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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
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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) විභාග, 2016 අගෝස්තු
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2016 ஓகஸ்ட்
General Certificate of Education (Adv. Level) Examination, August 2016

ගිණිමකරණය 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 lines.
- * 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	1 st Examiner	
01 - 30		2 nd Examiner	
31 - 50		Addl. Chief	
TOTAL		E.M.F.	
		Chief	

- Which of the following statements **best** describes the main purpose of accounting in a firm?
 - (1) To record transactions of the firm in the prime entry books.
 - (2) To record transactions of the firm to prepare financial reports.
 - (3) To prepare financial reports of the firm based on accounting standards.
 - (4) To communicate information about the firm for the use of managers.
 - (5) To communicate information for decision making by stakeholders of the firm. (.....)
- Which of the following accounting concepts provides the basis for classifying assets as current and non-current in the Statement of Financial Position?
 - (1) Accrual
 - (2) Going concern
 - (3) Historical cost
 - (4) Periodicity
 - (5) Prudence (.....)
- Which of the following accounting concepts provides the basis for the recognition of year-end inventory at lower of cost and net realizable value?
 - (1) Accrual
 - (2) Periodicity
 - (3) Substance over form
 - (4) Realization
 - (5) Prudence (.....)
- Which of the following is **not** an enhancing qualitative characteristic of financial information as per the 'Conceptual Framework for Financial Reporting' followed in Sri Lanka?
 - (1) Comparability
 - (2) Faithful representation
 - (3) Verifiability
 - (4) Timeliness
 - (5) Understandability (.....)
- Which of the following statements is **correct** in relation to the accounting process of a firm?
 - (1) The petty cash book is also used as a ledger account of the firm.
 - (2) All source documents are prepared by the accountant of the firm.
 - (3) The purchase journal is used to record all assets purchased on credit basis.
 - (4) The agreement of the trial balance of the firm confirms the accuracy of its accounting process.
 - (5) The summarised information relating to credit sales of goods is recorded in the debtors control account. (.....)
- The following information relates to Daya PLC.

As at 31.03.2016 (Rs.)

As at 31.03.2015 (Rs.)

Rent payable	-	60 000
Repair expenses payable	40 000	80 000

- On 01.04.2014, the company rented a building for a monthly rent of Rs. 30 000.
- Rent and repair expenses paid during the year ending 31.03.2016 were Rs. 480 000 and Rs. 380 000 respectively.

The prepaid rent as at 31.03.2016 and repair expenses for the year ending 31.03.2016 :

Prepaid rent (Rs.)	Repair expenses (Rs.)
(1) 60 000	340 000
(2) 60 000	420 000
(3) 120 000	340 000
(4) 480 000	420 000
(5) 480 000	300 000

(.....)

7. A net salary of Rs. 900 000 was paid by a firm for the month ending 31.03.2016. The contributions of employees and employer for the Employee Provident Fund (EPF) are 10% and 15% respectively, and these have not yet been paid for March 2016. EPF contribution is the only deduction made from the employees' salary. The effect of these transactions is shown in the accounting equation as:

Assets		Liabilities		Equity	
(1) Decrease	Rs. 900 000	Increase	Rs. 150 000	Decrease	Rs. 1 050 000
(2) Decrease	Rs. 900 000	Increase	Rs. 100 000	Decrease	Rs. 1 000 000
(3) Decrease	Rs. 900 000	Increase	Rs. 250 000	Decrease	Rs. 1 150 000
(4) Decrease	Rs. 1 000 000	Increase	Rs. 150 000	Decrease	Rs. 1 150 000
(5) Decrease	Rs. 1 000 000	-	-	Decrease	Rs. 1 000 000 (.....)

8. The trial balance of Renu PLC as at 31.03.2016 did not agree and the difference was transferred to a suspense account. The subsequent investigation revealed the following:

- A - Rs. 200 000 paid for electricity expenses have been recorded only in the cash account.
 B - The purchase journal has been overcast by Rs. 60 000.
 C - Rs. 50 000 received from a debtor has been recorded as a cash payment in the creditors control account.
 D - A sales invoice of Rs. 40 000 has been recorded only in the debtors ledger.

Which of the above errors have contributed to the balance in the suspense account?

- (1) A and C 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 (.....)
9. The following transactions took place during the month of April 2016 in a firm, engaged in the business of renting out a wedding reception hall. The hall is rented at Rs. 400 000 of which 25% is payable at the time of booking the hall and the balance within one week after the wedding reception.

Date	Transaction	Amount (Rs.)
02.04.2016	Balance amount received for the wedding reception held on 28.03.2016	300 000
05.04.2016	Advance received for the wedding reception to be held on 27.04.2016	100 000
15.04.2016	Advance received for the wedding reception to be held on 10.05.2016	100 000
30.04.2016	Operating expenses incurred for month of April 2016	330 000

What is the income and profit/(loss) for the month of April 2016 and receivables as at 30.04.2016?

	Income (Rs.)	Profit/(loss) (Rs.)	Receivables (Rs.)
(1)	200 000	(130 000)	600 000
(2)	400 000	70 000	300 000
(3)	500 000	170 000	600 000
(4)	700 000	370 000	300 000
(5)	800 000	470 000	600 000 (.....)

- Use the following information to answer questions No. 10 and 11.

The following information relates to an Old Boys' Association of a school for the year ending 31.03.2016.

