300,000 |
| Finishing department | Rs. 500,000 |
| Warehouse | Rs. 100,000 |
| Budgeted machine hours | 50,000 |
| Budgeted labor hours | 50,000 |
| Budgeted production units | 30,000 |

The warehouse provide service equally to the production departments. One unit takes 2 machine hours and 4 labor hours to produce. The assembly and finishing departments absorb overhead costs on a machine hour and labor hour basis, respectively.

Calculate the unit production cost.

- III. Company which has invested more debt capital to acquire assets
- IV. Company which generates a higher return to share holders

(48) Following information was extracted from the financial statements of a limited company.

| | 2022.03.31 | 2021.03.31 |
|-------------------|------------|------------|
| Stock | 240,000 | 160,000 |
| Trade receivables | 40,000 | 60,000 |

Total sales for the year ended 31.03.2022 was Rs. 800,000 of which 62.5% were credit sales. The gross profit ratio is 25% of the selling price. (Assume there are 360 days in the year.)

Calculate the following

- I. Stock turnover ratio
- II. Debt collection period

(49) Indicate whether the following statements related to financial accounting and management accounting are true or false by placing an X in the relevant column.

| | True | False |
|---|-------|-------|
| A. Financial accounting reports are used by external parties only. | | |
| B. Submission of financial accounting reports is a legal requirement. | | |
| C. It is mandatory to follow Sri Lanka Accounting Standards when preparing management accounting. | | |
| D. Management accounting reports are prepared whenever is required. | | |

(50) State whether the following will increase or decrease the net present value of an investment project, assuming other factors remain constant.

- A. Increase in the discount rate
- B. Reduction in the initial investment
- C. Increase in the scrap value of the investment
- D. Increase in the initial working capital needs

General Certificate of Education (Adv. Level) Examination - 2022

Accounting

33 E II

Three Hours

Additional Reading Time - 10 minutes

Index No:

Use additional time to go through the question paper,select the questions you will answer and decide which of them you will prioritise.

Use of non-programmable calculators is allowed.

Instructions:

- * Answer **five** 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.
- * This questions and paper carries **200** marks.

1. ACCA PLC is a VAT registered company. Following is the trial balance of the company as at 31.03.2022.

| Description | Dr (Rs. 000) | Cr (Rs. 000) |
|--|--------------|--------------|
| Stocks (As at 01.04.2021) | 300 | |
| Administration expenses | 900 | |
| Revaluation reserve | | 300 |
| Sales | | 9,200 |
| Purchases | 4,600 | |
| PPE | 2,300 | |
| PPE Accumulated depreciation (as at 01.04.2021) | | 250 |
| Trade Receivable | 850 | |
| Distribution expenses | 471 | |
| other expenses | 100 | |
| Payable EPF | | 20 |
| Allowance for Impairment losses on trade receivable (as at 01.04.2021) | | 85 |
| Paid tax (for the year 2020/2021) | 450 | |
| Provision for tax (as at 01.04.2021) | | 400 |
| Finance expenses | 62 | |
| Trade Creditors | | 192 |
| Ordinary share capital | | 2,000 |
| Retained earnings | | 250 |
| Paid VAT | 400 | |
| Lease installment account | 400 | |
| Cash | 1,864 | |
| | 12,697 | 12,697 |

Additional information :

- I. Cost of the stock as at 31.03.2022 was Rs. 560,000 and this stock was sold for Rs. 580,000 on 01.06.2022 by incurring an expense of Rs. 30,000. Board of directors approved financial statements to be published on 30.06.2022.
- II. On 01.04.2021, a building was taken for monthly rent at Rs. 15,000 and the rent was paid on the same day for 15 months, which is included in administrative expenses.
- III. Purchases and sales are shown included 15% VAT.
- IV. Following are the details of property plant and equipment.

| Asset | Cost (Rs.000) | Carrying value as at 01.04.2021 (Rs.000) |
|------------------|------------------|--|
| Land | 1,200 | 1,200 |
| Building | 800 | 640 |
| Office equipment | 300 | 210 |

- V. PPE should be depreciated 10% annually under the straight line method.
- VI. The land was revalued for the second time on 31.03.2022 at Rs. 1,000,000 and the buildings on 01.04.2021 were revalued at Rs. 680,000 for first time.
- VII. A Motor vehicle was purchased under a lease on 01.04.2021, and the lease period is 04 years. Lease instalments to be paid are as follows. At the end of the lease term, ownership of the asset will be transferred to the business.

| | Rs. |
|-------------|---------|
| First year | 400,000 |
| Second year | 300,000 |
| Third year | 200,000 |
| Forth year | 150,000 |

- The implicit interest rate is 10% and useful life time of the MV is 10 years.
 - Present value of minimum lease payments on 10% discount factor is Rs. 830,000.
 - No entry was made in this regard except debiting the first lease instalment paid to the lease instalment account.
- VIII. Employer contributes 15% and employee contributes 10% for the EPF on the employee's gross salary. Employer contributes 3% to ETF. Only employee contribution for EPF of the last quarter is accounted and no other records was kept for the quarter. EPF expenses paid during the year were Rs. 90,000 and ETF costs Rs. 18,000 is included in administrative expenses. EPF and ETF relevant for the first three quarters have been paid correctly.
 - IX. Rs. 50,000 should be written off as bad debts and on remaining trade receivables Rs. 80,000 should be made as allowance for impairment losses on trade receivable.
 - X. Income tax should be 1/4 of the current year profit before tax.
 - XI. Directors has decided the followings.
 - Capitalize Rs. 100,000 by using the retained earnings reserves.

