AL/2020/33/E-I(NEW)

සියලු ම හිමිකම් ඇවිරිණි/முழுப் பதிப்புரிமையுடையது/All Rights Reserved]

නව නිර්දේශය/புதிய பாடத்திட்டம்/New Syllabus

NEW

දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව

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 I கணக்கீடு I Accounting I	33 E I	පැය දෙකයි இரண்டு மணித்தியாலம் Two hours

Instructions:

* *Answer **all** questions.*
* *Select the correct answers for questions **No. 1-30 and write its number on the dotted line.***
* *Write short answers for questions **No. 31-50 on the dotted lines.***
* *Each question carries **equal** marks.*
* *Write your **Index Number** in the space provided above.*
* ***Use of non-programmable calculators is allowed.***

Index No. : .....

For Examiner's Use Only

	Signature	Code No.
1st Examiner		
2nd Examiner		
Addl. Chief		
E.M.F.		
Chief		

For paper I	
Q. Nos.	Marks
01 - 30	
31 - 50	
TOTAL	

1. What is the **main purpose** of financial accounting of a firm?

(1) Recording and reporting of transactions in compliance with legal requirements.
(2) Preparation of the general-purpose financial statements in compliance with accounting standards.
(3) Provision of information for the annual external audit through the financial statements.
(4) Provision of information for decision making of the stakeholders.
(5) Provision of financial information for decision making of the managers. (.....)

● **Use the following information to answer questions no. 2, 3, 4 and 5.**

Nuwan opened a stationery trading shop on 01.01.2020. His brother, Sujith is the sole employee of this business. The following transactions took place during the month of January 2020.

No.	Transaction	Amount (Rs.'000)
1	Invested cash by Nuwan to commence the business	300
2	Purchased stationery on cash	200
3	Purchased stationery on credit	550
4	Returned a part of stationery purchased on credit due to defects	50
5	Sold stationery on credit - This includes Rs. 64 000 Valued Added Tax (VAT)	864
6	Paid the salary to Sujith	40

The cost of stationery sold during the month was Rs. 500 000. The electricity charges payable by the business as at 31.01.2020 was Rs. 30 000. Assume that there is no VAT on purchases and other expenses.

2. The order of source documents used to record the transaction Nos. **2, 3, 4** and **5**:

(1) Invoice, Goods Received Note, Debit Note, Invoice
(2) Invoice, Goods Received Note, Credit Note, Invoice
(3) Payment Voucher, Invoice, Debit Note, Invoice
(4) Payment Voucher, Invoice, Credit Note, Invoice
(5) Payment Voucher, Invoice, Credit Note, Journal Voucher (.....)

[See page two

3. What is the accounting equation that reflects the **net effect** of transaction Nos. **1, 2, 3** and **4** ?

	Assets (Rs.'000) =	Liabilities (Rs.'000) +	Equity (Rs.'000)	
(1)	+ 800	+ 550	+ 250	
(2)	+ 800	+ 500	+ 300	
(3)	+ 850	+ 550	+ 300	
(4)	+ 1 000	+ 700	+ 300	
(5)	+ 1 000	+ 750	+ 250	(.....)

4. If this business maintains a debtors control account, what is the **correct** double entry to record the transaction No. **5** ?

	Dr. (Rs.'000)	Cr. (Rs.'000)	
(1) Debtors Control Account	800		
Sales Account		800	
(2) Debtors Control Account	864		
Sales Account		864	
(3) Debtors Control Account	800		
VAT Expense Account	64		
Sales Account		864	
(4) Debtors Control Account	864		
Sales Account		800	
VAT Control Account		64	
(5) Debtors Control Account	800		
VAT Expense Account	64		
Sales Account		800	
VAT Control Account		64	(.....)

5. What is the gross profit and net profit of the business for the month ending 31.01.2020?

	Gross Profit (Rs.'000)	Net Profit (Rs.'000)	
(1)	300	230	
(2)	300	260	
(3)	300	270	
(4)	364	294	
(5)	364	324	(.....)

● **Use the following information to answer questions no. 6 and 7.**

A business carries out all its cash transactions through a bank current account. There was no difference in the closing balance of the cash account and the bank statement of the month of February 2020 of this business. However, the cash account balance of Rs. 500 000 as at 31.03.2020 did not agree with the bank statement balance on this date. The bank statement for the month of March was received on 03.04.2020 and the following were revealed when it was examined.