Description	Amount (Rs.'000)
Subscription received (of which $\frac{1}{4}$ th relates to the year ending 31.03.2015)	360
Donations received to purchase sports equipment	500
Interest income earned on the fixed deposit	50
Total expenses	300

Additional information:

- The annual subscription per member is Rs. 4 000. There were 100 members in the association as at 31.03.2016.
- The policy of the association is to recognize donations as income over a period of 5 years commencing from the year of receipt.
- Interest on fixed deposit is receivable when it matures on 31.05.2016.
- All expenses have been paid in cash.
- Cash balance as at 31.03.2015 was Rs. 150 000.

10. What was the surplus for the year ending 31.03.2016?

(1) Rs. 120 000 (2) Rs. 210 000 (3) Rs. 250 000 (4) Rs. 520 000 (5) Rs. 650 000 (.....)

11. What was the net increase in the cash balance for the year ending 31.03.2016?

(1) Rs. 470 000 (2) Rs. 520 000 (3) Rs. 560 000 (4) Rs. 610 000 (5) Rs. 860 000 (.....)

12. Ajith PLC, a business registered for value added tax (VAT), bought a machine for Rs. 4 140 000 on 01.04.2015. This includes Rs. 540 000 paid for VAT. The useful life of the machine is 5 years and it has no residual value.

What is the carrying amount of the machine as at 31.03.2016 as per LKAS 16 (Property, Plant and Equipment)?

(1) Rs. 2 448 000 (2) Rs. 2 880 000 (3) Rs. 3 312 000 (4) Rs. 3 600 000 (5) Rs. 4 140 000 (.....)

13. Which of the following statements is **correct** in relation to a partnership?

- (1) The equity of a partnership is represented by the total of capital and current account balances of the partners and other reserves, if available.
- (2) A partner is entitled to a salary only when a service is provided to the partnership as per Section 24 of the Partnership Ordinance 1890.
- (3) The profits and losses are distributed among partners in proportion to their capital contribution to the partnership as per Section 24 of the Partnership Ordinance 1890.
- (4) The goodwill of a partnership is estimated only on the admission or retirement of a partner.
- (5) A partner can be admitted or retired only on the first or last day of a financial year. (.....)

14. Which of the following can be identified as inventory as per the definition of LKAS 2 (Inventory)?

- A - Goods held for sale in the ordinary course of business
 B - Items in the process of production to be sold in the ordinary course of business
 C - Materials and supplies to be consumed in the production process or in rendering service

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

15. The following information relates to motor vehicles of Rakitha PLC.

Description	Rs.'000
Carrying amount as at 01.04.2015	6 500
Loss on a motor vehicle disposed on 30.09.2015	150
Acquisition of a new motor vehicle on 01.01.2016	4 000

All the motor vehicles available at the beginning of the year have been purchased on 01.04.2010. The motor vehicle disposed during the year had been purchased at a cost of Rs. 3 000 000. The motor vehicles are depreciated at 10% per annum on the straight-line method.

The depreciation for motor vehicles for the year ending 31.03.2016 and the sale proceeds of the motor vehicle disposed were:

Depreciation (Rs.'000)	Sales proceeds (Rs.'000)
(1) 650	1 500
(2) 1 000	1 350
(3) 1 100	1 350
(4) 1 100	1 200
(5) 1 250	1 200 (.....)

16. The summarized income statement of Manel PLC for the year ending 31.03.2016 was as follows:

Description	Rs.'000
Gross profit	280
Expenses (including depreciation Rs. 20 000 and loss on sale of office equipment Rs. 10 000)	100
Income tax expense	80
Profit for the year	100

During the year ending 31.03.2016, the balances of following items have **increased** as follows:

Description	Rs.'000
Inventory	80
Trade receivables	120
Trade payables	130

The income tax paid during the year was Rs. 50 000.

What was the net cash flow generated from operating activities during the year ending 31.03.2016 as per LKAS 7 (Statement of Cash Flows)?

- (1) Rs. 10 000
- (2) Rs. 90 000
- (3) Rs. 150 000
- (4) Rs. 180 000
- (5) Rs. 230 000 (.....)

17. The financial statements of Isuru PLC for the year ending 31.03.2016 were authorized by the directors on 15.06.2016. The following events took place in the company during the period 31.03.2016 to 15.06.2016.

- A - Announcement of a plan to discontinue a segment of the business from 15.04.2016, which is expected to save Rs. 600 000 annually.
 B - Destruction of a main production plant by fire on 20.04.2016 causing a loss of Rs. 1 000 000.
 C - Bankruptcy of a debtor on 30.05.2016 who had a balance of Rs. 750 000 arising from a credit sale made on 30.04.2016.
 D - Declaration of the final dividend of Rs. 300 000 for ordinary shareholders on 15.06.2016.

Which of the above events are considered as **non-adjusting events** for the year ending 31.03.2016 as per LKAS 10 (Events After the Reporting Period)?

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

● Use the following information to answer questions No. 18, 19 and 20.

The following information relates to Namal PLC for the year ending 31.03.2016:

Description	Rs.'000
Sales	1 200
Cost of sales	600
Operating expenses	300
Gain on sale of a motor vehicle	80
Interim dividends paid to ordinary shareholders	100
Revaluation deficit – Office equipment	120
Revaluation surplus – Buildings	180

A surplus of Rs. 90 000 had been recognized on the revaluation of office equipment for the year ending 31.03.2015. The buildings were revalued for the first time during the year ending 31.03.2016.