Required,

1. Statement of profit or loss and other comprehensive income statement for the year ended 31.03.2022. (Including accounting notes)
2. Statement of financial position as at 31.03.2022.
3. Statement of changes in equity for the year ended 31.03.2022.

2. (A) CINEC PLC manufactures 02 types of footwear. (Type A and Type B) It consists of three production departments (Machining, Assembly and Finishing). The Factory and the warehouse are located separately. Below are the budgeted overheads for the year 2022.

| Overhaed costs | Value Rs. 000 |
|---------------------------|---------------|
| Indirect wages | |
| Machinery department | 430 |
| Assembly | 320 |
| Finishing | 310 |
| Warehouse | 100 |
| Rent | |
| Factory | 2,000 |
| Warehouse | 800 |
| Lighting | |
| Factory | 400 |
| Warehouse | 140 |
| Insurance - warehouse | 400 |
| Overheads not distributed | |
| Machine dep | 900 |
| Safety charges | 400 |

Additional information,

| Item | Machining | Assembly | Finishing | Warehouse |
|-------------------------------|-----------|----------|-----------|-----------|
| Floor area (square meters) | 700 | 800 | 500 | 300 |
| Machine cost | 800 | 200 | 400 | 100 |
| No.of machine hours | 30,000 | 20,000 | 12,000 | - |
| Kilowatt hours | 1,400 | 1,600 | 1,000 | 600 |
| No.of direct labour hours | 40,000 | 35,000 | 28,000 | - |
| No.of security officers | 15 | 10 | 5 | 10 |
| No.of goods requisition notes | 40 | 30 | 10 | - |

- The machinery department absorbs overhead costs on machine hour basis and the other two production departments absorbs overhead cost on direct labour hour basis.
- Budgeted information to complete a pair of footwear is as follows.

| Department | A | B |
|------------|---|---|
| Machinery | 2 | 3 |
| Assembly | 4 | 2 |
| Finishing | 1 | 4 |

Required,

1. Overhead cost analysis statement by showing the basis of apportionment (including the re-apportionment of the warehouse)
2. Calculate the overhead absorption rates for each production departments.
3. Calculate the overhead cost absorbed per pair of footwares of each types.

(B) Following are the salary details of drying division employees of Questionbank.lk company for the month of March 2022.

- I. No.of hours worked

| Name of the employee | No.of Workings hours on weekdays | no.of Working hours on sundays |
|----------------------|----------------------------------|--------------------------------|
| Salani | 176 | 10 |
| Chalani | 168 | 10 |
| Kulani | 160 | - |
| Thulani | 150 | - |

- II. The standard number of hours each employee should work in a month is 160. A basic salary of Rs. 100 per hour is paid.
- III. Overtime Allowance is Rs. 150 per hour, and also if working on Sundays and holidays Rs. 200 per hour is paid.
- IV. The employee contributes 10% and the employer contribute 15% to the Employee Provident Fund on the basic salary. 3% must be contributed to the Employees Provident Fund by employer.
- V. Deductions from the salary,
- Rs. 300 each for welfare association.
 - Chalani's loan deduction Rs. 2,000 and kalani Rs. 1,000.

Required,

1. Salary sheet of Questionbank.lk for the month of march 2022.
 2. March 2022
 - Salary control account
 - Payable EPF account
 - Payable ETF account
 3. Total labour cost of Questionbank.lk for the month of March 2022.
3. (A) The statement of financial position of Mobitel service business as at 01.04.2022 was as follows. The business is registered for Value Added Tax (VAT) and for every service provided by the business is subject to 5% VAT.

| Assets | Rs.000 |
|------------------------------------|------------|
| Office equipment (cost 270,000) | 250 |
| Stock | 50 |
| Trade receivables | 30 |
| Bank | 80 |
| | 410 |
| Equity | 380 |
| Liabilities | |
| Payable VAT | 10 |
| trade payables | 20 |
| | 410 |

Transactions and events occurred during the month of April 2022 are as follows.

- 1 04/03 Rs. 100,000 of service has been provided on cash.

- 2 04/05 Marked Price of stock worth of Rs. 22,000 was purchased on credit for Rs. 20,000.
- 3 04/08 Half of the Goods purchased for credit on 04/05 has been returned to the supplier.
- 4 04/12 A value of Rs. 9,000 was received to settle Rs. 10,000 of receivable balance and the balance was written off as bad debts on trade receivables.
Cost of Rs. 45,000 of office equipment was purchased and bringing it into business Rs. 3,000 was paid and for fixing, Rs. 2,000 was incurred. The scrap value of this is Rs. 2,000. Useful
- 5 04/15 life time of the asset is 2 years and that was decided on the date of purchase and it could be used from the date of purchase. Office equipment which was already in the business has an useful life time of 3 years and no scrap value.
- 6 04/18 Water bill for the month was Rs. 4,000 and it was settled through a cheque.
- 7 04/20 A sales invoice of a service provided of Rs. 20,000 was completely omitted from the books of accounts.
- 8 04/22 Rs. 18,000 was paid in cash to settle the trade payable balance as at 01.04.2022 and the balance was regarded as discount received.
- 9 04/25 Losses written off as bad debt on trade receivables on 04/12 was received in cash.
- 10 04/30 Electricity bill for the month was Rs. 3,000. Rs. 2,000 out of it was paid by the owner and the balance was paid by the business.

Required,

- Record the above transactions correctly using the below accounting equation.
Office equipment + Stock + trade receivables + bank = payable VAT + trade receivables + equity
- Calculate the profit or loss for the month ended 30.04.2022 based on the net assets basis.

(B) Following information is provided to you by CINEC Campus PLC.

