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முழுப் பதிப்பரிமையடையது]  
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Open / Limited Competitive Examination for Recruitment to Grade III  
of the Sri Lanka Accountants' Service – 2014

(02) Financial Accounting - Paper II

Three hours

Answer all questions.

1. (i) Roshan, Chaturanga and Sandaruwan are partners of RCS Associates and they were sharing profits and losses in the ratio of 3:2:1 respectively. According to the partnership agreement partners are entitled to receive 10% interest on capital. Further, Roshan and Sandaruwan were entitled to receive monthly salary of Rs. 20,000 and Rs. 15,000 respectively.

The trial balance of the partnership as at 31.03.2014 is given below.

	Rs. ('000)	(Rs. '000)
Capital account balances as at 01.04.2013.		
- Roshan .....	-	5 000
- Chaturanga .....	-	4 000
- Sandaruwan .....	-	3 500
Current account balances as at 01/04/2013		
- Roshan .....	-	200
- Chaturanga .....	-	100
- Sandaruwan .....	50	-
Inventories as at 01/04/2013 at cost .....	780	-
Purchase .....	6 600	-
Land and building at cost .....	7 500	-
Office equipments at cost .....	2 500	-
Motor vehicles at cost .....	2 700	-
Investment.....	500	-
Provision for depreciation as at 01.04.2013		
- Buildings .....	-	600
- Office equipment .....	-	700
- Motor vehicles .....	-	850
Sales .....	-	15 250
Interest expense .....	150	-
Rent.....	440	-
Sales return .....	250	-
Discount allowed and received .....	160	60
Selling expenses .....	1 350	-
Office expenses .....	3 750	-
Debtors and Creditors .....	4 200	1 415
Bad and doubtful debts .....	420	-
Carriage inwards .....	180	-
Goodwill.....	500	-
Loan account - Sandaruwan .....		300
Drawings		
- Roshan .....	250	-
- Chaturanga.....	300	-
- Sandaruwan .....	175	-
Bank overdraft .....	-	780
	<b>32 755</b>	<b>32 755</b>

**Additional information ;**

- (a) Sandaruwan retired from the partnership on 31.03.2014 and Roshan and Charuranga decided to continue the partnership by sharing profit and losses equally. It was decided that total amount belongs to Sandaruwan is transferred to his loan account.
- (b) According to the new partnership agreement, partners are not entitled any salary as profit distribution and interest on capital will be 12% per annum.
- (c) The goodwill of the partnership agreement as at 31.03.2014 was valued as Rs. 800 000 and it was decided not to keep the goodwill account in the books of the partnership.
- (d) It was decided to write off Rs. 200 000 as bad debts.
- (e) Accrued office expenses as at 31.03.2014 was Rs. 55 000 and Rs. 75 000 of the selling expenses are relevant to year ending 31.03.2015.
- (f) The inventories as at 31.03.2014 was valued at cost of Rs. 865 000 and the net realizable value was estimated as Rs. 985 000.
- (g) Cost of the land of the partnership business is Rs. 5 000 000 and property plant and equipment are depreciated based on straight line method as follows.
  - Building – 5% per annum
  - Office equipments – 20% per annum
  - Motor vehicles – 10% per annum
- (h) Investment shown in the trial balance represents fixed deposit made on 01.10.2013 for 3 years at interest rate of 9% per annum.

**Required ;**

- (1) Income statement for year ending 31.03.2014.
- (2) Profit and loss appropriation account for year ending 31.03.2014.
- (3) Partners' capital accounts and current accounts.
- (4) Statement of financial position (Balance sheet) as at 31.03.2014.

(32 marks)

- (ii) Sanath and Mahela were carrying a partnership by sharing profit and losses in the ratio of 2:1 respectively. On 31.03.2014 they decided to dissolve the partnership and the statement of financial position on that date is given below.

(Rs. '000)	
<b>Non Current Assets</b>	
Property, plant and equipment .....	7 500
Investments .....	1 250
<b>Current Assets</b>	
Inventories .....	750
Trade Debtors .....	810
Cash and bank .....	390
	<b>10 700</b>
<b>Equity</b>	
Capital accounts	
- Sanath .....	4 750
- Mahela .....	3 250
Current accounts	
- Sanath .....	245
- Mahela .....	325
<b>Non-current Liabilities</b>	
Loan account - Mahela .....	1 500
<b>Current liabilities</b>	
Trade creators .....	630
	<b>10 700</b>

**Additional information ;**

- (a) A motor vehicle with a carrying amount of Rs. 2 400 000 was taken over by Sanath for an agreed amount of Rs. 2 800 000. Trade debtors were collected subject to 5% discount. Rs. 500 000 inventories was written off and all other assets except cash and bank were sold for Rs. 8 200 000.
- (b) All the liabilities were settled in full. 10% discount was received from the creditors.
- (c) Dissolution expenses incurred was Rs. 800 000.

