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අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2017 අගෝස්තු
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தரப்) பரீட்சை, 2017 ஓகஸ்ற்
General Certificate of Education (Adv. Level) Examination, August 2017

ගිණුම්කරණය 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	
Q. Nos.	**Marks**
01 - 30	
31 - 50	
TOTAL	

	Signature	Code No.
1st Examiner		
2nd Examiner		
Addl. Chief		
E.M.F.		
Chief		

1. What is the main purpose of financial accounting in a firm?
   (1) To provide information to managers to take decisions.
   (2) To provide information to government to charge taxes on the income.
   (3) To provide information to auditors to express an opinion on financial statements.
   (4) To provide information to monitor compliance of financial statements with accounting standards.
   (5) To provide information to external stakeholders to take decisions. (……)

2. Which of the following accounting concepts provides the basis for **non**-recognition of employee competencies in the financial statements of a business?
   (1) Entity (2) Prudence (3) Historical Cost
   (4) Materiality (5) Money Measurement (……)

3. Which of the following accounting concepts provides the basis for the recognition of debtors and creditors in the financial statements of a business?
   (1) Accrual (2) Prudence (3) Going Concern
   (4) Matching (5) Materiality (……)

4. The monthly instalment of Rs. 100 000 for the loan obtained by his business was paid by Nuwan from his personal cash. The interest included in the instalment was Rs. 25 000. Which of the following accounting equation shows the **net impact** of these transactions? (Assume that financial statements are prepared monthly.)

	Assets (Rs.)	=	Liabilities (Rs.)	+	Equity (Rs.)
(1)	0		− 75 000		+ 75 000
(2)	0		− 100 000		+ 100 000
(3)	+ 75 000		0		+ 75 000
(4)	− 100 000		− 100 000		0
(5)	− 100 000		− 75 000		− 25 000

(……)

● **Use the following information to answer questions No. 5, 6 and 7.**

Kumara sold goods with a list price of Rs. 100 000 on credit to Amal on 10.03.2017 after allowing a 10% trade discount. The cost of these goods was Rs. 60 000. Goods with a sales value of Rs. 30 000 (cost Rs. 20 000) was returned by Amal on 15.03.2017. Amal settled the balance due on 31.03.2017 after receiving a 5% cash discount.

5. The sequence of source documents used to record these transactions in **Kumara's** business:
   (1) Invoice, Debit Note, Receipt (2) Invoice, Credit Note, Receipt
   (3) Invoice, Journal Voucher, Receipt (4) Invoice, Debit Note, Journal Voucher
   (5) Invoice, Credit Note, Journal Voucher (……)

6. The **net increase** in net profit for the year ending 31.03.2017 of **Kumara's** business due to these transactions:
   (1) Rs. 6 500 (2) Rs. 7 000 (3) Rs. 17 000 (4) Rs. 20 000 (5) Rs. 26 500 (……)

7. The sequence of prime entry books used to record these transactions in **Amal's** business:
   (1) Purchase Journal, Purchase Return Journal, Cash Payments Journal
   (2) Purchase Journal, General Journal, Cash Payments Journal
   (3) Purchase Journal, Purchase Journal, Cash Payments Journal
   (4) Purchase Journal, Purchase Return Journal, General Journal
   (5) Purchase Journal, General Journal, General Journal (……)

[See page two

8. The following information was extracted from the books of a business.

	As at 31.03.2017 (Rs.)	As at 31.03.2016 (Rs.)
Trade receivables	1 200 000	1 000 000
Allowance for doubtful debts	120 000	100 000

Further, during the year ending 31.03.2017, Rs. 60 000 was written off as bad debts and recorded in the bad debts account.

Which of the following is **correct**?

	Bad and Doubtful Debts Expense for the year ending 31.03.2017 (Rs.'000)	Carrying Amount of Trade Receivables as at 31.03.2017 (Rs.'000)
(1)	60	1 080
(2)	80	1 020
(3)	80	1 080
(4)	180	1 020
(5)	180	1 080

(......)

● **Use the following information to answer questions No. 9 and 10.**

A business carries out all its cash transactions through a bank current account.

A summary of the cash transactions as per books of account for the month of March 2017:

Description	Rs.'000
Cash balance as at 01.03.2017	100
Total of Cash Receipts Journal as at 31.03.2017	1 200
Total of Cash Payments Journal as at 31.03.2017	900

A summary of the bank statement for the month of March 2017 received on 04.04.2017:

Description	Rs.'000
Balance as at 01.03.2017	100
Cheques realized	1 000
Cheques paid	750
Fixed deposit interest credited directly	200
Standing order payments	50

Fixed deposit interest and standing order payments are recorded in the books after receiving the bank statement. There were no unrealised or unpresented cheques as at 01.03.2017.

9. What is the adjusted balance of the cash account of the business as at 31.03.2017?
(1) Rs. 300 000 (2) Rs. 350 000 (3) Rs. 400 000 (4) Rs. 500 000 (5) Rs. 550 000 (......)

10. Which of the following statements are **correct** with respect to cash transactions of this business for the month of March 2017?
A - The total cash receipts for the month of March 2017 were Rs. 1 400 000.
B - The total cash payments for the month of March 2017 were Rs. 950 000.
C - The unrealized cheques as at 31.03.2017 were Rs. 200 000.
D - The unpresented cheques as at 31.03.2017 were Rs. 150 000.