I. Balances of debtor control account as at 31.03.2022 is as follows.

| | Rs.000 |
|--|--------|
| As at 01.04.2021 – Debit balance | 300 |
| Credit balance | 50 |
| Credit sales | 700 |
| Discount allowed | 10 |
| Charges from debtors (late charges) | 5 |
| Return inwards | 20 |
| Receipts from debtors | 400 |
| Debit balance transferred from purchase Ledger | 12 |
| Credit balance as at 31.03.2022 | 3 |

II. Balance of the debtor control account and the sales ledger balances as at 31.03.2022 was not equal each other. Following reasons were identified after the investigations carried out.

- A sales invoice of Rs. 6,000 was omitted from the books.
- Rs. 2,000 of a debit debtor balance has not been taken to list of debtor balances.
- Rs. 4,000 received from a debtor has been recorded in the receipts journal twice.

- Rs. 10,000 written off as impairment losses on trade receivables were recorded on the sales ledger but not recorded in the control account.
- Sum of the discount allowed column was Rs. 1,000 lesser.
- Rs. 21,000 of return inwards by a debtor has been recorded in the prime entry book as Rs. 12,000.

III. As at 01.04.2021, allowance for impairment losses on trade receivables account was Rs. 40,000. Rs. 5,000 was received related to a balance written off in a previous year. The policy of the company is to provide 5% allowance for impairment losses on trade receivables.

Required,

1. Debtor control account before correcting the above errors.
 2. Adjusted debtor control account.
 3. A reconciliation statement to show the adjusted debtor control account balance and the list of ledger balances (balance before corrections)
4. (A) Darshan and Kumara are partners in Sikuliya trading business. Ruwan was joined as a new partner to the partnership business on 01.04.2021. Following are some extracts from the accounts prepared for the year ended 31.03.2022 by a junior Accounts Clerk of the business. Partners were sharing profits equally.

| | Dr (Rs.) | Cr (Rs.) |
|---|-------------|-------------|
| Balance as at 01.04.2021 | | |
| Capital accounts - Darshan | | 700,000 |
| - Kumara | | 500,000 |
| Current accounts - Darshan | | 24,000 |
| - Kumara | | |
| Stocks as at 31.03.2022 | 200,000 | |
| Loan obtained from Darshan - 5% (2021.10.01) | | 100,000 |
| Draft Profit before distribution | | 504,000 |

Internal audit revealed the following errors that has been made when calculating the profit.

- I. Market value of stock on 31.03.2022 was Rs. 220,000 and direct selling expenses of the stock is Rs. 40,000. No attention has been paid to that information.
- II. Interest on the loan from Darshan has been recorded as Rs. 5,000.
- III. The goods drawings by Darshan and Kumar respectively were Rs. 10,000 and Rs. 8,000 No adjustment has been made in relation to it.
- IV. On 01.10.2021, Kumar leased a warehouse building owned by him for Rs. 160,000 to the business for two years. On the same day onwards, it was rented for Rs. 10,000 monthly to another business and the business has received rental income for 2 years and one year rental income has been adjusted in the profit.
- V. On 01.04.2021, property, plant and equipment was Rs. 100,000 and out of it Rs. 20,000 worth of equipment was sold on 30.06.2021 for Rs. 17,000. Cash received from the disposal is shown as other income. This equipment was acquired on 01.04.2018. Property, plant and equipment should be depreciated at the rate of 10% annually on cost.

Following additional information is provided to you.

- On 2021.04.01, Ruwan brought Rs. 300,000 as capital and the goodwill as at that date was estimated as Rs. 90,000 and agreed to be recorded through the capital accounts.
- Partners are entitled to a 10% annual interest for the capital. However Ruwan's interest was not paid until 31.03.2022.
- Partners should be paid Rs. 5,000 as a monthly salary.
- New profit sharing ratio is 7:5:3.
- Darshana's and Kumara's capital interests and salary details as at 31.03.2022 are as follows.

| | Darshana (Rs.) | Kumara (Rs.) |
|-----------------------|----------------|--------------|
| Paid capital interest | 12,000 | 10,000 |
| Paid salary | 15,000 | 15,000 |

Required,

1. Journal entries to correct the draft profit (narration is not needed)
2. Profit and loss distribution account for the year ended 31.03.2022
3. Capital accounts and current accounts of partners for the year ended 31.03.2022

(B) ACCA purchased a Motor vehicle and a furniture equipment under a lease on 01.04.2021. Following is the summary of the information.

| Item | Date of purchase | Percentage of lease | Lease period | Useful life of the asset | Fair value of the assets (as at date of purchase) |
|---------------------|------------------|---------------------|--------------|--------------------------|---|
| Motor Vehicle | 2021/04/01 | 50% | 4 | 8 | 1,600,000 |
| Furniture equipment | 2021/04/01 | 40% | 2 | 5 | 400,000 |

| Item | Value of the annual instalment | interest | |
|---------------|--------------------------------|----------|---------|
| | | 2021/22 | 2022/23 |
| Motor Vehicle | 250,000 | 100,000 | 50,000 |
| Furniture | 50,000 | 20,000 | 15,000 |

All the lease installments of these assets should be paid at the end of the year and any installment relevant for the year 2021/2022 has not been paid yet. (No scrap value for any of these assets)

Required,

1. Journal entries relevant to record the above transactions.
2. Highlights on Statement of Financial position as at 31.03.2022.