A - A cheque of Rs. 100 000 deposited on 29.03.2020 has not been realized.

B - The loan installment of month of March paid on a standing order was Rs. 30 000. (This includes an interest expense of Rs. 12 000.)

C - A cheque of Rs. 80 000 deposited in the bank on 30.03.2020 has been dishonoured on 31.03.2020.

D - An investment income of Rs. 120 000 has been credited directly to the bank account.

Direct remittances, standing order payments and dishonoured cheques are recorded in the books only after the receipt of the bank statement.

Above items 'A' and 'C' denote the cheques received from two debtors of the business to settle their outstanding balances.

[*See page three*

6. The revised balance of the cash account and the balance of the bank statement as at 31.03.2020:

	Revised Balance of Cash Account (Rs.' 000)	Bank Statement Balance (Rs.' 000)	
(1)	410	510	
(2)	510	410	
(3)	510	510	
(4)	590	410	
(5)	590	510	(.....)

7. What is the **net effect** of items A, B, C and D on the profit for the month of March 2020 and the debtors control account balance as at 31.03.2020?

	Increase in Profit (Rs.' 000)	Increase/(Decrease) in Debtors Control Account Balance (Rs.' 000)	
(1)	90	(100)	
(2)	90	(20)	
(3)	108	(20)	
(4)	108	80	
(5)	120	80	(.....)

8. Which of the following statement/s is/are **correct** in relation to the application of accounting concepts?

A - The basis for recognition of debtors and creditors is provided by the accrual concept.

B - The basis for measuring inventories at lower of cost and net realizable value is provided by the matching concept.

C - The basis for classification of assets and liabilities as current and non-current in the Statement of Financial Position is provided by the going concern concept.

(1) A only. (2) B only. (3) C only.
(4) A and C only. (5) All A, B and C. (.....)

9. Which of the following accounting treatment/s reflect the application of substance over form concept ?

A - Recognition of income tax payable by an entity as a liability.

B - Recognition of a 'right-of-use asset' as an asset in the financial statements of a lessee.

C - Recognition of a constructive obligation of an entity as its liability.

(1) A only. (2) B only. (3) C only.
(4) B and C only. (5) All A, B and C. (.....)

10. Namal Traders commenced its operations on 01.04.2020. The following information is provided for the month of April 2020.

Total of prime entry books :	Rs.' 000	Other information :	Rs.' 000
Sales journal	220	Cost of sales	110
Purchase journal	200	Operating expenses **(excluding discounts)**	60
Sales return journal	20	Trade discounts received	20
Purchase return journal	10	Trade discounts allowed	8
		Cash discounts received	5
		Cash discounts allowed	10

The total income and total expenses recognized for the month of April 2020:

	Total Income (Rs.' 000)	Total Expenses (Rs.' 000)	
(1)	200	170	
(2)	205	170	
(3)	205	180	
(4)	220	180	
(5)	225	188	(.....)

[See page four

11. Madhu commenced a business on 01.04.2020 to manufacture face masks. It is expected to manufacture 12 000 face masks during the year ending 31.03.2021. The budgeted manufacturing overheads for this year are Rs. 360 000.

The following actual costs were incurred during the month of April 2020.

Fabric cost (per unit)	Rs. 60
Direct processing cost (per unit)	Rs. 20
Manufacturing overheads	Rs. 30 000
Non-manufacturing overheads	Rs. 20 000

During the month of April, 1 000 units were manufactured and 800 units were sold for Rs. 150 per unit.

The profit for the month of April 2020 and the cost of finished goods inventory as at 30.04.2020:

	Profit for the month (Rs.)	**Cost of Inventory (Rs.)**
(1)	6 000	16 000
(2)	6 000	22 000
(3)	12 000	16 000
(4)	12 000	22 000
(5)	16 000	26 000

(.....)

12. An entity reported a profit of Rs. 150 000 for the year ending 31.03.2020. However, in a subsequent investigation, the following errors were revealed in the accounting books.