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

11. The following information is provided for a business entity, which does not maintain accounting records properly.

Description	As at 31.03.2017 (Rs.'000)	As at 31.03.2016 (Rs.'000)
Capital	650	500
Retained Earnings	325	250

The owner annually withdraws Rs. 50 000 from the business for personal use. It is debited to the retained earnings, the only reserve maintained by the business.

What is the profit for the year ending 31.03.2017 and the net assets as at 31.03.2017?

	Profit for the year (Rs.'000)	Net Assets (Rs.'000)
(1)	25	925
(2)	75	975
(3)	75	875
(4)	125	875
(5)	125	975

(......)

[See page three

12. The assets and liabilities of a school development association are as follows:

Description	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
Office equipment (carrying amount)	750	800
Subscription in arrears	10	20
Cash at bank	80	80
Long-term bank loan	600	800
Subscriptions received in advance	50	40

What is the surplus or deficit for the year ending 31.03.2017? (Use net assets basis.)

(1) Rs. 130 000 (2) Rs. 170 000 (3) (Rs. 40 000) (4) (Rs. 170 000) (5) (Rs. 130 000) (......)

- **Use the following information to answer questions No. 13 and 14.**

Amal and Kamal carried out a partnership sharing profits and losses in the ratio of 2:1 and Wimal was admitted as a partner on 01.04.2016. He invested Rs. 500 000 as capital. The goodwill estimated on this date was adjusted through the partners' capital accounts. A goodwill account is not maintained in the books. The terms of the partnership agreement of Amal, Kamal and Wimal are as follows:

- Profits and losses are shared among Amal, Kamal and Wimal in the ratio of 3:2:1 respectively.
- Kamal is entitled to an annual salary of Rs. 360 000.

The following information is also provided:

	Capital Accounts (Rs.'000) Credit		Current Accounts (Rs.'000) Credit	
	As at 31.03.2017	As at 31.03.2016	As at 31.03.2017	As at 31.03.2016
Amal	2 200	2 000	650	500
Kamal	1 000	1 000	700	300
Wimal	300	–	50	–

Amal and Kamal have not provided additional capital during the year. The drawings of partners for the year ending 31.03.2017: Amal Rs. 210 000, Kamal Rs. 200 000 and Wimal Rs. 70 000 and they have been adjusted through current accounts.

13. The goodwill estimated on 01.04.2016 and the equity of the partnership as at 31.03.2017:

	Goodwill (Rs.'000)	Equity (Rs.'000)
(1)	200	3 500
(2)	200	4 900
(3)	1 000	2 100
(4)	1 200	3 500
(5)	1 200	4 900

(......)

14. The profit of the partnership and the total profit distributed to Kamal for the year ending 31.03.2017:

	Profit for the year (Rs.'000)	Total profit distributed to Kamal (Rs.'000)
(1)	600	240
(2)	720	240
(3)	720	600
(4)	1 080	240
(5)	1 080	600

(......)

15. Which of the following statements is **correct** in relation to an asset recognized under LKAS 16 (Property, Plant and Equipment)?
(1) It is either a tangible or intangible asset held for use in the production of goods or supply of services.
(2) It is expected to be used for a period of more than one year.
(3) It is measured at recognition based on either cost model or revaluation model.
(4) All expenditure incurred subsequent to its recognition is always capitalized.
(5) Legal ownership is a necessary condition in order to recognize it as an asset. (......)

16. The following information relates to the acquisition of a machine on 31.03.2017 by a business. This business is not registered for Value Added Tax (VAT).

Description	Rs.
Price paid inclusive of 15% VAT	230 000
Transport cost from supplier's company to the business	15 000
Cost of installation and assembly	30 000
Cost of dismantling and removing the old machine	2 000
Cost of testing prior to the use of machine	8 000
Cost of training of employees on the use of machine	12 000

What is the cost of the machine at recognition as per LKAS 16 (Property, Plant and Equipment)?

(1) Rs. 255 000 (2) Rs. 267 000 (3) Rs. 283 000 (4) Rs. 285 000 (5) Rs. 297 000 (......)

[See page four

17. The following information relates to an inventory item of a company for the month of March 2017.

Date	Description	Quantity (Units)	Per Unit Cost (Rs.)
01.03.2017	Balance	100	200
20.03.2017	Purchases	400	400
27.03.2017	Sales	200	?

The company, which currently follows the FIFO method to price the inventory issues, is considering to use the weighted average method in the future.
What is the cost of inventory as at 31.03.2017 under each of these methods?

	FIFO (Rs.'000)	Weighted Average (Rs.'000)
(1)	100	90
(2)	100	108
(3)	120	90
(4)	120	108
(5)	120	180

(......)

18. An extract of the Income Statement of Dimuthu PLC for the year ending 31.03.2017 is given below.

	Rs.'000
Revenue	8 000
Cost of sales	2 000
Operating expenses (including depreciation of Rs. 1 000 000)	3 000

The following information has been extracted from the Statement of Financial Position of the company.

	As at 31.03.2017(Rs.'000)	As at 31.03.2016(Rs.'000)
Trade payables	400	200
Inventory	900	600

The company sells goods only on cash basis and is operating within a tax holiday period.

What is the net cash flow generated from operating activities for the year ending 31.03.2017?

(1) Rs. 2 900 000 (2) Rs. 3 000 000 (3) Rs. 3 900 000 (4) Rs. 4 000 000 (5) Rs. 4 100 000 (......)

19. Which of the following condition/s should be satisfied in the recognition of a provision in accordance with LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets)?

