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Limited / Open Competitive Examination for Recruitment to Grade III
of the Sri Lanka Accountants' Service – 2017 / 2018 (2020)

(01) Financial Accounting - Paper 1

Three hours

- Answer **all** questions.
- Write the answers clearly and legibly in **blue** or **black** ink only and **not** in pencil.
- Non programmable calculators are allowed to use.

1. The trial balance of Candy PLC as at 31 March 2019 is given below.

	Debit (Rs.'000)	Credit (Rs.'000)
Property Plant and Equipment (as at 01 April 2018)		
Land - at revalued amount	4 000	—
Office building - at Cost	5 000	—
Delivery vehicles - at Cost	3 000	—
Office Furniture - at Cost	500	—
Provision for depreciation (as at 01 April 2018)		
Office building	—	200
Delivery vehicles	—	600
Office furniture	—	100
Investment property - at fair value (as at 01 April 2018)	5 800	—
Provision for doubtful debts (as at 01 April 2018)	—	100
Stated capital - Ordinary shares	—	10 000
Revaluation reserve (as at 01 April 2018)	—	1 200
Retained earnings (as at 01 April 2018)	—	5 120
Long-term bank loan at 12%	—	5 000
Trade receivable	3 120	—
Trade payable	—	2 700
Stocks (at cost)	4 600	—
Sales	—	14 180
Rental income received on investment property	—	300
Cost of sales	7 450	—
Administrative expenses	1 140	—
Sales and distribution expenses	1 320	—
Finance and other expenses	420	—
Interim dividend paid	1 000	—
Cash at bank	3 410	—
Cash in hand	740	—
Income tax paid for the current year	500	—
Share issue account	—	2 500
	42 000	42 000

Additional Information below are also provided.

1. The net realizable value of the closing inventory as at 31 March 2019 has been estimated Rs. 4 400,000.
2. Property plant and equipment should be depreciated on straight-line method as below.

Office building	2%
Delivery vehicles	20%
Office Furniture	10%
3. Land was revalued on 31 March 2019 for Rs. 4 500 000 by a professional valuer. However, no adjustments have been made in this regard. The current revaluation reserve balance represents the revaluation gain recognized from previous revaluations of this land.
4. A delivery vehicle that was purchased on 1 April 2017 for Rs. 1 000 000 was disposed on 31 March 2019 for Rs. 800 000. No adjustments have been made in this regard other than sales proceeds received being debited to bank account and credited to sales.
5. A customer who owed company Rs. 120 000 was bankrupted and the amount should be written off as bad debts.
6. A provision of 5% should be provided for doubtful debts on the closing trade receivables.
7. Following expenses were accrued as at 31 March 2019.

Advertising expense	Rs. 300 000
Auditors fee	Rs. 200 000
8. Company made a right issue of ordinary shares for Rs. 2 500 000 in March 2019. Cash collected in this regard has been debited to bank account and credited to a "Share issue account".
9. Finance and other expenses include only six months interest paid on long-term bank loan at 12%. Balance six months interest is accrued as at 31 March 2019.
10. Company has rented-out its investment property for a monthly rental of Rs. 50 000. Rental income represents only six-months rental received during the period and the balance six months rental is receivable.
11. Fair value of investment property has been estimated at Rs. 6 000 000 as at 31 March 2019.
12. Total income tax expense for the current year has been estimated at Rs. 700 000.

Required :

The following financial statements of Candy PLC, for publication purpose, as per Sri Lanka Accounting Standards (LKAS) 1 (Presentation of Financial Statements):

- (i) Statement of profit or loss and other comprehensive income for the year ended 31 March 2019
- (ii) Statement of Changes in Equity for the year ended 31 March, 2019.
- (iii) Statement of Financial Position as at 31 March, 2019.

(40 marks)

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2. The statement of profit or loss and the statement of financial position of Samagi PLC for the year 2019, prepared for the purpose of performance measurement of internal of managers are given below with the comparative figures of the prior period.

Statement of Profit or Loss for the year ended 31 March 2019

	2019 (Rs.)	2018 (Rs.)
Sales	160 000	120 000
Cost of sales	(90 000)	(70 000)
Gross profit	70 000	50 000
Administrative Expenses	(12 000)	(11 000)
Sales and Distribution Expenses	(24 000)	(15 000)
Interest expense	(3 000)	(1 000)
Profit before tax	31 000	23 000
Tax expense	(8 000)	(6 000)
Profit after tax	23 000	17 000
Interim dividend paid	(10 000)	(8 000)
Retained earnings	13 000	9 000

Statement of Financial Position as at 31 March 2019

	2019 (Rs.)	2018 (Rs.)
Assets		
Non-current assets		
Property plant and equipment	168 000	140 000
Current Assets		
Inventory	12 700	4 000
Trade receivables	6 200	8 000
Cash	3 100	3 000
Total Assets	190 000	155 000
Equity		
Stated Capital - Ordinary shares	100 000	100 000
Retained Earnings	51 800	38 800
Non-current liabilities		
Debentures	15 000	5 000
Current Liabilities		
Interest payable	1 200	600
Tax payable	800	200
Trade payables	21 200	10 400
Equity and total liabilities	190 000	155 000

Other Information:

1. Stated capital represents 10 000 ordinary shares.
2. Closing market price per share as at 31 March 2019 and 31 March 2018 was Rs. 24 and Rs. 15 respectively.