18. What was the total income and total expenses recognized for the year ending 31.03.2016 as per Sri Lanka Accounting Standards?

	Total income (Rs.'000)	Total expenses (Rs.'000)	
(1)	1 280	900	
(2)	1 340	900	
(3)	1 380	1 020	
(4)	1 460	1 020	
(5)	1 460	1 120	(.....)

19. What was the profit and other comprehensive income recognized for the year ending 31.03.2016 as per LKAS 1 (Presentation of Financial Statements)?

	Profit (Rs.'000)	Other comprehensive income (Rs.'000)	
(1)	160	180	
(2)	250	90	
(3)	260	180	
(4)	350	90	
(5)	380	60	(.....)

20. What was the total comprehensive income and retained earnings for the year ending 31.03.2016 as per LKAS 1 (Presentation of Financial Statements)?

	Total comprehensive income (Rs.'000)	Retained earnings (Rs.'000)	
(1)	340	160	
(2)	340	250	
(3)	440	250	
(4)	440	260	
(5)	440	280	(.....)

21. Which of the following would lead to a **reduction** of the net profit ratio of a trading company in the current year compared to the previous year while the gross profit ratio remained constant?

A - The current years' net realizable value of ending inventory being less than its cost

B - Decrease in the interest income

C - Revaluation of buildings at a deficit for the first time

D - Payment of an interim dividend for the ordinary shareholders

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

22. The following information has been extracted from the income statement of a company for the year ending 31.03.2016.

Sales	Rs. 4 000 000
Profit for the year	Rs. 200 000
Interest expenses	Rs. 60 000
Income tax expense	Rs. 40 000

What were the net profit ratio and the interest cover ratio for the year ending 31.03.2016?

	Net profit ratio (%)	Interest cover ratio (Times)	
(1)	5	3.3	
(2)	5	5	
(3)	6	4	
(4)	6	5	
(5)	7.5	4	(.....)

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23. Which of the following statement is **correct** relating to classification of costs?

- (1) The product cost consists only of direct costs.
- (2) All direct costs are variable costs.
- (3) The depreciation of machinery is considered as a controllable cost.
- (4) The costs are classified mainly as variable and fixed, based on the behaviour.
- (5) The costs are classified as relevant and irrelevant for the measurement of inventory. (.....)

● Use the following information to answer questions No. 24 and 25.

A company uses raw material 'A' for the production of goods. The cost per order of this raw material is Rs. 250 and its annual holding cost is Rs. 100 per unit. The company uses the Economic Order Quantity (EOQ) model to determine the re-order quantity of material 'A'. The following information relates to raw material 'A'.

Maximum usage	750 units per week
Minimum usage	250 units per week
EOQ	1 000 units
Lead time	3 (minimum) – 5 (maximum) weeks

24. What is the maximum stock level of raw material 'A'?

- (1) 1 750 units (2) 2 750 units (3) 3 500 units (4) 3 750 units (5) 4 000 units (.....)

25. What is the annual demand of raw material 'A'?

- (1) 200 000 units (2) 400 000 units (3) 500 000 units (4) 1 250 000 units (5) 2 500 000 units (.....)

● Use the following information to answer questions No. 26 and 27.

The following information relates to a company, which consists of two production departments, namely machine and finishing, and a service department – store.

Description	Machine	Finishing	Store
Budgeted overheads	Rs. 175 000	Rs. 125 000	Rs. 50 000
Overhead absorption rate	Rs. 20 per machine hour	Rs. 10 per labour hour	–

The total overheads of the store are re-apportioned equally between the two production departments. 2 machine hours and 5 labour hours are required to produce a unit of product 'X' manufactured by the company.

26. What are the machine hours and labour hours expected to be used in machine and finishing departments respectively?

	Machine hours	Labour hours	
(1)	8 750	12 500	
(2)	10 000	15 000	
(3)	10 000	10 000	
(4)	17 500	6 250	
(5)	20 000	7 500	(.....)

27. What is the unit cost of production of product 'X' if its estimated prime cost is Rs. 120?

- (1) Rs. 140 (2) Rs. 150 (3) Rs. 160 (4) Rs. 170 (5) Rs. 210 (.....)

28. Which of the following statements are **true** in relation to cost-volume-profit (CVP) analysis?

- A - A contribution earned beyond the break-even point (BEP) generates a profit.
- B - At BEP the total contribution is equal to the total fixed cost.
- C - Beyond BEP the total contribution is equal to the sum of total fixed cost and profit.
- D - Below the BEP fixed cost is higher than total contribution.

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

29. A company produces a single product. The cost of production of this product is Rs. 200 per unit of which 75% is variable. The company is currently producing 14 000 units and its contribution to sales ratio is 50%. The company has to bear an additional fixed production overheads of Rs. 260 000 when the current activity level increases to 16 000 units.

The break-even point (in rupees) at current activity level and the production cost per unit at an activity level of 16 000 units:

Break-even point (Rs.'000)	Cost of production per unit (Rs.)	
(1) 1 400	200.00	
(2) 1 400	210.00	
(3) 1 400	216.25	
(4) 4 200	140.00	
(5) 4 200	210.00	(.....)