A - An entity has a present legal or constructive obligation resulting from a past event
B - There is a probable outflow of resources embodying economic benefits to settle the obligation
C - A reliable estimate can be made of the amount of the obligation

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

20. The financial statements of Amila PLC for the year ending 31.03.2017 were authorized by the directors on 30.06.2017. The following events took place in the company from 31.03.2017 to 30.06.2017

A - Decline in the market value of an investment of the company continuously from 01.05.2017
B - Declaration of the bankruptcy of a debtor by a court of law on 19.05.2017 who had purchased goods on credit on 01.03.2017
C - Destruction of inventory that had been in existence from 31.03.2017 due to a fire occurred on 30.05.2017
D - Receipt of a letter from the government on 20.06.2017 informing that a land owned by the business as at 31.03.2017 will be acquired in order to construct a road

Which of the above events are considered as **non-adjusting events** in the financial statements of the company for the year ending 31.03.2017 as per LKAS 10 (Events After the Reporting Period)?

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

21. The following information relates to Lanka PLC.

Description	As at 31.03.2017 (Rs.'000)	As at 31.03.2016 (Rs.'000)
Stated capital – Ordinary shares	5 000	4 600
Retained earnings	1 500	900
Revaluation reserve	1 000	–
Total	**7 500**	**5 500**

An interim dividend of Rs. 200 000 was paid during the year ending 31.03.2017 and a final dividend of Rs. 300 000 was declared on 15.04.2017. Property, plant and equipment were revalued for the first time on 31.03.2017.
What is the profit and the total comprehensive income for the year ending 31.03.2017?

	Profit (Rs.'000)	Total Comprehensive Income (Rs.'000)
(1)	600	1000
(2)	600	1600
(3)	800	1000
(4)	800	1800
(5)	1 100	2 100

(......)

[See page five

22. The following information relates to a manufacturing company.

As at 31.03.2017:		For the year ending 31.03.2017:	
Current ratio	2 : 1	Sales	Rs. 600 000
Current liabilities	Rs. 300 000	Gross profit margin	25%
Inventory	Rs. 120 000		

Inventory as at 01.04.2016 was Rs. 180 000.
What is the quick ratio and the inventory turnover ratio of the company?

	Quick Ratio (Times)	Inventory Turnover Ratio (Times)
(1)	0.4	3.75
(2)	0.625	3
(3)	0.625	4
(4)	1.6	3
(5)	1.6	4

(......)

23. The current ratio of a retail business as at 31.03.2017 was 2:1. While other factors remain constant, which of the following transaction leads to a **reduction** in this ratio?
(1) Receipt of an advance for a sale of goods
(2) Sale of goods on credit with a profit margin
(3) Return of goods previously purchased on credit
(4) Sale of a motor vehicle on cash
(5) Obtaining a long-term loan from a bank (......)

24. Which of the following tasks are carried out in the management accounting function of a firm?
A - Preparation of the annual budget
B - Analysis of costs of an activity as fixed and variable for decision making
C - Preparation of the cash flow statement for publication
D - Estimation of cash flows to evaluate a project
(1) A and C only
(2) B and D only
(3) A, B and D only
(4) A, C and D only
(5) All A, B, C and D (......)

25. Which of the following cost classification is **more** suitable for cost-volume-profit (CVP) analysis?
(1) Direct cost and Indirect cost
(2) Irrelevant cost and Opportunity cost
(3) Relevant cost and Irrelevant cost
(4) Relevant cost and Sunk cost
(5) Variable cost and Fixed cost (......)

26. The following budgeted information relates to the Machine and Finishing Divisions of a factory, that manufactures a single product.

	Machine Division	Finishing Division
Time spent to produce a unit	6 machine hours	8 labour hours
Overhead absorption rate	Rs. 30 per machine hour	Rs. 40 per labour hour

The budgeted cost of production is Rs. 800 per unit. What is the budgeted prime cost of a unit of the product?
(1) Rs.300 (2) Rs.480 (3) Rs.500 (4) Rs.620 (5) Rs.730 (......)

27. Which of the following items are considered as direct wages of machine operators in a garment manufacturing firm?
A - Basic pay for normal hours worked
B - Incentive based on number of units produced
C - Overtime premium for a special order
D - Medical allowance payable at hospitalisation
(1) A and B only
(2) A and C only
(3) A and D only
(4) A, B and C only
(5) B, C and D only (......)

28. A manufacturing company uses the economic order quantity as the re-order quantity in purchasing raw materials. The following information relates to a raw material item.

Ordering cost	Rs. 750 per order
Holding cost	Rs. 10 per unit per annum
Monthly demand	5 000 units

The economic order quantity and the annual ordering cost of the raw material would be:

	Economic Order Quantity (Units)	Annual Ordering Cost (Rs.)
(1)	1 000	45 000
(2)	2 000	22 500
(3)	3 000	15 000
(4)	4 000	11 250
(5)	5 000	9 000

(......)

29. The following information relates to a product manufactured by a company.
Variable cost per unit Rs. 150 Contribution–sales ratio 40%
The company wishes to increase the contribution–sales ratio to 60% by increasing the selling price while variable cost per unit remains constant. What would be the new selling price of the product?
(1) Rs. 210 (2) Rs. 240 (3) Rs. 250 (4) Rs. 275 (5) Rs. 375 (......)

30. A project of 5 year duration needs an investment of Rs. 5 000 000 to purchase a machine. Its residual value at the end of the project is Rs. 1 000 000. If the accounting rate of return (ARR) is 20%, what is the average annual profit of the project? (ARR has been calculated by dividing average annual profit by average investment. Further, assume that the project earns an equal profit each year.)
(1) Rs. 500 000 (2) Rs. 600 000 (3) Rs. 800 000 (4) Rs. 1 000 000 (5) Rs. 1 200 000 (......)

