



G.C.E.(Advanced level) support seminar 2013

Accounting II

Time: 3 Hours

All right Reserved

Prepared by : Under the direction of Ministry of Education Commerce and Business Studies Branch

Attention : Answer the 6 questions including question number 01 and 02

1. Here are the items extracted from the trial balance of Samudhra Public Limited Company as at 31.03.2013.

	Debit (Rs'000)	Credit (Rs '000)
Stated capital (Ordinary shares 450 000)		9 000
Reserves as at 01.04.2012 – General reserves		1 000
Retained earnings		600
Property plant & Equipment -Lands	2 000	
Bulidings	2 200	
Motor Vehicles	8 000	
Furniture and fittings	1 700	
Computers	100	
Provision for depreciation - as at 01.04.2012 - Bulidings		220
MotorVehicles		390
Furniture& fittings		180
Computers		20
Dividends paid	800	
Distribution expenses	1 250	
Administration expenses	1 700	
Other expenses	200	
Other income(commission income)		800
sales		8 200
Cost of sales	3 500	
Financial expenses	60	
Provision for taxes as at 01.04.2012		250
Taxes paid- for the year 2011/2012	300	
forthe year2012/2013	900	
Provision for taxes as at31.03.2013		400
Provision for doubtful debts as at 01.04.2012		60

Additional information

(I) within the administration expenses, the following expenses are included

	Rs
Remuneration of directors	600 000
Auditors fees	50 000
Gross salaries & wages	700 000

(II) Employee & employer contribution for employee trust fund respectively is 10% & 15%. Only the employee contribution has been accurately recorded in the relevant accounts. The employer's contribution has not been recorded in the accounts or have not been paid.

(III) The company has acquired a motor vehicle on 31.03.2013 which the fair value was Rs 3 500 000 under financial leasing. The basic payment of Rs 500 000 paid on this day has been debited to the motor vehicle account. The remaining annual five installments of Rs 720 000 each has been debited to the motor vehicle account & credited to the lease creditors' account.

- (IV) There is no entry kept regarding the revaluation profit of Rs 300 000 which have resulted from the revaluation of lands within the year.
- (V) A cheque of Rs 100 000 received by selling an equipment which the cost was Rs 200 000 & the net value was Rs 180 000 as at 01.10.2012, has been debited to the bank account & credited to the equipment account. But there is no any other entry kept regarding this transaction.
- (VI) A court case filed against the company by a consumer within the year claiming for Rs 200 000 compensation is being heard. The company lawyers states that the compensation payable cannot be estimated with reliability. (exactly). A reservation has been done for the compensation demanded & is included under other expenses.
- (VII) The company has done a bonus share issue of 50 000 shares for Rs 20 each on 01.01.2013 using the general reserve & the entries have been kept in the accounts appropriately.
- (VIII) Resolutions have been ratified to pay Rs 2 for each share of the shares which existed before the bonus issue.
- (IX) The annual rates of depreciation on cost for property plant & Equipment are as given below.

Bulidings	5%
Furniture and fittings	5%
Motor Vehicles	10%
Computers	20%

- (X) within the distribution expenses Rs 30 000 cut off as bad debts is being included while there is no entry kept for under valued provision for depreciation Rs 50 000.

What is required?

- (1) Income statement for the year ending from 31.03.2013
- (2) Statement of changes in equity for the year ending from 31.03.2013
- (3) The relevant notes or disclosure regarding the income statement for the year ending from 31.03.2013
- (4) The disclosures notes regarding property plant & equipment which should be stated in the statement of financial position as at 31.03.2013.

(20 marks)

- 2. (a)** Here are some information relevant to the Lilian Company Limited

- (i) Selected account balances

<u>Items</u>	<u>31.03.2013</u> (Rs '000)	<u>31.03.2012</u> (Rs '000)
Stocks	8 500	7 000
Debtors	7 200	9 000
Creditors	13 000	14 000
Accrued loan interest	600	200
Accrued income tax	500	200
Long term loans	15 000	18 000
Stated capital- ordinary shares	29 500	19 500
Retained earnings	8 000	5 000
Cash & cash equivalent	9 000	2 000

- (ii) Here are the items taken from the income statement for the year ending on 31.03.2013

	(Rs '000)
Sales	65 000
Gross profit	20 000
Depreciation	3 000
Interest expenses	2 250
Income tax	1 800
Selling equipment	500

- (iii) Dividends paid for the year is Rs 750 000.
- (iv) All purchases & sales takes place on credit basis
- (v) A motor vehicle of Rs 8 000 000 has been purchased within the year ending on 31.03.2013 while equipment which the carrying value was Rs 2 000 000 has been sold. Other than that there is no any other purchase or disposal of non current assets within the year.

(vi) There is no bonus share issue being done within the year.

What is required?

