

G.C.E A/L - 2021

SPECIAL ACCOUNTING SEMINAR

Contents

- Target paper Discussion
- Syllabus Limitation for A/L Examination - 2021
- Recommendation and guidance about allowed Calculators
- How to avoid Common errors during the Examination
- Other Special Points related to A/L Examination - 2021

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Department of Accountancy
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Inquiries | Namal - 0773 125 364 | Indika - 0712 699 279

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Question 1

The trial balance prepared by Anuradha PLC on 31.03.2021 is as follows.

	Dr (Rs.'000)	Cr (Rs.'000)
Property, Plant and Equipment		
Land and buildings	4 000	
Machinery	3 000	
Motor vehicles	4 560	
Lease liability	600	
Inventory	2 300	
Sales		4 820
Service revenue		1 200
Cost of sales	640	
Trade receivables	810	
Cash	340	
Trade payables		630
Other payables		460
Distribution costs	420	
Administrative expenses	940	
Financial costs	135	
Other expenses	285	
Long-term debts		4 800
Ordinary share capital		3 000
Dividends	124	
Retained earnings as at 01.04.2020		3 244
	18 154	18 154

The following adjustments are required for the year ending 2021.03.31.

- i. The company uses the batch method to determine the net realizable value of the inventories. Following stock items are remaining as at 31.03.2021 under the following categories.

Category	Inventory items	Cost (Rs. 000)	Net Realizable Value (Rs. 000)
A	A1	560	700
	A2	450	600
	Remaining items	610	200
B	B1	250	170
	B2	280	450
	Remaining items	150	140

- ii. The accumulated depreciation as at 31.03.2020 was as follows. Depreciations for the year ending 31.03.2021 have not been accounted.

Rs. 000

Buildings	1 800
Machinery	1 100
Motor vehicles	1 500

- iii. The company has leased a lorry on 01.04.2020 and paid Rs. 900,000 as initial payment and Rs. 60,000 as professional fee on that day and these payments are added to the motor vehicle account. The lease period is 4 years and the interest rate is 10%. The annual lease instalment of Rs. 600,000

should be paid at the end of each year starting from 31.03.2021. The first instalment is duly paid and debited to the lease liability account. The present value of the lease payments as at 01.04.2020 is Rs. 1,900,000. Lease interest for the last years on 31.03.2021 and 31.03.2022 is Rs. 190,000 and Rs. 149,000 respectively.

The useful life of this lorry is 10 years and it has no residual value. According to the lease agreement the company has to return the vehicle to the leasing company at the end of the lease period.

- iv. On 31.12.2020, machine costing Rs.100 000 was discontinued as it could no longer be used. Rs 20,000 was incurred to dispose this machine and it is included in other expenses. This machine had been purchased on 30.06.2015. No adjustments were made regarding the disposal of the machine.
- v. On 01.04.2020 the company revaluated the lands for the first time and the buildings for the second time. The fair values of these assets were decided on that day as follows. The cost of the land was Rs. 3,000,000.

Asset	Fair Value '000
Land	4 500
Buildings	3 500

- vi. On 01.04.2020 the remaining useful life of the buildings was estimated to be 15 years and the residual value was Rs.500 000. During the first revaluation conducted on 01.04.2018 for buildings, there was a deficit of Rs.250 000. No adjustments have been made in the books of accounts with respect to the revaluation conducted on 01.04.2020.
- vii. Property, plant and equipment of the company are depreciated on straight line method, and the depreciation rates of the company owned motor vehicles and machinery are as follows.