- The total credit sales of Rs. 650 000 for the month of March 2020 has been recorded as Rs. 560 000 in the sales account and the debtors control account.
- A cash discount of Rs. 20 000 allowed to a trade debtor has been posted only in the debtors control account.
- An interest income of Rs. 25 000 received from a bank deposit has been credited to interest expenses account. However, this amount has been correctly recorded in the cash account.
- The depreciation on motor vehicles for the year Rs. 30 000 has not yet been provided.

What is the **correct** profit for the year ending 31.03.2020 after correcting the above errors ?

(1) Rs. 165 000 (2) Rs. 190 000 (3) Rs. 210 000
(4) Rs. 215 000 (5) Rs. 235 000

(.....)

13. The information of a sports club for the year ending 31.03.2020 is as follows.

	Rs.
• Subscription income recognized for the year	300 000
• Previous year subscription in arrears written off during the year	50 000
• Donation received to purchase sports equipment (of which Rs. 100 000 was used to purchase sports equipment on 31.03.2020)	500 000
• The balance amount received during the year from hiring the playground. (An advance of Rs. 150 000 was received on 30.03.2019 in this respect.)	100 000

The policy of the sports club is to recognize only the utilized amount of donations as income for the year.

The **increase** in the accumulated fund balance of the sports club as at 31.03.2020 due to above items:

(1) Rs. 350 000 (2) Rs. 450 000 (3) Rs. 500 000
(4) Rs. 600 000 (5) Rs. 900 000

(.....)

[*See page five*

14. Which of the following statements are **correct** in relation to partnerships?

A - The partnerships should not follow accounting standards when preparing the financial statements.

B - The salaries paid to partners when they contribute to the management of the business as partners are treated as expenses of the partnership.

C - In a written agreement, the partners can agree to share profits and losses based on their capital contribution ratio.

D - When there is a change in the ownership of a partnership, its goodwill is estimated.

(1) B and C only. (2) C and D only. (3) A, B and D only.
(4) A, C and D only. (5) B, C and D only. (.....)

- **Use the following information to answer questions no. 15 and 16.**

The conditions of the partnership carried out by Meena and Radha are as follows:

- The profit or loss sharing ratio between Meena and Radha is 3 : 2 respectively.
- Meena and Radha are entitled to an annual salary of Rs. 450 000 and Rs. 350 000 respectively.

Other Information:

Credit balances of current accounts:

	As at 31.03.2020 (Rs.'000)	**As at 31.03.2019 (Rs.'000)**
Meena	600	250
Radha	480	200

Salaries paid and goods drawn during the year ending 31.03.2020 :

	Meena (Rs.'000)	**Radha (Rs.'000)**
Salaries	300	200
Goods drawn	100	120

An annual interest of Rs. 50 000 payable to Radha for a loan given to the partnership has been credited to her current account.

15. The profit of the partnership for the year ending 31.03.2020 :

(1) Rs. 500 000 (2) Rs. 850 000 (3) Rs. 1 250 000
(4) Rs. 1 300 000 (5) Rs. 1 350 000 (.....)

16. The total profit appropriated to Radha for the year ending 31.03.2020 :

(1) Rs. 200 000 (2) Rs. 250 000 (3) Rs. 280 000
(4) Rs. 550 000 (5) Rs. 600 000 (.....)

17. Which of the following statement/s is/are **correct** as per LKAS 16 (Property, Plant and Equipment) ?

A - Depreciation amount for the period should always be recognized in profit or loss.

B - An item of property, plant and equipment should be measured at cost at the initial recognition.

C - The surplus resulting on the revaluation of an asset in the current year should be recognized in other comprehensive income in the absence of a previous revaluation deficit for the same asset.

(1) A only. (2) C only. (3) A and B only.
(4) B and C only. (5) All A, B and C (.....)

[*See page six*

18. The financial statements of Ajith PLC for the year ending 31.03.2020 were authorized for issue by the directors on 15.06.2020. The following events had taken place in the company during the period 31.03.2020 to 15.06.2020.

A - A machine with a carrying amount of Rs. 5 million as at 31.03.2020 was completely destroyed due to fire on 15.04.2020.

B - A trade debtor who owed Rs. 800 000 as at 31.03.2020 was declared bankrupt by the court on 10.05.2020.

C - A public issue of Rs. 10 million shares was made on 10.06.2020.