Required:

- (i) State **four** limitations of accounting ratio analysis as tool of analysing financial statements. (02 marks)
- (ii) Compute the following accounting ratios for Samagi PLC for the year 2019 and 2018.
- Gross profit ratio
 - Net operating profit ratio
 - Return on equity
 - Debt capital to equity ratio
 - Current ratio
 - Quick asset ratio
 - Interest Cover ratio
 - Earnings per share (EPS)
 - Dividend per share (DPS)
 - Price-Earnings ratio (10 marks)
- (iii) Based on the suitable ratios amongst the ratios computed above, comment on the profitability and the short-term financial position of Samagi PLC. (04 marks)
- (iv) State **two** strategies that can be implemented to overcome short-term financial difficulties experienced by a company. (02 marks)
- (v) Briefly explain the relationship that exists between the profitability and the liquidity of a firm. (02 marks)
- (Total 20 marks)*

3. (i) Define the following terms in line with the LKAS7 Statement of Cash Flows.

- (a) Operating activities
- (b) Investing activities
- (c) Financing activities

(ii) Statement of profit or loss and the statement of financial position of Heladiva PLC for the year 2019 is given below.

Statement of profit or loss for the year ended 31 March 2019

	Rs. '000
Sales	12 800
Cost of Sales	(7 650)
Gross Profit	5 150
Other Incomes	50
Distribution Expenses	(1 245)
Administrative Expenses	(855)
Finance Cost	(400)
Profit Before Tax	2 700
Tax Expenses	(750)
Profit After Tax	1 950
Dividend Paid	(500)
Retained Profit for the year ...	1 450

Statement of Financial position as at 31 March.

	2019 (Rs.'000)	2018 (Rs.'000)
Assets		
Non-current assets		
Property plant and equipment	11 500	9 500
Investments	–	800
Current Assets		
Inventory	2 550	1 400
Trade Debtors	460	380
Cash	790	120
Total Assets	15 300	12 200
Equity		
Stated Capital–Ordinary shares	7 500	5 000
Retained Earnings	4 950	3 500
Non-current Liabilities		
12% Debentures	1 000	2 500
Current Liabilities		
Interest Payable	80	40
Tax Payable	470	310
Trade Payables	1 300	850
Equity and Total Liabilities	15 300	12 200

Additional Information:

1. Company has sold its investment for Rs. 900 000 during the period.
2. A machine with a cost of Rs. 250 000 and a carrying amount of Rs. 200 000 was sold for Rs. 150 000 during the year.
3. The following information is relevant to property, plant and equipment.

	2019 (Rs.'000)	2018 (Rs.'000)
Cost	14 650	12 000
Accumulated Depreciation	3 150	2 500
Net Book Value	11 500	9 500

4. During the year the company has made a right issue of ordinary shares for Rs. 2 500 000.

Required:

Cash flow statement (according to indirect method) of Heladiva PLC for the year ended 31 March 2019. (20 marks)

4. Following information is relevant to bank transactions of Bonita (Pvt) Ltd.

Bank Reconciliation Statement as at 31 December 2019

	Rs.	Rs.
Balance as per the cash book		50 000
Issued but unrepresented cheques		
Cheque 124567	30 000	
Cheque 124572	50 000	80 000
Unrealized cheques		
Cheque 45678	20 000	
Cheque 56789	40 000	(60 000)
Balance as per the bank statement		70 000

Cash book (Current Account) for the month ended 31 January 2020

	Rs.		Rs.
Balance brought forward (2020.01.01)	50 000	Creditors – Cheque 124575	15 000
Debtors – Cheque 67890	40 000	Creditors – Cheque 124576	20 000
Debtors – Cheque 78901	50 000	Salary – Cheque 124577	80 000
Cash Deposit	100 000	Creditors – Cheque 124578	30 000
Debtors – Cheque 89012	20 000	Creditors – Cheque 124579	18 000
Debtors – Cheque 66001	35 000	Balance	132 000
	295 000		295 000

Concise Bank Statement for the month ended 31 January 2020

	Debit (Rs.)	Credit (Rs.)	Balance (Rs.)
Balance (2020.01.01)	–	–	70 000
Cheques Deposit 45678	–	20 000	90 000
Cheques Deposit 56789	–	40 000	130 000
Cheque 124575	15 000	–	115 000
Cheques Deposit 67890	–	40 000	155 000
Cheques Deposit 78901	–	50 000	205 000
Cheque 124576	20 000	–	185 000
Cheque 124567	30 000	–	155 000
Cash Deposit	–	100 000	255 000
Cheque 124577	80 000	–	175 000
Dividend Remittance	–	15 000	190 000
Insurance Premium SLIC	30 000	–	160 000
Bank Charges	5 000	–	155 000

Required:

- (i) Adjusted cash book
- (ii) Bank reconciliation statement as at 31 January 2020.
- (iii) State **two** internal control best practices that can be adopted with respect to payments made by cheques.

