

## G.C.E. (A.L.) Support Seminar- 2014

### Accounting I

*Two hours*

**Instructions :**

- \* Answer all the questions.
- \* Select the correct answers for questions No. 1-30 and write its number on the dotted line given.
- \* Write Short answers for questions No. 31-50 on the dotted line given.

- 01.** The effect of a transaction of a business is reflected through the accounting equation as follows.

<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Equity</b>
- 45 000		- 50 000	+	5 000

The transaction presented here is:

- (1) Sale of goods costing Rs. 45 000 for Rs. 50 000 on credit basis.
  - (2) Settlement of a bank loan of Rs. 50 000 with an interest of Rs. 5 000.
  - (3) Payment of Rs. 45 000 to a creditor with a balance of Rs. 50 000.
  - (4) Purchase of goods worth of Rs. 50 000 inclusive of 10% Value Added Tax (VAT) on credit basis.
  - (5) Sale of a machine with a carrying amount of Rs. 45 000 for Rs. 50 000 on credit basis. (.....)
- 02.** The following information is provided in relation to a business which incurred a loss of Rs. 75 000 for the year ending 31.03.2014. This business was commenced on 01.04.2013.

	<b>Rs. '000</b>
Increase in liabilities during the year	900
Drawings	50
Additional capital employed	225

How much is the **increase** or **decrease** of assets for the year ending 31.03.2014 ?

- (1) Rs. 825 000 increase
  - (2) Rs. 975 000 decrease
  - (3) Rs. 975 000 increase
  - (4) Rs. 1 000 000 increase
  - (5) Rs. 1 150 000 increase (.....)
- 03.** In which of the following ways are the accounts-building maintenance, income tax for the year, drawings and provision for doubtful debts classified respectively ?

- |                                     |   |
|-------------------------------------|---|
| (1) Expense, Expense, Equity, Asset | (2) Expense, Liability, Expense, Income |
| (3) Expense, Income, Equity, Asset  | (4) Asset, Asset, Equity, Liability     |
| (5) Asset, Income, Equity, Asset    | (.....)                                 |

- 04.** During the month of January, an entity has invoiced Rs. 100 000 worth of goods to a customer. But later it was revealed that only Rs. 90 000 worth of goods have been sent to the customer. The journal entry made to record this difference in the entity's books is:

<b>Dr</b>	<b>Cr</b>
(1) Sales Return Account	Debtors Account
(2) Creditors Account	Purchase return Account
(3) Sales Account	Purchase return Account
(4) Creditors Account	Purchase Account
(5) Sales Account	Debtors Account

(.....)

- 05.** Which of the following statements is **correct** regarding petty cash imprest system ?

- (1) Debit note is used as a source document for petty cash payments.
  - (2) Petty cash imprest system cannot be considered as an internal control system for cash.
  - (3) At the end of each imprest period same amount of money is reimbursed for petty cash payments.
  - (4) The amount reimbursed at the end of each imprest period is equal to the amount held by the petty cash controller.
  - (5) The total of amount of petty cash held by the petty cash controller at the end of the imprest period and the amount that was spent during the period is equal to the petty cash of imprest. (.....)
- 06.** Monthly gross salary of employees of a business was Rs. 400 000 and the contribution to the Employee Provident Fund (EPF) by the employer and the employees were Rs. 60 000 and Rs. 40 000 respectively. Even though the salary has been paid in cash, the contribution to the EPF is paid in the following month. In which one of the following ways is the effect of this transaction shown in the accounting equation?

<b>Assets (Rs.)</b>	=	<b>Liabilities (Rs.)</b>	+	<b>Equity (Rs.)</b>
(1) - 360 000	=	+ 40 000		- 400 000
(2) - 360 000	=	+ 60 000		- 420 000
(3) - 360 000	=	+ 100 000		- 460 000
(4) - 400 000	=	+ 100 000		- 500 000
(5) - 460 000	=	+ 40 000		- 500 000

(.....)