- (1) Cash flow statement for the year ending on 31.03.2013
- (2) Net profit ratio
- (3) Interest coverage ratio
- (4) Detor's turnover ratio
- (5) Credit collection period
- (6) Stock turnover ratio

(15Marks)

(b) The income statement based on marginal costing of Daluwatte Company Limited enaged in producing & selling a single type of goods is given below.

		Rs'000	
Sales			20 000
Deducted- Variable cost-	Production	6 000	
	Non Production	<u>1 000</u>	<u>7 000</u>
Contribution			13 000
Deducted –Fixed cost-	Production		4 000
	Non Production	<u>2 500</u>	<u>6 500</u>
Operational profit			<u>6 500</u>

Additional information– Expected units of sales 10000

What is required?

- (1) Sales contribution ratio
- (2) Value of sales which doesn't bring profits or losses
- (3) The sales income which exceeds the sales value which doesn't bring profits or losses
- (4) The sales value which should be approached to earn a profit of Rs 7 150 000 (05 Marks)

(Total marks 20)

3.Kanishka & Anushka are partners of a partnership. The accounting year comes to an end on 31.12.2012 & Tharuka joined as a new partner to the business on 31.12.2012.

(I)The partnership agreement is as given below.

	Kanishka & Anushka Partnership	Kanishka, Anushka &Tharuka Partnership
Ratio of sharing profit & losses respectively	3: 2	5: 3:2
Monthly salaries(Rs):		
Kanishka	5 000	6 000
Anushka	4 000	5 000
Tharuka	-	4 000
Annual interest rate for capital	10%	10%

- Tharuka has brought Rs 400 000 as capital to the business, but it's not recorded in the books.
- The good will has been estimated as Rs 600 000 & the relevant adjustments should be done through the capital account.

(II) Balances as at 01.01.2012 are given below

(Rs `000)

Total equity of partners	-	Kanishka	850
		Anushka	560
Capital account balances of partners	-	Kanishka	700
		Anushka	600
Provision for depreciation	-	Buildings	150
		Motor vehicles	300
		Machinary	60
10% Loan	-	Kanishka	240

(III) The net profit calculated for the year ending from 31.12.2012 is Rs 960 000. The following figures were extracted from the trial balance prepared as at 31.12.2012

		(Rs'000)
Trade creditors		310
Bank loan		200
Bank overdraft		20
Lands & Buildings (Lands 500)		1 700
Machinery		400
Motor vehicles		800
Stocks		245
Debtors		180
Investments		140
Drawings	- Kanishka	60
	- Anushka	45
cash		80

(IV) The following information also should be taken in to account.

1. A purchases invoice of Rs 25 000 & a sales invoice of Rs 30 000 has been omitted from the accounting books.
2. Out of the stock that existed as at 31.12.2012, a part of it has been damaged which the cost was Rs 85 000 and it has been estimated that this stock can be sold for Rs 60 000. But no adjustment has been made in relation to this incident.
3. The business is being carried out in a building owned by Anushka and the rent of Rs 15 000 which should paid for each month is accrued. The interest for the partner's loan is also accrued.
4. Since year 2013, except for the loan interest, the monthly loan installment which should be paid is Rs 5 000.
5. Compared the bank statement sent for the month of December 2012, the following items were not recoded in the business bank account.

- Bnk charges Rs 2 000
- Debtors remittance Rs 35 000
- Investment income Rs 15 000
- Bank loan installments charged on standing orders Rs 18 000 (Rs 8 000 included in this amount is for loan interest)

6. Fixed assets should be depreciated in the manner

Buildings (on cost)	10%
Motor vehicles (on net value)	10%
Machinery (on cost)	20%

7. The business insurance premium of Rs 30 000 has been paid by Kanishka with her personal money. Although this amount has to be reimbursed, no adjustment has been made.

What is required?

- (1) Calculate the net profit for appropriation for the year ending on 31.12.2012
- (2) Appropriate the net profit for the year ending on 31.12.2012
- (3) Current account
- (4) Capital account
- (5) Balance sheet as at 31.12.2012

(20 Marks)

4. (a) Here are the information relevant to the employees of Supun manufacturing firm

- Number of employees in the firm is 20.
- Should work 8 hours per day.
- Number of days working for a month 20.
- The salary for an hour of an employee Rs 200.
- Allowance for employee who report to work on all 20 days Rs 500.

- Salary for an overtime hour is 150% as the salary of a normal hour.
- The firm contributes 15% to the EPF based on the basic salary while the employee contribution is 10%.
- Contribution to the employees trust fund is 3% (These amounts will be sent to the relevant institutions in the coming month).

The following information has been taken in to account when paying salaries for the month that come to an end on 31.03.2013.