(10 marks)

5. (i) State **four** inherent risk factors in a computerized accounting system.
- (ii) State **four** internal control measures to ensure the data security in a computerized accounting system.
- (iii) State **four** reasons as to why the government is interested about the accounting and other information of a business organization.
- (iv) Briefly explain what is meant by "Forensic Accounting".

(10 marks)

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(02) Financial Accounting – Paper II

Three hours

- Answer **all** the questions.
- Write the answers clearly and legibly in **blue** or **black** ink only and **not in pencil**.
- Non programmable calculators are allowed to use.

1. Geetha and Seetha are carrying a partnership business by sharing profits and losses equally. Neetha was admitted to the business on 01.04.2018 as a new partner. The following information relates to operations of the partnership for the year ending 31.03.2019.

- Neetha brought Rs. 300 000 in cash and some equipment at an agreed price of Rs. 200 000 as her capital.
- Partnership agreement contains the following clauses.
 1. Profits and losses are shared among Geetha, Seetha and Neetha in the ratio of 3:3:2 respectively.
 2. Goodwill of the partnership should be estimated at every time when there is a change in the composition of partners or profit and loss sharing ratio.
 3. Geetha and Neetha are entitled to a monthly salary of Rs. 30 000 and Rs. 25 000 respectively.
 4. Seetha is paid a lumpsum annual salary of Rs. 150 000.
 5. Partners are entitled to an interest of 10% per annum on the permanent capital invested.
 6. Partnership reimburses any expenses incurred by a partner on behalf of the business.
 7. Loans given by partners to the business are paid a 15% interest per annum.
 8. Goods taken out from the business by partners should be treated as revenue of the business after allowing a 10% discount from the list price.
- Goodwill of the business as of 01.04.2018 was estimated as Rs. 800 000 and partners agreed to make necessary adjustments through their capital accounts.
- Expenses incurred by the partners on behalf of the business which are yet to be reimbursed and accounted for;
 - By Geetha – Insurance premium of Rs. 60 000
 - By Seetha – Electricity Bills of Rs. 23 000
 - By Neetha – Telephone Bills of Rs. 48 000
- Monthly salaries paid to Geetha and Neetha upto February 2019 and the lumpsum salary paid to Seetha have been recognized as expenses for the year when computing the draft profit.
- Geetha has taken goods which had a list price of Rs. 80 000 has not been accounted for.

- The trial balance of the business after computing the draft profit as at 31.03.2019 is given below.

	Rs'000	Rs'000
Property Plant and Equipment	2 315	
Rent Advance	360	
Rent Prepayment	225	
Inventories	265	
Trade Receivables	160	
Cash	375	
Capital Account – Geetha		600
Capital Account – Seetha		600
Capital Account – Neetha		500
Current Account – Geetha	100	
Current Account – Seetha		260
Current Account – Neetha	200	
Loan – Geetha		500
Profit for the year		1160
Current Liabilities		380
	4 000	4 000

- Business is carried out at a building belonging to Seetha and for which a monthly rent of Rs. 30 000 is paid for the year ending 31.12.2019. Monthly rent for last year was Rs. 25 000. One year rent is paid in advance on 1st January of every year and the latest payment made has been posted to the rent advance account. Rent prepayment account represents the balance appeared as at 31.03.2018.
- Neetha is entitled to a special allowance of Rs. 120 000 per annum for her expertise in designing but this has not yet been paid.
- Cash payments including drawings made to partners have been debited to their current accounts.
- Depreciation for the year has been provided correctly except for depreciation at 10% per annum on cost of the machine brought in by Neetha.

Required ;

- (i) A statement to correct the profit for the year
- (ii) Appropriation accounts for the year ended 31.03.2019
- (iii) Statement of Financial Position as at 31.03.2019
- (iv) Partners' Capital Accounts
- (v) Partners' Current Accounts

(30 marks)

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(02) Financial Accounting - Paper II

2. Tharindu started a business, "Globe Manufacturers" on 01.04.2017 to manufacture and sell two products called X and Y. During the year ended 31.03.2018, he managed to put up a factory and bought required equipment and commenced commercial production on 01.04.2018. The information pertaining to 'Globe manufacturers' is given below.

