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NEW

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இலங்கைப் பரீட்சைத் திணைக்களம்
Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2020
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2020
General Certificate of Education (Adv. Level) Examination, 2020

ගිණුම්කරණය II
கணக்கீடு II
Accounting II

33 E II

පැය තුනයි
மூன்று மணித்தியாலம்
Three hours

අමතර කියවීම් කාලය - මිනිත්තු 10 යි
மேலதிக வாசிப்பு நேரம் - 10 நிமிடங்கள்
Additional Reading Time - 10 minutes

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

Use of non-programmable calculators is allowed.

Instructions:

* *Answer five questions only, including questions one and two.*
* *Begin each answer on a fresh sheet of paper.*
* *Relevant workings should be attached to the answer script.*
* *This questions paper carries 200 marks.*

1. The summarized trial balance of Vinuga PLC as at 31.03.2020 is given below.

Description	Dr. (Rs.'000)	Cr. (Rs.'000)
Property, plant and equipment - Carrying amount	49 500	
Right-of-use asset	12 600	
Sales		79 500
Cost of sales	51 300	
Trade receivables	5 400	
Trade payables		15 500
Inventory as at 31.03.2020	6 488	
Cash and cash equivalents	1 250	
Provision for claims		800
Stated capital - ordinary shares		25 000
Land revaluation reserve as at 01.04.2019		3 500
Retained earnings as at 01.04.2019		5 650
Administrative expenses payable		300
Administrative expenses	6 462	
Distribution cost	5 600	
Finance cost	1 900	
Other expenses	1 500	
Lease liability		12 600
Income tax paid	1 250	
Provision for income tax as at 01.04.2019		400
	143 250	143 250

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Additional Information:

Before preparation of the financial statements for the year ending 31.03.2020, adjustments have to be made for the following.

(i) The policy of the company is to measure cost of inventory using first-in-first-out (FIFO) method. However, the cost of inventory as at 31.03.2020 has been measured at weighted average cost method due to a mistake and that value has been accounted for. The cost of inventory as at 31.03.2020 measured at FIFO method was Rs. 6 750 000.

(ii) The administrative expenses for the year consisted of the following items.

Item	Rs.'000
Directors remuneration	1 250
Staff salaries	2 150
Depreciation expenses	2 225
Audit fees	275
Other administrative expenses	562
Total	6 462

(iii) The advertising fee of Rs. 350 000 of the company has been paid by a director from his personal bank account. This amount has been reimbursed by the company and accounted in the directors remuneration by a mistake.

(iv) The company has entered into a contract with a customer on 01.03.2020 to sell goods and provide maintenance services during the first 6 months after sales. The total consideration of the contract was Rs. 1 500 000 and of which, Rs. 1 000 000 relates to the sale of goods and the balance for the provision of maintenance services. The company sold all goods agreed in the contract on 31.03.2020 and the total consideration of the contract was received in cash. This total amount has been accounted in the sales.

(v) The following information relates to property, plant and equipment. (All figures are given in Rs.'000)

Description	Cost/value as at 01.04.2019	Purchases during the current year	Depreciation for the current year	Accumulated depreciation as at 31.03.2020	Carrying amount as at 31.03.2020
Land	22 500	—	—	—	22 500
Buildings	9 500	5 000	725	4 500	10 000
Motor vehicles	9 500	6 000	1 550	3 500	12 000
Office equipment	7 500	—	1 500	2 500	5 000
Total	49 000	11 000	3 775	10 500	49 500

The land of the business was revalued for the first time on 31.03.2016. The surplus resulted from this revaluation is represented by the land revaluation reserve. The land was revalued for the second time on 31.03.2020 for Rs. 18 000 000. However, it is not yet accounted for.

The buildings and motor vehicles have been purchased during the year on 01.10.2019 and 01.01.2020 respectively. However, the current year depreciation has been calculated erroneously based on the year end costs of assets without considering the dates of purchase.

Property, plant and equipment are depreciated annually on straight-line method as follows.