- Ten employees in the firm has served for 4000 hours.
- Ten employees have reported to work all twenty days continuously.
- A sum of Rs 100 is cut off from the monthly salary of all employees as the contribution for the trade union.
- As the firm has provided hostel facilities for 12 employees, Rs 2 000 is charged from each of them & deducted from the monthly salary.
- Sajith who has served the firm in the month that come to an end on 31.03.2013 has taken hostel facilities while he has reported to work continuously on all twenty days working for 200 hours within the month.

What is required?

- (1) Salaries & wages control account
- (2) Trade union subscription account
- (3) Hostel income account
- (4) EPF payable account
- (5) ETF payable account
- (6) The pay sheet relevant to Sajith for the month of March 2013. (07 Marks)

(b) “Neo” manufacturing company maintains two sections of production & one service section regarding their products.

Indirect salaris - Production section - x	-	Rs 235 000
Production section - y	-	Rs 125 000
Service section	-	Rs 80 000
		Rs 440 000

Electricity expenses	-	Rs 80 000
Factory rent	-	Rs 50 000
Machinery insurance	-	Rs 30 000
Employee insurance	-	Rs 20 000
Machinery depreciation	-	Rs 60 000
Employee welfare	-	Rs 40 000
		Rs 280 000
		<u>Rs 720 000</u>

The following additional information is being supplied.

Section	Cost of Machinery (Rs)	Square meters	Number of employees	Machinery hours	Direct labour cost (Rs)
Production section X	300 000	600	20	14 000	4 000
Y	200 000	300	20	5 000	6 000
Service section	100 000	100	10	-	-

The number of service hours given to the section of production, according to the records of the service section are

- x Section - 80 hours
- y Section - 40 hours

What is required?

- (1) Distribution of overhead cost for each section of production
- (2) Allocate service section cost to production sections
- (3) Overhead cost which should be absorbed
 - x – section according to machine hours
 - y - section according to direct labour hours

(8 marks)
(Total marks15)

- (5). (a) The accounting year of Pavithras' business comes to an end 31st December. Here are the information relevant with the machines of the business.

Type of machine	Date of purchase	Cost (Rs)	Residual value/Scrap value (Rs)	Useful life time
A	2009.01.01	445 000	45 000	8
B	2010.01.01	510 000	30 000	5
C	2010.04.01	300 000	No	6
D	2010.07.01	275 000	35 000	4

- All machines are depreciated based on the straight line method.
- The following charges took place regarding the machines on 01.07.2012

1. Machine "A" was sold for Rs 285 000.
2. Spare parts worth Rs 60 000 was fixed to the machine "B" and as a result it is useful life time increased by 3 ½ years and the scrap value increased by Rs 12 000.
3. Machine "E" was purchased by paying Rs 120 000 by cash & by transferring the machine "C" by valuing it for Rs 200 000. The useful life time of the new machine is 5 years.
4. As machine "D" has been completely out dated, it was decided to cutoff its value from the books.

What is required?

- (1) Amount of depreciation separately for each machine which should be shown in the income statement for the year ending on 31.12.2012.
 - (2) If a single machinery account & provision for depreciation account is maintained for all machines, prepare the
 - I. Machinery account
 - II. Machinery provision for depreciation account
 - III. Machinery disposable account (including the exchange of machine) for the year ending on 31.12.2012
- (08 marks)**

- (b) The following information is submitted for the mid year which come to an end on 31.12.2012.

<u>Assets & Liabilities</u>	(Rs ' 000)	(Rs ' 000)
	<u>01.07.2012</u>	<u>31.12.2012</u>
Bank loan	500	450
Trade stocks	300	880
Property plant & Equipment	3700	4000
Trade Creditors	700	900
Trade debtors	250	550
cash	460	725
12% investment	-	400

Here are some information relevant with the receipts & payments of cash.
(Rs' 000)

Payment for Creditors	2 700
Sundry expenses	427
Purchase of furniture	500
Investment income received	12

Additional information

- Investments have been purchased on 01.08.2012.
- Bank loan interest Rs 45 000 is accrued .
- The amount of bank loan which is shown as at 31.12.2012 has to be paid within the 3 years ahead in equal annual installments.
- Return out wards Rs 320 000, discount received Rs 80 000, discount allowed 120 000.
- The policy of the business is to add 25% of profit to the cost of sales & determine the sales price.
- If there is any difference occurred in the cash book, it should be treated as new capital or drawings.

What is required?

- 1) The profit or loss generated in the mid year which come to an end on 31.12.2012
- 2) Equity, non current liabilities & current liabilities as at 31.12.2012.

(7 marks)

(Total marks 15)

6.(a) The receipts & payment account of Dibula tennis club for the year ending o 31.12.2011 is given below.