- 07.** Which of the following statement/ statements is/are **correct** ?
- A - All assets of a business not having a going concern are considered as current assets.  
B - According to the prudence concept, an increase in the market value of a land should be accounted.  
C - According to the consistency concept, a business should use the selected accounting policies continuously.
- (1) A only. (2) B only. (3) C only.  
(4) A and B only. (5) A and C only. (.....)
- 08.** Which of the following criteria need to be satisfied in order to recognise a liability in the financial statements of an entity as per the conceptual framework of financial reporting?
- A - It should comply with the definition of a liability of the item  
B - There is a probability that resources embodying future economic benefits of the item will flow out of the entity.  
C - There should be a cost or value for the item which can be measured reliably.
- (1) A only. (2) A and B only. (3) A and C only.  
(4) B and C only. (5) All A, B and C. (.....)
- 09.** The inventory as at 31.03.2013 of a business has been overvalued by Rs. 30 000 and its inventory as at 31.03.2014 has been undervalued by Rs. 10 000. What is the effect of this on the profits of the two years ?
- | <b>Year ending 31.03.2013</b> | <b>Year ending 31.03.2014</b>  |
|-------------------------------|--------------------------------|
| (1) Increase of Rs. 30 000    | Decrease of Rs. 10 000         |
| (2) Decrease of Rs. 30 000    | Increase of Rs. 10 000         |
| (3) Increase of Rs. 30 000    | Decrease of Rs. 20 000         |
| (4) Increase of Rs. 30 000    | Decrease of Rs. 40 000         |
| (5) Decrease of Rs. 30 000    | Increase of Rs. 40 000 (.....) |
- 10.** A business acquires a new equipment worth of Rs. 100 000 on 31.03.2014 exchanging an equipment which had a carrying amount of Rs. 70 000 on this date. Rs. 40 000 was paid together with the old equipment for this transaction. What is the profit or loss on exchange of the equipment?
- (1) Profit Rs. 10 000 (2) Loss Rs. 10 000 (3) Profit Rs. 30 000  
(4) Loss Rs. 30 000 (5) Loss Rs. 50 000 (.....)
- 11.** The following are few definitions included in the Sri Lanka Accounting Standard No. 16 - Property, Plant and Equipment.
- A - Value of an asset less its accumulated depreciation stated in the Statement of Financial Position  
B - Exchange value of an asset in an arm's length transaction between knowledgeable and willing parties.  
C - Value of an asset that is derived by deducting its residual value from the cost or revalued amount.
- From the above definitions, the **fair value**, **carrying amount** and **depreciable amount of an asset** are indicated respectively by:
- (1) A, B and C (2) A, C and B (3) B, A and C (4) B, C and A (5) C, A and B (.....)
- **Use the following information to answer questions no. 12, 13 and 14.**
- The following information relates to the partnership of Pasidu, Dileepa and Rukshan for the year ending 31.03.2014.
- A - The annual salary of Dileepa is Rs. 24 000.  
B - Rs. 12 000 of above salary has been paid during the year.  
C - Profit shares distributed among Pasidu, Dileepa and Rukshan are Rs. 40 000, Rs. 30 000 and Rs. 20 000 respectively.  
D - Loan interest of Rs. 3 000 payable to Rukshan is not recorded in the books.  
E - Goods drawings of Pasidu and Rukshan are Rs. 3 000 and Rs. 2 000 respectively and these are not recorded in the books.
- 12.** Which of the above items can be considered as appropriation of profits and losses among the partners ?
- (1) A and B only. (2) A and C only. (3) A, B and C only.  
(4) A, B, C and D only. (5) All A, B, C, D and E. (.....)
- 13.** The correct profit of the partnership for the year ending 31.03.2014 is:
- (1) Rs. 90 000 (2) Rs. 102 000 (3) Rs. 106 000 (4) Rs. 114 000 (5) Rs. 116 000 (.....)
- 14.** When all above information is considered, the increase in equity for the year ending 31.03.2014 is:
- (1) Rs. 94 000 (2) Rs. 97 000 (3) Rs. 100 000 (4) Rs. 104 000 (5) Rs. 116 000 (.....)
- 15.** During a particular financial year, a business entity has purchased packing materials worth of Rs. 20 000. Out of this, Rs. 4 000 worth of packing material were damaged and Rs. 9 000 worth of inventory has been used. The increase in expenses during the year due to the above events is:
- (1) Rs. 4 000 (2) Rs. 7 000 (3) Rs. 9 000 (4) Rs. 13 000 (5) Rs. 20 000 (.....)

• Use the following information to answer questions no. 16 and 17.

The following transactions relate to Laknath Company which is engaged in production of goods.

- A - Purchase of a machine on cash basis for the purpose of production.
- B - Purchase of Rs. 50 000 treasury bills with a maturity period of three months.
- C - Payment of the installment for a motor vehicle purchased under a financial lease.
- D - Issue of 10 000 ordinary shares to existing shareholders for a purchase consideration of Rs.50 per share by utilising reserves.

16. Which of the above transactions result in cash flows ?  
 (1) A and B only. (2) A and C only. (3) A, B and C only.  
 (4) B and D only. (5) B, C and D only. (.....)
17. Which of the above transactions result in cash flows from relating to financing activities?  
 (1) B only. (2) C only. (3) B and C only.  
 (4) B and D only. (5) C and D only. (.....)

18. The following information relates to Ravidu's business.

	31.03.2014	31.03.2013
Inventory	300 000	200 000
Debtors	180 000	140 000

During the year ending 31.03.2014, Rs. 920 000 was received from debtors and cash sales were Rs. 790 000. The business sells goods with a 40% mark up on cost.

What is the amount of purchases for the year ending 31.03.2014?

- (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 (.....)

• Use the following information to answer questions no. 19, 20 and 21.

The following information relates to Dushmantha Company Ltd.

	31.03.2014 (Rs.'000)	31.03.2013 (Rs.'000)
<b>Stated Capital</b>		
Ordinary shares at Rs. 200 per share	13 000	13 000
200 000 Non-redeemable preferences shares with a dividend of Rs. 5/- per share	4 000	4 000
<b>Reserves</b>		
General reserves	3 400	3 000
Retained earnings	3 600	2 000
<b>Non current liabilities</b>		
15% long-term loan	2 000	2 000
<b>Current liabilities</b>		
Income tax payable	100	80
Creditors	140	150

Income tax paid by the year ending 31.03.2014 was Rs. 280 000

19. Profit before tax for the year ending 31.03.2014:  
 (1) Rs. 1 600 000 (2) Rs. 2 400 000 (3) Rs. 2 700 000  
 (4) Rs. 3 000 000 (5) Rs. 3 300 000 (.....)
20. Interest cover ratio for the year ending 31.03.2014:  
 (1) 08 times. (2) 09 times (3) 10 times (4) 11 times. (5) 12 times (.....)
21. Return on equity for the year ending 31.03.2014 (based on closing equity):  
 (1) 10.0% (2) 12.5% (3) 13.7% (4) 15.0% (5) 16.5% (.....)