Buildings	5%
Motor vehicles	10%
Office equipment	20%

The motor vehicles are used in the distribution of goods and other assets are used for administrative activities.

[*See page three*

(vi) The verdict of a case filed by a customer against the company was declared on 15.05.2020 and accordingly, Rs. 550 000 was paid on this date as the full settlement of the claim. This case was filed on 01.12.2019 and the provision recognized in this regard as at 31.03.2020 based on company lawyers' opinion is shown in the trial balance. The financial statements of the company were authorized for issue by the board of directors on 15.06.2020.

(vii) The company entered into a lease agreement on 01.03.2020 to obtain the right-of-use of a building for a period of 4 years. However, this building was available for use from 31.03.2020 after spending Rs. 500 000 for renovation. This renovation is expected to generate benefits to the company over the entire lease period. However, this amount has been accounted in the other administrative expenses. Lease interest is not charged during the renovation period. According to the agreement, an annual lease rental of Rs. 4 413 000 is payable from 31.03.2021. The lease interest applicable for the year ending 31.03.2021 is Rs. 1 890 000.

(viii) Income tax paid during the year includes Rs. 520 000 paid with respect to the previous year. Total income tax liability for the year ending 31.03.2020 has been estimated as Rs. 650 000.

Required :

The following financial statements (including notes) of Vinuga 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 31.03.2020

(2) Statement of Changes in Equity for the year ending 31.03.2020

(3) Statement of Financial Position as at 31.03.2020 ***(Total 40 marks)***

2. **(a)** The information relevant to the inventory item 'DMI' traded by Suranga PLC for the month of January 2020 is given below.

Date	Description	Quantity (Units)	Unit Cost (Rs.)
January 01	Opening balance	500	20
January 05	Purchases	300	24
January 12	Sales	400	?
January 15	Purchases	300	25
January 25	Sales	300	?
January 31	Purchases	200	26

Required :

(1) Cost of inventory of 'DMI' as at 31.01.2020 based on First-in-First-Out (FIFO) method

(2) Cost of sales for January 2020 based on First-in-First-Out (FIFO) method

(3) Cost of sales for January 2020 based on Weighted Average Cost method

(12 marks)

(b) Dinesh Company manufactures two types of products '**A**' and '**B**'. The company has a factory consisting of two production departments, namely; Assembly and Finishing and a service department namely; Stores. All these departments are located in the same premises. Further, the company has an Administrative Department and it is located in a separate building. The budgeted overheads for the next financial year at the activity level of 5 000 units are given below.

Description	Total (Rs.'000)	Factory (Rs.'000)	Administrative Department (Rs.'000)
Indirect wages	750	700	50
Production managers' salary	900	900	–
Rent of buildings	?	960	?
Machinery depreciation	800	800	–
Office equipment depreciation	30	–	30
Electricity charges	400	?	?
Other production overheads	290	290	–

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Additional information:

(i) Overhead apportionment bases are as follows:

Description	Assembly	Finishing	Stores
Floor area (Sq. Meters)	24 000	16 000	8 000
Kilowatt hours	2 000	1 000	500
No. of employees	20	12	3
Cost of machinery (Rs.)	3 000 000	2 000 000	–

(ii) The factory employs three production managers, two at the Assembly Department and other manager at the Finishing Department. Each of them are paid a monthly salary of Rs. 25 000.

(iii) The company pays a monthly rent of Rs. 10 000 for the building where the Administrative Department is located and its annual usage of electricity is 500 kilowatt hours.

(iv) The other production overheads of Assembly, Finishing and Stores are Rs. 190 000, Rs. 70 000 and Rs. 30 000 respectively.

(v) Total overheads of the Stores are re-apportioned equally between the two production departments.

(vi) Overheads of production departments are absorbed based on machine hours. The annual estimated machine hours for Assembly and Finishing departments are 50 000 and 60 000 respectively.

(vii) The following information relates to the two products '**A**' and '**B**' manufactured by the company.