- A summary of cash receipts and payments from 01.04.2017 to 31.03.2019. (Rs.'000)

Account Head	Dr. Rs. ('000)	Cr. Rs. ('000)	Balance
Initial Investment by Tharindu			18 000
Motor Vehicles		6 000	12 000
Bank Loan	7 000		19 000
Buildings		8 000	11 000
Machineries		7 000	4 000
Cash collected from sales and customers	68 000		72 000
Direct Labour		12 480	59 520
Salaries Factory		7 500	52 020
Salaries Office		1 900	50 120
Factory Maintenance		1 710	48 410
Insurance Buildings		150	48 260
Rates for Building		50	48 210
Motor Vehicle Repairs and Insurance		300	47 910
Machine Repairs		1 680	46 230
Overtime pay for factory workers		5 620	40 610
Payment for suppliers of raw materials		11 750	28 860
EPF Payments		3 960	24 900
ETF Payments		660	24 240
Fuel for motor vehicles		2 800	21 440
Fuel and energy for the factory		1 400	20 040
Royalty charges paid		1 400	18 640
Other Administrative Expenses		4 600	14 040
Packing Materials		3 270	10 770
Indirect Materials for product X		1 336	9 434
Indirect Materials for product Y		4	9 430
Amount withdrawn by Tharindu		500	8 930
New machineries bought on 31.03.2019		6 500	2430
Loan Repayment (With an Interest of Rs. 500 000)		1 900	530

- Tharindu obtained a loan from the bank for the business by mortgaging the land donated by his mother, that had a market value of Rs. 10 million on 01.04.2017. Bank did not charge interest for the first year and the loan repayment starts from 31.03.2019 onwards.
- Buildings were put up to use for the factory and the office.
- Raw materials are used for both products X and Y in equal amounts to manufacture one unit.
- Direct Labour involvement for products X and Y is in the ratio of 2 : 1 respectively.

- Production overhead except specific ones pertaining to X and Y should be divided between X and Y based on the production volume.
- Production and sales records are given below.

	X (units)	Y (units)
Total production	80 000	120 000
Total sales	69 000	115 000
Unsold production	10 000	5 000
Normal Loss	1 000	0

- Cost of raw materials stock as at 31.03.2019 was Rs. 4 million.
- 3/5 th of the buildings is used for the factory.
- EPF contribution of 8% deducted from salaries together with 12% contribution from the entity and 3% ETF contributions have been duly paid on the last day of every month. A summary of EPF and ETF deductions and payments with payroll details except overtime pay for the year is given in the table below (Rs.'000)

	Factory Direct	Factory Indirect	Office
Gross Salaries	12 000	8 000	2 000
EPF deduction 8%	-960	-640	-160
Allowances not subject to EPF and ETF	1 440	140	60
Net Pay	12 480	7 500	1 900
Employer's Contribution			
- EPF 12%	1 440	960	240
- ETF 3%	360	240	60

- 50% of expenses on motor vehicles should be recognized as manufacturing cost.
- Machines and motor vehicles are expected to be used for 4 and 5 years respectively.
- Building are expected to be used for 40 years.
- Royalty Charge of Rs. 10 per each item of both product X and Y produced should be paid.
- Other Assets and Liabilities except the items arising from the given information as at 31.03.2019 are as follows.

	Rs.'000
Amount to be collected from customers	2400
Unused packing materials	370
Amounts to be paid to suppliers of raw materials	7250

Required ;

- (i) Manufacturing account for the year ended 31.03.2019.
- (ii) Statement to show the manufacturing cost of one unit of product X and Y.
- (iii) Total employee cost incurred for Manufacturing and Administrative purposes during the year ended 31.03.2019.
- (iv) Profit for the year ended on 31.03.2019 (Hint : Use changes in net assets)

(20 marks)

3. There were 1000 members as at 31.03.2019 in an association formed by government accountants and 100 members of them had joined the association on 01.01.2019. Monthly subscription per member is Rs. 50. A bookstore is run to generate income for the association. Following information is provided for the year ended 31.03.2019.

- Subscriptions of members are deducted from their salaries and directly remitted to the bank account of the association. However, due to some issues, subscription of the month of March was remitted to the bank on 20.04.2019.
- Fixed deposit carries an interest of 10% per annum and the interest accrued as of 31.03.2018 had been added to the deposit. Current year interest has been transferred to the bank account of the association on 10.04.2019.
- Summary of the Bank account.