• Use the following information to answer questions no. 22 and 23

Nanasa Library Association's life membership account balance was Rs. 150 000 as at 31.03.2013, out of which, 10% is added annually to subscription income. Annual subscription per member is Rs. 500 and number of members as at 31.03.2014 excluding life members was 200. 20 members had not paid subscription as at 31.03.2013 and 25 members have paid the subscription for the following year too. 30 members had not paid subscription as at 31.03.2014 and 20 members have paid for the following year too.

22. Subscription income recognized for the year ending 31.03.2014:  
 (1) Rs. 67 500 (2) Rs. 90 000 (3) Rs. 102 500 (4) Rs. 115 000 (5) Rs. 150 000 (.....)
23. Subscription received in cash for the year ending 31.03.2014:  
 (1) Rs. 52 500 (2) Rs. 75 000 (3) Rs. 87 500 (4) Rs. 92 500 (5) Rs. 100 000 (.....)

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

The information relating to salaries of a business for the month of March 2014 is as follows.

Basic Salary	Rs. 75 000	
Overtime Allowance	Rs. 3 000	
Other Allowances	Rs. 15 000	
		Rs. 93 000
Deductions		
Festival Advance	Rs. 3 000	
Salary Advance	Rs. 7 500	
Employee Provident Fund (EPF) contribution - Employee	8%	
Employer	12%	
Employee Trust Fund (ETF) contribution	3%	

(Overtime allowance is ignored in the calculation of EPF and ETF contribution.)

24. Total employee related expense for the month of March 2014:  
 (1) Rs. 90 000 (2) Rs. 93 000 (3) Rs. 106 500 (4) Rs. 106 950 (5) Rs. 113 700 (.....)

25. Which of the following entries are correct regarding EPF contribution for the month of March 2014?

	EPF Expense Account	Salary Account	EPF payable Account	
	Dr (Rs.)	Dr (Rs.)	Cr (Rs.)	
(1)	9 000	6 000	15 000	
(2)	10 800	7 200	18 000	
(3)	11 160	7 440	18 600	
(4)	18 000	-	18 000	
(5)	18 600	-	18 600	(.....)

26. The following information relates to a product  
 Fixed overheads Rs. 400 000  
 Margin of safety Rs. 200 000  
 Contribution to sales ratio 60%

How much is the total contribution relevant to the product?

- (1) Rs. 200 000 (2) Rs. 240 000 (3) Rs. 360 000 (4) Rs. 520 000 (5) Rs. 600 000 (.....)

● Use the following information to answer questions no. 27 and 28.

Isuru Company Ltd. is planning to invest money to replace an old machine with a new machine. Estimated information is as follows.

	<b>Rs.</b>
Purchase price of new machine	200 000
Installation charges	25 000
Cost of old machine	100 000
Saleable price of old machine	50 000
Opening working capital	35 000

Useful life of the new machine is 5 years.

Net cash flows are given below.

Year	1	2	3	4	5
Net cash flows (Rs.)	80 000	60 000	50 000	40 000	60 000

27. Initial investment of this machine is:  
 (1) Rs. 160 000 (2) Rs. 200 000 (3) Rs. 210 000 (4) Rs. 250 000 (5) Rs. 275 000 (.....)

28. Payback period of the investment is:  
 (1) 4 years (2) 3 years and 6 months (3) 3 years and 9 months  
 (4) 5 years (5) 4 years and 6 months (.....)

● Use the following information to answer questions no. 29 and 30.

For the production of a unit of a product, a cost of Rs. 300 direct material and a cost of Rs. 200 for direct labour will be incurred. There are 2 production departments and 01 service department in the factory. The information relating to these departments for a year is as follows.

Departments	Indirect Labour (Rs.)	Indirect Material (Rs.)	Space (square meters)	No. of employees	Direct Labour hours	Hours to produce a unit of the product	No. of stores requisitions
Production Department - 01	80 000	75 000	15 000	5	1 330	01	2 000
Production Department - 02	60 000	75 000	10 000	3	916	02	3 000
Service (Warehouse)	15 000	20 000	5 000	2	-	-	-

Further, the following budgeted information is also provided.

Factory rent Rs. 120 000 Employee welfare expenses Rs. 50 000  
 Overheads are absorbed based on direct labour hours.

29. Total overheads allocated to the production departments 01 and 02:  
 (1) Rs. 169 000 and Rs. 156 000 (2) Rs. 237 000 and Rs. 208 000  
 (3) Rs. 240 000 and Rs. 190 000 (4) Rs. 266 000 and Rs. 229 000  
 (5) Rs. 272 500 and Rs. 222 500 (.....)

30. Unit cost of the product is:  
 (1) Rs. 500 (2) Rs. 790 (3) Rs. 825 (4) Rs. 950 (5) Rs. 1 200 (.....)

• Write short answers for question no. 31 - 50 on the dotted lines.

31. Use a "√" mark in the relevant column to indicate whether the following statements are **True** or **False**

	True	False
A - The primary objective of accounting is to provide an comprehensive analysis of business transactions to the management .	.....	.....
B - All errors that occur in recording transactions can be identified through the trial balance.	.....	.....
C - According to the money measurement concept it is assumed that the value of money is constant.	.....	.....
D - The trade discount deducted from the list price when a product is purchased is credited to the discount received account.	.....	.....