	A	B
Actual machine hours to produce one unit:		
Assembly Department (Hours)	02	04
Finishing Department (Hours)	03	02
Prime cost per unit (Rs.)	225	310
Profit margin on selling price	25%	20%

Required :

(1) The Overhead Analysis Sheet showing clearly the bases of apportionment

(2) Overhead absorption rates of Assembly and Finishing Departments

(3) Total administrative overheads

(4) Production cost per unit of product '**A**'

(5) Selling price per unit of product '**B**' *(28 marks)*

(Total 40 marks)

3. Namal Auto Care is a sole proprietorship. This business provides vehicle maintenance services to individuals and institutional customers. The opening balances of this business as at 01.01.2020 are as follows.

Assets	Rs.'000	Liabilities and Equity	Rs.'000
Property, plant and equipment (PPE)	900	Long-term loan	400
Inventory (maintenance materials)	160	Trade payables	90
Trade receivables	130	Electricity payable	12
Pre-paid rent	240	Advance received from an institutional customer	10
Salary advances paid to workers	34		
Cash at bank	100	Equity	1 052

All cash transactions of the business are carried out through a bank current account.

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The following transactions were carried out in the business during the month of January 2020.

(i) A vehicle washing plant was purchased on credit for Rs. 360 000. This loan amount is payable within a period of 3 years commencing from 01.01.2022.

(ii) Maintenance materials costing Rs. 130 000 was purchased and paid Rs. 60 000 cash in this respect. The balance amount is payable within two months.

(iii) Maintenance services were provided for Rs. 140 000 to individual customers on cash. The cost of maintenance material used in this respect was Rs. 86 000.

(iv) The owner's life insurance premium of Rs. 12 000 was paid by the business.

(v) A cheque of Rs. 45 000 was received from a debtor after allowing a discount of Rs. 5 000.

(vi) Maintenance services were provided for Rs. 50 000 to an institutional customer. The advance received from an institutional customer as at 01.01.2020 relates to this transaction and the remaining amount of Rs. 40 000 was received after providing the service. Maintenance material costing Rs. 30 000 was used for this service.

(vii) A maintenance service was provided to a vehicle of an Elders Home free of charge. Maintenance material costing Rs. 6 000 was used in this respect.

(viii) Monthly fire insurance premium of the business amounting to Rs. 4 000 was paid by the owner out of his personal money.

(ix) Paid a loan instalment of Rs. 67 000 for the long-term loan of Rs. 400 000. This includes an interest of Rs. 17 000.

(x) Maintenance services were provided on credit for Rs. 300 000 to institutional customers. A trade discount of 2% was allowed on this amount. Maintenance material costing Rs. 154 000 was used for these services.

(xi) Monthly salary of the workers was Rs. 84 000 and the balance amount was paid after deducting the salary advances as at 01.01.2020.

(xii) The electricity bill payable as at 01.01.2020 was paid. An electricity bill of Rs. 11 000 was received for the month of January and it is not yet paid.

(xiii) Maintenance materials costing Rs. 8 000 was damaged and they were sold on cash for Rs. 3 000.

(xiv) Received Rs. 14 000 for a trade debtor balance, which was written off during the previous month.

(xv) The rent of the business premises is Rs. 20 000 per month. The pre-paid rent as at 01.01.2020 represents the rent paid for the calender year 2020.

Required :

(1) Record the balances as at 01.01.2020 and show the impact of transactions (i) to (xv) (with values) using the accounting equation. State (+) if the value increases or (–) if the value decreases in front of each value. (In answering this question, use a format similar to the one given below.)

(Rs. '000)

	Assets					Liabilities				Equity
	PPE	Inventory	Trade receivables	Prepayments and Advances paid	Cash	Long-term loans	Trade payables	Other Payables	Advances received	
Opening balance										
Transactions:										
(i)										
(ii)										
......										
......										
Closing balance										

(2) Income Statement for the month ending 31.01.2020. ***(Total 40 marks)***

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4. (a) The following information was extracted from the books of accounts of a sports club.