**Required;**

1. Realization Account
2. Partners' Capital Account
3. Cash and Bank Account

(08 marks)

(Total 40 marks)

2. The following transactions were occurred in the Beta PLC during the year ending 31.03.2014.

- (i) A motor vehicle was acquired under a finance lease agreement on 01.04.2013. The fair value of the motor vehicle on this date Rs. 4 500 000. The down payment of Rs. 1 000 000 was paid on date of agreement and balance was agreed to pay in five (05) equal annual instalment of Rs. 800 000 commencing from 31.03.2014. The lease interest included in the first and second annual lease rentals are Rs. 420 000 and Rs. 370 000 respectively. First annual instalment was paid on due date. Useful life of the motor vehicle is 5 years.
- (ii) The company makes sales with warranty period one year and total sales made subject to warranties was Rs. 8 000 000. It was estimated that provision for the warranty as at 31.03.2014 as 5% of the total sales. The balance of provision for warranty as at 31.03.2013 was Rs. 350 000 and company made payment of Rs. 280 000 during the year ending 31.03.2014 as warrant expenses.
- (iii) The company has sent goods invoiced at Rs. 2 000 000 to the agent on sale or return basis. Goods were invoiced by adding 25% profit markup to the cost. 60% of these goods were remained unsold with the agent as at 31.03.2014.
- (iv) A machinery purchased for Rs. 1 500 000 on 01.04.2011 was estimated a useful life of 8 years with a residual value of Rs. 300 000. However on 01.04.2013 the useful life and residual value of the asset were revised as 7 years from the date of purchase and Rs. 200 000 respectively.
- (v) Business has filed a case against a supplier asking a compensation of Rs. 1 000 000 for the supply of inferior material on 01.03.2014. The company lawyers are in the opinion that lawsuit is very much favourable to the business and it is highly probable to receive the compensation.

**Required:**

1. Income Statement extracts for year ending 31.03.2014 in relation to above transactions.
2. Statement of Financial Position (Balance Sheet) extracts for the year ending 31.03.2014 in relation to above transaction.
3. If the profit for year calculated without considering any of the above transaction is Rs. 2 100 000, a statement of calculating the accurate profit for the year.

(15 marks)

3. The statement of financial position of Kandy Sports Club as at 31.03.2014 is given below.  
(Rs. '000)

	Cost	Accumulated Description	Carrying Amount
<b>Non current Assets</b>			
Sports and office equipment .....	950	180	770
Furniture .....	600	120	480
	1 550	300	1 250
<b>Current Assets</b>			
Inventories .....	–	150	–
Subscription in arrears .....	–	125	–
Trade Debtors .....	–	200	–
Cash and Bank .....	–	450	925
			<b>2 175</b>
<b>Equity</b>			
Accumulated Fund .....	–	–	1 150
Deferred Income .....	–	–	450
<b>Current Liabilities</b>			
Trade Creditors .....	–	420	–
Subscription received in advance .....	–	95	–
Accrued expenses .....	–	60	575
			<b>2 175</b>

The summary of receipts and payment made during the year ending 31.03.2014 is given below.

	(Rs. '000)		(Rs. '000)
<b>Receipts</b>		<b>Payments</b>	
Annual subscription	2 250	Purchases	950
Life subscription	400	Furniture	800
Donations	475	Rent	240
Cash sales	750	Payment for creditors	670
Collection from debtors	600	Electricity and telephone	440
Income from sport matches	550	Expenses on sport matches	410
Income from annual sport day	400	Salaries	650
		Sport organizing expenses	330
		Refreshments	200
		Sport equipments	450
		Other expenses	125

**Additional information ;**

- The sports club introduced a life membership system during the year ending 31.03.2013. It was decided to recognize the life membership fee over 10 years to income and expenditure account. The deferred income shown in the statement of financial position represent remaining life membership fee.
- The subscription arrears and received in advance as at 31.03.2014 were Rs. 230 000 and Rs. 180 000 respectively. Further, it was decided to write off Rs. 45 000 subscription in arrears at beginning of the year.
- Sales, purchases, inventories, debtors and creditors are relevant to restaurant maintains by the sports club for its members.
- Inventories as at 31.03.2014 was valued at cost of Rs. 230 000 and net realizable value of Rs. 195 000.
- Non-current assets are depreciated on cost as follows  
Sports and office equipment - 10% per annum  
Furniture - 20% per annum

(f) Non-current assets were purchased during the year on the following dates.