Which of the above should be considered as **non-adjusting** event/s of the company for the year ending 31.03.2020 as per LKAS 10 (Events after the Reporting Period) ?

(1) A only. (2) C only. (3) A and C only.
(4) B and C only. (5) All A, B and C. (.....)

19. Which of the following item/s should be classified as cash flows arising from the financing activities of a manufacturing business as per LKAS 7 (Statement of Cash Flows) ?

A - Cash received for dividends on the ordinary shares purchased in other entities.

B - Cash paid to purchase debentures of other entities.

C - Cash paid for the settlement of a lease liability.

(1) B only. (2) C only. (3) A and B only.
(4) B and C only. (5) All A, B and C. (.....)

20. Sumudu PLC purchased a machine on 01.01.2020 for Rs. 2 500 000 to use in manufacturing activities. The following costs were also incurred by the company in this respect.

	Rs.' 000
Site preparation cost	200
Installation cost	350
Annual premium for fire insurance	275
Cost of the initial test run	250

The net proceeds from the sale of items produced in the initial test run was Rs. 50 000.

What is the cost of this machine at recognition as per LKAS 16 (Property, Plant and Equipment)?

(1) Rs. 3 050 000 (2) Rs. 3 250 000 (3) Rs. 3 300 000
(4) Rs. 3 525 000 (5) Rs. 3 575 000 (.....)

21. Suranga PLC purchased a machine for Rs. 8 000 000 on 01.04.2017 and its estimated useful life and residual value were 8 years and Rs. 1 600 000 respectively. The useful life and the residual value of the asset were re-estimated on 01.04.2019. According to the new estimates, the remaining useful life and the residual value are 4 years and Rs. 1 000 000 respectively.

What is the depreciation of the machine for the year ending 31.03.2020 as per LKAS 16 (Property, Plant and Equipment)?

(1) Rs. 900 000 (2) Rs. 1 166 777 (3) Rs. 1 350 000
(4) Rs. 1 600 000 (5) Rs. 1 750 000 (.....)

22. Gamage PLC sells products with one-year warranty period. The provision for warranty as at 01.04.2019 was Rs. 525 000. The 'warranty expenses paid' and the 'warranty expenses recognized' for the year ending 31.03.2020 were Rs. 375 000 and Rs. 650 000 respectively.

What is the provision for warranty to be recognized in the Statement of Financial Position as at 31.03.2020 as per LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets)?

(1) Rs. 150 000 (2) Rs. 275 000 (3) Rs. 650 000
(4) Rs. 800 000 (5) Rs. 1 175 000 (.....)

[*See page seven*

23. The profit and other comprehensive income for the year ending 31.03.2020 of Damitha PLC were Rs. 1 500 000 and Rs. 800 000 respectively. The other comprehensive income represents the surplus of Rs. 800 000 resulted from the revaluation of land and buildings for the second time during the current year. The revaluation of land and buildings for the first time on 31.03.2016 had resulted a deficit of Rs. 350 000.

The **correct** profit and total comprehensive income for the year ending 31.03.2020:

	Profit for the year (Rs.' 000)	Total Comprehensive Income (Rs.' 000)	
(1)	1 150	1 950	
(2)	1 500	1 950	
(3)	1 500	2 300	
(4)	1 850	1 950	
(5)	1 850	2 300	(.....)

● **Use the following information to answer questions no. 24 and 25.**

The following information is provided by Kavinga PLC for the year ending 31.03.2020.

	Rs.' 000
Sales	7 000
Cost of sales	4 200
Finished goods inventory as at 01.04.2019	800
Finished goods inventory as at 31.03.2020	600
Operating expenses	1 200
Interest expenses	320
Tax expense	400

The number of ordinary shares in issue was 400 000 and the equity of the business was Rs. 4 400 000 as at 31.03.2020.

24. The inventory turnover ratio and the interest cover ratio of the company:

	Inventory Turnover Ratio (Times)	Interest Cover Ratio (Times)	
(1)	6	4	
(2)	6	5	
(3)	6	5.6	
(4)	7	4	
(5)	7	5	(.....)