5. (A) Summary of the financial statements of CINEC Campus PLC is as follows.

| | as at 31.03.2022 Rs. 000 | as at 31.03.2021 Rs. 000 |
|--|-----------------------------|-----------------------------|
| | | |

| | | |
|--|---------------|---------------|
| Non current assets | | |
| PPE – At Cost | 31,000 | 28,800 |
| PPE – accumulated depreciation | (5,300) | (4,400) |
| Right to use assets | | |
| - Cost | 3,000 | - |
| - Accumulated depreciation | (300) | - |
| 12% long term investments | 2,000 | 3,000 |
| Current assets | | |
| Trading stock | 6,800 | 4,200 |
| Trade receivables (After making making 10% allowance for impairment loss on trade receivables) | 4,500 | 2,700 |
| Pre-paid operating expenses | - | 400 |
| Receivable investment income | 240 | - |
| Cash and cash equivalents | 7,600 | 7,700 |
| Total assets | 49,540 | 42,400 |
| Equity and liabilities | | |
| Stated capital – Ordinary shares | 30,000 | 18,000 |
| - Retained earnings | 3,000 | 1,800 |
| - Revaluation reserves | 4,740 | 2,500 |
| Total equity | 37,740 | 22,300 |
| Non current liabilities | | |
| 12% bank loan | 5,000 | 7,500 |
| Lease creditors | 1,400 | |
| Current liabilities | | |
| Lease creditors | 700 | - |
| Trade payables | 3,200 | 2,000 |
| Payable income tax | 500 | 200 |
| Payable interests | 600 | - |
| Payable operating expenses | 400 | 500 |
| Bank OD | - | 9,900 |
| Total equity and liabilities | 49,540 | 42,400 |

Additional information,

- I. Part of the Bank loan and the interests for 12 months has been paid on 01.01.2022.
- II. Part of the long term investments have been realized on 31.03.2022 with relevant incomes.
- III. Other expenses for the year ended 31.03.2022

- PPE depreciation Rs. 2,850,000 (excluding right to use assets)
- Bad debts Expenses Rs.600,000.
- Stock written off Rs.150,000.
- Income tax Rs.750,000
- First revaluation loss on furniture Rs. 500,000.

- IV. During the year ending 31.03.2022, Rs. 700,000 has been paid as dividend and Rs. 1,200,000 of retained earnings has been capitalized.
- V. Down payment of Rs.400,000 has been paid for the right to use asset acquired on 01.04.2021 under a lease agreement and Rs.100,000 of legal and other direct primary expenses has been paid on the date of acquisition.
- VI. A distribution vehicle with a carrying value of Rs. 4,200,000 was sold for cash Rs. 5,000,000 during the year ended 31.03.2022. Accumulated depreciation as at that date was Rs. 1,800,000. Revaluation surplus gained from the first machine revaluation has also been recorded. Office equipment were purchased for cash.

Required,

1. Cash flow statement for the year ended 31.03.2022 according to the standard LKAS 07 (cash flow statement)

(B) Following are the information related to the liquid milk stocks of “Wanni” dairy products manufacturers.

- Annual liquid milk consumption 24,000 litres
- Price per milk litre is Rs. 24
- Ordering cost per order is Rs. 50
- Cost of Holding the stock is 10% of the cost of liquid milk litre

Required,

1. Economic order quantity (EOQ)
2. No.of orders to be made per year

6. (A) Below is a Summary of Receipts and Payments Report of Didula Association for the year ending 31 March 2022. Subsequent accounting investigation revealed that all receipts and payments were not included in this report.

| Receipts | Rs. | Payments | Rs. |
|-----------------------------------|---------|-------------------------------|---------|
| Cash balance as at 01.04.2021 | 350 | Stationery and printing | 3,000 |
| Registration fees | 1,200 | Postal and electric messages | 1,750 |
| Received membership fees | 42,250 | Annual meeting expenses | 5,150 |
| Amount taken from savings account | 30,400 | Clerk expenses | 2,400 |
| Donations | 1,600 | Purchase of a type writer | 7,500 |
| Tickets | 30,800 | Travelling charges | 2,750 |
| | | Audit fees | 500 |
| | | Medical and other benefits | 7,350 |
| | | Deposits in savings account | 45,000 |
| | | Festival expenses | 22,500 |
| | | Cash balance as at 31.03.2022 | 8,700 |
| | 106,600 | | 106,600 |

I. Association maintains a savings account and following revealed after checking the passbook.

- Balance as at 01.04.2021 was Rs. 21,000.
- Deposits and withdrawals which were mentioned in the report are correct.
- During the year Rs. 1,600 have been credited as savings account interest for the year.

II. Following information revealed from members register.

| | As at 01.04.2021 | As at 31.03.2022 |
|-------------------------------------|------------------|------------------|
| Receivable membership fees | Rs. 1,300 | Rs. 2,200 |
| Membership fees received in advance | - | ₹. 500 |

III. An event has been organized to mark the United Nations Health Day in October 2021. Below is the statement of accounts maintained by the Organizing Committee regarding receipts and expenditure.

| | |
|--|--------|
| Sale of tickets on the festival day | 30,800 |
| Expenses (for festival) | 12,000 |
| Entertainment for guests | 8,500 |
| Building rent for festival (paid for divisional authority) | 2,000 |

IV. Audit fees for the year is agreed for Rs. 2,000.

V. Membership fund consists of an amount of Rs. 50,000 invested in previous years.

VI. Annual building rent of the association purchased under a lease in 2019 is Rs.20,000. No rent has been paid during the current year.