Motor vehicles	20%
Machine	10%
- viii. The accrued audit fee of Rs.150,000 which included in other payables as at 31.03.2020 has been duly paid in the current year but it has been recorded in the administrative expenses. Audit fee of 170,000 for the year ending 31.03.2021 has not been paid or accounted for as at 31.03.2021.
- ix. In April 2020, the company announced that it would pay end-of-year bonuses to employees based on business performance in the current year. The bonus of Rs. 820,000 for the year ending 2021.03.31 has been paid on 11.05.2021 and no adjustment has been made with respect to this bonus in the year ending 31.03.2021.
- x. Company pays income tax on a quarterly basis and Rs. 382,000 income tax paid for the first three quarters of the year ending 31.03.2021 is included in the administrative expenses. The income tax for the last quarter ended on 31.03.2021 is estimated at Rs. 135,000 and has been paid on 20.04.2021. No other records regarding income tax have been made in the year 2020/2021.
- xi. An advance of Rs. 300,000 has been received on 20.02.2021, equivalent to 60% of the total value of the transaction, to provide a service in March 2021. The company completed the agreed service in March 2021. No other entries have been kept in this regard during the current year except for the identification of the total advance in other payables.
- xii. Company called for applications to issue 100,000 shares at a rate of Rs. 10 per share on 01.02.2021. Only 80,000 shares were issued with applications received and the shares were allotted on 31.03.2021. No other accounting records were made regarding the share issue other than the amount received with the application were entered on the cash account and the long-term loan account.
- xiii. 1/4 of the long-term debts as at 31.03.2021 is due to be repaid in the year ended on 31.03.2022.
- xiv. The court has determined on 20.06.2021 that a debtor with a carrying amount of Rs. 230,000 as at 31.03.2021 is declared as bankrupt.

- xv. The Directors of the Company have approved the financial statements of the year ended on 31.03.2021 on 30.06.2021 for publication.

Requirements:

1. Statement of Profit and Loss and Other Comprehensive Earnings for the year ended as at 31.03.2021
2. Statement of Financial Position as at 31.03.2021.
3. Statement of Changes in Equity for the year ending 31.03.2021
4. Notes for the the year ended on 31.03.2021

Question 2

A. The following information is provided regarding a product manufactured by a manufacturing company.

Direct material required per unit and purchase cost per kilogram is:

X -	750 grams	Rs.200
Y -	2 Kgs	Rs.150

Direct labour cost required per unit - 3 hours

The product is expected to produce 8,000 units in the coming year.

The two types of direct materials are ordered separately. The order cost and the retention cost per unit are as follows.

	The cost of an order (Rs)	Holding cost per unit
X	750	Rs. 4
Y	12 000	Rs. 4.5 and 1% of the purchase cost

The business is currently ordering 3,000 units at a time from the material X, and with respect to the material Y, the economic order quantity being determined and ordered.

	X	Y
Maximum daily direct material usage (Kg)	30	70
Average daily direct material usage (KG)	21	55
Time taken to receive the ordered item	4 to 8 days	10 to 24 days

Labor is paid at Rs. 800 per hour.

Calculate the following

For the material X

- i. Re-order level
- ii. Maximum stock Level
- iii. Annual order cost if ordering economic order quantity

For the material Y

- iv. Economic order quantity
- v. Minimum stock level
- vi. Average stock Level
- vii. Direct cost per unit of goods

B. The Induruwa Company manufactures and sells a wide variety of toys. The company has two manufacturing units and a division called Store to provide services to the manufacturing sectors. Below are the overhead cost and other information for the upcoming period.

Estimated cost and other information

Department	Finishing 1	Finishing 2	Stores
Production units	2 000	3 000	-
Direct material costs	2 000 000 (Rs. 500 per direct material unit)	2 700 000 (Rs. 300 per direct material unit)	-
Direct labor costs	1 200 000 (Rs. 200 per hour)	2 250 000 (Rs. 300 per hour)	-
Indirect material	651,500	800,000	103,000
Indirect labor	730,000	615,000	70,000
Machine hours	4,500	2,000	800
Land area (sqft)	1,000	2,000	800
Number of employees	55	40	5

Other manufacturing overhead costs Rs.

Material handling	520 000 (should be allocated based on direct material usage)
Cleaning in the factory	228 000
Employee welfare expenditure	420 000
Machine maintenance	487 500
Electricity, water and telephone	190 000

The overhead cost of the store should be distributed among the respective divisions based on the direct material cost of the production divisions. Finishing division 1's overhead costs are absorbed based on the machine hour and Finishing division 1's overhead costs are absorbed based on the direct labour hour. In March 2021, Company produced two types of toys as A and B and the following information is provided with this respect. Both the toys A and B are manufactured across both production divisions.