32. State the prime entry book and the source document relevant to the following transactions of a trading business.

Transaction	Prime entry book	Source document
(1) Purchase of goods for resale on credit basis	.....	.....
(2) Purchase of a motor vehicle on credit basis for the use in business	.....	.....

33. State whether the bank balance **increases** or **decreases** due to the following transactions of a business.

Transaction	Bank balance of the business
(1) Depositing a cheque by a debtor in the current account of the business	.....
(2) Cheque book charges of the bank	.....
(3) Payment of the electricity bill of the business by a cheque	.....
(4) Dishonor of a cheque deposited in the bank	.....

34. A purchase invoice of Rs. 13 000 of a business is recorded as Rs. 31 000 in the purchase journal and posted to the general ledger.

- (a) Provide the journal entry to correct the above error. (Narration is not required)  
 .....  
 .....
- (b) Determine the effect of the above error on the profit and state whether it is an increase, decrease or no change.  
 .....

35. State **two** differences between financial accounting and management accounting.

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

36. Information regarding inventory purchased by a business during a particular financial year is as follows.

	<b>Rs. '000</b>
List price (Rs. 6 000 each for 1 000 units)	6 000
Trade discounts	300
Carrying charges	100
Distribution expenses	600

Inventory at the year end is 100 units.

What is the cost of the inventory at the year end?

.....

37. Information regarding a manufacturing business for the year ending 31.03.2014 as follows.

	<b>Rs. '000</b>
Raw Material Purchases	1 500
Direct Production Salaries	800
Production Overheads	1 100
Decrease in raw material inventory	200
Increase in inventory of work in progress calculated at prime cost	150

Calculate the following:

(i) Prime cost (Rs.)

.....

(ii) Total production cost (Rs.)

.....

38. Information regarding debtors of a business for the year ending 31.03.2014 are as follows.

	<b>Rs.</b>
2013.04.01 debtor balance	120 000
2014.03.31 debtor balance	180 000
Bad debts written off during the year	4 800
Receipt of bad debt written off	6 000

A provision of 4% for doubtful debts is made based on closing debtor balance for each year.

(i) What is the amount of bad debts and doubtful debts recognized in the Income Statement for the year ending 31.03.2014?

.....

(ii) What is the **increase** or **decrease** in net amount of debtors as at 31.03.2014?

.....

39. Nimmi and Sandun carried out a partnership sharing profits and losses equally. On 01.04.2013 Ruwani too joined as a partner. Nimmi, Sadun and Ruwani agreed to share profits and losses to the ratio of 3 : 2: 1 from this day. After adjusting for the goodwill, Ruwani's capital was decreased by Rs. 50 000 and Sadun's capital was increased by Rs. 50 000.

What is the value of the goodwill as at 01.04.2013 ?

.....

40. Some provisions of the Partnership Ordinance 1890 relating to accounting are as follows.

- A - Profits should be shared equally
- B - No entitlement to interest on capital
- C - In the case of retirement or death of a partner, an annual interest of 5% should be paid when his or her entitlement is transferred to a loan account.
- D - Loans provided by partners in addition to the capital are entitled to a 5% of interest.

Complete the table given below using above information.

**Relevant provision / provisions**  
**(State only the letter)**

- (i) Appropriation of profits and losses .....
- (ii) Section 24 .....
- (iii) Section 42 .....

41. Information regarding receipts and issues of an inventory of a business is given below.

01.01.2014 - Balance	-	100 units at Rs. 500 each
15.01.2014 - Receipt of inventory	-	400 units at Rs. 550 each
30.01.2014 - Issue of inventory for sale	-	300 units

(i) What is the cost of sales for the month of January 2014 if the business values inventory based on the weighted average method?

.....

(ii) What is the cost of the inventory as at 31.01.2014 if the business uses First-in-First-out method to price the issue of inventories?

.....

42. State **two** criteria to be satisfied in order to recognize a provision in financial statements ?

(1) .....

(2) .....

43. Information regarding Minura PLC for the year ending 31.03.2014 is given as follows.

	<b>Rs. '000</b>
Profit for the period	5 200
Profit on sale of motor vehicle	200
Income tax payment	300
Property, plant and equipment depreciation	100
Increase of inventory	20
Provision of income tax for the year	360

What is the net cash flow generated due to operating activities of the company?

.....

• Use the following information to answer questions no. 44 and 45.

44. An extract of the Statement of Changes in Equity of Darsha PLC for the year ending 31.03.2014 is as follows.

(Rs. '000)

Description	Ordinary shares	Non redeemable preference shares	General reserves	Revaluation surplus	Retained earnings
Balance	2 500	1 000	-	500	600
A	-	-	500	-	(500)
B	500	-	(300)	-	(200)
C	500	-	-	-	-
D	-	-	-	300	500

State the information given in above A, B, C and D.

(1) A :- .....

(2) B :- .....

(3) C :- .....

(4) D :- .....

45. Which of the above transactions indicate the cash flows generated from financing activities?

.....

46. Goods purchased for the cleaning activities of Sunimal's business was Rs. 165 000 out of which, inventory worth of Rs. 120 000 have been used and Rs. 20 000 worth of inventories have been destroyed. An insurance claim of 75% will be received for the inventory destroyed.

What is the impact of above the transactions and events on the profit of the business?

.....