Required,

1. Income and expense account of the association for the year ended 31.03.2022
2. Statement of Financial position as at 31.03.2022

(B) A company manufacturing a single product has an annual operating capacity of 1,500 units. The budgeted information of this product for the year 2022 is given below.

| | |
|--|-------------|
| Annual production and sales (units) | 1,200 |
| Per unit Rs. | |
| Selling price | 1,200 |
| Direct material | 160 |
| Direct labour (paid based on the units) | 180 |
| Variable production overhead cost | 100 |
| Variable non production overhead costs | 200 |
| Annual fixed production overhead costs | Rs. 132,000 |
| Annual fixed non production overhead costs | Rs. 180,000 |

Required,

1. Variable cost per unit
2. Production cost per unit
3. Profit per unit
4. Total cost at a operating capacity of 1,500 units

Suggested Answers

| | | | | | |
|------|---|------|---|------|---|
| (1) | 1 | (2) | 4 | (3) | 2 |
| (4) | 3 | (5) | 3 | (6) | 2 |
| (7) | 5 | (8) | 5 | (9) | 4 |
| (10) | 3 | (11) | 1 | (12) | 1 |
| (13) | 4 | (14) | 5 | (15) | 1 |
| (16) | 1 | (17) | 2 | (18) | 2 |
| (19) | 2 | (20) | 5 | (21) | 4 |
| (22) | 4 | (23) | 2 | (24) | 1 |
| (25) | 5 | (26) | 1 | (27) | 4 |
| (28) | 5 | (29) | 1 | (30) | 4 |

(31) (a) Financial Source, Balance sheet element, Having a credit balance in the accounts

(b)

| | Liabilities | Equity |
|--|-------------------------------------|--|
| • Present obligation to settle on a defined date | yes | no |
| • Classification as current and non current | can | Do not classify |
| • If returns are paid then, | Expense, interest payment | Not an expense, consider as dividends, |
| • Nature | Settlement occurs on a defined date | No defined date to settle |
| • Ownership for the profit/loss for the year | No ownership | Have ownership |

(32)

1. D
2. B
3. A
4. C

(33)

(a) Rs.430,000.

(b) Rs.400,000.

(34) (A) Rs. 88,000

(B)

| | Dr (Rs) | Cr (Rs) |
|---------------------------------------|----------------|----------------|
| Cash to be received from store keeper | 6,500 | |
| Stock loss | 500 | |
| Cost of sales/purchases | | 7,000 |

(35)

| Cost element | Direct cost | Indirect cost |
|--|-------------|---------------|
| Depreciation of the ice cream production machine | | ✓ |
| Fresh milk purchased | ✓ | |
| Rates of the factory | | ✓ |
| Monthly salary paid for factory manager | | ✓ |

(36) a) Rs.990, 000

b) Rs. 325,000

(37)

Accounting concept

- A - Going concern
- B - Accrual/matching
- C - Prudence
- D - Realizable

(38) Rs.1,300,000

(39) Result of a past event

Probable of inflow of economic benefits to the business

Ability to control by the business

(40)

| Statement | True | False |
|--|--------------|--------------|
| 1. A provision is an obligation with uncertainty of definite time and amount. | ✓..... | |
| 2. Contingent liabilities are recognized in an entity's financial statements. | | ✓..... |
| 3. Changes in accounting estimates are adjusted in an entity's financial statements in the current year and future accounting periods. | ✓..... | |
| 4. Determining the accounting policies of an organization is always at the discretion of managers. | | ✓..... |

(41) Ratio foregone is - 0:1

Therefore, total goodwill share is transferred to Q.

(42) I. Rs. 400,000

II. Rs. 380,000

(43) Rs.2,450,000

(44) Rs. 88

(45) I. 3,800 units

II. 11,400 units

- (46) I. Rs. 400
II. Rs. 1,100,000

- (47) 1. A
2. A
3. B
4. A

- (48) 1. 3 times
2. 36 days

(49)

| | True | False |
|---|-------------|--------------|
| A | | X |
| B | X | |
| C | | X |
| D | X | |

- (50) A. Decrease.
B. Increase.
C. Increase.
D. Decrease.

Suggested Answers

01.
(1)

**Profit & Loss and other comprehensive Income Statement
Of ACCA Plc
For the year ended 31.03.2022 (,000)**

| | | |
|----------------------------|---|------------|
| Sales | | 8,000.00 |
| Cost of sales | 1 | (3,740.00) |
| Gross profit | | 4,260.00 |
| Other income | | |
| Factory and administration | | (989.00) |
| Distribution expenses | | (599.00) |
| Finance expenses | | (145.00) |
| Other expenses | | (110.00) |
| Profit before tax | | 2,417.00 |
| Income tax | 2 | (654.25) |
| Profit for the period | | 1,762.75 |
| Other comprehensive income | | |
| Building revaluation | | 40.00 |
| Land revaluation | | (200.00) |
| Total comprehensive income | | 1,602.75 |

(2)

**Statement of changes in equity
ACCA PLC**

For the year ended 31.03.2022 (, 000)

| | Ordinary shares | Revaluation reserve | General reserve | Retained earnings |
|------------------------------|-----------------|---------------------|-----------------|-------------------|
| B/B/F | 2,000 | 300 | | 250 |
| Retained earnings | | | | 1,762.75 |
| Building revaluation | | 40 | | |
| Transfers to general Reserve | | | 100 | -100 |
| Land revaluation | | -200 | | |
| | 2,000 | 140 | 100 | 1,965.75 |

Statement of financial position
Of ACCA PLC
As at 31.03.2022 (,000)

| | | | |
|--------------------------------|----|----------|----------|
| Non current assets | | | |
| PPE | 03 | 1,792 | |
| Right to use assets | | 747 | 2,539 |
| Current assets | | | |
| Closing stock | | 550 | |
| Pre-paid building rent | | 45 | |
| Debtors | | 720 | |
| Cash | | 1,864 | 3,229 |
| | | | 5,718.00 |
| Equity and liabilities | | | |
| Ordinary shares | | 2,000 | |
| Revaluation reserve | | 140 | |
| General reserve | | 100 | |
| Retained earnings | | 1,912.75 | 4,152.75 |
| Non current liabilities | | | |
| lease creditors | | 264.3 | 264.3 |
| Current liabilities | | | |
| Lease creditors | | 248.7 | |
| Payable EPF | | 50 | |
| Payable ETF | | 6 | |
| Payable VAT | | 200 | |
| Trade payables | | 192 | |
| Payable tax | | 604.25 | 1,300.95 |
| | | | 5,718.00 |