25. The return on equity ratio and earnings per share of the company:

	Return on Equity Ratio (%)	Earnings per Share (Rs.)	
(1)	5	2.20	
(2)	5	3.20	
(3)	20	2.20	
(4)	20	3.20	
(5)	20	4.00	(.....)

26. The following information relates to a product manufactured by a company.

	Cost per unit (Rs.)
Total cost	250
Direct cost	60
Non-production overheads	100

All direct costs are variable costs. Further, 50% of production overheads and 25% of non-production overheads are variable costs.

The cost of production per unit and variable cost per unit of this product:

	Cost of production per unit (Rs.)	Total variable cost per unit (Rs.)	
(1)	105	120	
(2)	105	130	
(3)	150	105	
(4)	150	120	
(5)	150	130	(.....)

|*See page eight*

● **Use the following information to answer questions no. 27 and 28.**

A company has two production cost centres as Assembly and Finishing. The following information relates to these cost centres.

	Assembly	Finishing
Overhead absorption rate per machine hour (Rs.)	7	9
No. of machine hours (Budgeted)	5 000	4 000
No. of Kilowatt hours (Budgeted)	300	700
Cost of machinery (Rs.)	160 000	120 000
Floor area (Sq. meters)	6 000	4 000

After calculating the above overhead absorption rates, the following errors were revealed.

- Budgeted depreciation of machinery Rs. 14 000 has not been included in this calculation.
- The budgeted electricity charges Rs. 10 000 has been apportioned based on the floor area instead of Kilowatt hours.

27. What is the total overheads apportioned to Finishing cost centre after the above errors are rectified ?

(1) Rs. 36 000 (2) Rs. 40 000 (3) Rs. 42 000
(4) Rs. 45 000 (5) Rs. 49 000 (.....)

28. What is the revised overhead absorption rate of Assembly cost centre after the above errors are rectified ?

(1) Rs. 8.00 (2) Rs. 9.00 (3) Rs. 9.20 (4) Rs. 10.00 (5) Rs. 11.25 (.....)

29. Which of the following statements are **correct** in relation to Cost-Volume-Profit analysis ?
(Assume that other factors relevant to each of the following situations remain constant).

A - The decrease in the unit contribution will lead to a decrease in the break-even point in units.
B - The increase in the contribution to sales ratio will lead to a decrease in the break-even point in value.
C - Beyond the break-even point, the unit contribution is equal to the unit profit.
D - The increase in unit selling price will lead to a decrease in the break-even point.

(1) B and C only. (2) C and D only. (3) A, B and C only.
(4) B, C and D only. (5) All A, B, C and D (.....)

30. Nihal PLC is considering to purchase a new machine to commence a manufacturing business. The expected useful life of the machine is 5 years. The estimated costs and benefits of this project are given below.

	Rs.' 000
Purchase price of the new machine	1 100
Installation costs of the machine	200
Residual value of the machine at the end of the year 5	100
Annual cash inflows	335

The working capital requirement of the project at the beginning will be Rs. 150 000 and it can be recovered in the last year of the project.

The initial cash outflow and the cash inflow at the final year of the project respectively:

	Initial cash outflow (Rs.' 000)	Cash inflow of the final year (Rs.' 000)
(1)	1 100	250
(2)	1 100	585
(3)	1 300	585
(4)	1 450	250
(5)	1 450	585 (.....)

[See page nine

● **Write short answers for questions No. 31 - 50 on the dotted lines.**

31. State whether the following statements as to the general-purpose financial statements prepared by a business are **True (T)** or **False (F)**.

Statement	True/False
A - These statements are prepared in compliance with accounting standards.	.....
B - These statements are prepared primarily for the use of resource providers of the business.	.....
C - These statements provide information relating to a past period of the business.	.....
D - These statements provide information of the business measured only at historical cost basis.	.....

32. The following information has been extracted from the accounting records of a business.

	As at 31.03.2020 (Rs.' 000)	As at 31.03.2019 (Rs.' 000)
Assets	1700	1200
Liabilities	900	700

During the year ending 31.03.2020, the owner paid a loan installment of the business amounting to Rs. 120 000 from his personal funds. The owner obtains Rs. 90 000 from the business every year to pay the school fees of his children. He does not draw any other money from the business.

The following for the year ending 31.03.2020:

(a) Profit : Rs. .....