47. State the function accomplished by the following documents used in the inventory control process.

Document	Function
(i) Purchase requisition	.....
(ii) Quotation	.....
(iii) Bin card	.....
(iv) Stores ledger	.....

48. The annual demand of item X is 250 000 units. While cost of an order is Rs. 40, stock holding cost is 10% of the unit price. The unit price of the item is Rs. 50.

Calculate the following:

(i) Economic order quantity :

.....

(ii) No. of orders placed per annum: :

.....

49. Information regarding assets and liabilities of Welfare Society is given below.

(Rs.)

Item	31.03.2014	31.03.2013
Cash	12 000	10 000
Bank	22 000	20 000
Stationary Inventory	5 000	3 000
Liabilities	3 000	2 000

(a) Surplus or deficit for the year ending 31.03.2014 : Rs. ....

(b) Accumulated fund as at 31.03.2014 : Rs. ....

50. State whether the following cost items of an entity which manufactures exercise books should be classified as prime cost or production overheads.

Cost Item	Cost Classification
(1) Paper for exercise books	.....
(2) Production salary	.....
(3) Factory rent	.....
(4) Machinery depreciation	.....

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## G.C.E. (A.L.) Support Seminar- 2014

### Accounting II

*Three hours*

**Instructions :**

\* Answer six (06) questions only, including question no. one and two

1. The draft Statement of Changes in Equity for the year ending 31.03.2014 and the draft Statement of Financial Position as at 31.03.2014 of Kanishka PLC were as follows.

**Statement of Changes in Equity for the year ending 31.03.2014**

(Rs. '000)

Description	Ordinary shares	Non-redeemable preference shares	Revaluation reserve	General reserve	Retained earnings	Total
Balance 04.01.2013	2 500	1 500	1 000	800	450	6 250
Capitalization of reserves	800	-	(600)	(200)	-	-
Transfer to general reserves	-	-	-	200	(200)	-
Total comprehensive income	-	-	400	-	580	980
Dividends :- Preference shares	-	-	-	-	(80)	(80)
Ordinary shares	-	-	-	-	(100)	(100)
Balance 31.03.2014	3 300	1 500	800	800	650	7 050

**Statement of Financial Position as at 31.03.2014**

(Rs. '000)

<u>Non-Current-Assets</u>			
Property, Plant and Equipment (Note)			6 240
15% Fixed deposits			1 200
<u>Current Assets</u>			
Inventory		175	
Debtors	300		
Provisions for doubtful debts	(15)	285	
Lease installment account		125	
Cash and cash equivalents		1 125	1 710
<b>Total Assets</b>			9 150
<u>Stated Capital</u>			
Ordinary shares		3 300	
Non-redeemable preference shares		1 500	4 800
<u>Reserves</u>			
Revaluation reserve		800	
General reserve		800	
Retained earnings		650	2 250
<u>Non-Current-Liabilities</u>			
12% long term loan			1 000
<u>Current Liabilities</u>			
Creditors		400	
Share issue		450	
Income tax payable		65	
Bank Overdraft		185	1 100
<b>Equity and Total Liabilities</b>			9 150

Note

**Property ,Plant and Equipment (Rs. '000)**

Asset	Cost / Revalued amount	Accumulated depreciation	Carrying amount
Land	4 400	-	4 400
Buildings	1 600	600	1 000
Office equipment	1 800	960	840
	7 800	1 560	6 240

It was revealed in the audit that the following transactions and events have not been taken into consideration in preparing the financial statements for the year ending 31.03.2014.

- (i) Income tax provision made on 31.03.2013 by the company was Rs. 65 000. Estimated income tax for the current year is Rs. 410 000. The income tax paid during the year inclusive of Rs. 75 000 agreed for the year ending 31.03.2013 with the Department of Inland Revenue was Rs.285 000.
- (ii) On 01.04.2013 land and buildings were revalued to Rs. 4 400 000 and Rs. 2 000 000 respectively. Only the land's revalued amount has been adjusted in the financial statements. Further, buildings had been revalued 4 years ago and the resulting revaluation loss of Rs. 200 000 had been written off against the income. The revaluation of buildings during the year has not been accounted. The buildings are depreciated annually at 20% on cost on straight line basis.
- (iii) On 01.04.2013 a machine with the fair value of Rs. 400 000 has been purchased on lease basis. There is no down payment and the lease liability should be settled in 4 equal annual installments of Rs. 125 000 each.

Annual lease interest payments are as follows.

Year	Interest (Rs.)
2013/14	40 000
2014/15	30 000
2015/16	20 000
2016/17	10 000

The first installment was paid on 31.03.2014. This amount has been recorded in a lease installment account. No other entries have been made in this respect. Machinery should be depreciated at 15% per annum on cost.

- (iv) It is confirmed that a debtor with a balance of Rs. 40 000 as at 31.03.2014 had become bankrupt on 20.04.2014. It is the policy of the company to provide 5% for doubtful debts based on the year end debtors' balance.
- (v) The company has issued ordinary shares on 28.02.2014. Cash received less of share issue expenses of Rs. 50 000 has been credited to the share issue account. No other entries have been made in this respect.
- (vi) Net realizable value of inventory as at 31.03.2014 was Rs. 160 000.
- (vii) Rs. 100 000 worth of inventory has been kept as a security for the bank overdraft.

**Additional information**

- (a) Only the following income and expenses have been considered in drafting the financial statements for the year ending 31.03.2014.

