



**Additional information:**

Before preparing the final set of financial statements for the year ending 31.03.2025, the following information should be taken into consideration.

(i) The composition of operating expenses used in the preparation of draft income statement is as follows.

	Rs.'000
Administrative expenses .....	6 500 ✓
Distribution cost .....	6 900 ✓
Depreciation of manufacturing plant .....	6 000 ✗
Depreciation of office equipment .....	10 000 ✗
Factory building rent .....	2 000 ✗
Income tax paid under self-assessment .....	1 100 ✓
<b>Total operating expenses</b>	<u><u>32 500</u></u>

Several expenses items including some manufacturing expenses have been erroneously included in the above operating expenses.

(ii) The inventory shown in the trial balance has been ascertained based on the manufacturing cost erroneously calculated in the preparation of the draft income statement due to the non-inclusion of some manufacturing expenses. The cost of finished goods inventory is equal to the 1/5 of the manufacturing cost. There were no raw material or work-in-progress inventory as at 31.03.2025.

(iii) Directors' fees of Rs. 7 500 000 and the audit fee of Rs. 2 100 000 have been neither paid nor accounted for as at 31.03.2025.

(iv) Information relating to property, plant and equipment are as follows.

- All items of property, plant and equipment are depreciated on straight-line method, and they were available for use from the date of purchase.
- The manufacturing plant was revalued at its market value of Rs. 80 000 000 on 31.03.2025. However, the revaluation surplus shown in the trial balance has been calculated only by considering the difference between the revalued amount and the cost of the plant. This plant was acquired on 01.04.2024. On this date, the useful life and residual value of the manufacturing plant were estimated as 10 years and Rs. 7 500 000 respectively.
- Information relating to office equipment is as follows.

Date of acquisition	Cost (Rs.'000)	Useful Life (Years)
01.04.2024	30 000	5
01.10.2024	20 000	5
<b>Total cost</b>	<u><u>50 000</u></u>	

The estimated residual value of office equipment is zero. The office equipment has been depreciated for the entire year without considering the acquisition date.

(v) The company entered into a lease agreement on 01.04.2024 to obtain the right-of-use of a motor vehicle and on this date, an initial payment of Rs. 20 000 000 was made. The present value of total lease installments as at 01.04.2024 was Rs. 30 000 000. According to the lease agreement, 5 equal annual installments of Rs. 8 000 000 each are payable during the lease term, and the first installment was paid on 31.03.2025. The ownership of the motor vehicle is not transferred to the lessee at the end of the lease term. The estimated useful life of the motor vehicle is 8 years and the residual value is zero. The lease interest relevant for the years ending 31.03.2025 and 31.03.2026 are Rs. 3 126 000 and Rs. 2 618 000 respectively. The initial payment and the first lease installment paid have been debited to the right-of-use asset account and credited to the cash account. No other accounting entry has been made for this lease. This motor vehicle is used for distribution of goods.

(vi) The income tax payable as at 31.03.2025 is estimated as Rs. 550 000.

(vii) The financial statements of the company were authorized for issue by the directors on 31.05.2025 and the following events have been occurred after 31.03.2025.

- The verdict of a court case filed by a customer against the company was given on 30.04.2025. Accordingly Rs. 600 000 was paid by the company on this date as the full settlement of the claim payable. This case was filed on 10.12.2024.

- A trade debtor existed as at 31.03.2025 was declared bankrupt by the court on 15.05.2025. The trade receivables shown in the trial balance included Rs. 3 500 000 receivable from this debtor. After making several reminders, the company was able to collect only Rs. 1 200 000 from this debtor on 01.05.2025.
- Directors proposed a final dividend of Rs. 500 000 for the ordinary shareholders on 25.05.2025.

**Required:**

The following financial statements (including notes) of Janaka PLC for the publication purpose as per 'LKAS 1 - Presentation of Financial Statements':

- (1) Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2025
- (2) Statement of Financial Position as at 31.03.2025
- (3) Statement of Changes in Equity for the year ending 31.03.2025

(Total 40 marks)

2. (a) Nadun Garments (Pvt) Ltd uses both time basis and output basis in paying salaries to its employees. The contributions made to the Employees' Provident Fund (EPF) for the month of September 2025 are as follows.

Employee Name and Position	Employee Number	EPF Contribution (Rs.)		Total
		Employer (12%)	Employee (8%)	
Silva (Manager)	01	16 200	10 800	27 000
Fernando (Machine Operator)	02	14 160	9 440	23 600
Kumara (Machine Operator)	03	9 600	6 400	16 000
Nadeesha (Quality Controller)	04	9 120	6 080	15 200
<b>Total</b>		<b>49 080</b>	<b>32 720</b>	<b>81 800</b>

**Additional information:**

- The manager is paid a monthly basic salary of Rs. 108 000. The basic salary of other employees are paid on the output basis.
- EPF and Employee Trust Fund (ETF) contributions are calculated based on the gross salary including all allowances. The employer's contribution to ETF is 3%.
- Monthly cost of living allowance of Rs. 17 000 is paid to every employee.
- The manager is paid a fixed monthly travelling allowance in addition to the cost of living allowance.
- The machine operators are paid the basic salary on the output basis as indicated below. In addition, the machine operators are paid a production allowance based on their performance. 10

Employee	Units	Rate per unit (Rs.)	Production allowance (Rs.)
Fernando	350	250	? 13.5
Kumara	240	250	? 3

- The quality controller has been paid at a rate of Rs. 100 per unit for the certification of quality of all 590 units produced.
- Fernando and Nadeesha have obtained staff loans and their monthly loan installment deductions are Rs. 12 500 and Rs. 5 000 respectively.