[See page six

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

31. State whether the following are considered as components of general purpose financial statements of a firm.

	Yes/No		Yes/No
A - Statement of Financial Position	....	B - Notes to the Financial Statements	....
C - Directors' Report	....	D - Statement of Changes in Equity	....

32. State the prime entry books used to record the following transactions.

Transaction	Prime Entry Book
A - Sale of goods on credit basis	....
B - Receipt of a cheque from a debtor	....
C - Dishonour of a cheque received from a debtor	....
D - Writing off a debtor's balance as a bad debt	....

33. State the accounts in the general ledger to which the following transactions are posted.

Transaction	Dr.	Cr.
A - Sale of goods on credit basis	....	....
B - Writing off a debtor's balance as bad debt	....	....

34. State the appropriate classification for the following accounts maintained in the general ledger.

Account	Classification	Account	Classification
A - Depreciation	....	B - Revaluation Reserve	....
C - Trade Payables	....	D - Discount Received	....

35. Indicate how the **net impact** [values with (+) or (–) signs] of the following transactions of a business is represented in the accounting equation.

Transaction	Assets (Rs.)	=	Liabilities (Rs.)	+	Equity (Rs.)
A - Purchase of inventory on credit for Rs. 150 000	....		....		....
B - Sale of inventory costing Rs. 90 000 for Rs. 140 000 on cash	....		....		....

36. Sumudu commenced a retail business on 01.03.2017 investing Rs.800 000 in cash. During the month ending 31.03.2017, goods costing Rs.350 000 were purchased on credit and were sold for Rs.400 000 on cash. Further, the business incurred Rs.60 000 as expenses for the month, of which Rs.20 000 was payable as at 31.03.2017. State the following as at 31.03.2017.

(a) Assets (Rs.) .... (b) Liabilities (Rs.) .... (c) Equity (Rs.) ....

37. Which of the following accounting concepts is **most** applicable to each of the situations given below?

(1) Entity (2) Prudence (3) Going Concern (4) Periodicity

Situation	Accounting Concept
A - Indication of the reporting period of the financial statements	....
B - Deduction of distributions made to owners from the retained earnings	....
C - Measurement of property, plant and equipment at acquisition cost	....
D - Measurement of inventory at the lower of cost and net realizable value	....

38. State the qualitative characteristic of accounting information that is expected to be maintained in each of the following situations related to a company.

Situation	Qualitative Characteristic
A - Revaluation of property, plant and equipment at fair value	....
B - Valuation of inventory using FIFO method to be in line with industry norms	....
C - Recognition of a motor vehicle purchased on a finance lease as an asset	....
D - Issue of interim financial statements within one week after the end of each quarter	....

[See page seven

39. The following information relates to subscription of a sports club:

Description	**As at 31.03.2017 (Rs.)**	**As at 31.03.2016 (Rs.)**
Subscription received in advance	80 000	60 000
Subscription in arrears	30 000	20 000

The annual subscription per member is Rs. 1 000. There were 60 members during the year ending 31.03.2017. Calculate the following for the year ending 31.03.2017:

(a) Subscription recognized as income Rs. .... (b) Subscription received in cash Rs. ....

40. State **two** situations in which the goodwill of a partnership is estimated.

(1) ....

(2) ....

41. State whether the following statements are **true** (T) or **false** (F) in relation to a partnership.

	Statement	**T/F**
A -	The goodwill of a partnership is estimated when there is a change in its profitability.	....
B -	According to Companies Act (2007) partnerships can have a maximum of 20 partners.	....
C -	A partnership cannot exist without a written agreement among the partners.	....
D -	Section 24 of the Partnership Ordinance of 1890 requires an interest of 5% to be paid on partners' capital balances.	....

42. On 01.03.2017, a company called applications for 10 000 ordinary shares at Rs. 20 per share. Applications were received for 15 000 shares and shares were allotted on pro-rate basis on 31.03.2017. The excess cash was returned to the applicants. Calculate the following:

(a) Increase in stated capital as at 31.03.2017 Rs. ....

(b) Excess cash returned Rs. ....

43. The stated ordinary share capital of a company as at 01.04.2016 consisted of 100 000 shares issued at Rs. 50 per share. On this date, the company capitalized Rs. 1 000 000 of its reserves at Rs. 40 per share. Further, a rights issue of shares was made at the ratio of one share for every five shares held on 31.03.2017 at Rs. 30 per share. All rights were subscribed by the existing shareholders. Calculate the following.

(a) Increase in equity as at 31.03.2017 Rs. ....

(b) Cash received from the rights issue Rs. ....

44. An extract of the Statement of Changes in Equity of a company for the year ending 31.03.2017 is given below.

(Rs. '000)

Description	**Stated Capital– Ordinary Shares**	**Revaluation Reserves**	**Retained Earnings**	**Total**
Balance as at 01.04.2016	1 000	500	200	1 700
A	–	800	700	1 500
B	500	–	(500)	–
C	–	–	(100)	(100)
D	600	–	–	600
Balance as at 31.03.2017	**2 100**	**1 300**	**300**	**3 700**

Identify the items given by A, B, C and D in the above table.

A - .... B - ....

C - .... D - ....

45. The following information relates to two manufacturing companies for the financial year ending 31.03.2017.

Ratio	**R PLC**	**Q PLC**
Debt-equity (times)	1.5	0.8
Interest cover (times)	2.5	3.2
Return on equity	25%	20%
Quick assets	0.8:1	1.2:1

State the following in relation to these companies.