	(Rs. '000)
Building depreciation	320
Office equipment depreciation	280
Loan interest	100
Interest income	150
Directors fees	210
Income tax	285
Other distribution expenses	300
Other administration expenses	450

- (b) Share price of both ordinary share and preference share is Rs. 10 and the dividend per preference share is Rs. 1.20.

**Required:**

- (1) A statement of correction of profit for the year ending 31.03.2014
- (2) Statement of Financial Position as at 31.03.2014
- (3) Statement of Changes in Equity for the year ending 31.03.2014
- (4) Two disclosures for inventory as per LKAS 2

(20 marks)

2. (a) On 01.04.2013 Sachee was admitted as a partner to the partnership of Disa and Gaya carried out sharing profits and losses equally. Current accounts for the year ending 31.03.2014 are as follows.

<b>Current Account</b>				<b>(Rs. '000)</b>			
	<b>Disa</b>	<b>Gaya</b>	<b>Sachee</b>		<b>Disa</b>	<b>Gaya</b>	<b>Sachee</b>
<b>Drawings</b>	200	220	140	Balance b/f	500	300	-
				Salary	-	-	175
				Interest on Capital	100	80	-
Balance c/f	580	280	95	Profit share	180	120	60
	780	500	235		780	500	235

**Additional Information:**

- (i) Capital brought by Sachee on the date of admission was Rs. 550 000 and out of which Rs. 50 000 is for goodwill.
- (ii) Adjustments relating to goodwill should be done through the partners capital accounts.
- (iii) Annual interest rate on capital is 10%. Interest on capital has been calculated based on the opening capital balances.
- (iv) On 01.01.2014 a loan of Rs. 400 000 has been provided to the business by Sachee. Since there is no agreement as to the interest, interest has not been recorded. This loan should be paid in 80 monthly installments of Rs. 5 000 each. First three installments have been paid by 31.03.2014.
- (v) Goods drawings made by Disa, Gaya and Scahee of Rs. 30 000, Rs. 35 000 and Rs. 20 000 respectively during the year have not been recorded.

**Required:**

- (1) A statement of appropriation of correct profit for the year ending 31.03.2014.
- (2) Considering the above additional information, current accounts for the year ending 31.03.2014.
- (3) Capital accounts for the year ending 31.03.2014.
- (4) Extracts of Statement of Financial Position as at 31.03.2014 relating to equity and liabilities.

**(10 marks)**

- (b) The following information relates to the quarter ending 31.03.2014 of Suraji Enterprise which produces flower pots using wood.

(i) <b>Assets</b>	<b>2014.01.01</b>	<b>2014.03.31</b>
	<b>(Rs. '000)</b>	<b>(Rs. '000)</b>
Machinery and Equipment	100 000	90 000
Inventory - wood	10 000	8 800

(ii) **Cash payments:**

Purchase of wood	66 000	-
Production overheads	15 800	-

- (iii) To produce a flower pot, 1/5 of a square feet of wood is required. At the beginning of the quarter, 50 square feet of wood purchased at Rs. 200 each were available and during the quarter, one square feet of wood has been purchased at Rs.220.
- (iv) The business issues raw material and finished goods on first in first out( FIFO) method .
- (v) A worker is paid Rs. 40 to complete one flower pot.
- (vi) At the beginning of the quarter there were 200 completed flower pots and at the end of the quarter 100 completed flower pots were available.
- (vii) During the quarter there were no purchases or disposals of machinery and equipment.
- (viii) Selling price of a flower pot is Rs. 150.

**Required:**

- (1) Manufacturing Account for the quarter ending 31.03.2014.
- (2) Sales revenue from flower pots for the quarter ending 31.03.2014.

**(10 marks)**  
**(Total 20 marks)**

3. (a) Opening assets and liabilities of Vinu's trading business as at 01.01.2014 are as follows.

<b>(Rs. '000)</b>	
Motor Vehicles	1 500
Debtors	270
Furniture & Fittings	95
Inventory	43
Bank Balance	137
Creditors	350
Accrued Operating Expenses	5

The transactions occurred during the month of January 2014 are as follows.

Transaction No.	Date	Transaction
(1)	05.01.2014	Purchased furniture & fittings worth of Rs. 40 000
(2)	08.01.2014	Vinu transferred a fixed deposit of Rs. 125 000 to the business.
(3)	15.01.2014	Purchased an inventory worth of Rs. 90 000 and issued a cheque.
(4)	17.01.2014	An inventory with a cost of Rs. 65 000 was sold for Rs. 80 000. A cheque of Rs. 50 000 was received in this respect and the balance was considered as a credit sale.
(5)	20.01.2014	Rs. 265 000 cash was received from debtors and Rs. 5 000 of debtors was written off as bad debts.
(6)	23.01.2014	Paid Rs. 35 000 for expenses inclusive of opening accrued operating expenses.
(7)	27.01.2014	Vinu obtained an inventory costing Rs. 8 000 from the business for a personal requirement.
(8)	30.01.2014	Motor vehicles are depreciated at 20% per annum on cost at straight line basis.

**Required :**

- (1) Show the effect of above transactions inclusive of opening balances (with the values) using the accounting equations. Use (+) sign when the value increases and (-) sign when the value decreases in front of the figure. (Use the following format for this purpose.)

Transaction No.	Assets					Liabilities	Equity
	Motor Vehicle	Furniture & Fittings	Inventory	Debtors	Bank		

- (2) Calculate the profit or loss for the month of January 2014 using net asset basis. **(10 marks)**

(b) The trial balance of Prasad's business prepared as at 31.03.2014 revealed that the credit side was higher than its debit side by Rs. 16 200. Subsequently, the following errors were revealed. (Business is not maintaining control accounts.)