	As at 31.03.2020 (Rs.)	As at 31.03.2019 (Rs.)
Accumulated Fund	?	300 000
Life Membership Fund	160 000	200 000
Sports Equipment Fund	?	400 000
Building Fund	1 000 000	–

Additional information:

(i) The annual subscription per member is Rs. 6 000. The club had 60 members as at 31.03.2019, of which 10 are life members. The life membership is confined only to the promoters of the club.

(ii) The annual subscription could be paid in full at the beginning of the year or monthly in equal installments. The members are given a 10% discount if the annual subscription is paid in full at once. These discounts are considered as expenses of the club.

(iii) For the year ending 31.03.2020, 40 members paid the annual subscription at once at the beginning of the year, which includes 05 new members joined the club on 01.04.2019. Others paid subscription on monthly basis.

(iv) Donations received are recognised in income based on the extent of use.

(v) On 31.03.2020, the club spent Rs. 200 000 to purchase sports equipment, of which Rs. 150 000 was obtained from the sports equipment fund.

(vi) A project proposal was developed on 01.12.2019 incurring Rs. 86 000 to construct an indoor stadium. A donation of Rs. 1 000 000 was received in this respect on 01.01.2020 and it is recorded in the building fund. However, the club failed to commence the construction of this stadium as expected due to the Covid-19 outbreak in the country.

(vii) The other operating expenses of the club for the year ending 31.03.2020 was Rs. 250 000.

Required:

(1) Income Statement for the year ending 31.03.2020

(2) Equity as at 31.03.2020 (Show each item separately.) ***(14 marks)***

(b) Sumudu PLC is a trading business and it is registered for Value Added Tax (VAT). The company purchases goods only on credit basis and sales are done on both cash and credit. The following information has been extracted from the debtors and the creditors ledgers of the business for the month ending 31.03.2020.

Debtors ledger as at 31.03.2020 **(Rs.'000):**

Description	**Namal Traders**	**Gamage Traders**	**Nadun Traders**	**Total**
Opening balance	100	50	150	300
Sales (Including 8% VAT)	–	324	486	810
Cash receipts	(75)	(50)	(500)	(625)
Discounts allowed	(5)	–	(10)	(15)
Closing Balance	**20**	**324**	**126**	**470**

Creditors ledger as at 31.03.2020 **(Rs.'000):**

Description	**Saman Traders**	**Amal Traders**	**Mahesh Traders**	**Total**
Opening balance	300	–	150	450
Purchases (Including 8% VAT)	540	432	216	1 188
Cash payments	(290)	(200)	(150)	(640)
Discounts received	(10)	–	–	(10)
Closing Balance	**540**	**232**	**216**	**988**

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The totals of debtors and creditors ledger balances lists as at 01.03.2020 agreed with the respective control accounts balances on this date.

The cash account balance as at 01.03.2020 was Rs. 50 000. In addition to the cash transactions included in debtors and creditors ledgers, the following cash transactions were also occurred during the month of March 2020.

- Cash sales of the company was Rs. 972 000 (Including 8% VAT).
- Paid Rs. 552 000 salaries after deducting Rs. 48 000 as employees' contributions to Employee Provident Fund (EPF).
- Remitted Rs. 120 000 for EPF and Rs. 18 000 to Employee Trust Fund (ETF) for the Month of February 2020.
- Paid Rs. 250 000 for other expenses.

The employee and employer contributions to EPF are 8% and 12% respectively. Further, the employer's contribution to ETF is 3%. Both EPF and ETF contributions are computed based on the gross salary of employees. The company remits EPF and ETF of a particular month on the 5th day of the following month.

The credit balance of VAT control account as at 01.03.2020 was Rs. 40 000.