30. If all other factors remain constant, which of the following will lead to an **increase** in the net present value of a project?

- A - Increase in the expected cash inflows
- B - Decrease in the initial investment cost
- C - Increase in the residual value of the asset
- D - Increase in the required rate of return

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

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

31. State whether the following activities fall within the scope of management accounting.

Activity	Yes/No
A - Provision of cost information for pricing of products
B - Preparation of general-purpose financial statements
C - Evaluation of long-term investment projects
D - Analysis of profitability of a firm based on accounting ratios

32. Vishwa started a trading business on 01.01.2016 investing Rs. 1 000 000 as capital. He spent 90% of this amount to purchase goods and sold them with a 30% mark-up on cost. The net assets of the business as at 31.03.2016 were Rs. 1 200 000. There was no additional capital introduced or drawings made during the period.

Calculate the following for the period ending 31.03.2016:

(a) Profit Rs. (b) Operating expenses Rs.

33. Saman purchased goods for Rs. 100 000 on credit on 01.04.2016. On the same day, these goods were sold for Rs. 120 000 on cash incurring Rs. 5 000 as selling expenses.

Show the **net effect** of these transactions in the accounting equation using the following format.

Assets (Rs.) = Liabilities (Rs.) + Equity (Rs.)

34. State whether the following transactions would lead to an **increase, decrease** or **no change** in the balance of debtors control account of a manufacturing firm.

Transaction	Increase/Decrease/No Change
A - Sale of used machinery on credit
B - Return of goods sold on credit
C - Writing off of bad debts during the year
D - Making a provision for doubtful debts at the year end

35. A company purchased a machine with a list price of Rs. 500 000 on 01.01.2016. The supplier agreed on a trade discount of 10% on the purchased price and a cash discount of 5% if the due amount is settled within 30 days. The company settled the amount payable within 30 days.

State the following:

(a) The acquisition cost of the machine Rs.

(b) The journal entry to record the discount received for the month ending 31.01.2016:

.....
.....

36. A bank balance of a company as at 31.03.2016 was Rs. 450 000. It did not agree with the bank statement balance on this date. The following were revealed in reconciling these balances.

- A debtor has directly deposited a cheque of Rs. 80 000 in the bank.
- Standing order payments made by the bank was Rs. 40 000.
- A cheque of Rs. 60 000 deposited in the bank has been dishonoured.
- A cheque of Rs. 20 000 deposited in the bank has not yet been realized.
- Cheques issued for Rs. 30 000 have not yet been presented for payment.

Calculate the following as at 31.03.2016:

(a) Adjusted bank balance Rs. (b) Bank statement balance Rs.

37. State which accounting concept is **best** described in the each of the following situations relates to a company.

Situation	Accounting Concept
A - Reporting land at its acquisition price though its fair value is greater
B - Recognizing depreciation of machinery over the period they are intended to use
C - Recognizing all assets with a purchase price less than Rs. 5 000 as expenses
D - Using First-in First-out pricing method continuously for the valuation of inventory

38. For each item below, state the element of financial statements in which it is recognised.

Item	Element
A - Retained earnings
B - Interest receivable
C - Loss on sale of office equipment
D - Provision for warranty

● Use the following information to answer questions No. 39 and 40.

Shakthi, Kalpa and Pawan carried out a partnership sharing profits and losses in the ratio of 5:3:2 respectively. On 31.03.2016, Pawan retired from the partnership and on this date, the goodwill was estimated as Rs. 1 000 000. It is the policy of the partnership not to maintain a goodwill account in the books. Shakthi and Kalpa continued the partnership sharing profits and losses equally. The summary of the transactions recorded in the current accounts of the partners for the year ending 31.03.2016 is as follows:

Description	Shakthi (Rs.'000)	Kalpa (Rs.'000)	Pawan (Rs.'000)
Profit share	500	300	200
Salaries	400	400	400
Interest on capital	300	200	100
Drawings	(40)	-	(20)
Salaries paid	(400)	(400)	(400)

39. The journal entry to adjust the goodwill in partners' capital accounts:

.....

.....

.....

40. Calculate the following:

(a) Profit of the partnership for the year ending 31.03.2016 Rs.

(b) The total profit appropriated to: Shakthi Rs. Pawan Rs.

41. State the **two** situations in which a company could change an accounting policy as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

- (1)
- (2)

42. A store selling electrical items has a policy of refunding the price for goods purchased by customers when there are defects. However, there is no such legal obligation. State the **three** criteria that should be satisfied to recognize a provision in this situation in terms of LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

- (1)
- (2)
- (3)

43. State **two** criteria used in classifying a lease as a finance lease in terms of LKAS 17 (Lease).

- (1)
- (2)

44. A company purchased a new machine at a price of Rs. 5 500 000. Indicate whether the following payments made in relation to this purchase will be recognized as per LKAS 16 (Property, Plant and Equipment) in the initial cost of the machine or in expenses by placing '✓' in the appropriate column.

Item	Amount (Rs.'000)	Initial cost	Expenses
A - Training of the machine operator	120
B - Engineer's fee for the certification of installation	12
C - Testing of the machine	220
D - Ceremonial opening of the machine	150

45. The following information relates to a company for the year ending 31.03.2016.

- During the year, an office equipment costing Rs. 250 000 was sold for a gain of Rs. 50 000. On the date of sale, the accumulated depreciation of this asset was Rs. 120 000.
- On 01.04.2015, a land costing Rs. 1 500 000 was purchased by paying Rs. 500 000 in cash in hand and the balance by a bank loan obtained by mortgaging the land. An interest of Rs. 100 000 was paid on this loan on 31.03.2016.