Note 01

Note 02

| | | | |
|---------------|------------------|---------------------|----------------|
| Opening stock | 300,000 | Income tax | 604,250 |
| Purchases | 4,000,000 | Tax (overprovision) | <u>50,000</u> |
| Closing stock | <u>(560,000)</u> | | <u>654,250</u> |
| | <u>3,740,000</u> | | |

Note 03

| | Land | Building | Office equipment |
|-------------|--------------|-----------------|-------------------------|
| B/F | 1,200 | 800 | 300 |
| Purchases | | | |
| Disposals | | | |
| Revaluation | (200) | 40 | |
| | 1,000 | 680 | 300 |
| B/F | | 160 | 90 |
| Disposals | | (160) | |

| | | | |
|--------------------------------|--------------|------------|------------|
| Annual depreciation | | 68 | 30 |
| Total provision for dep | | 68 | 30 |
| | | | |
| Net value | 1,000 | 612 | 180 |

02. (a)
(01)

| Description | Allocation base | Total | production | | | Warehouse service |
|-------------------------|-------------------------|--------------|--------------|--------------|--------------|-------------------|
| | | | Machinery | Assembly | Finishing | |
| Indirect wages | Direct | 1,160 | 430 | 320 | 310 | 100 |
| Rent | Floor area 7:8:5 | 2,000 | 700 | 800 | 500 | |
| Warehouse rent | Direct | 800 | | | | 800 |
| Lighting | Kilo Watt 14:15:1 | 400 | 140 | 160 | 100 | |
| Lighting warehouse | Direct | 140 | | | | 140 |
| Insurance | Direct | 400 | | | | 400 |
| Machine depreciation | Machine cost 8:2:4:1 | 900 | 480 | 120 | 240 | 60 |
| Safety charges | No.of employees 3:2:1:2 | 400 | 150 | 100 | 50 | 100 |
| | | 6,200 | 1,900 | 1,500 | 1,200 | 1,600 |
| Re-allocation Warehouse | | | 800 | 600 | 200 | -1,600 |
| | | 6,200 | 2,700 | 2,100 | 1,400 | - |

02.

Machinery department overhead absorption rate = $\frac{\text{Budgeted overhead cost of machinery dep}}{\text{Budgeted machine hours}}$

$$= \frac{2,700,000}{30,000}$$

$$= \underline{\underline{\text{Rs.90 (per machine hour)}}}$$

Assembly department overhead absorption rate = $\frac{\text{Budgeted overhead cost of assembly dep}}{\text{Budgeted direct labour hours}}$

$$= \frac{2,100,000}{35,000}$$

$$= \underline{\underline{\text{Rs.60 (per labour hour)}}}$$

Finishing department overhead absorption rate = $\frac{\text{Budgeted overhead cost of finishing dep}}{\text{Budgeted direct labour hours}}$

$$= \frac{1,400,000}{28,000}$$

$$= \underline{\underline{\text{Rs.50 (per direct labour hour)}}}$$

03.

| | A type | | B type | |
|-----------|--------|------------|--------|------------|
| Machining | 2 × 90 | 180 | 3 × 90 | 270 |
| Assembly | 4 × 60 | 240 | 2 × 60 | 120 |
| Finishing | 1 × 50 | 50 | 4 × 50 | 200 |
| | | <u>470</u> | | <u>590</u> |

(b) 01.

| Name | Additions | | | Deductions | | | Net salary |
|---------|--------------|-------|--------------|------------|---------|-------------------|------------|
| | Basic salary | OT | Gross salary | EPF | Welfare | Loan installments | |
| Salani | 16,000 | 4,400 | 20,400 | 1,600 | 300 | - | 18,500 |
| Chalani | 16,000 | 3,200 | 19,200 | 1,600 | 300 | 2,000 | 15,300 |
| Kalani | 16,000 | - | 16,000 | 1,600 | 300 | 1,000 | 13,100 |
| Thulani | 15,000 | - | 15,000 | 1,500 | 300 | - | 13,200 |
| | 63,000 | 7,600 | 70,000 | 6,300 | 1,200 | 3,000 | 60,100 |

02.

| Salary control account | |
|------------------------|--------|
| Welfare salary | 1,200 |
| Loan instalment | 3,000 |
| EPF | 6,300 |
| Cash | 60,100 |
| | 70,600 |

| Payable EPF A/C | |
|-----------------|----------------|
| | Employee 6,300 |
| | Employer 9,450 |
| C/D | 15,750 |

| Payable ETF A/C | |
|-----------------|----------------|
| | Employer 1,890 |
| C/D | 1,890 |

03. Total labour cost of the company = **81,940**

Salary = 70,600
 EPF employer = 9,450
 ETF employer = 1,890
 = 81,940

03. (a)

01.

