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முழுப் பதிப்புரிமையுடையது.]  
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Open / Limited Competitive Examination for Recruitment to Grade Ii  
of the Sri Lanka Accountants' Service - 2014

(01) Financial Accounting - Paper 1

Three hours

Answer all questions.

1. The trial balance of Siripura PLC as at 31.03.2014 is given below.

	Debit (Rs.'000)	Credit (Rs.'000)
Ordinary Share Capital (4000 shares) .....		20 000
Non Redeemable Preference Share capital (2000 shares) .....		10 000
Retained Earnings as at 01.04.2013 .....		2 500
Cost of Sale/Sales .....	175 000	371 800
Bank loan .....		20 000
Distribution Expenses .....	15 000	
Administration Expenses .....	12 000	
Other Expenses .....	7 500	
Finance Expenses .....	2 500	
Income Tax Paid - 2013/2014 .....	5 500	
- 2012/2013 .....	1 600	
<b>Property, Plant and Equipment</b>		
Lands .....	150 000	
Buildings .....	12 000	
Motor Vehicles .....	10 500	
<b>Provision for Depreciation as at 01.04.2013</b>		
Building .....		1 200
Motor vehicles .....		1 900
Inventory as at 31.03.2014 .....	2 000	
Trade debtors .....	5 000	
Trade creditors .....		6 000
Provision for Income Tax as at 01.04.2013 .....		1 500
Bank .....	15 000	
Interim Dividends paid		
- Ordinary shares .....	4 000	
- Preference shares .....	2 000	
Investment .....	33 500	
Suspense account .....		18 200
	<b>453 100</b>	<b>453 100</b>

**Additional Information.**

- Net realizable value of the inventories as at 31.03.2014 was Rs. 1 800 000.
- The company had revalued its land on 31.03.2014 and the value of the land after revaluation is Rs. 200 000 000. This has not been recorded in the books of accounts.
- The company sold a motor vehicle purchased on 1<sup>st</sup> April 2009 for Rs. 1500 000 on 31<sup>st</sup> March 2014 for Rs. 800 000. The cash received has been recorded in the bank account and motor vehicles account. No other entries were made on the disposal of the vehicle.

- (iv) The rates of depreciation of non current assets of the company on cost on the straight-line methods are as follows:
- Motor vehicles - 25 % per annum  
Building - 10% per annum
- (v) Bank loan obtained on 01<sup>st</sup> January 2014. Loan capital is re-payable in four equal quarterly instalments commencing from 1st April 2014.
- (vi) Bank balance shown in the trial balance was extracted prior to the preparation of bank reconciliation statement for the month of March 2014. Upon preparing the bank reconciliation the following were noted.
- Deposited but unrealized cheque of Rs. 5 000 000
  - Issued but not presented cheques of Rs. 3 000 000
  - Rs. 1 000 000 deposited by a debtor of business in the account has not been recorded in the books of the business.
  - Rs. 500 000 insurance payment made by the bank based on standing order has not been recorded in the business.
- (vii) The income tax liability for the year has been estimated as Rs. 8 500 000
- (viii) A part of the building of the business was destroyed on 20.04.2014 due to a fire and the value of loss was estimated as Rs. 200 000.
- (ix) It was discovered that the following errors have been occurred in the accounting process.
- a sales invoice of Rs 2 200 000 has been completely omitted from accounting record.
  - payment for advertising expenses Rs. 7 500 000 has been recorded in advertising expense account as Rs. 5 700 000
  - Rs. 10 000 000 rent income received has been correctly recorded in the bank account but debited to rent expense account.
- (x) The Board of Directors of the company has taken the following decisions at a board meeting on 30<sup>th</sup> May 2014.
- To pay dividend of Rs. 3 per share per year for the ordinary shares held on 31<sup>st</sup> March 2014.
  - To pay preference dividend of Rs. 2 per share per year for the year ended 31<sup>st</sup> of March 2014.
- (xi) The financial statements were authorised for issue on 10th June 2014 by the board of Directors.