State the cash flows arising due to above transactions (with value) and the appropriate classification of these cash flows in terms of LKAS 7 (Statement of Cash Flows).

Cash flow	Amount (Rs.)	Classification
A -
B -
C -
D -

46. State whether an **increase** in the each of the following ratios will indicate an improvement in the liquidity of a company while other factors remain constant.

Ratio	Improvement in liquidity (Yes/No)
A - Debtors turnover
B - Debt collection period
C - Inventory turnover
D - Inventory retention period

47. The following costs have been incurred by a shirt manufacturing company. Classify these cost items as variable (V) or fixed (F), and indicate whether they will be included in the Product Cost.

Cost	V/F	Product cost (Yes/No)
A - Wages of workers based on number of shirts manufactured
B - Costs of buttons attached to the shirts
C - Insurance premium for the factory
D - Salaries of production supervisors

48. A trading company uses the weighted average method to price the issue of inventory. Information relating to an inventory item for March 2016 is given below:

Date	Description	Quantity (Units)	Price (Rs.)
01.03.2016	Balance	1 000	10
07.03.2016	Purchases	2 000	15
14.03.2016	Purchases	4 000	11
20.03.2016	Sales	4 000	?

Calculate the following:

- (a) Cost of sales – March 2016 Rs. (b) Inventory as at 31.03.2016 Rs.

49. A company produces and sells a single product. The following data relates to its production level of 10 000 units.

Selling price per unit	Rs. 90
Variable cost per unit	Rs. 60
Fixed cost	Rs. 180 000

Due to changes in market conditions, the unit selling price and variable cost are expected to increase by 30% and 20% respectively, while other factors remain constant.

Calculate the following:

Situation	Break-even-point (units)	Margin of safety (units)
(a) Before change in market conditions
(b) After change in market conditions

50. A company is considering to purchase a machine for Rs. 2 400 000. Its useful life and the residual value are 5 years and Rs. 600 000 respectively. The straight-line method is used to provide depreciation. A net cash flow of Rs. 600 000 is expected each year from this machine.

Calculate the following:

- (a) Payback period (years)
- (b) Accounting rate of return - based on average investment (%)

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පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2016 අගස්තු
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2016 அகத்து
General Certificate of Education (Adv. Level) Examination, August 2016

ලේඛනිකරණය 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 of Sumeda PLC, a stationery trading company, as at 31.03.2016 is given below. It is a company registered for Value Added Tax (VAT).

Description	Dr. (Rs.'000)	Cr. (Rs.'000)
Salaries	1 000	
Rent	540	
Electricity	120	
Telephone	75	
Purchases	6 000	
VAT payments	600	
Property, plant and equipment as at 01.04.2015	10 000	
Inventory as at 01.04.2015	1 200	
Trade receivables	7 000	
Cash at bank	730	
Income tax paid for the current year	535	
Sales		12 000
VAT collections		1 320
Stated ordinary share capital		4 000
Retained earnings as at 01.04.2015		2 327
Revaluation reserve - Office equipment		600
Lease creditors		2 353
General reserve		1 200
Accumulated depreciation as at 01.04.2015 - Property, plant and equipment ...		4 000
	27 800	27 800

Additional Information:

Before preparation of the financial statements for the year ending 31.03.2016 adjustments have to be made for the following.

- (i) A commission of 2% paid on sales to trade agents has been included in salaries.
- (ii) The electricity bill of Rs. 15 000 for March 2016 has not yet been paid.
- (iii) Rs. 18 000 has been paid in advance for telephone charges for March 2016. However, the bill for the month of March was Rs. 8 000.
- (iv) The company values inventory on item-by-item basis. The inventory as at 31.03.2016 consists of three categories of stationery items. On this date, their cost and net realizable value (NRV) were as follows.

Category	Cost (Rs.'000)	NRV (Rs.'000)
A	520	600
B	300	250
C	280	300

- (v) A debtor with a balance of Rs. 750 000 as at 31.03.2016 has been declared bankrupt on 30.04.2016. The directors of the company authorized the financial statements on 15.05.2016.

- (vi) The composition of property, plant and equipment and their accumulated depreciation as at 01.04.2015 were as follows:

Description	Cost/Value (Rs.'000)	Accumulated Depreciation (Rs.'000)	Carrying Amount (Rs.'000)
Motor vehicles (Leasehold basis) - at cost	6 000	2 400	3 600
Office equipment - at fair value	2 500	1 000	1 500
Furniture and fittings - at cost	1 500	600	900
Total	10 000	4 000	6 000

All assets (including assets on lease) have been acquired on 01.04.2013 and on this date, their useful life was estimated as 5 years. They are depreciated on straight-line method.

- (vii) On 01.04.2015, the remaining useful life of furniture and fittings was revised as 6 years. Further, the office equipment was revalued at market value of Rs. 1 800 000 on 31.03.2016.
- (viii) Motor vehicles are used for the delivery of goods and their lease term is 5 years. The annual lease instalment is Rs. 1 583 000. The current year lease instalment has been paid and debited fully to the lease creditors' account. No other entry has been made in this respect. The lease interest is as follows:

Year	Interest (Rs.'000)
2013/14	600
2014/15	502
2015/16	394
2016/17	275
2017/18	144

- (ix) On 31.03.2016, the company has issued 40 000 ordinary shares at Rs. 20 per share to the existing shareholders by capitalizing general reserves. However, no entry has been made in this respect.
- (x) The income tax for the current year is estimated as Rs. 500 000.