	Rs.	Rs.
Balance as at 01.04.2018		526 500
Receipts		
Collection from Book Shop	1 845 000	
Subscription	505 000	
Donations	84 000	
Sale of old news papers	2 500	
		2 436 500
Payments		2 963 000
Payment to book publishers	782 000	
Salaries to bookstore employees	450 000	
Rent for the bookshop	150 000	
Electricity	98 000	
Water	32 000	
Telephone charges	46 000	
Petty cash expenses	80 000	
Expenses on Annual General Meetings	424 100	
Travelling Expenses	31 500	
Stationeries	24 000	
Welfare expenses	316 400	
Television	62 000	
Audit Fees	15 000	
		2 511 000
Balance as at 31.03.2019		452 000

- Summary of the petty cash expenses.

	Rs.	Rs.
Balance as at 01.04.2018		12 000
Cash received from the Treasurer		80 000
Payments		92 000
Food items	64 000	
Photocopies	1 900	
Postage	4 800	
Travelling	2 100	
News Papers	12 700	
		85 500
Balance 31.03.2019		6 500

- Depreciation should be provided for property Plant and Equipment at 10% per annum on cost and it is relevant to the bookshop.
- A Television was bought on 31.03.2019 for the association.
- Other Assets and Liabilities of the association except items arising from information provided are given below.

	31.03.2019	31.03.2018
Property Plant Equipment	?	120 000
Fixed Deposits at Bank	?	1 100 000
Audit Fee Payable	20 000	15 000
Cash Balance at the Bookshop	25 000	0
Inventories of Books	450 000	370 000
Payable to Publishers	120 000	90 000

Required:

- (i) Statement of Profit or Loss of the bookshop for the year ended 31.03.2019.
- (ii) Statement of Income and Expense of the Association for the year ended 31.03.2019.
- (iii) Statement of financial position of the association as at 31.03.2019.

(20 marks)

4. (A) 'Pile' constructors was awarded a bid to construct a school building for Rs. 10 million on 30 June 2018 by the Ministry of Education.

The information related to this construction is given below.

- Contract price was revised as Rs. 12 million in December 2018 due to additional works.
- Original cost of work estimated was Rs. 8 600 000
- Cost of additional works to be done Rs. 1 400 000
- Direct Cost incurred as of 31.03.2019 Rs. 8 300 000
- Value of work certified as of 31.03.2019 Rs. 7 500 000
- Progress payment received as of 31.03.2019 Rs. 6 000 000
- Retention on revenue 10%

(This retention money should be released after 3 months of handing over the building)

- Construction was completed and handed over to the ministry by 30 June 2019. All the works have been certified by the engineers and the balance payments were approved. However, some cracks were noticed in the building by the end of August 2019 and it was duly informed to the contractor. Repair cost was estimated as Rs. 500 000.

Required:

- (i) Construction Contract Account of Pile constructions for years ending 31.03.2019 and 31.03.2020.
- (ii) Extracts of the statement of financial position as at 31.03.2019.

(10 marks)

(B) Public institutions pay engineers for inspecting construction sites during the period of construction. These expenses are normally budgeted as 'Capital Expenses' under the heading of 'Administrative Expenses'. Therefore, such expenses were capitalized. However, Sri Lanka Public Sector Accounting Standard (SLPSAS) 7, Property Plant and Equipment says that Administrative expenses cannot be recognized in the cost of Property Plant and Equipment.

(i) Explain the rationale behind that provision in the standard. (03 marks)

(ii) Justify capitalizing such expenses even under the SLPSAS 7. (02 marks)

(Total 15 marks)

5. (i) "When operations of an entity are carried out through branches, managers of the head office are concerned about controls of cash and inventories to avoid frauds"

Explain what accounting controls on cash and inventories except physical visits to branches can be implemented by the head office and how such controls assure no misappropriations take place at branches. (03 marks)

(ii) Transactions between the head office and a branch of an entity during the year ended 31.03.2019 are given below.

	Cost Rs. '000	Selling Price Rs. '000
Stock at the branch as at 01.04.2018	2 000	2 500
Goods sent to the branch by the Head Office	16 000	20 000
Goods returned by the branch	1 000	1 250
Sales made by the branch		17 500
Goods returned by customers to the branch	400	500
Goods returned by customers to the head office	600	750
Inventory at the branch as at 31.03.2019	3 000	3 750

	Rs. '000
Administrative expenses incurred in cash by the branch	30
Administrative expenses incurred by the head office on branch	10
Depreciation to be charged on branch operations by the head office	15
Management fee to be charged on the branch	25

Note : Assume that centralized accounting system is used.

Required :

(i) Branch Stock Account for year ended 31.03.2019.

(ii) Value of inventories sent to the branch to be shown in the statement of profit or loss of the Head Office.

(iii) Profit earned by the branch for the year ended 31.03.2019.

(12 marks)

(Total 15 marks)

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(03) Cost and Management Accounting

- Answer **all** the questions. Three hours
- Write the answers clearly and legibly in **blue** or **black** ink only and **not in pencil**.
- Non programmable calculators are allowed to use.