A - The company that generates a higher return to shareholders ....

B - The company that has a higher ability to cover interest expenses ....

C - The company that uses more debt capital to acquire assets ....

D - The company that is more capable of settling short-term obligations ....

[See page eight

46. State whether the return on equity ratio and the debt-equity ratio of a company as at 31.03.2017 **increases (I)**, **decreases (D)** or **remain unchanged (NC)** in each of the following transactions while other factors remain constant. (Assume that all these transactions took place on 31.03.2017.)

Transaction	**Return on Equity Ratio**	**Debt-Equity Ratio**
A - Obtaining a long-term loan from a bank at 12% interest rate	....	....
B - Making a rights issue of shares where all rights were subscribed by existing shareholders	....	....

47. The following information relates to a firm, which produces a single product through two cost centres-Machine and Assembly.

Description	**Machine Department**	**Assembly Department**
Overhead costs absorbed per unit	Rs. 300	Rs. 100
No. of hours to produce a unit	3 machine hours	2 labour hours
Total hours worked	5 000 machine hours	6 000 labour hours

Overheads are absorbed based on machine hours in the Machine Department and labour hours in the Assembly Department.

Calculate the following:

	Machine Department	**Assembly Department**
(a) Overhead absorption rate (Rs. per hour)	....	....
(b) Total overhead cost absorbed (Rs.)	....	....

48. The annual budgeted information of a firm, which produces a single product is given below. The budgeted activity level of this firm for the next financial year is 10 000 units.

Selling price per unit	Rs. 100
Prime cost per unit (all variable costs)	Rs. 20
Variable production overhead costs per unit	Rs. 15
Sales agents' commission	5% of the selling price
Fixed production overheads per unit	Rs. 12
Fixed non-production overheads per unit	Rs. 18

Calculate the following:

(a) At the activity level of 10 000 units:

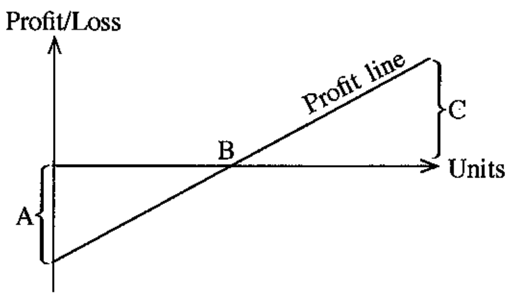
(1) Production cost per unit Rs. ....

(2) Total cost per unit Rs. ....

(3) Variable cost per unit Rs. ....

(b) Fixed cost per unit at an activity level of 6 000 units Rs. ....

49. The profit-volume graph of a company is given below. Identify the items given by A, B and C in this graph.



A - ....

B - ....

C - ....

50. A manufacturing company is considering to purchase a new machine replacing the existing machine. Costs incurred to conduct the feasibility study in this respect was Rs. 50 000. The following estimates have been prepared in relation to this purchase.

Cost of the new machine	Rs. 1 000 000	Payback period of the investment 3 years
Sales proceeds from the old machine	Rs. 300 000	Useful life of the new machine 4 years
Additional working capital	Rs. 200 000	

Assume that net operating cash inflow is equal in each year.

Calculate the following:

(a) Initial cash outflow Rs. ....

(b) Annual expected net operating cash inflow Rs. ....

* * *

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கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2017 ஓகஸ்ற்
General Certificate of Education (Adv. Level) Examination, August 2017

ගිණුම්කරණය II
கணக்கீடு II
Accounting II

33 E II

පැය තුනයි
மூன்று மணித்தியாலம்
Three hours

Instructions:

* *Answer **six** questions only, including questions **one** and **two**.*
* *Begin each answer on a **fresh sheet** of paper.*
* *Relevant workings should be attached to the answer script.*

1. Dilara PLC is a manufacturing and trading company. In addition to its own products, it also sells goods purchased from other companies. The summarized trial balance as at 31.03.2017 of the company is given below.

Description	**Dr. (Rs.'000)**	**Cr. (Rs.'000)**
Property, plant and equipment – carrying amount	27 500	
Cost of goods produced	12 000	
Purchase of goods	6 000	
Raw material inventory as at 31.03.2017	2 000	
Goods inventory as at 01.04.2016	3 000	
Distribution cost	8 000	
Administration expenses	8 400	
Value Added Tax (VAT) paid on purchases and expenses	2 300	
Interest paid on bank loan	200	
Income tax paid	1 900	
Dividend paid	1 700	
Bank and cash	6 000	
Sales		43 000
VAT collected on sales		2 800
Bank loan		12 000
Provision for income tax as at 01.04.2016 (for the year ending 31.03.2016)		800
Stated capital – ordinary shares		15 000
Retained earnings as at 01.04.2016		5 400
	79 000	**79 000**

Additional Information:

Before preparation of the financial statements for the year ending 31.03.2017 adjustments have to be made for the following.

(i) The cost and net realizable value of inventory of goods as at 31.03.2017 were as follows.

	Cost (Rs.)	**Net Realizable Value (Rs.)**
Manufactured goods	1 000 000	1 200 000
Purchased goods	1 300 000	1 000 000

In valuing inventory, the manufactured goods and purchased goods are considered separately.

(ii) The audit fees for the year ending 31.03.2017 was Rs. 600 000, of which Rs. 400 000 has been paid during the year. Only the amount paid has been recognised as an administration expense.