(b) Retained earnings : Rs. .....

33. Indicate the prime entry book used to record each of the following transactions of a motor vehicle trading company.

Transaction	Prime Entry Book
A - Purchase of motor vehicles on credit	.....
B - Purchase of a truck on credit to be used in the delivery of motor vehicles	.....
C - Sale of motor vehicles on credit	.....
D - Payment of sales commission	.....

34. Calculate the impact of the following transactions on the creditors control account balance and indicate whether the balance would **Increase (+)** or **Decrease (–)** in front of the value.

Transaction	Impact (Rs.' 000)
A - Purchase of goods with a list price of Rs. 100 000 on credit subject to a 10% trade discount.	.....
B - Payment of cash to settle a balance of Rs. 50 000 due to a creditor subject to a 5% cash discount.	.....

35. State **two** situations in which the historical cost concept is **not** followed when preparing the financial statements.

(1) .....

(2) .....

[See page ten

36. Write the journal entries to adjust the following **two** transactions in the preparation of financial statements of a business for the year ending 31.03.2020. *(Narration is not required).*

A - Goods were sold on 31.03.2020 for an order of Rs. 180 000. This order was received in February 2020 with an advance of Rs. 60 000. The balance amount is yet to receive.

B - An agreement was entered by paying Rs. 90 000 to conduct a sales promotion campaign for a three months period starting from 01.03.2020. It has been duly operated since 01.03.2020.

Transaction	Description	Dr. (Rs.'000)	Cr. (Rs.'000)
A			
B			

37. State the appropriate classification for following accounts maintained by a business in the general ledger.

Account	Classification
A - Bad debts	.....
B - Drawings	.....
C - Provision for gratuity	.....
D - Accumulated depreciation on office equipment	.....

38. Roshan and Hashan carry out a partnership namely; 'RH Associates' without a written agreement. Roshan and Hashan have invested Rs. 5 000 000 and Rs. 3 000 000 as capital respectively. Further, Roshan has also provided a loan of Rs. 2 000 000 to the business.

State whether the following statements are **True (T)** or **False (F)** as to this partnership.

	True/False
A - Roshan and Hashan are entitled to 5% interest on capital.	.....
B - An interest of 5% per annum should be payable on the loan provided by Roshan.	.....
C - Roshan and Hashan are not entitled to a salary as partners.	.....
D - Roshan and Hashan should share profits and losses in their capital ratio.	.....

39. State the reason for which the partners are entitled for each type of the following profit appropriations of a partnership.

Type of Appropriation	Reason
A - Interest on capital	.....
B - Salaries of partners	.....
C - Profit share	.....

40. State whether the following statements are **True (T)** or **False (F)** as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

Statement	True/False
A - The changes in accounting estimates should be adjusted in financial statements prospectively.	.....
B - Accounting policy changes are always applied retrospectively.	.....
C - The change in the depreciation method of an asset is an accounting policy change.	.....
D - The change in the useful life of an asset is a change in an accounting estimate.	.....

|*See page eleven*

41. Complete the following statements in accordance with the 'Conceptual Framework for Financial Reporting' introduced in year 2018.

(a) Primary users of general-purpose financial statements are ..... , ... and ..... .

(b) An asset is defined as ..... controlled by the entity as a result of ..... events.

42. Sachin PLC entered into a lease agreement on 01.04.2019 to obtain the right-of-use of a machine for a period of 4 years. On this date, the initial measurement of the lease liability was Rs. 1 713 000. According to the lease agreement, the annual lease rental is Rs. 600 000 and the first installment was paid on 31.03.2020. The lease interest for the years ending 31.03.2020 and 31.03.2021 are Rs. 257 000 and Rs. 205 500 respectively.

The lease liability presented in the Statement of Financial Position as at 31.03.2020 as per SLFRS 16 (Leases):

(a) Current liability : Rs. .....

(b) Non-current liability : Rs. .....

43. The following balances as at 01.04.2019 were extracted from the accounting records of Roshan PLC.

	Rs.' 000
Stated capital - ordinary shares	1 300
Retained earnings	1 600

During the year ending 31.03.2020, the company capitalized Rs. 800 000 retained earnings and also made a right issue of shares amounting to Rs. 400 000. All rights were subscribed by the existing shareholders. The profit for the year ending 31.03.2020 was Rs. 700 000 and the company paid an interim dividend of Rs. 300 000 during the year. The retained earnings is the only reserve maintained by the company.