1. Anil Company manufactures a range of picture frames. The company uses a standard marginal costing system and this allows the company to monitor costs effectively and also to simplify its pricing policy. The company's most popular picture frame is the 'Product A'. The following are the budgeted figures, for the month of March.

	Per unit (Rs.)	Total cost (Rs.)
Sales	1 450	7 250 000
Basic Frame cost	355	(1 775 000)
Glass (0.25 square meters per frame @ Rs. 340 per square meter)	85	(425 000)
Hooks (2 hooks per frame @ Rs. 65 each)	130	(650 000)
Labour (0.25 hours per frame @ Rs. 1100 per labour hour)	275	(1 375 000)
Variable overhead (0.25 hours per frame @ Rs. 130 per assembly labour hour)	32.5	(162 500)
Fixed production overhead		(872 500)
Profit		1 990 000

For the month of March, the company produced and sold 4 960 units of Product A and recorded the following actual results:

	Rs.
Sales	7 291 200
Basic Frame cost (@ Rs. 350 each)	(1 736 000)
Glass (total 1 250 square metres)	(427 500)
Hooks (@ Rs 62.50 each)	(620 000)
Labour (1 220 hours)	(1 348 100)
Variable overhead (labour hours)	(164 700)
Fixed production overhead	(821 500)
Profit	2 173 400

Required ;

- (i) Prepare a profit statement, based on marginal costing method, showing the original budget, flexible budget and actual results. (03 marks)
 - (ii) Calculate following variances: (14 marks)
 - Basic Frame price and Basic Frame usage variances
 - Glass price and Glass usage variances
 - Hooks price and Hooks usage variances
 - Labour rate and Labour efficiency variances
 - Variable production overhead expenditure and efficiency variances
 - Fixed production overhead expenditure variance
 - Sales price and sales volume variances
 - (iii) Prepare a statement reconciling the original budget profit to actual profit. (03 marks)
- (Total 20 marks)**

2. Anoma Company has two production departments: 'Cutting' and 'Finishing'; and two service departments: 'Stores' and 'Facility maintenance'. In calculating product costs, the company attributes traditional production overhead costing method. The following budgeted information for the month of August has been provided.

	Total (Rs.)	Cutting (Rs.)	Finishing (Rs.)	Stores (Rs.)	Facility Maintenance (Rs.)
Direct Labour	408 990	111 510	297 480	-	-
Indirect Materials	52 390	25 100	17 250	1 800	8 240
Electricity	280 300				
Factory Rent	164 500				
Machine Depreciation	84 800				
Factory Insurance	26 200				
Factory Security	42 500				
Administration Costs	56 250				

Details relating to the company's budgeted activity for the month of August have also been provided:

	Total	Cutting	Finishing	Stores	Facility Maintenance
Machine Hours	220 000	209 000	11 000	-	-
Direct Labour Hours	33 050	8 260	24 790	-	-
Floor Area (Square Metres)	1 000	500	200	200	100
Values of Stores Issues (Rs.)	200 000	180 000	20 000	-	-
Kilowatt Hours	10	6	2	1	1
No. of Employees	90	20	60	4	6

Required ;

- (i) Prepare a schedule that presents overhead distribution among the four departments, clearly showing the basis of apportionment. (06 marks)
- (ii) Calculate the total budgeted overheads for both production departments after re-apportioned of service department overheads. (02 marks)
- (iii) Calculate pre-determined overhead of the company absorption rates for each of the production departments. (03 marks)
- (iv) Details relating to one product of the company 'large container' are provided below. Using this information calculate the cost of a large container.

Direct materials cost Rs. 0.33

Direct Labour – Cutting 0.5 minutes

– Finishing 1 minute

Machine hours – Cutting 2 minutes

– Finishing 0.25 minute

(05 marks)

- (v) Explain the difference between under-absorption and over-absorption of overhead stating how each should be treated in the cost accounts. (04 marks)

(Total 20 marks)

3. People's Sports Club, commenced its operations two months ago and provide a range of fitness activities for its customers. Two proposals have been put forward, a mixed circuits class and a dance fitness class. Details relating to both activities are as follows:

	Mixed Circuits	Dance Fitness
Price charged per class per head	Rs. 700	Rs. 800
Annual Insurance	Rs. 140 000	Rs. 120 000
Music and royalty license fees	Rs. 3 200 per class	Rs. 3 400 per class
Annual other facility costs (electricity, administration etc.)	Rs. 25 360	Rs. 25 360
Instructor Cost	Rs. 5 000 per class	Rs. 330 000 per year
Expected number of participants per class	50	40

Required:

- (i) Calculate the breakeven point in sales revenue for each proposal in rupees (06 marks)
 - (ii) If the sports club requires a profit of Rs. 10 000 from Mixed circuits, how many classes must be held? (04 marks)
 - (iii) Assume that the price charged per class is Rs. 700 for both the mixed circuits and the dance fitness class. How many classes must be held for the profit earned from the mixed circuits class to equal the profit from the dance fitness class? (05 marks)
 - (iv) The sports club is considering paying the mixed circuits instructor a fixed fee of Rs. 260 000 for the year instead of a fee per class. Calculate the new break-even point. Should the sports club make this change? Explain with reasons. (03 marks)
 - (v) State **four** assumptions on which the Cost-Volume-Profit model analysis. (02 marks)
- (Total 20 marks)*
4. Kamal Company Manufactures small book racks. The company uses variable costing to value production and inventory. A range of estimated information was provided for the next quarter ending June 2020.