(*Assume that there is no VAT on other expenses. Ignore the dates of the transactions.*)

Required :

(1) The following prime entry books for the month ending 31.03.2020:
   (i) Purchase Journal
   (ii) Cash Receipts Journal
   (iii) Cash Payments Journal

(2) The following accounts for the month ending 31.03.2020:
   (i) Cash Account
   (ii) Debtors Control Account
   (iii) VAT Control Account
   (iv) Salaries Control Account
   (v) EPF Payable Account

(*26 marks*)

(*Total 40 marks*)

5. (a) Nethu and Muthu are carrying out a partnership under the following conditions.

- Nethu and Muthu share profits and losses in the ratio of 2:1 respectively.
- Each partner is entitled to a monthly salary of Rs. 50 000.
- Each partner is entitled to an annual interest of 10% on the opening capital balance of the year.
- The goodwill of the business is adjusted through the partners' capital accounts.
- All other transactions with the partners except the goodwill adjustment are recorded through their current accounts.

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The trial balance of the partnership as at 31.03.2020 is as follows:

Description	Dr. (Rs.'000)	Cr. (Rs.'000)
Capital accounts:		
Nethu		2 000
Muthu		1 000
Current accounts:		
Nethu		400
Muthu		200
5% Loan account as at 01.04.2019 – Rithu		800
Property, plant and equipment (carrying amount as at 31.03.2020)	4 100	
Sales		6 000
Cost of sales	1 850	
Operating expenses	2 600	
Inventory as at 31.03.2020	700	
Loan repayment – Rithu	420	
Drawings (cash) - Nethu	500	
Cash in hand	3 230	
Cash brought by Ganga		3 000
	13 400	**13 400**

Additional Information :

(i) Inventory as at 31.03.2020 was measured based on a physical count.

(ii) The goods drawn by Nethu and Muthu during the year were Rs. 60 000 and Rs. 40 000 respectively. These have not yet been accounted in the books.

(iii) Rithu's loan repayment account balance in the trial balance consists of the loan interest paid till 30.09.2019 and the cash paid to settle 50% of the loan on this date. The interest payable on the remaining loan balance has not been accounted for.

(iv) Nethu has paid Rs. 10 000 out of his personal money to renew the trading license of the partnership for the year ending 31.03.2020. This has not been accounted for.

(v) The partnership has paid Rs. 140 000 for the insurance premium of vehicles for the year ending 31.03.2020 and it is recorded in the operating expenses of the business. However, it was revealed later that this payment includes an insurance premium of Rs. 40 000 paid for the personal vehicle of Muthu.

(vi) Ganga was admitted as a new partner on 31.03.2020. Ganga brought Rs. 3 000 000 on this date to the business as her contribution to capital and goodwill. New profit and loss sharing ratio among Nethu, Muthu and Ganga was agreed as 5:3:2 respectively. On this date, the goodwill of the business was estimated as Rs. 1 500 000.

Required :

(1) Income Statement of the partnership for the year ending 31.03.2020 (including appropriations made to the partners)

(2) Capital Accounts and Current Accounts of the partners for the year ending 31.03.2020

(20 marks)

[*See page nine*

(b) The summarised Statements of Financial Position of Ashan PLC as at 31.03.2020 and 31.03.2019 are given below.

Description	**As at 31.03.2020 (Rs.'000)**	**As at 31.03.2019 (Rs.'000)**
Property, plant and equipment (Carrying amount)	35 500	30 100
Inventory	9 750	7 250
Trade receivables	8 500	10 750
Cash and cash equivalents	2 500	1 500
Total Assets	56 250	49 600
Stated capital - ordinary shares	28 000	20 000
Revaluation reserve	3 000	2 000
Retained earnings	6 500	2 200
Lease creditors	12 500	16 500
Trade payables	4 350	7 400
Provision for income tax	500	600
Bank overdraft	1 400	900
Total Equity and Liabilities	56 250	49 600

Additional information for the year ending 31.03.2020:

(i) During the year, the company paid an interim dividend of Rs. 1 200 000 and capitalized retained earnings of Rs. 2 000 000. Further, the company issued 100 000 ordinary shares to the public and its entire consideration was received.