State the following as at 31.03.2020:

(a) Stated capital - ordinary shares : Rs. .....

(b) Retained earnings : Rs. .....

44. State whether the following statements are **True (T)** or **False (F)** as per SLFRS 15 (Revenue from Contracts with Customers).

Statement	**True/False**
A - A contract with a customer could include several 'performance obligations'.	.....
B - Revenue and all other income of a business entity should be recognised in financial statements only as per this standard.	.....
C - An entity should recognise revenue on a contract only when each performance obligation in the contract is satisfied.	.....
D - The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.	.....

45. The quick assets ratio of a company as at 31.03.2020 was 1.1 : 1 .The current assets of the company include inventory of Rs. 250 000 and prepaid expenses of Rs. 50 000 in addition to other assets. On this day, the current liabilities were Rs. 500 000.

Calculate the following as at 31.03.2020:

(a) Current Assets : Rs. .....

(b) Current ratio : .....

[See page twelve

46. State whether the following statements relating to management accounting reports prepared by an entity are **True (T)** or **False (F)**.

Statement	True/False
A - These reports are available for the use of all stakeholders of an entity.	.....
B - These reports provide present and future information required for management decision making.	.....
C - These reports are prepared annually on demand of managers.	.....
D - These reports are prepared based on the requirements of an entity.	.....

47. State the source document used to record each of the following activities of a manufacturing business.

Activity	Source Document
A - Request of material by the factory from the stores	.....
B - Receipt of material to the stores from a supplier	.....
C - Calculation of the time spent by a factory worker on a job	.....
D - Usage of electricity in the factory	.....

48. A company manufactures a product using a special type of raw material. To produce one unit of the product, 10 kgs of this raw material is required. The monthly production of the product varies from 50 to 75 units. The re-order quantity of this material is 5 000 kgs and its lead time varies from 2 to 4 months.

Indicate the following for this raw material.

Stock level	Quantity (kg)
A - Re-order level	.....
B - Maximum stock level	.....

49. A Welfare Society is organizing an awareness program on environment protection for people residing in flats. A media organization has agreed to pay the Welfare Society Rs. 2 000 for each person participating in this program. The Welfare Society has to incur a cost of Rs. 1 500 for each participant. The other estimated expenses are given below.

	Rs.
Hiring charges for the Conference Hall	45 000
Meal expenses of resource persons	9 000
Advertising expenses	6 000

Calculate the following.

(a) Contribution per participant : Rs. .....

(b) Fixed cost of the program : Rs. .....

(c) No. of participants required to cover the total cost : .....

50. Alpha PLC is considering to acquire a new machine to diversify its business. The cost of this machine is estimated as Rs. 1 700 000 and its expected useful life and residual value are 5 years and Rs. 200 000 respectively. The Management Accountant of the company has evaluated the project and calculated its payback period as 2 years and 6 months. The net cash flow estimates of the project are as follows.

Year	Net Cash Flows (Rs.)
1	600 000
2	750 000
3	?
4	450 000
5	425 000

Indicate the following for the **year three** :

(a) Net cash flow : Rs. ..... (b) Profit : Rs. .....

* * *

සියලු ම හිමිකම් ඇවිරිණි/முழுப் பதிப்புரிமையுடையது/All Rights Reserved]

නව නිර්දේශය/புதிய பாடத்திட்டம்/New Syllabus

NEW ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
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Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka
ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
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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**

[*See page two*

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	–

[*See page four*

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
Property, plant and equipment (PPE)	900
Inventory (maintenance materials)	160
Trade receivables	130
Pre-paid rent	240
Salary advances paid to workers	34
Cash at bank	100

Liabilities and Equity	Rs.'000
Long-term loan	400
Trade payables	90
Electricity payable	12
Advance received from an institutional customer	10
Equity	1 052

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

[See page five

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)***

[See page six

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	?	300000
Life Membership Fund	160000	200000
Sports Equipment Fund	?	400000
Building Fund	1000000	–

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**

[*See page seven*

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.

[See page eight

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)

[*See page ten*

(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)

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