	Type s		Type B	
Direct material usage per unit (Kg)	2.5 Finishing 1		3.5 Finishing 2	
Direct labor hours required per unit	Finishing 1	: 3.5 hours	Finishing 1	: 2 hours
	Finishing 2	: 3 hours	Finishing 2	: 3.5 hours
Machine hours required per unit	Finishing 1	: 1 hour	Finishing 1	: 1.5 hours
	Finishing 2	: 2 hours	Finishing 2	: 2 hours

Purchase cost of direct materials in March 2021 has not been changed.

Required:

- Overhead cost analysis sheet.
- Calculate separate overhead absorption rates for each production divisions.
- Calculate the total production cost of each type of toy manufactured by the company.

Question 3

A. Ruvini, Savini and Aruni ran a partnership business and they agreed to the following terms.

- Payment of 10% interest on capital
- Share profits or losses between Ruvini, Savini and Aruni in the ratio of 2: 2: 1 respectively.
- Pay a monthly salary of Rs. 50,000 and Rs. 60,000 for Savini and Aruni respectively.

Aruni resigned from the partnership business on 01.04.2020. Ruvini and Savini decided to continue the business and agreed to the following terms.

- Pay 12% interest on the capital balance
- Payment of 5% interest on beginning current account balances.
- Share profit or loss between Ruvini and Savini in the ratio of 3: 1 respectively.
- Pay a monthly salary of 60,000 and Rs. 80,000 for Ruvini and Savini respectively.

The goodwill of the business was valued at Rs. 1,800,000 on 01.04.2020 and the goodwill should be recorded through the capital accounts. When Aruni left, she was paid Rs. 500,000 to settle a portion of the equity and no other entries were made with respect to the resignation of Aruni other than recording the amount paid into her capital account.

The statement of financial position as at 31.03.2021 is as follows.

Non-current assets	Rs 000
Property plant and equipment	6 500
Current assets	
Stationery stock	110
Service income receivable	1 520
Total assets	8 130
Equity	
Capital accounts - Ruvini	1 800
- Savini	1 500
- Aruni	600
Current accounts (as on 01.04.2020) - Ruvini	80
- Savini	140
- Aruni	(40)
Draft profit	3 420
Non-current liabilities	
12% Loan from Savini (Obtained on 01.10.2020)	400
Current Liabilities	
Overdraft	230
Total equity and liabilities	8 130

The following should be adjusted for the year ending 31.03.2021.

- The drawings made by Ruvini and Savini in the year ended 31.03.2021 are Rs.400,000 and Rs.450,000 respectively. The drawings were recorded as an expense of the business.
- The business runs in a building rented from Aruni. Monthly building rent is Rs. 40,000. Monthly building rent has been increased by 10% after 31.12.2020. These rentals payments have not been made and rent expense has not been recognized for the year ended on 31.03.2021.
- Property, plant and equipment should be depreciated for the year ended on 31.03.2021. The cost of the land included on the above property, plant and equipment is Rs. 2,500,000. All remaining assets consist of depreciating assets only and the accumulated depreciation as at 31.03.2020 is Rs. 800,000. The property, plant and equipment are depreciated at 10% on cost using the straight line method. No purchase or removal of property, plant or equipment has taken place in the year ending 31.03.2021.
- Accrued electricity and telephone as at 31.03.2021 is Rs. 14,000. No adjustments were made for accrued electricity and telephone.

- v. A cheque of Rs. 410,000 was received from a customer on 30.01.2021 for the service income receivable and this cheque has been accounted for as a receipt by the business on 02.04.2021 on the date on which the cheque was deposited in the bank.
- vi. The interest for the loan obtained from Savini have been paid and accounted for months other than March 2021.
- vii. Partners' salaries are not paid during the year.