- (i) Advertising expenses paid of Rs. 6 000 have not been posted to the relevant account.
- (ii) The balance of the insurance expenses account of Rs. 3 200 has not been taken to the trial balance.
- (iii) Motor vehicle repair expenses of Rs. 10 000 have been debited to the Motor Vehicle Account.
- (iv) Purchase returns of Rs. 2 400 have been recorded twice in the purchase returns journal.
- (v) Discounts received Rs. 1 000 have been debited to the discounts allowed account.
- (vi) Total of the sales journal has been over casted by Rs. 9 000.

**Required:**

- (1) Journal entries to correct the above errors **(05 marks)**
- (2) Suspense Account **(Total 15 marks)**

4. (a) Creditors ledger balances of Theekshana's business as at 01.03.2014 are as follows.

	<b>(Rs. '000)</b>
Asitha	25 000
Visitha	44 000
Lasitha	12 000
Total	<u>81 000</u>

The summary of the transactions done with the creditors during the month of March 2014 is given below.

Creditor	Purchases (Rs.)	Purchases Returns (Rs.)	Payments (Rs.)	Discount Received (Rs.)
Asitha	160 000	-	130 000	6 000
Visitha	300 000	4 000	300 000	-
Laistha	120 000	-	120 000	2 000
Rakitha	50 000	-	16 000	-
Total	630 000	4 000	566 000	8 000

As at 01.03.2014, the total of the creditors ledger balances agreed with the balance of the creditors control account. As at 31.03.2014, the total of the creditors ledger balances did not agree with the balance of the creditors control account. The reasons for this difference are given below:

- (i) Discounts received from Asitha for Rs. 3 000 have been debited to creditors control account and credited to discounts received account. No other entries had been made in this regard.
- (ii) Debit note of Rs. 4 000 sent to Visitha has not been recorded in his account.
- (iii) Cash sales of Rs. 20 000 have been credited to creditors control account.
- (iv) Purchase invoice dated 28.03.2014 raised for goods purchased of Rs.12 000 from Muditha, has not been recorded in the purchase journal.
- (v) The total of the purchase journal has been posted to the creditors control account as Rs.603 000.

**Required:**

- (1) Creditors control account for the month of March 2014, before making the above adjustments.
- (2) A statement, reconciling the correct balance of creditors control account with the total of creditors ledger balances.
- (3) The creditors balance to be shown in the Statement of Financial Position as at 31.03.2014  
*(10 marks)*

**(b)** The bank statement of a business as at 31.03.2014 had a debit balance at Rs. 8 000. The following information were revealed when comparing the balances of the bank account and the bank statement as at 31.03.2014.

- (i) A cheque of Rs.25,000 deposited in the bank has not been realized.
- (ii) A cheque worth of Rs. 18,000 issued to a supplier has not yet been presented to the bank.
- (iii) Bank charges of Rs. 500, cheque book charges of Rs.350, and insurance premium paid for Rs. 1400, as per a standing order issued to the bank have not been recorded in the bank account of the business.
- (iv) The cheque issued for Rs. 15,000 for the rent has been dishonored and no entries have been made in the bank account with this regard.

**Required:**

- (1) Bank Reconciliation Statement for the month of March 2014.
  - (2) The balance of the bank account as at 31.03.2014 before making adjustments.  
*(05 marks)*
- (Total 15 marks)***

5. (a) The following are some information relating to machinery owned by a business.
- (i) The cost of a machine purchased on 01.04.2010 was Rs. 90 000 and its scrap value estimated after 10 years is Rs.10 000.
  - (ii) On 01.10.2012, Rs.40 000 was spent to add a new part to the above machine to increase its efficiency. Because of this new addition, the estimated useful life of the machine was extended by another 10 years from the date of the new addition. There were no changes for the scrap value estimated.
  - (iii) On 01.01.2014, the above machine was exchanged with a similar machine of Rs. 120 000. For this purpose, in addition to the old machinery, Rs.20,000 was paid in cash.
  - (iv) The estimated useful life of the new machine was estimated as 10 years and it was estimated that it has no scrap value.

**Required:**

- (1) Journal entries for the exchange of machinery.
  - (2) The impact on the profit for the year ending 31.03.2014 due to the exchange of machinery.
- (07 Marks)*

- (b) The following information relates to Sadun's business as at 30.06.2014, which has not followed the double entry system to record transactions.

(i) Assets & Liabilities	As at 2013.06.30	As at 2014.06.30
	(Rs.)	(Rs.)
Cash	80 000	35 000
Inventory	35 000	48 000
Trade debtors	?	50 000
Trade creditors	30 000	14 000
Property, Plant and Equipment (cost)	150 000	?

- (ii) Some of the transactions occurred during the year ending 30.06.2014 are as follows;

	(Rs.)
Cash received from trade debtors	223 000
Discounts allowed	7 000
Wages paid	19 000
Other operating expenses	18 000
Cash drawings	5 000
Cash paid to creditors	280 000
Discounts received	4 000

- (iii) Additional Information:

- (i) Both cash and credit sales have been made at a 20% profit margin on sales. There are no cash receipts except cash sales and receipts from debtors.
- (ii) Wages of Rs. 8 000 for the month of June 2014 have not been paid.
- (iii) It has been decided to provide 5% of the year end balance of debtors as doubtful debts and to depreciate Property, Plant and Equipment on cost 10% per annum from the year ending 30.06.2014.