**Required:**

Prepare the followings of Siripura PLC for publications;

- (1) Statement of Comprehensive Income for the year ending 31.03.2014.
- (2) Statement of Financial Position as at 31.03.2014.
- (3) Statement of changes in equity for the year ending 31.03.2014.
- (4) Notes and accounts for Property, Plant and Equipment.

(40 marks)

2. (i) State **two** benefits and **two** limitations of use of accounting ratios.
- (ii) State a similarity and a difference between bonus issue and right issue of a limited liability company.
- (iii) State **four** advantages of Computer Based Accounting systems.
- (iv) State **four** factors to be considered in acquiring an accounting software.
- (v) State **four** limitations of financial statements.

(10 marks)

**(01) Financial Accounting - Paper 1**

3. The summarised financial statements of Arunodaya PLC are given below.

**Arunodaya PLC**  
**Income Statement for the year ending 31.03.2014**

	(Rs. '000)	(Rs. '000)
Sales .....		75 000
Cost of Sales .....		(40 000)
Gross profit .....		<u>35 000</u>
Other Income (Note - 01) .....		<u>10 000</u>
		45 000
Distribution Expenses .....	10 000	
Administration Expenses .....	15 000	
Finance Expenses - Interest .....	<u>5 000</u>	
		(30 000)
Profit before tax .....		<u>15 000</u>
Income tax .....		(5 250)
Profit for the year .....		<u>9 750</u>
<b>Other comprehensive income</b>		
Land revaluation surplus .....		<u>1 000</u>
<b>Total comprehensive income for the year .....</b>		<u><u>10 750</u></u>

**Arunodaya PLC**  
**Statement of Financial Position as at 31 March**

	2014 (Rs. '000)	2013 (Rs.'000)
Property, Plant and Equipment (Note - 02) .....	200 000	213 000
Investment .....	57 000	40 000
Inventory .....	7 000	12 000
Trade debtors .....	25 000	50 000
Receivable investment income .....	5 000	7 000
Cash .....	<u>63 000</u>	<u>78 000</u>
	<u><b>357 000</b></u>	<u><b>400 000</b></u>
Stated ordinary share capital .....	112 000	100 000
Revaluation reserve .....	6 000	5 000
General reserve .....	1 750	3 000
Retained earnings .....	17 000	8 000
Bank Loan .....	200 000	259 000
Trade creditors .....	13 000	18 000
Accrued - Income tax .....	4 250	3 000
- Loan interest .....	<u>3 000</u>	<u>4 000</u>
	<u><b>357 000</b></u>	<u><b>400 000</b></u>

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

(Rs' 000)					
	Ordinary Share capital	Re-value Reserve	General Reserve	Retained earning	Total
<b>Balance as at 01.04.2013</b>	100 000	5 000	3 000	8 000	116 000
Share Issuance	10 000	-	-	-	10 000
Total Comprehensive income for the year	-	1 000	-	9 750	10 750
General Reserve	-	-	750	(750)	-
Bonus share Issuance	2 000	-	(2 000)	-	-
<b>Balance as at 31.03.2014</b>	<b>112 000</b>	<b>6 000</b>	<b>1 750</b>	<b>17 000</b>	<b>136 750</b>

Notes :

**Note 01**

**Other Income**

	(Rs' 000)
Profit on disposal of motor vehicle	2 000
Investment income	8 000
	<u>10 000</u>

**Note 02**

**Property, Plant & Equipment**

	(Rs' 000)		
	Land	Building	Motor Vehicles
<b>Cost as at 01.04.2013</b>	100 000	60 000	90 000
Additions	-	10 000	-
Revaluation	1 000	-	-
Disposals	-	-	(20 000)
<b>Balance 31.03.2014</b>	<u>101 000</u>	<u>70 000</u>	<u>70 000</u>
<b>Accumulated Depreciation as at 01.04.2013</b>	-	12 000	25 000
Annual Depreciation	-	3 000	9 000
Disposals	-	-	(8 000)
<b>Balance as at 31.03.2014</b>	<u>-</u>	<u>15 000</u>	<u>26 000</u>
<b>Carrying amount as at 31.03.2014</b>	<u>101 000</u>	<u>55 000</u>	<u>44 000</u> = <u>200 000</u>

**Required ;**

The cash flow statement for the year ended 31.03.2014 as per LKAS-07 using direct method.