(iii) During the current year, Rs. 2 200 000 has been paid as directors' remuneration and recognised as an administration expense. However, the directors' remuneration relevant for the current year was Rs. 1 800 000.

(iv) Income tax paid includes Rs. 900 000 paid for the previous year and the payments made for the first three quarters of the current year. Income tax liability of the last quarter of the current year was estimated as Rs. 500 000. This amount has not yet been adjusted.

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(v) The composition of property, plant and equipment and their accumulated depreciation as at 31.03.2017 are as follows:

Description	Cost/Value (Rs.'000)	Accumulated Depreciation (Rs.'000)	Carrying Amount (Rs.'000)
Land (as at 01.04.2016)	10 000	–	10 000
Plant and machinery	21 000	9 700	11 300
Motor vehicles (Distribution vans)	4 000	2 000	2 000
Furniture and fittings	7 000	2 800	4 200
Total	**42 000**	**14 500**	**27 500**

The land is measured at revalued amount and all other assets are measured at cost.

The land was revalued on 31.03.2017 for Rs. 12 000 000 for the second time and it is yet to be recorded. A deficit of Rs. 1 200 000 was reported when this asset was revalued for the first time in the previous year.

(vi) Property, plant and equipment (except land) are depreciated at 10% per annum on straight line basis. Depreciation has been provided for the current year. However, the revision of the remaining useful life of distribution vans as 8 years on 01.04.2016 has not been considered in providing depreciation for the current year. (Assume there is no residual value for distribution vans.)

(vii) A lorry was acquired on 01.04.2016 on finance lease basis for 5 years. Its fair value was Rs. 5 000 000. The ownership of this asset will be transferred to the company at the end of the lease term. The lease interest relevant for the first year and the second year are Rs. 500 000 and Rs. 418 000 respectively and the total lease interest for the remaining three years amount to Rs. 682 000. Annual lease instalment is Rs. 1 320 000. It has been paid at the year end and recorded as a distribution cost. No other entry has been made in relation to this transaction.

(viii) Ordinary shares of Rs. 5 000 000 were issued during the year and the amount was received in full. This amount has been recorded in the sales account.

(ix) The bank loan was obtained on 01.01.2017 at an annual interest of 10%. The settlement of the loan will commence after two years. However, interest for this should be paid from the beginning. Only 2 months interest has been paid.

Required :

The following financial statements (including notes) of Dilara 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 31.03.2017

(2) Statement of Financial Position as at 31.03.2017

(3) Statement of Changes in Equity for the year ending 31.03.2017

(Total 20 marks)

2. **(a)** Amal, Kamal and Nimal carried out a partnership under the following terms.

- All partners are entitled to an annual interest of 10% based on opening capital balances.
- Profits and losses are shared among Amal, Kamal and Nimal in the ratio of 3 : 2 : 1 respectively.

Profit for the year ending 31.03.2017 of the partnership (before appropriation to the partners) as per the draft income statement was Rs. 3 400 000. However, the following errors in the accounting records of the business were revealed subsequently.

(i) The salaries of employees Rs. 360 000 has been debited to salaries account as Rs. 630 000.

(ii) The interest paid Rs. 100 000 on bank loans has been credited to interest income account as Rs. 10 000.

(iii) Office equipment worth Rs. 300 000 purchased on 01.04.2016 has been recorded as office expenses. (Depreciation is provided at 10% per annum for office equipment on straight line basis.)

(iv) Amal's annual life insurance premium of Rs. 150 000 has been paid by the business and it has been treated as insurance expenses of the business.

On 31.03.2017, Amal retired from the partnership. On this date, the goodwill of the partnership was estimated as Rs. 1 800 000. A goodwill account is not maintained in the books and all adjustments are made through the capital accounts of partners. It was agreed to maintain the amount payable to Amal as a loan in the partnership. Kamal and Nimal agreed to continue the business sharing profits and losses in the ratio 2 : 1 respectively.

The credit balances of partners' capital and current accounts as at 01.04.2016 were as follows:

	Capital Accounts (Rs.'000)	Current Accounts (Rs.'000)
Amal	4 200	800
Kamal	3 000	500
Nimal	2 000	300

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Required :

(1) Journal entries to correct the errors (with narration)

(2) A statement showing the correct profit of the partnership for the year ending 31.03.2017

(3) The capital and current accounts of partners as at 31.03.2017

(10 marks)

(b) A roof tile manufacturing firm has two production cost centres, Machine and Finishing in the factory. Further, it has a service cost centre-stores, which is located in the building where the factory is situated. The firm produces two types of roof tiles 'A' and 'B'. The following budgeted cost information is provided.

	Rs.'000
Salaries :	
Factory supervisors	240
Stores employees	150
Administrative officers	400
Rent :	
Factory building including the store	680
Administrative building	320
Depreciation :	
Machinery	100
Electricity :	
Factory building including the store	400
Administrative building	120
Insurance :	
Machinery	80
Repairs :	
Machinery	200
Maintenance :	
Factory building including the store	340
Administrative building	150

The following information is also provided.

Description	**Machine**	**Finishing**	**Stores**
Machinery cost (Rs.)	750 000	250 000	–
No. of workers	25	75	–
Floor area (square metres)	15 000	15 000	4 000
Electricity (kilowatt hours)	12 000	7 000	1 000
Machine hours	20 000	6 000	–
Direct labour hours	2 000	10 000	–

- Overheads of the stores is re-apportioned equally between Machine and Finishing centres.
- Production overheads are absorbed based on machine hours in the Machine centre and labour hours in the Finishing centre.
- In order to produce one roof tile of type 'A', 4 machine hours and 2 labour hours are spent in Machine and Finishing centres respectively.
- Direct raw material and direct labour costs to produce one roof tile of type 'A' are estimated as Rs. 162 and Rs. 100 respectively.