**Required:**

- (1) Income Statement for the year ending 30.06.2014.
  - (2) Statement of Financial Position as at 30.06.2014.
- (08 marks)*  
*(Total 15 marks)*

6. (a) " Vikum" a youth association, operates a Sports complex of which the assets liabilities as at 31.03.2013

	(Rs. '000)	(Rs. '000)
<b>Non current Assets</b>		
Sports complex	500	
Gym equipment	<u>800</u>	1 300
<b>Current Assets</b>		
Subscription receivable	50	
Bank balance	125	
Cash	<u>40</u>	215
<b>Non Current Liabilities</b>		
Subscription - Life	500	
Gym Equipment Fund	<u>300</u>	800
<b>Current Liabilities</b>		
Subscription received in advance	125	
Advances received (for body buildings)	<u>40</u>	165

The following information relates to the year ending 31.03.2014.

- (i) All receipts and payments have been made in cash.
- (ii) The annual subscription for a member is Rs. 5 000. There are 100 members. Furthermore, there are 50 members who have paid Rs. 10 000 each to obtain the life membership. The policy of the association is to recognize annually 10% of the subscription received for life membership as income for the year.
- (iii) Subscription received during the year is Rs.425 000. This includes the receipt of membership fees receivable for the last year as well as the membership fee received from 20 members for the next year. At the end of the year, 20 members have not paid subscription.
- (iv) In addition to the members, outsiders are also eligible to use the Gymnasium subject to a daily payment of Rs.200. Rs.550 000 have been collected from 50 individuals during 52 days and the additional cash received has been regarded as an advance for the next year.
- (v) An employee who is in charge of gymnasium equipment is paid a monthly salary of Rs.10 000.
- (vi) Rs. 80 000 has been paid for the promotional activities and Rs. 250 000 has been spent for other expenses.
- (vii) Sports complex and gymnasium equipment should be depreciated annually at 5% and 20% respectively at reducing balance method.
- (viii) A part of the sports complex has been rented out to an external party for table tennis, on 01.04.2013 for a monthly rent of Rs.10 000. He has paid rent for 18 months.
- (ix) All cash has been deposited in the bank after keeping Rs.50 000 as cash in hand.
- (x) Rs. 75,000 has been spent during the year to maintain the equipment.

**Required:**

- (1) Accumulated Fund as at 31.03.2013
- (2) Income & Expenditure Account for the year ending 31.03.2014
- (3) Statement of Financial Position as at 31.03.2014 (10 marks)

(b) Thilini wishes to start a mobile business to sell kids garments using a van. The estimated costs for this purpose are as follows. These expenses should be incurred in order to engage in the business operations for 25 days for a month.

	(Rs.)
Rs. 5 000 each per day for renting a van	125 000
Rs. 1 000 each per day for other expenses	25 000
Rs. 500 Per day for assistant's salary	12 500

A kid garment is expected to purchase for Rs.300 & sold for Rs. 800.

**Required:**

- (1) Number of kids garments to be sold to cover up the monthly cost.
  - (2) Number of kids garments to be sold if a profit Rs. 150 000 is expected for a month. (05 Marks)
- (Total 15 marks)**

7. (a) Gihan (Pvt) Ltd considers the two investment projects given below. The economic useful life of the two machines are estimated as 4 years. Only one of these machines should be selected.

	<b>Machine "A"</b>	<b>Machine "B"</b>
	<b>(Rs.)</b>	<b>(Rs.)</b>
Initial investment	250 000	250 000
Year 1 Profit	85 000	65 000
Year 2 Profit	50 000	45 000
Year 3 Profit	75 000	60 000
Year 4 Profit / (Loss)	(32 000)	22 000
The scrap value at the end of the year 4	50 000	50 000

The required rate of return of Gihan (Pvt) Ltd is 15%.

Discounting factors at 15%:

Time / year	1	2	3	4
Discounting factors	0.87	0.76	0.66	0.57

**Required:**

- (1) Accounting rate of return (Based on average investment)
- (2) Pay back period
- (3) Net present value
- (4) Recommend the investment option to be selected under the cost of (1), (2) &(3) above

*(10 marks)*

- (b) A manufacturing company had a balance of 3 000 units of raw material "P" at its factory as at 01.03.2014. The store keeper of the organisation presents the following information.

		<b>Price Per Unit</b>	<b>Units</b>
		<b>(Rs)</b>	
2014.03.01	Balance at the store	10	3 000
2014.03.05	Purchases	12	15 000
2014.03.10	Issues to the factory		10 000
2014.03.20	Returns by the factory (Purchased for Rs.12 each)		1 000
2014.03.25	Purchases	15	15 000
2014.03.28	Returns to the suppliers from the stock purchased on the date 3/25		2 000

The following additional information has been provided.

- (i) As at 31.03.2014 , 1 200 units of inventory remained at the factory.
- (ii) Company uses Weighted Average Pricing Method to value its stocks.
- (iii) The maximum usage of raw materials per day in the business is 800 units.
- (iv) Maximum lead time is 15 days.

**Required:**

- (1) Average stock consumption of the factory per day (in units)
- (2) Re-order level
- (3) Re-order quantity
- (4) Inventory value as at 31.03.2014

*(05 Marks)*

*(Total 15 marks)*

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