Required:

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

- (1) Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2016
- (2) Statement of Changes in Equity for the year ending 31.03.2016
- (3) Statement of Financial Position as at 31.03.2016

(Total 20 marks)

2. (a) Ranga and Eranga who share profits and losses equally, were partners of a consulting business. Udara was admitted as a partner on 01.04.2015. The revised partnership agreement is as follows:

- Profits and losses are shared among Ranga, Eranga and Udara in the ratio of 2:2:1 respectively.
- No goodwill account is maintained in the books of the partnership and all adjustments relating to goodwill are recorded through the partners' capital accounts.
- Partners are entitled to an annual interest of 10% based on year-end capital balances.
- Eranga and Udara are entitled to a monthly salary of Rs. 40 000 each.
- Partners are entitled to an annual interest of 8% on the loans provided to the partnership.

The trial balance of the partnership as at 31.03.2016 is as follows:

Description	Dr. (Rs.'000)	Cr. (Rs.'000)
Consultancy income		8 600
Consultancy expenses	3 500	
Operating expenses	1 200	
Salaries paid to Eranga	480	
Loan given by Udara on 01.01.2016		2 000
Loan interest paid to Udara	30	
Property, plant and equipment (PPE) - at carrying amount as at 31.03.2016	6 000	
Depreciation on PPE	1 800	
Other income		100
Cash at bank	290	
Capital accounts as at 01.04.2015: - Ranga		1 000
- Eranga		1 000
Current accounts as at 01.04.2015: - Ranga		200
- Eranga		100
Cash brought by Udara		300
	13 300	13 300

[See page three]

Additional Information:

- (i) Udara brought the following as capital:

	Rs. '000
Office equipment	700
Cash	300

However, only cash brought by Udara has been recorded in the books of accounts.

- (ii) When Udara was admitted, the goodwill of the partnership was estimated as Rs. 1 800 000.
- (iii) PPE are depreciated on cost at 10% per annum on straight-line method.
- (iv) On 01.01.2016 the partnership entered into an agreement to provide consulting services to a client at a monthly fee of Rs. 100 000. The client paid Rs. 500 000 on this date and it has been recorded as consultancy income.
- (v) On 31.03.2016, the bank account balance of the partnership did not agree with the bank statement balance on this date. The following were revealed in the subsequent investigation.
- Consultancy income Rs. 300 000 directly deposited in the bank has not been recorded in the books of accounts.
 - A cheque of Rs. 50 000 received from Ranga's wife for a consultancy service has been deposited in the bank but not yet realized. This has been recorded as other income.
 - Cheques of Rs. 250 000 issued for the external consultants have not been presented for payment.
 - Eranga's housing loan instalment of Rs. 50 000 paid from the bank account of the partnership as per a standing order has not been recorded in the books of accounts.

Required:

- (1) Adjusted cash balance and Bank Reconciliation Statement as at 31.03.2016
- (2) Income Statement of the Partnership (including appropriations) for the year ending 31.03.2016
- (3) Capital and current accounts of partners for the year ending 31.03.2016 (10 marks)
- (b) Delwin company, engaged in manufacturing shoes, has two production departments and a service department for maintenance activities. The budgeted information for the next year at the activity level of 5 000 units is as follows:

Description	Total	Production Department A	Production Department B	Maintenance Department
Indirect wages (Rs.)	75 000	46 000	13 000	16 000
Depreciation on machinery (Rs.)	30 000	20 000	10 000	—
Rent (Rs.)	90 000	?	?	?
Security charges (Rs.)	45 000	?	?	?
Electricity (Rs.)	80 000	?	?	?
Machine hours	15 000	10 000	5 000	—
Labour hours	14 000	2 000	12 000	—
Floor area (sq. meters)	9 000	3 800	3 600	1 600
No. of security persons	15	7	7	1
Kilowatt hours	1 600	1 000	500	100

Additional Information:

- (i) The total overhead costs of the Maintenance Department are to be re-apportioned between the Production Departments A and B in the ratio of 5:3 respectively.
- (ii) Production Department A uses machine hours and Production Department B uses labour hours to absorb overheads.
- (iii) To produce a pair of shoes, 5 hours and 3 hours are spent respectively in the production departments A and B.
- (iv) Direct costs to produce a pair of shoes:
- | | |
|--------------|-----------------|
| Raw material | Rs. 30 per pair |
| Labour | Rs. 20 per pair |
- (v) Non-production overheads:
- | | |
|----------|-----------------|
| Variable | Rs. 25 per pair |
| Fixed | Rs. 105 000 |

Required:

- (1) The overhead analysis sheet naming the bases of apportionment
- (2) Overhead absorption rates for each production department
- (3) Cost of production of a pair of shoes
- (4) Total cost at the activity level of 5 000 units

(10 marks)
(Total 20 marks)

[See page four]

3. Saman conducts a retail business. The draft income statement for the year ending 31.03.2016 reported a profit of Rs. 600 000. The draft Statement of Financial Position as at 31.03.2016 showed a cash balance of Rs. 50 000. However, he does not maintain books of accounts properly. It was revealed subsequently that the following transactions had not been recorded in the books of accounts.