Required:

- i. A statement to correct the draft profit and profit or loss appropriation for the year ending 31.03.2021.
- ii. Capital and current accounts of the partners for the year ending 31.03.2021
- iii. Statement of Financial position as at 31.03.2021

B. The following errors have been occurred in the accounting records of Randil Business during the year ended on 31.03.2021.

- i. The total of Rs. 845,000 from the sales journal has been debited to the creditors control account and credited to the sales account as Rs. 854,000.
- ii. When a creditor's balance of Rs. 50,000 is settled subject to a 5% discount, the full value, regardless of the discount, is entered into the purchase analysis column in the payment journal.
- iii. Rs. 6,000 petty cash expenses has been recorded in the other expenses analysis column of the cash payments journal and accounted accordingly.
- iv. Rs. 45,000 was paid to a supplier on 15.03.2021 for inventory to be purchased in April 2021. This has been recorded only in the cash account.
- v. The balance of the purchase return account is Rs. 18,500 and it is entered on the debit side of the trial balance.

Required:

- 1. Journal entries to correct the above errors during the year ended on 31.03.2021
- 2. The balance in the suspense account prior to correcting the above errors

Question 4

Nilruwan Pls's statement of financial position as at 31 March 2021 and 31 March 2020 are as follows:

	Rs '000	
Non-current assets	31.03.2021	31.03.2020
PPE	7 880	6 200
Investments	175	-
Current assets		
Inventories	1 144	952
Trade receivables	1 676	1 524
Cash and cash equivalents	40	154
	10 915	8 830
Equity		
Stated capital	3,000	1 800
Retained earnings	3 790	2 240
Revaluated reserve	800	-
Non-current liabilities		
Bank loans	1 895	2,000
Current Liabilities		

Trade payables	1 100	2 698
Interest payable	63	52
Taxes payable	75	40
Overdraft	192	-
	10 915	8 830

Additional information:

- i. Lands and buildings were re-valuated for the first time in the year ended on 31.03.2021 and the revaluation surplus and deficit from land and buildings was Rs.800,000 and Rs.450,000 respectively.
- ii. The dividend paid in the year ended 31.03.2021 was Rs. 110,000 and the Board of Directors of the company has proposed a final dividend of Rs. 140,000 for that year.
- iii. The income tax paid by the company during the year ended 31.03.2021 was Rs. 355,000.
- iv. On 01.04.2020, a machine costing of Rs. 2,000,000 and a accumulated depreciation of Rs. 1 450 000 was sold for Rs. 420 000. Company purchased a new machine on 31.12.2020 for a cost of Rs. 2,500,000. The useful life and residual value of the new machine was estimated at Rs.700 000 and 9 years. But the new machine was not depreciated for the year ended 31.03.2021.
- v. A bank loan of Rs. 1 000 000 has been obtained during the year ended 31.03.2021 and the loans have been repaid during the year.
- vi. The interest expense and interest income for the year ended 31.03.2021 were Rs. 460,000 and Rs. 42,000 respectively.
- vii. The company has made a public issue of 110,000 shares at a Rs. 1 200 000 consideration on 01.04.2020.
- viii. The number of shares issued by the company on 31.03.2020 was 140,000.
- ix. Sales for the year ended as at 31.03.2021 was Rs. 8 000 000.

Required:

1. The cash flow statement using indirect method for the year ended on 31.03.2021.
2. Calculate the following ratios as at 2021.03.31. (to approximate valued).
 - i. Net profit margin
 - ii. Current asset ratio
 - iii. Quick asset ratio
 - iv. Debt ratio
 - v. Interest cover ratio
 - vi. Earnings per share
 - vii. Dividends per share
 - viii. Debtors turnover

Question 5

The following account balances were available on 31.03.2020 in Isanka's trading business.

	Rs
Equipment (carrying amount)	240 000 (Cost Rs. 300,000)
Inventories	280 000
Debtors	250 000
Cash (Bank)	125 000
Petty cash	15,000
Creditors	260 000
Capital	?