B/B/F	46 000	Grounds maintenance	10 000
Annual subscription	29 400	Canteen food	40 000
Income from the canteen	130 000	Communication charges	12 000
Rent income from the ground	100 000	Salaries	180 000
Life time membership fees	60 000	Stationary	8 000
		Canteen expenses	7 000
		Printing expenses	8 000
		Expenses for matches or contest	12 000
		News paper expenses	5 000
		B/c/d	83 400
	<u>365 400</u>		<u>365 400</u>
B/B/F	83 400		

Here are the assets & liabilities as at 01.01.2011

(Rs)

Sports euipment	80 000
Sports grounds	300 000
Furniture	60 000
Sports complex	200 000
Bank loan	300 000

Other information

1. Life time membership has been given from 01.01. 2011 while the policy of the club is to distribute this membership fees within a period of 10 years.
2. The annual subscription is Rs 600 while the life time membership fees is Rs 6 000. there are 60 members in the club & 10 of them are lifetime members.
3. Subscription fees for year 2010 Rs 6 000 & subscription received in advance for the year 2012 Rs 3 000 included in the subscription fees.
4. A canteen is maintained for the members of the club & the value of the stock of food of the canteen on 01.01.2011 was Rs 10 000 & it's value on 31.12.2011 was Rs 8 000 while the value of furniture on 31.12.2011 was Rs 50 000.
5. The analysis of salaries is given below

(Rs)

For the manager of the canteen	40 000
Caretaker of the grounds- 01	40 000
Caretaker of the grounds- 02	40 000
Grounds staff	<u>60 000</u>
	<u>180 000</u>

What is required?

- (1) Balance sheet as at 01.01.2011
- (2) Life time subscription account as at 31.12.2011
- (3) Profit from the canteen for the year ending on 31.12.2011
- (4) Income statement for the year ending on 31.12.2011

(9 Marks)

(b) A business is intending to dispose a machine in use & instead to buy a new machine. Here are the information relevant to the old and new machines

<u>New machine</u>	Rs
Cost of purchase	1 200 000
Fixing cost	100 000
Scrap value	200 000

<u>Old machine</u>	
Cost before 6 years	- Rs 600 000
Useful lifetime	- 8 years
Current market value	- Rs 300 000

working capital at beginning of the project has increased from Rs 80000 to Rs 120 000

In the final year working capital can be charged

The scrap value of the new machine will be realized at the end of the 4th year.

The expected profit to be generated within the 4 years & the 15% discount factor is given below.

Year	1	2	3	4
Net profit (Rs)	180 000	120 000	140 000	160 000
15% discount factor	0.87	0.76	0.66	0.57

What's required?

- (1) Cost relevant to the basic investment of the machine
- (2) Net operational cash flows of the new machine
- (3) Recommendation with reasons whether to purchase the machine or not

(6 Marks)

(Total marks 15)

07.(a) The following balances are available on 01.01.2013 in Geethma business

	Rs
Machinery at cost	300 000
Provisions for depreciation of machines	36 000
Trade debtors	60 000
Provision for doubtful debts	6 000
Remaining stock	45 000
Cash in hand	85 000
Bank loan	124 000
Creditors	60 000
Bank overdraft	14 000

Here are the information relevant to the month of January 2013.

1. A stock which the cost is Rs 18 000 was sold for Rs 35 000 & have received Rs 20 000 on the day of sales.
2. The cheque of Rs 8 000 received from debtors & deposited in the bank on 28.12.2012 has been dishonoured & the accounting entries relevant to the dishonour has been kept on 10.01.2013.
3. Annual provision for depreciation for machines should be 12% on cost.
4. A stock which the cost was Rs 4 000 has been returned to the suppliers, but there is no entry kept in regard of this transaction.
5. The electricity bill received for the month of January is Rs 7 500.

6. The bank loan installment of Rs 6 500 for the month of January 2013 has been paid. Out of this amount Rs 1 500 has been paid for loan interest.
7. The creditors has been paid Rs 13500 by deducting a 10% discount.
8. Based on the debtors balance as at 31.01.2013, a 5% provision for depreciation should be made.

What's required

- (1) Illustrate the balances as at 01.01.2013 on the following accounting equation.

Capital + Liabilities = Assets

- (2) Show how the transactions & events which have taken place in the month of January affects the accounting equation.
- (3) Calculate the net profit or net loss for the month of January 2013, after the influence of transactions and events. (10 marks)

- (b) The following information is relevant to Dulari enterprises.

- Warehouse capacity 12000 units of stocks
- Annual stock demand 30000 units
- Number of terms in which annual optimum stock orders are placed – 10 times
- Minimum monthly stock consumption – 200 units
- Average monthly stock consumption – 300 units
- Reorder period 10 – 25 days

What is required

- (i) Reorder quantity
- (ii) Reorder level
- (iii) Maximum stock level
- (iv) What is your view about reaching towards the maximum stock level?
- (v) If the maximum monthly consumption is 700 units, is the warehouse capacity sufficient or not? Explain with reasons

(05 marks)

(Total marks15)