Inventory as at 01 April 2020.

Small book racks 1 500 units.

Wood sheets 2 000 units.

Projected sales for the next four months (Rs.)

April	May	June	July
4 950 000	3 690 000	5 400 000	4 320 000

Selling price of a small book rack is Rs. 900.

The standard cost sheet of a small book rack is given below.

	Rs.
Wood sheets (@ RS. 240 per sheet)	360
Direct Labour (@ Rs. 164 per hour)	205
Variable production overheads (@ Rs. 60 per direct labour hour)	75
Total	640

To ensure that it maintains sufficient inventory company policy is to hold 20% of the next month's unit sales in closing inventory.

For the wood sheets the company intends to double inventory held at 01 April 2020 and maintain this level of closing inventory each month until 31 December 2020. Fixed manufacturing overheads and Non-variable manufacturing overhead for quarter ending 30 June 2020 have been estimated as Rs.300 000 and Rs.400 000 respectively.

Required:

- (i) Prepare a production budget in units for the quarter ending 30 June 2020. (05 marks)
 - (ii) Prepare a materials purchase budget (in units and Rs.) for the quarter ending 30 June 2020. (06 marks)
 - (iii) Prepare a labour cost budget (in hours and Rs.) for the quarter ending 30 June 2020. (03 marks)
 - (iv) Prepare a variable production overhead cost budget for the quarter ending 30 June 2020. (02 marks)
 - (v) Prepare a budgeted income statement for the quarter ending 30 June 2020. (04 marks)
- (Total 20 marks)*

5. (i) Information of a production process of Kumar Company are given below. (06 marks)

Opening Work in Progress (WIP)	6000 units (30% complete in respect of conversion cost). Value of WIP Rs. 80 000
Cost incurred for the period	Direct Material 40 000 units for Rs. 324 000
	Direct Labour Rs. 100 200
	Production overhead Rs.100 000
Actual output	Finished goods 32 000 units and closing work in progress 8 000 units which 40% complete in respect of conversion cost.

It is assumed that all the materials is added at the beginning of the process and First-In First-Out (FIFO) method is used for valuation stock. Further, Normal loss is 10% of the input. Losses are detected soon after adding direct material but before adding any other cost elements.

Required:

- (a) Prepare process account (05 marks)
 - (b) Equivalent unit statement showing the unit cost (07 marks)
- (ii) "The budget is a policy document used to convey governments strategies and the resources allocation".
- (a) Briefly describe the concepts of 'Budgetary Governance' and 'Budgetary Institutions' in relation to Public Sector. (04 marks)
 - (b) Name **eight** Public Sector Budgetary Institutions. (04 marks)
- (Total 20 marks)*

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Limited / Open Competitive Examination for Recruitment to Grade III
of the Sri Lanka Accountants' Service – 2017 / 2018 (2020)

(04) Auditing and Investigations

● Answer **all** the questions.

Three hours

● Write the answers clearly and legibly in **blue** or **black** ink only and **not in pencil**.

1. Assume that you are the senior in charge of the audit of ABC Public Liability Company (PLC) for the year ended 31st March 2019.
 - (i) List **four** criteria you would consider when selecting a sample of debtors to call for confirmations. (04 marks)
 - (ii) "Auditors should conduct an audit in accordance with Sri Lanka Auditing standards." State **four** needs for conducting an audit in accordance with Sri Lanka Auditing standards. (04 marks)
 - (iii) Briefly describe **four** financial statement assertions relating to Land owned by a company. (06 marks)
 - (iv) Briefly describe **four** substantive audit procedures you would perform in relation to trade receivables. (06 marks)
2.
 - (i) State **three** audit procedures that would be performed by the auditor to determine the company to continue as a going concern. (04 marks)
 - (ii) Use of Information Technology (IT) poses specific risks to an entity's internal control. List **three** such risks. (04 marks)
 - (iii) Briefly describe **four** inherent limitations of internal controls. (06 marks)
 - (iv) "The objective of the internal audit function vary widely and depends on the size and structure of the entity and also the requirements of the management." Briefly describe **four** activities of an internal audit function. (06 marks)
3.
 - (i) List **four** threats to the professional ethical behaviour of an accountant. (04 marks)
 - (ii) A professional accountant should maintain confidentiality at all times. Briefly describe **two** circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate. (04 marks)
 - (iii) Fraudulent financial reporting involves intentional misstatements in financial statements to deceive users of financial statements. Explain **three** ways by which fraudulent financial reporting could be accomplished by a preparer. (06 marks)
 - (iv) The auditor needs to modify the opinion in the auditor's report when they are unable to obtain sufficient appropriate audit evidence to conclude that the financial statements taken as a whole are free from material misstatements. Explain **three** circumstances under which the auditor is **unable** to obtain such audit evidence. (06 marks)