('000)

| | Off. equ. | + | stock | + | Receivable | + | Bank | = | Payable (VAT) | + | Other payables | + | Capital |
|----|-----------|---|-------|---|------------|---|------|---|---------------|---|----------------|---|---------|
| 1 | 250 | + | 50 | + | 30 | + | 80 | = | 10 | + | 20 | + | 380 |
| 2 | | | | | | | 105 | = | 5 | | | + | 100 |
| 3 | | + | 20 | | | | | = | | + | 20 | | |
| 4 | | + | (10) | | | | | = | | | (10) | | |
| 5 | 50 | + | | | (10) | + | 9 | = | | | | | (1) |
| 6 | (2) | | | | | | (50) | = | | | | | (2) |
| 7 | (7.5) | | | | | | | = | | | | | (7.5) |
| 8 | | | | | | | (4) | = | | | | | (4) |
| 9 | | | | | 21 | | | = | 1 | | | | 20 |
| 10 | | | | | | | (18) | = | | | (20) | + | 2 |
| | | | | | | + | 1 | = | | | | + | 1 |
| | | | | | | | (1) | = | | | | + | (3) |
| | | | | | | | | = | | | | | 2 |
| | 290.5 | + | 60 | + | 41 | + | 122 | = | 16 | + | 10 | + | 487.5 |

02.

$$\begin{aligned} \text{Net profit} &= (\text{Closing equity} - \text{opening equity}) + \text{drawings} - \text{additional capital} \\ &= (487.5 - 380) + 0 - 2 \\ &= 107.5 - 2 \end{aligned}$$

$$\text{Net profit ('000)} = 105.5$$

(b)

01.

Debtors control account

| | | | |
|--------------|------------------|-------------------|------------------|
| B/F | 300,000 | B/F | 50,000 |
| Sales | 700,000 | Discount allowed | 10,000 |
| Late charges | 5,000 | Return inwards | 20,000 |
| | | Cash receipt | 400,000 |
| | | Transferred debit | 12,000 |
| | | Balance | |
| C/D | 3,000 | C/D | 516,000 |
| | <u>1,008,000</u> | | <u>1,008,000</u> |

02.

Adjusted debtors control account

| | | | |
|----------------------|---------|------------------|--------|
| B/F | 516,000 | B/F | 3,000 |
| Sales | 6,000 | Loss on damages | 10,000 |
| Receipt from Debtors | 4,000 | Discount allowed | 1,000 |

| | | | |
|-----|----------------|----------------|----------------|
| C/D | 3,000 | Return inwards | 9,000 |
| | <u>529,000</u> | C/D | <u>506,000</u> |
| | | | <u>529,000</u> |

03. Reconciliation statement

| | |
|--|----------------|
| Balance as per adjusted debtor control account | 503,000 |
| (+) | |
| (-) | |
| – Ommitted debtor balance | (2,000) |
| – Cash receipts | (4,000) |
| – Ommitted sales invoice | (6,000) |
| – Loss on damages | (10,000) |
| – Discount allowed | (1,000) |
| Balance as per sales ledger | <u>480,000</u> |

(04) (a)

01.

| | | | |
|------|---------------------------------|----|--------|
| I. | Stock written off | Dr | 20,000 |
| | Closing stock account | Cr | 20,000 |
| II. | Current account - Darshana | Dr | 2,500 |
| | Loan interest account | Cr | 2,500 |
| III. | Current account - Darshana | Dr | 10,000 |
| | Current account - Kumara | Dr | 8,000 |
| | Trade account | Cr | 18,000 |
| IV. | Rent income account | Dr | 60,000 |
| | Rent income received in advance | Cr | 60,000 |
| V. | Other income account | Dr | 13,500 |
| | Accumulated depreciation | Dr | 6,500 |
| | Asset account | Cr | 20,000 |

02.

Profit or loss distribution account

| | | |
|-----------------------------|------|--------------|
| Correct profit | | 431.0 |
| Salary – Darshana | 60.0 | |
| Kumara | 60.0 | |
| Ruwan | 60.0 | (180.0) |
| | | <u>251.0</u> |
| Capital interets – Darshana | 70.3 | |

03.

| | | | |
|-----------------|----------|------|---------|
| | Kumara | 51.5 | |
| | Ruwan | 28.2 | (150.0) |
| | | | 101.0 |
| Profit shares - | Darshana | 47.1 | |
| | Kumara | 33.6 | |
| | Ruwan | 20.3 | (101.0) |
| | | | 0 |

Capital accounts

| | Darshana | Kumara | Ruwan | | Darshana | Kumara | Ruwan |
|----------|----------|--------|-------|----------|----------|--------|-------|
| Goodwill | 42 | 30 | 18 | B/F | 700 | 500 | |
| | | | | Capital | | | 300 |
| | | | | Goodwill | 45 | 45 | |
| C/D | 703 | 515 | 282 | | | | |
| | 745 | 545 | 300 | | 745 | 545 | 300 |

Current accounts

| | Darshana | Kumara | Ruwan | | Darshana | Kumara | Ruwan |
|-----------|----------|--------|-------|-------------------|----------|--------|-------|
| B/F | | 16 | | B/F | 24 | | |
| Drawings | 10 | 8 | | Loan interests | 2.5 | | |
| Capital | 12 | 10 | | Warehouse rent | | 40 | |
| interests | | | | Capital interests | 70.3 | 51.5 | 28.2 |
| salary | 15 | 15 | | Salary | 60 | 60 | 60 |
| | | | | Profit shares | 47.1 | 33.3 | 20.3 |
| C/D | 166.9 | 176.1 | 108.5 | | | | |
| | 203.9 | 135.8 | 108.5 | | 203.9 | 184.8 | 108.5 |

(b) (01)

| | Dr | Cr |
|---|-----------|-----------|
| Right to use asset account | 1,600,000 | |
| Lease creditors | | 800,000 |
| cash | | 800,000 |
| (Recording the purchase of MV under a lease) | | |
| Right to use asset account | 400,000 | |
| Lease creditors | | 160,000 |
| Cash | | 240,000 |
| (Recording the purchase of furniture equipment under a lease) | | |
| Lease interest expense account | 100,000 | |
| Lease creditors | | 100,000 |