(ii) Depreciation and income tax expense for the year were Rs. 2 100 000 and Rs. 1 160 000 respectively.

(iii) During the year, the company revalued its land for the first time at a surplus. There was no other revaluation during the year.

(iv) The company disposed a machine at a gain of Rs. 400 000 on 01.10.2019. This machine was purchased on 01.04.2017 for Rs. 3 000 000 and depreciated at 20% per annum on straight-line method. Further, a new vehicle was purchased for cash during the year.

Required:

Statement of Cash Flows of Ashan PLC for the year ending 31.03.2020 as per LKAS 7 (Statement of Cash Flows) ***(20 marks)***

(Total 40 marks)

6. (a) The following information relates to three companies in the automobile industry for the year ending 31.03.2020.

Ratio	**Alpha PLC**	**Beta PLC**	**Gamma PLC**
Current	1.2 : 1	2.8 : 1	2.5 : 1
Quick assets	0.96 : 1	2.5 : 1	2 : 1
Inventory turnover (times)	9.5	8.3	6.2
Debtors turnover (times)	4.1	4.5	3.8
Debt to equity	65%	80%	60%
Return on total assets	9%	12%	14%

Required:

For each of the following situations, identify the relevant company and state the ratio that provides the basis for it.

(1) The company with the highest leverage

(2) The company which shows the highest efficiency in the inventory usage

(3) The company with the highest liquidity

(4) The company which generates the highest return on investment

(5) The company which shows the highest efficiency in collecting cash from the customers

(10 marks)

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(b) Malith Laboratories PLC is considering to replace the old medical testing equipment with a modern testing equipment. If they decide to acquire this new equipment, the old equipment can be sold at its book value of Rs. 250 000.

The estimated cash inflows and outflows of the new equipment are as follows.

Description	**Rs.'000**
Purchase price of the equipment	1 800
Transportation cost of the equipment	200
Installation cost of the equipment	75
Residual value of the equipment at the end of the useful life................	125
Additional working capital requirement at the beginning of the project	275

Additional working capital can be recovered in the last year of the project. The expected useful life of the new equipment is 5 years. If the new equipment is purchased, the annual increase in the profit after tax of the company is estimated as Rs. 210 000.

The required rate of return of this project is 10% and its discounting factors to the nearest two decimals are as follows:

Year	1	2	3	4	5
Discounting Factor	0.91	0.83	0.75	0.68	0.62

Required :

(1) Schedule of cash inflows and outflows of the project for each year.

(2) Net Present Value (NPV) of the project.

(3) The recommendation as to the purchase of the new equipment based on the NPV.

(10 marks)

(c) A welfare society has decided to print a handbook containing advices to protect from COVID-19 virus. It is expected to distribute this handbook free of charge to persons in quarantine centres with a pair of gloves and a face mask. A soap manufacturing company has agreed to provide a sponsorship of Rs. 1 500 for each beneficiary participates in this programme.

The estimated cost of this programme are as follows.

	Rs.
Advising fee of doctors for the preparation of the handbook	30 000
Printing cost per handbook	700
Editing cost of the handbook	25 000
Cost of writing a chapter (The handbook consists of 07 chapters) ...	10 000
Cost of drawing pictures of the handbook	10 000
Typing cost per page (The total number of pages of the handbook is 50)	300
Cost of a pair of gloves	100
Cost of a face mask	200

Required :

(1) Total fixed cost and the variable cost per beneficiary.

(2) To cover the total cost of this programme:

  (i) The expected number of beneficiaries.

  (ii) The expected sponsorship from the soap manufacturing company.

(3) The expected number of beneficiaries to obtain a surplus of Rs. 100 000 to the welfare society fund from this programme.

(4) If a sponsorship of Rs. 900 000 is provided for this programme by the soap manufacturing company, the surplus that could be obtained for the welfare society fund.

(20 marks)

(Total 40 marks)

* * *