The following transactions took place during the month of April 2020.

April 1 - Purchased a machine for Rs. 115,000 on credit. The petty cashier paid Rs. 5,000 as transport cost to bring the machine.
April 2 - Purchased inventory with a list price of Rs. 200 000 by issuing a cheque of Rs. 105,000 (Cheque No. 540124) and the balance on credit. The discount received on this purchase was 10%. This cheque was presented to the bank on 04.04.2020 and paid by the bank.
April 4 - 50% of the debtor balance as at 31.03.2020 was paid by the debtor by a cheque subject to a discount of 2%. (Cheque No. 720140). This check was realised on 06.04.2020.
April 5 - A cheque of Rs. 25,000 was given to the petty cash cashier by the main accountant to reimburse the imprest. (Cheque No. 540125). This cheque was presented to the bank on 08.04.2020 and paid by the bank.
April 8 – Inventories with a listed price of Rs. 200,000 were sold on credit to Udara subject to a 10% discount. The cost of this inventory was Rs. 108,000.
April 9 - A cheque of Rs. 76,000 paid to a creditor on 22.03.2020 after deducting a 5% discount, has been dishonoured. The bank has charged a fee of Rs. 1,000 for this dishonoured cheque. Further, the relevant creditor was informed that the discount given on the payment was cancelled.
April 10 - Creditors balance as at 31.03.2020 was paid by cheque subject to a 2% discount. (Cheque No. 540126). This cheque was presented to the bank on 17.04.2020 and paid by the bank.
April 12 - Udara returned the inventory sold on April 8 for Rs. 40,000 (net of discount).
April 16 - A inventory which had a sales value of Rs. 45,000 was donated to a charity. The cost of this inventory was Rs. 28,000.
April 20 - A customer has deposited Rs. 48,000 directly in the bank account of the business for a inventory to be purchased in May 2021.
April 24 - After deducting the employee contribution to the 10% Employees Provident Fund, Rs. 180,000 was paid by cheque as salary. (Cheque No. 540127). This cheque has was presented to the bank on 25.04.2020 and paid by the bank. The employer contributes 15% to the Provident Fund and contributes 3% to the Employees Trust Fund. Relevant contributions to the Employees Provident and Trust Fund were paid to the relevant government agencies during the month of April 2020. The relevant cheques issued for Employees Provident and Trust Funds are numbered 540128 and 540129 respectively and were presented to the bank in May 2020.
April 26 - Isanka paid Rs. 32,000 out of Rs. 42,000 of operating expenses of the month of the business using his personal credit card.
April 28 - The petty cash cashier paid the bills of Rs. 14,000.
April 29 - Isanka encashed a cheque of Rs. 15,000 from the business on 28.04.2020 and paid Rs. 15,000 for his daughter's education expenses. (Cheque No. 540130).
April 30 - Rs. 150 000 worth of machinery was purchased issuing a cheque. (cheque number 540131). This cheque has been submitted to the bank on 15.04.2020 and paid by the bank.
April 30 - Received a cheque for Rs. 360,000 for rent. This cheque has been realised to the bank on 06.05.2020.

Other Information:

- The cash account balance as at 31.03.2020 agreed with the balance of the bank statement on that day.
- Property, plant and equipment are depreciated by 10% on cost annually.

Required:

1. Record the above transactions of Isanka's business in April 2020 using the format given below.

No.	Fixed assets	Inventories	Debtor	Cash	Petty Cash	=	Capital	Profit	Creditors	Other liabilities
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i										
ii										
...										
Total										

2. Prepare the statement of financial position as at 30.04.2020.
3. Prepare the bank reconciliation statement as at 30.04.2020.

Question 6

The following information has been provided for the year ended as at 31.03.2021 of the Ridee Sports Club, a non-profit organization.