(Recording the lease interest amount relevant to the MV)

| | | |
|--------------------------------|--------|--------|
| Lease interest expense account | 30,000 | |
| Lease creditors | | 30,000 |

(Recording the lease interest amount relevant to the furniture equipment)

| | | |
|---|---------|---------|
| Right to use asset depreciation expense account | 200,000 | |
| Accumulated depreciation | | 200,000 |

(Recording the annual depreciation relevant to MV)

| | | |
|---|--------|--------|
| Right to use asset depreciation expense account | 80,000 | |
| Accumulated depreciation | | 80,000 |

(Recording the annual depreciation relevant to furniture equipment)

(02)

Financial position statement

Non current assets

| | |
|---------------------|-----------|
| Right to use assets | 1,720,000 |
|---------------------|-----------|

Non current liabilities

| | |
|-----------------|---------|
| lease creditors | 545,000 |
|-----------------|---------|

Current liabilities

| | |
|-----------------------------------|---------|
| Payable lease installments | 300,000 |
| lease creditors (Current Portion) | 235,000 |

(05) (a)

**Cash Flow Statement
Of CINEC Campus (Pvt) Ltd
for the year ended 31.03.2022 (,000)**

| | | |
|-----------------------------|---------|-------|
| Profit before tax | | 3,850 |
| Workings | | |
| – Depreciation | 3,150 | |
| – Investment income | (360) | |
| – Loan interests | 900 | |
| – Revaluation loss | 500 | |
| – Gain from asset disposal | (800) | 3,390 |
| Working capital changes | | |
| Stock | (2,600) | |
| Trade receivables | (1,800) | |
| Trade payables | 1,200 | |
| Payable operating expenses | (100) | |
| Pre-paid operating expenses | 400 | |

| | | |
|--|---------|---------|
| Cash flows from operating activities | | (2,900) |
| Interest paid | (300) | |
| Tax paid | (450) | (750) |
| Net cash flows generated from operating activities | | 3,590 |
| Investment activities | | |
| MV purchases | 5,000 | |
| Investment income | 120 | |
| INvestment realization | 1,000 | |
| Lease | (500) | |
| Furniture equipment purchase | (6,610) | |
| Net cash flows from investment activities | | (990) |
| Financing activities | | |
| Share issue | 10,800 | |
| Dividends paid | (700) | |
| Bank loan | (2,500) | |
| Lease installment | (400) | |
| Net cash flows from financing activities | | 7,200 |
| Change in cash and cash equivalents | | 9,800 |
| Opening cash balance | | (2,200) |
| Closing cash balance | | 7,600 |

(b)

$$\begin{aligned}
 01. \text{EOQ} &= (20d) / Ch \\
 &= (2 * 50 * 24,000) / 2.4 \\
 &= 1,000 \text{ units}
 \end{aligned}$$

$$\begin{aligned}
 02. \text{No. of orders to be placed per year} &= 24,000 / 1,000 \\
 &= 24
 \end{aligned}$$

(06) (a)

Didula sports club
Income and expenses account
for the year ended 31.03.2022

01.

| | | | |
|----------------------------|--------|------------------------------------|--------|
| Audit Fees | 2,000 | Interests on savings | 1,600 |
| Building rent | 20,000 | Profit from festival on health day | 8,300 |
| Stationary | 3,000 | Registration fees | 1,200 |
| Postal | 1,750 | Donations | 1,600 |
| Meeting expenses | 5,150 | Membership fee | 42,650 |
| Secretary charges | 2,400 | | |
| Transport charges | 2,750 | | |
| Medical and other benefits | 7,350 | | |
| Surplus | 10,950 | | |
| | 55,350 | | 55,350 |

02.

Didula sports club
Financial position statement
As at 31.03.2022

| | | |
|------------------------------------|--------|----------------|
| Non current assets | | |
| Type writer | | 7,500 |
| Membership welfare fund | | 50,000 |
| | | 57,500 |
| Current assets | | |
| Receivable membership fee | 2,200 | |
| Savings | 37,200 | |
| Cash | 8,700 | 48,100 |
| | | 105,600 |
| Accumulated fund | 72,650 | |
| Surplus | 10,950 | 83,600 |
| Current liabilities | | |
| Membership fee received in advance | 500 | |
| Accrued audit fees | 1,500 | |
| Accrued rent | 20,000 | 22,000 |
| | | 105,600 |

(b)

| | |
|------------------------|------------|
| 01. | Rs. |
| Direct material | 160 |
| Direct labour | 180 |
| Variable overhead cost | |
| Production | 100 |
| Non production | <u>200</u> |
| | <u>640</u> |

| | |
|--------------------------|-----|
| 02. | Rs. |
| Direct material | 160 |
| Direct labour | 180 |
| Overhead cost | |
| Variable | 100 |
| Fixed | 110 |
| Production cost per unit | 550 |

| | |
|-----------------------|--------------|
| 03. | Rs. |
| Selling price | 1,200 |
| Production cost | (550) |
| <u>Non production</u> | |
| – variable cost | (200) |
| – fixed cost | <u>(150)</u> |

300

04. Total cost when activity level is 1500 units

| | Rs. | |
|-------------------|----------------|------------------|
| Variable cost | 640 x 1,500 | 960,000 |
| <u>Fixed cost</u> | | |
| – Production | 132,000 | |
| – Non production | <u>180,000</u> | <u>312,000</u> |
| – Total cost | | <u>1,272,000</u> |



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