Sports and office equipment - 01.07.2013

Furniture - 01.10.2013

(g) Accrued expenses as at 31.03.2013 represent accrued rent. The rent of the building is Rs. 25 000 for a month.

(h) 40% of the rent of the building is relevant to the restaurant. Further salaries of the restaurant employees is Rs. 350 000.

(i) Debtors and creditors balances as at 31.03.2014 were Rs. 375 000 and Rs. 325 000 respectively.

**Required:**

1. Income Statement of the restaurant for the year ending 31.03.2014 in order to calculate the profit of the restaurant.
2. Income and expenditure account for the year ending 31.03.2014.
3. Statement of Financial Position (Balance Sheet) as at 31.03.2014.

(20 marks)

4. (i) Sigma Construction PLC is business undertakes construction contracts. The following information is relevant to a construction contract undertaken by the business on 01.09.2012.

	(Rs. '000)
The contract price agreed .....	2 500
Total estimated cost .....	1 800
<b>As at 31.03.2013</b>	
Total cost incurred up to date .....	850
Value of cost of work certified .....	1 000
Total progress payments received up to date .....	600
<b>As at 31.03.2014</b>	
Total cost incurred up to date .....	1 950
Value of cost of work certified .....	2 240
Total progress payments received up to date .....	1 750

Due to change in specifications total estimated cost and contract price was increased by Rs. 200 000 and Rs. 300 000 respectively during the year ending 31.03.2014.

**Required:**

1. Income statement extracts for year ending 31.03.2013 and 31.03.2014.
2. Statement of financial position extracts as at 31.03.2013 and 31.03.2014.

(08 marks)

- (ii) Isurusiri Company operates its head office at Colombo and the branch at Kandy. Following balance were extracted as at 31.03.2014.

	Head Office		Branch	
	Debit (Rs.)	Credit (Rs.)	Debit (Rs.)	Credit (Rs.)
Opening stock - at cost	100 000	-	-	-
- at invoice price	-	-	72 000	-
Provision for unrealized profit as at 01.04.2013	-	14 400	-	-
Purchases	1 960 000	-	-	-
Goods sent to branch	-	860 000	-	-
Goods received from head office	-	-	800 000	-
Sales	-	1 940 000	-	1 232 000
Other Income	-	128 000	-	72 000
Distribution cost	75 500	-	89 100	-
Administrative expenses	45 500	-	55 200	-
Finance expenses	62 000	-	32 000	-

**Additional information**

- (a) Head office invoices goods to branch at an invoice price by adding 25% profit mark-up to the cost.  
 (b) Value of the closing stock as at 31.03.2014.

Head office - at cost 120 000

Branch - at invoice price 48 000

**Required**

Income statement for the year ended 31.03.2014 in the head office branch and Company in the columnar form.

(07 marks)

(Total 15 marks)

5. Following balance were extracted from the Mahanama Traders which manufactures and sells garments items as at 31.03.2014.

	Debit Rs. ('000)	Credit Rs. ('000)
Machinery - Cost/Accumulated Depreciation	1 200	300
Building - Cost/Accumulated Depreciation	800	200
Motor vehicle - Cost / Accumulated depreciation	750	150
Stock at 01/04/2013		
- Raw material	110	-
- Works in progress	72	-
- Finished goods	224	-
- Package material	45	-
Purchase of raw material	975	-
Purchase of Finished goods	165	-
Purchase of package material	210	-
Carriage inwards of material	44	-
Sales		3 315
Salaries and wages	450	-
Electricity	180	-
Rent	90	-

**Additional information ;**

(a) Stock as at 31.03.2014 is also available.

	<b>Rs.</b>
Raw material	166 000
Works in progress	88 000
Package material	33 000
Finished goods	210 000

(b) Works in progress in valued at the prime cost

(c) Composition of salaries and wages are as follows.

Factory - Direct	30%
Factory - Indirect	30%
Distribution	40%

(d) 30% of the electricity and 40% of the rent are relevant to factory.

(e) Packaging is done at sales section prior to sales.

(f) Property, plant and equipments are depreciated annually on the reducing balance method as follows. Depreciation for the current year has not been calculated.

Buildings	12%
Motor vehicles	10%
Machinery	20%

(g) Carrying amount of factory building is Rs. 200 000.

**Required ;**

Manufacturing account for the year ended 31.03.2014.

(10 marks)

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