4. (i) Mention **two** persons who may **not** be appointed or **not** be acted as an auditor of a company. (02 marks)
- (ii) Management had refused to provide the written representation requested by the auditor. Explain **three** actions the auditor could take in such a situation. (06 marks)
- (iii) List **three** audit procedures the auditor would perform in identifying related parties within the company. (06 marks)
- (iv) List **three** factors the auditor should consider in determining the form, content and the extent of audit documentation. (06 marks)
5. Write short notes on the following topics.
- (i) Expert
- (ii) Provisions and contingencies
- (iii) Events after the reporting period
- (iv) Accounting policies

(05×4=20 marks)

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Limited / Open Competitive Examination for Recruitment to Grade III
of the Sri Lanka Accountants' Service – 2017 / 2018 (2020)

(06) Public Financial Management

● Answer **all** the questions.

Three hours

● Write the answers clearly and legibly in **blue** or **black** ink only and **not in pencil**.

1. (i) Mention the steps in brief of passing the draft annual budget estimates through parliament which is formally prepared by the Department of National Budget. (05 marks)
- (ii) Mr. S. Sirimevan who was promoted to special grade of the Sri Lanka Administrative Service assumed the duties on 01st January 2020 as the Director General at the department of XY.
As an Accounting Officer he concerns about the delegation of authority, according to the Financial Regulations to ensure the financial administration of his Department. What are the factors should be considered by Director General as the Accounting Officer when delegate the functions for financial control according to the Financial Regulations 135? (07 marks)
- (iii) A certified government voucher is submitted to the authorised paying officer to make payments. What are the factors that authorized paying officer is responsible to the accounting officer regarding the payment? (08 marks)
2. (i) It is compulsory that all Ministries and Departments prepare and submit Annual Financial Statements.
 - (a) Name **three** main statements to be submitted among them. (03 marks)
 - (b) To whom should be forwarded the certified annual financial statements by the chief accounting officer? (02 marks)
- (ii) You were invited as a senior officer of Sri Lanka Accountants Service to deliver a lecture on the topic of "Destroy of completely used counterfoil books in government offices" to aware the officers working at the Divisional secretariats in Rathnapura District.
How do you explain the actions should be taken to destroy the completely used counterfoil books in government offices, according to Financial Regulations, through you lecture? (07 marks)
- (iii) The storekeeper of the ABC Department has reported in written to Head of the Department through stores officer about the lost of few computers kept in the stores. It includes that he has observed, somebody had opened the door of stores and took away the goods and a complain was made to police too.
If you were appointed as the chairman of the inquiry committee by Head of the department to get a report on the incident, state what are the factors should be included in the "full report" under Financial Regulations 104 (4) after the investigation. (08 marks)
3. (i) From whom should be obtained the prior authority to create a new advance account in the annual draft estimates of a department? (02 marks)
- (ii) State the particulars should be included in the application to obtain such authority. (10 marks)
- (iii) "It is the responsibility of the accounting officer to see that annually draft estimates relating to the departments are prepared in conformity with the regulations."
State the factors, specially considered by accounting officer on this situation according to the Financial Regulations. (08 marks)

4. (i) State the objectives, expected to reach by following the government procurement guideline and the manual. (10 marks)
- (ii) State the responsibilities to be accomplished by the appointed procurement committee as per the Government procurement guide lines. (08 marks)
- (iii) State two kinds of securities used to minimize the risk of procurement procedure. (02 marks)
5. (i) There was overspill in Kelani river due to heavy rain fallen to western slope of the central mountain range of Sri Lanka as a result of sudden weather change. Meanwhile the people who lived either side of the river caused to disaster situation. Instructions were received to provide relief services to the affected families immediately. But it was revealed the appropriate provision has not been allocated to the Ministry of Disaster Management through the budget to provide reliefs.
- (a) What is the statutory fund established to obtain money as such situation? (02 marks)
- (b) State the appropriate situations to release money from this fund. (06 marks)
- (c) By whom the approval is given to release money from this fund? (02 marks)
- (ii) State in brief, the procedure upto crediting to government revenue, when a government department receives gifts of money from the public to be used for specific purpose. (10 marks)

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