No.	Transaction
1	The sale of goods on credit for Rs. 80 000. The cost of these goods were Rs. 60 000.
2	The return of goods sold on credit for Rs. 36 000. The cost of these goods was Rs. 30 000.
3	Donation of goods costing Rs. 10 000.
4	The maintenance expenses of the business was Rs. 10 000. Of this Rs. 6 000 was paid personally by Saman and the balance was paid by the business.
5	Obtained a bank loan of Rs. 300 000 on 01.07.2015 at 12% interest per annum. Interest is not yet paid.
6	Purchase of a three-wheeler for Rs. 280 000 on cash on 31.03.2016.
7	Settlement of Rs. 30 000 due from a debtor against Rs. 50 000 payable to him as a creditor. The balance was paid in cash.
8	Payment of Rs. 12 000 for life insurance premium of Saman.
9	Receipt of the amount due on Transaction No. 1 after deducting 5% discount.
10	Receipt of Rs. 15 000 written off as bad debts during a previous year.

Required:

- (1) Show the impact of these transactions (with value) in the accounting equation and state whether each value increases (+) or decreases (-) in front of the value. (Use a format similar to the one given below.)

Transaction No.	Assets				Liabilities			Equity
	Property, plant and equipment	Inventory	Trade receivables	Cash	Long-term loans	Trade payables	Other payables	

Rs.'000

- (2) Revised cash balance as at 31.03.2016

- (3) Revised profit for the year ending 31.03.2016 (based on the net effect of transactions on the equity)

(Total 15 marks)

4. Dimuthu commenced a manufacturing business on 01.04.2016 investing Rs. 900 000 from his personal savings. The summary of transactions carried out during the month of April 2016 is given below.

- (i) Summary of transactions recorded in cash receipts and payments journals:

Receipts:	Rs.'000
Sales	6 000
Receipts from debtors	2 000
Payments:	
Raw material purchases	1 200
Payments to creditors	800
Advance payment for raw material purchases	300
Wages to machine operators	400
Production supervisors' salaries	700
Factory electricity	60
Factory rent	600
Administrative expenses	200
Purchase of a machine (on 01.04.2016)	4 000

- (ii) Totals of other prime entry books:

	Rs.'000
Sales journal	12 000
Purchase journal	8 000
Sales return journal	500

- (iii) Only Rs. 100 000 worth of raw material has been received on 27.04.2016 for the advance payment of raw material purchases. This is not yet recorded in the books of accounts.

- (iv) Rs. 300 000 receivable from debtors is not recoverable and it is to be written off as bad debts.
 (v) Factory rent per month is Rs. 200 000 and rent has been paid for the first quarter.
 (vi) The electricity bill of Rs. 50 000 for the month of April 2016 has been received on 10.05.2016.
 (vii) The machine has a useful life of 10 years and a residual value of Rs. 400 000. The machinery is depreciated on straight-line method.
 (viii) At the end of the month, the inventory balances were as follows:

	Rs.'000
Raw materials	300
Work-in-progress (valued at production cost)	80
Finished goods	100

Required:

- (1) The following accounts in the general ledger (using T-format) for the month of April 2016:
 (i) Sales
 (ii) Debtors Control
 (iii) Raw Material Purchases
 (iv) Creditors Control
 (v) Advance Payments
 (2) Manufacturing Account for the month of April 2016
 (3) Income Statement for the month of April 2016
 (4) Values of following items as at 30.04.2016:
 (i) Property, plant and equipment
 (ii) Prepaid expenses
 (iii) Equity

(Total 15 marks)

5. (a) A manufacturing company is considering to replace the existing machine with a new machine to improve the efficiency of its operations. The useful life of the new machine is 5 years. The following estimated cash flows relate to these two machines:

Description	New Machine (Rs.'000)	Existing Machine (Rs.'000)
Cost	1 000	-
Current market value	-	300
Residual value	200	-
Annual operating cost:		
Year 1	100	300
Year 2	100	300
Year 3	120	320
Year 4	120	320
Year 5	140	360

If the new machine is purchased, an additional working capital of Rs. 280 000 will be required at the beginning of the project and it will be recovered at the end of the project. The required rate of return of the project is 10%.

The discount factors at 10% (at two decimal points) are as follows:

Year	1	2	3	4	5
Discount factor	0.91	0.83	0.75	0.68	0.62

Required:

- (1) A schedule comprising cash outflows and inflows of this project
 (2) Net Present Value (NPV) of the project
 (3) Recommendation as to selection of the project based on the NPV

(05 marks)

- (b) A teachers' welfare society of a school is organizing a get-together for its members. Its membership consists of 120 teachers presently in service and 30 retired teachers. The following expenses have been estimated for this event.

	Rs.
Refreshments	1 100 per member
Souvenir	225 per member
Gift pack	775 per member
Hotel charges	35 000
Hall decorations	5 000
Sound system hire charges	2 000
Event organizing expenses	3 000

The society intends to sell tickets to all teachers participating in the event including the retired teachers. A ticket is priced at Rs. 3 000. The surplus money will be used for charity.