Required :

(1) The Production Overhead Analysis Sheet giving the bases of apportionment

(2) Production overhead absorption rates for Machine and Finishing centres

(3) Cost of production of a roof tile of type 'A' ***(10 marks)***

(Total 20 marks)

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3. The following accounting equations illustrate the impact of transactions that took place in a business during the month of January 2017. The owner has not withdrawn any money from the business during the month.

(Rs.'000)

Balances and transactions	Assets			=	Liabilities +		Equity	
	Property, plant and equipment	Inventory	Trade receivables	Cash at Bank	Bank loan	Trade payables	Capital	Retained earnings
Balances as at 01.01.2017	2 000	1 300	500	200	1 000	800	1 000	1 200
1	+1 000				+1 000			
2		+250				+250		
3				+600			+600	
4				–400				–400
5		–1 000	+1 800					+800
6			–500			–500		
7	–50							–50
8			–150					–150
9				–180	–150			–30
10		+200	–250					–50
Balances as at 31.01.2017	**2 950**	**750**	**1 400**	**220**	**1 850**	**550**	**1 600**	**1 320**

Required :

(1) Describe each transaction indicated from 1 to 10 above with values

(2) Profit or loss for the month ending 31.01.2017

(3) Statement of Financial Position as at 31.01.2017 showing assets and liabilities as current and non-current

(Total 15 marks)

4. (a) The following information relates to wages of a company for the month of July 2017.

- The gross wages for the month was Rs. 680 000, which consisted of the following:
  - (i) Basic wages for 4 800 normal hours worked at Rs. 100 per hour
  - (ii) Overtime premium for 500 hours worked at an hourly rate of Rs. 150
  - (iii) A bonus of Rs. 100 000 on profit basis
  - (iv) Labour charges of Rs. 25 000 paid to an outside party for installation of a machine
- Deductions from wages for the month is as follows:
  - (i) Contribution to Employee Provident Fund (EPF) Rs. 48 000
  - (ii) Instalment on staff loan Rs. 120 000
  - (iii) Contribution to employee welfare fund Rs. 25 000
- The employer and employee contributions to EPF are 15% and 10% respectively. The company calculates contributions to EPF based on basic wages.

Required :

The following accounts for the month of July 2017:

(1) Wages

(2) Wages Control

(3) EPF Expenses

(4) EPF Payable

(05 marks)

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(b) The following transactions took place in the first month of operations of a retail business in relation to purchase and sale of goods.

Date	Description	Amount (Rs. '000)
02.01.2017	Cash purchases	200
08.01.2017	Cash sales	300
10.01.2017	Credit purchases from Namal	500
12.01.2017	Return of goods purchased from Namal	100
15.01.2017	Cash purchases	400
16.01.2017	Credit sales to David	500
18.01.2017	Payment to Namal after receiving Rs. 20 000 discount	180
20.01.2017	Credit purchases from Anura	300
22.01.2017	Credit sales to Nayagam	400
24.01.2017	Return of goods by Nayagam	150
25.01.2017	Receipt of cash from David	400
26.01.2017	Payment to Anura after receiving Rs. 10 000 discount	290
30.01.2017	Receipt of cash from Nayagam after allowing Rs. 20 000 discount	230

- The cost of inventory as at 31.01.2017 was Rs. 300 000.

Required :

The following for the month of January 2017:

(1) Extracts of cash receipts journal and cash payments journal

(2) The following accounts in the general ledger:
   (i) Purchases
   (ii) Sales
   (iii) Creditors Control
   (iv) Debtors Control

(3) Computation of gross profit

(10 marks)
(Total 15 marks)

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

For the year ending 31.03.2017:

Description	Rs. '000
Sales	6 300
Profit after tax for the year	1 200
Interest expense	300
Tax for the year	600

As at 31.03.2017:

Total Assets :	**Rs. '000**
Property, plant and equipment	3 000
Inventory	500
Trade receivables	800
Cash	200
Total Liabilities :	
Trade payables	500
Bank loan (Payable after 3 years)	1 000

Additional information :

(i) Trade receivables as at 31.03.2016 was Rs. 600 000.

(ii) All sales were made on credit basis.

Required :

For the year ending 31.03.2017:

(1) Current ratio
(2) Debtors turnover ratio (based on average debtors)
(3) Return on equity ratio
(4) Interest cover ratio
(5) Assets turnover ratio (based on year-end assets)

(05 marks)

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(b) Udara Sports Club has been formed with the objective of improving the health condition of the people living in the surrounding area. It has a swimming pool and a gymnasium.

The annual subscription per member is Rs. 10 000 and it is payable at the time of joining the sports club. However, subscription is recognized in the income based on the number of months of membership held during the year. There were 105 members as at 31.03.2017, of which the composition is as follows:

Description	Number of members
Members as at 01.04.2016	60
New members joined during the year:	
On 01.07.2016	30
On 01.10.2016	15

There were no advance payments of subscription as at 01.04.2016 and no arrears in subscription as at 31.03.2017.

The facilities of the sports club are also open for non-members on a monthly basis for cash and their usage of facilities during the current year was as follows.