	2021.03.31	2020.03.31
Equity		
Accumulation fund	?	155 000
Lifetime membership fee	?	61 250
Property, plant and equipment	260 000	100 000
Subscriptions receivables	?	7 200
Cash	282 500	109 050
Total assets	?	216 250

The sports club was started on 01.04.2019 and initially had 50 members. Seven of these members were life members and the remaining members pay a monthly membership fee of Rs. 200 each. The lifetime membership fee decided on 01.04.2019 is Rs. 10,000 per member.

On 01.04.2020, 20 new members including 5 lifetime members obtained membership in the club. It was decided to increase the membership fee by Rs. 50 for all members and to charge a lifetime membership fee of Rs. 12,000 for new life members with effect from 01.04.2020.

The cash accounts for the year ending 31.03.2021 are as follows.

Cash account			
Balance as at 01.04.2020	109 050	Expenses	25 000
Membership fees - 2019/2020	6 000	Building	180 000
Membership fees - 2020/2021	217 500		
Building fund	250 000	Balance as at 31.03.2021	377 550
	<u>582 550</u>		<u>582 550</u>

Additional Information:

- i. The policy of the club is to identify the lifetime membership fee to income on an equal basis over 8 years.
- ii. Membership fees received for the year 2020/2021 includes lifetime membership fees too.
- iii. Accrued expenses as at 31.03.2021 is Rs. 4,000.
- iv. A donation of Rs. 250,000 has been received from the Ministry of Sports for the construction of a sports stadium on 01.04.2020. This donation should be recognized to the income to extent of its use.

Required:

1. Income statement for the year ending on 31.03.2021
2. Calculation of the following balances as at 31.03.2021
 - i. Accumulated fund
 - ii. Lifetime membership
 - iii. Membership fee due
 - iv. Total assets

B. A group of students from the University of Sri Jayewardenepura launched a project to provide mobile phones to school children who do not have the minimum facilities for online learning. As a first step, it plans to offer 50 mobile phones. The following information is provided in this regard.

- The purchase price of a mobile phone is Rs. 30,000. But you can get a 10% discount on getting a phone for this purpose.
- Other expected costs to be incurred for this project are as follows.
 - The advertising cost is Rs. 10,000
 - Travel expenses are Rs. 5,000
- It is expected to sell a commemorative souvenir of the University at a cost of Rs. 200 to raise funds for this project. It will cost Rs. 50 to create one souvenir.
- Donors have already donated 5 mobile phones and another group has donated Rs. 105,000 cash. (Donated money should be treated as a reduction of costs)

Required:

1. Calculate the fixed cost required to complete the first phase of the project.
2. Calculate the number of souvenirs to be sold to complete the first phase of the project without profit or loss and calculate the total cost of the project at this activity level.
3. Calculate the number of souvenirs to be sold to save Rs. 450,000 for the second phase of the project
4. If the sale price of a souvenir is increased by Rs. 100, calculate the number of sales of souvenirs to complete the first phase of the project without any profit or loss.

C. Amarasiri Business is planning to launch an organic fertilizer production project. The following information is provided regarding this project.

Expenditure already incurred for gathering basic information -	Rs. 50,000
Initial cost of machinery required for the project -	Rs. 4,000,000
Cost of machine instalment -	Rs. 500,000
The land required for the project is leased and the annual rent is	Rs. 500,000
At the end of the project, the land will have to be returned to its owner, where the cost of cleaning the land is estimated at Rs. 200,000.	
Project duration -	5 years
Required working capital -	Rs. 400,000
At the end of the project, the machines can be sold for Rs. 1,000,000 and the machines will be depreciated in the straight line method.	

Income and expenditure of the project for 5 years are estimated as follows.

Year	1	2	3	4	5
Income	700 000	1 600 000	3 500 000	4 000 000	2 800 000
Operating expenses including depreciation	950 000	1 000 000	1 500 000	1 700 000	1 300 000

The discount factor under the 10% discount rate is as follows.

Year	1	2	3	4	5
Discount factor	0.90	0.82	0.75	0.68	0.62

Required:

1. Estimate cash flows up to 5 years including initial cash flow
2. Calculate the Net Present Value of the project
3. Indicate whether it is appropriate to invest in the machine based on Net Present Value