Required:

Compute the following in relation to the get-together:

- (1) Contribution per teacher
- (2) The number of teachers required to attend to cover the total cost
- (3) The amount of money to be donated for charity if all the teachers participate
- (4) The number of teachers required to attend in order to donate Rs. 27 000 for charity
- (5) The lowest price at which a ticket can be sold if all teachers participate
- (6) The number of tickets to be sold to cover the total cost if retired teachers need not buy tickets and 24 of them are expected to attend

(10 marks)

(Total 15 marks)

6. (a) Migara Educational Institute, established on 01.03.2016, conducts English Diploma Programs for school leavers. It employs two permanent teachers and a temporary teacher. Each teacher has to teach 120 hours per month.

- (i) The gross salary of teachers consists of following items:

• Payments for teaching (for 120 hours):	
Permanent - per teacher	Rs. 75 000 per month
Temporary	Rs. 500 per hour
• Payments for conducting extra sessions	Rs. 750 per hour
• Marking of answer scripts	Rs. 100 per paper

- (ii) Number of teaching hours and answer scripts marked for the month of March 2016 are as follows:

Description	Permanent:		Temporary:
	Nandani	Suresh	Manjula
Hours worked during the month	140	160	180
No. of answer scripts marked	100	150	200

- (iii) The contribution to the Employee Provident Fund (EPF) and Employee Trust Fund (ETF) are based on the gross salary of both permanent and temporary teachers. The employer and employee contributions to EPF are 15% and 10% respectively. The employer's contribution to ETF is 3%.

Required:

For the month of March 2016:

- (1) Payroll
- (2) Salaries Control Account

(05 marks)

- (b) An Old Girls' Association of a school was formed on 01.04.2013. Its founding members joined as life members contributing Rs. 500 000. The following information has been extracted from the books of this association.

Description	As at 31.03.2016 (Rs.'000)	As at 31.03.2015 (Rs.'000)
Subscription receivable	20	15
Subscription received in advance	30	25
Accumulated fund	?	200
Life membership fund	?	400
Inventory of T-shirts - at cost	40	-
Hall reservation advance	-	25
Receivables from the musical show	?	-
Cash.....	?	50

Additional Information:

- The annual subscription per person is Rs. 500. There were 600 members (excluding life members) as at 31.03.2016.
- Life membership fee is recognized in income over a period of 10 years.
- The following information relates to the musical show conducted on 01.10.2015 to raise funds for the association:

Description	Cash Received/Paid (Rs.'000)
Sale of tickets:	
100 tickets at Rs. 1 000 per ticket	100
400 tickets at Rs. 500 per ticket (only 80% is received)	160
Sponsorships for the show (only 75% is collected)	375
Payments to musicians:	
5 singers paid at Rs. 40 000 each	200
Music group	80
Hall hire charge	50
Refreshments.....	30

- The association purchased 500 T-shirts on cash at Rs. 200 each. 300 of these were sold on cash among the members at Rs. 250 each.
- The administrative assistant is paid a monthly salary of Rs. 30 000.

Required:

- Cash Account for the year ending 31.03.2016
- The following for the year ending 31.03.2016:
 - Subscription income
 - Surplus/deficit of Musical show
 - Surplus/deficit from sale of T-shirts
- The balance of the following items as at 31.03.2016:
 - Accumulated fund
 - Life membership fund
 - Receivables from the Musical show

(10 marks)

(Total 15 marks)

7. (a) The following information relates to Upul PLC for the year ending 31.03.2016.

Gross profit ratio	20%
Assets turnover ratio	0.5 times
Inventory turnover ratio	8 times
Gross profit	Rs. 400 000
Total expenses	Rs. 160 000
Total liabilities as at 31.03.2016	Rs. 1 600 000

Required:

- Sales for the year ending 31.03.2016
- Average inventory for the year 2015/16
- Total assets as at 31.03.2016
- Return on equity ratio
- Equity ratio

(05 marks)

- (b) The summarized statements of financial positions of Nayagam PLC as at 31.03.2016 and 31.03.2015 are given below:

Description	As at 31.03.2016 (Rs.'000)	As at 31.03.2015 (Rs.'000)
Property, plant and equipment (PPE) - at revalued amount	312	240
Accumulated depreciation - PPE	(72)	(40)
Inventory	184	104
Trade receivables	80	120
Provision for doubtful debts	(32)	(16)
Cash	192	-
Total assets	664	408
Stated ordinary share capital	280	40
Revaluation reserve	56	16
Retained earnings	32	96
Long-term loan	120	-
Trade payables	136	144
Salaries payable	40	32
Bank overdraft	-	80
Total liabilities and equity	664	408

Additional information:

- (i) Summarised income statement of the company for the year ending 31.03.2016 is as follows:

Description	Rs.'000
Sales	120
Cost of sales	(80)
Commission income (no receivables at the year-end)	8
Gain on sale of furniture (of which carrying amount was Rs. 40 000) ...	16
Doubtful debts	(16)
Depreciation	(40)
Salaries	(72)
Loss for the year.....	<u>(64)</u>

- (ii) PPE have been revalued during the year. The purchases of PPE during the year have been made on cash.
- (iii) A share issue was made during the year and a loan obtained for 3 years on 31.03.2016.

Required:

Statement of Cash Flows of Nayagam PLC for the year ending 31.03.2016 as per LKAS 7 (Statement of Cash Flows)

(10 marks)
(Total 15 marks)

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