(20 marks)

4. The summarised financial statements of Amara PLC and Sama PLC for the year ending 31.03.2014 are given below.

**Income statements for the year ended 31.03.2014.**

	<b>Amara PLC</b> <b>(Rs' 000)</b>	<b>Sama PLC</b> <b>(Rs' 000)</b>
Sales .....	2 250	2 000
Cost of Sales .....	<u>(1 450)</u>	<u>(1 500)</u>
Gross profit .....	800	500
Expenses .....	<u>(450)</u>	<u>(300)</u>
Profit before tax .....	350	200
Income tax .....	<u>(150)</u>	<u>(100)</u>
Net profit for the year	<u><u>200</u></u>	<u><u>100</u></u>

**Statement of Financial Position as at 31.03.2014**

	<b>Amara PLC</b> <b>(Rs.'000)</b>	<b>Sama PLC</b> <b>(Rs.'000)</b>
Property, Plant & equipment .....	800	1 600
Inventory .....	100	200
Trade debtors .....	130	100
Cash .....	<u>170</u>	<u>100</u>
	<u><b>1 200</b></u>	<u><b>2 000</b></u>
Stated ordinary share capital .....	500	1 000
Retained earnings .....	360	400
Bank loan .....	140	200
Trade creditors .....	80	220
Accrued expenses .....	<u>120</u>	<u>180</u>
	<u><b>1 200</b></u>	<u><b>2 000</b></u>

**Additional information:**

- Loan interest of Rs. 100 000 each includes in the expenses of Amara PLC and Sama PLC.

**Required:**

The following ratios for both companies;

- (1) Gross Profit Ratio
- (2) Net Profit Ratio
- (3) Current Ratio
- (4) Quick Asset Ratio
- (5) Interest Cover Ratio
- (6) Return on Equity Ratio
- (7) Return on Total Assets Ratio

(15 marks)

5. (i) Total of the debtors ledger accounts balances of Chaturanga's business as at 31.03 2014 was Rs. 75 000 (debit). It was agree with the balance as per debtors control account as at that date. The following information is provided in relations to April 2014.

	<b>Rs</b>
Credit Sales .....	125 000
Cash Sales .....	210 000
Cash received from debtors .....	100 000
Provision for doubtful debts .....	7 500
Discount allowed .....	10 000
Return Inwards .....	5 000
Bad debts .....	4 000
Interest Charged from debtors due to late settlement .....	9 000

The balance as per debtors control account as at 30.04.2014 did not agree with the total of the debtors ledgers account balances. The following matters were revealed in the subsequent investigation.

- (a) Rs. 2 000 bad debts written off has not been recorded in the debtors ledger.
- (b) Rs. 3 000 discount allowed has been recorded in the wrong side of the relevant debtor account in the debtors ledger.
- (c) Rs. 10 000 sales invoices has not been recorded in the relevant debtor account in the debtors ledger.

**Required;**

- (1) Debtors Control Account for the month of April 2014.
  - (2) A statement of reconciling balance as per debtors control account with the total of debtors ledger account balances.
- (ii) The bank overdraft balance of Chatura's business as at 31.07.2014 was Rs. 40 000 as per the bank statement. The bank balance as per the cash book of the business on that date was not agreed with that. The following are the reasons for such differences.
- (a) Cheque deposited but not realized Rs. 15 000.
  - (b) Cheque issued but not presented for payment of Rs. 10 000.
  - (c) Rs. 12 000 deposited by a customer Ajantha has not been recorded in the cash book of the business.
  - (d) A payment of Rs. 4 000 made by the bank for telephone bill of the business has not been recorded in the cash book of the business.
  - (e) Rs. 18 000 interest income credited to bank account for a fixed deposit of the business has not been recorded in the cash book of the business.
  - (f) The bank charge Rs. 1 000 has not been recorded in the cash book of the business.

**Required;**

- (1) Cash book/Bank account for the month of July 2014 with necessary adjustment.
- (2) Bank reconciliation statement for July 2014.

(15 marks)