Facilities used	Monthly fee per person	No. of persons used	No. of months used
Both swimming pool and gymnasium	Rs. 1 000	30	6
		20	8
Either the swimming pool or the gymnasium	Rs. 500	60	10

Further, the sports club rents out the swimming pool at the rate of Rs. 150 000 per day to conduct sports festivals for external parties. 80% of this fee should be paid at the time of booking and the balance on the day of the festival. Two sports festivals took place during the year, the first for 3 days and the second for 2 days. Further, a booking has been made on 20.03.2017 to reserve the swimming pool for sports festival to be held on 08.04.2017.

The total expenses incurred during the year were Rs. 1 370 000. This has been paid in cash.

The carrying amount of assets of the sports club:

Assets	As at 31.03.2017 (Rs.'000)	As at 31.03.2016 (Rs.'000)
Property, plant and equipment	8 500	9 250
12% fixed deposit	1 500	–
Cash	?	400

There were no liabilities as at 31.03.2016. There were also no acquisitions or disposals of property, plant and equipment during the year.

The fixed deposit has been opened for a one year period on 01.07.2016 and its interest is received at maturity.

Required:

The following for the sports club:

(1) Cash Account for the year ending 31.03.2017

(2) Income Statement for the year ending 31.03.2017

(3) Liabilities as at 31.03.2017 (Indicate each item separately)

(10 marks)
(Total 15 marks)

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6. (a) A company is considering to acquire a new machine, which would cost Rs. 1 200 000. The expected useful life of the machine is 5 years and its residual value is estimated as Rs. 200 000. This machine will be used to manufacture a product and its expected annual production is as follows.

Year	1	2	3	4	5
Production (units)	500	500	500	600	600

The expected selling price per unit is Rs. 2 000. The expected prime cost per unit is Rs. 1 000 and annual production overheads (including depreciation) would amount to Rs. 300 000. The required rate of return of the project is 10%.

Required:

(1) Cash inflows, cash outflows and the net present value of the project (In answering use a format similar to the one given below.)

(Rs.'000)

Year	**0**	**1**	**2**	**3**	**4**	**5**
Cash inflows:						
Cash outflows:						
Net cash flow						
Discount factor 10% (at two decimal places)	1	0.91	0.83	0.75	0.68	0.62
Present value of net cash flow						
Net present value of the project						

(2) Recommendation to accept or reject the project based on the net present value

(05 marks)

(b) The following information relates to Ravindu PLC.

- An extract of the Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2017:

	Rs.'000
Gross profit	5 600
Gain on sale of property, plant and equipment	700
Operating expenses	(800)
Depreciation	(1 200)
Finance expenses	(1 300)
Profit before tax	3 000
Income tax	(1 800)
Profit for the year	1 200

- The summarized Statements of Financial Positions:

Description	**As at 31.03.2017 (Rs.'000)**	**As at 31.03.2016 (Rs.'000)**
Non-Current Assets		
Property, plant and equipment - at cost	37 000	30 000
Accumulated depreciation	(12 000)	(14 900)
	25 000	15 100
Current Assets		
Inventory	2 000	3 000
Trade receivables	9 000	8 000
Cash and cash equivalents	2 000	1 900
Total Assets	38 000	28 000
Equity		
Stated capital – ordinary shares	18 000	10 000
Retained earnings	2 100	1 800
Non-Current Liabilities		
Bank loan	7 000	8 000
Current Liabilities		
Trade payables	6 000	4 000
Accrued finance expenses	4 000	3 000
Accrued income tax	900	1 200
Total Equity and Liabilities	38 000	28 000

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Additional Information :

(i) An item of property, plant and equipment purchased for Rs. 9 000 000 was sold for cash on 31.03.2017. The accumulated depreciation of this asset on this date was Rs. 4 100 000.

(ii) Dividends of Rs. 900 000 have been paid during the year.

(iii) Cash received from the share issue during the year was Rs. 8 000 000.

Required :

Statement of Cash Flows of Ravindu PLC for the year ending 31.03.2017 as per LKAS 7 (Statement of Cash Flows)

(10 marks)
(Total 15 marks)

7. **(a)** A company, which produces vegetable storage boxes, uses a special type of raw material for this purpose. In order to produce a storage box, 4 kgs of this raw material is required. The monthly production of storage boxes varies from 150 to 200. The reorder quantity of this material is 4 000 kgs and the lead time of an order varies between 5 to 7 working days.

Required :

In relation to this material:

(1) Re-order level
(2) Minimum stock level
(3) Maximum stock level
(4) Average stock level ***(05 marks)***

(b) A company is planning to manufacture computers by assembling imported components for the use of differently abled school children. The selling price of a computer is decided to be Rs. 50 000 and the expected costs are as follows:

License fee	Rs. 50 000	per month
Salaries :		
Supervisors	Rs. 80 000	per month
Assembly workers	Rs. 8 000	per unit
Rent	Rs. 360 000	per annum
Insurance	Rs. 40 000	per month
Material cost	Rs. 12 000	per unit
Fees for two consultants	Rs. 100 000	per month

Required :

(1) Monthly total fixed cost (Indicate each item separately)

(2) Number of computers to be sold monthly to cover the total cost

(3) Number of computers to be sold monthly to earn a profit of Rs. 150 000

(4) Number of computers to be sold monthly to cover the total cost if the assembly workers are paid a total monthly salary of Rs. 80 000 instead of a unit-based salary

(5) Number of computers to be sold monthly to cover the total cost if the salary paid to an assembly worker could be reduced to Rs. 3 000 per unit by automating the assembly line. It is estimated that this automation would increase the annual fixed costs by Rs. 180 000.

(10 marks)
(Total 15 marks)

* * *