**Required:**

Payroll of Nadun Garments (Pvt) Ltd for the month of September 2025 409 → 358.78 (10 marks)

- (b) John PLC manufactures two types of mattresses – 'A' and 'B'. The company consists of two production departments, namely; 'Machine' and 'Finishing' and a service department – 'Stores'. All these departments are located in a single building. The expected activity level of the company is 5 000 mattresses, comprising 3 000 from Type 'A' and 2 000 from Type 'B'.

The overhead absorption rate of Machine Department and Finishing Department are calculated based on the machine hours and direct labour hours respectively.

The overhead absorption rates have already been calculated by the company as given below.

	Machine	Finishing
Overhead absorption rate	Rs. 300 per machine hour	Rs. 200 per direct labour hour
Budgeted machine hours	30 000 ✓	2 000
Budgeted direct labour hours	1 000	20 000 ✓

However, in the subsequent investigation of the overhead analysis sheet, the management of the company has found the following errors and omissions. Further, the management has proposed revisions for some overhead apportionment bases.

- The budgeted indirect wages of Rs. 1 000,000 and Rs. 2 000,000 relates to Machine and Finishing departments respectively. However, these amounts have been allocated erroneously as Rs. 2 000 000 to Machine Department and Rs. 1 000 000 to Finishing Department.
- The insurance premiums for machinery of Rs. 3 140 000 and Rs. 1 860 000 for Machine and Finishing Departments respectively have not been considered when preparing the overhead analysis sheet.
- The following revisions have been proposed to the overhead apportionment bases in order to provide a more suitable presentation of overheads for the respective departments.

Type of overheads	Basis used	Proposed basis
Depreciation of machinery	Cost of machinery	Carrying amount of machinery
Factory electricity expenses	Floor area (Square meters)	Electricity consumption (Kilowatt hours)

- It is also proposed to change the re-apportionment basis of the total overheads of the Stores Department to the production departments as follows.

Basis used	Proposed basis
No. of stores requisitions issued	Raw material consumption ratio

- The budgeted total overheads of the Stores Department that has been considered in the preparation of the overhead analysis sheet is Rs. 2 000 000.

**Additional information:**

- The following information relates to overhead apportionment and re-apportionment bases.

	Machine	Finishing	Stores
Cost of machinery (Rs.'000) .....	8 000	6 000	4 000
Carrying amount of machinery (Rs.'000) .....	6 000	2 000	1 000
Floor area (Square meters) .....	3 000	2 000	1 000
Electricity consumption (Kilowatt hours) .....	5 000	500	500
No. of stores requisitions issued .....	150	100	-
Raw material consumption ratio .....	80%	20%	-

- The budgeted annual depreciation of machinery and budgeted factory electricity expenses are Rs. 2 250 000 and Rs. 600 000 respectively.
- Direct costs to produce one unit of type 'A' mattress:  
 Direct materials 4 kg at Rs. 450 per kg  
 2 direct labour hours at Rs. 400 per hour
- The processing time of type 'A' mattress in Machine Department is 2 machine hours and Finishing Department is 2 direct labour hours.
- The selling price is determined by adding a profit of 40% on the cost of production.
- The budgeted non-production overheads for the period are Rs. 1 500 000 and it is shared equally among the two types of mattresses.

**Required:**

- (1) Revised Overhead Analysis Sheet clearly showing the following:
  - (i) The total overheads already calculated for each department
  - (ii) The rectification of errors and omissions identified by the management
  - (iii) The adjustment of the proposed revisions in the overhead apportionment bases
  - (iv) The total overheads of each production department after the re-apportionment of Stores Department's total overheads
- (2) Revised overhead absorption rates for Machine and Finishing Departments
- (3) Production overheads per type 'A' mattress
- (4) Cost of production per type 'A' mattress
- (5) Profit at the activity level of 3 000 units for type 'A' mattresses

440  
340

2496

(30 Marks)  
(Total 40 marks)

3. (a) Sunrise Traders (Pvt) Ltd, a wholesale trading company, was established in year 2023. This company is registered for Value Added Tax (VAT). The summarised Statement of Financial Position of the company as at 01.04.2025 is as follows.

	Rs.' Million
Property, plant and equipment - carrying amount .....	600
Inventory .....	220
Trade and other receivables .....	60
Cash and cash equivalents .....	130
<b>Total Assets</b>	<b>1 010</b>
Ordinary share capital .....	600
Retained earnings .....	200
Bank loan .....	100
Trade payables .....	70
VAT payable .....	40
<b>Equity and Total Liabilities</b>	<b>1 010</b>

The following transactions were taken place in this company during the quarter ending 30.06.2025.

- | No. | Transaction  |
|-----|--|
| 1   | Purchased goods for Rs. 59 million on credit (Including Rs. 9 million VAT).  |
| 2   | Sold goods on credit for Rs. 118 million (Including Rs. 18 million VAT). The cost of these goods was Rs. 70 million.                           |
| 3   | Returned goods sold previously for Rs. 29.5 million (Including Rs. 4.5 million VAT). Cost of these goods was Rs. 16 million.                   |
| 4   | Trade creditors of Rs. 60 million were settled after receiving a discount of Rs. 10 million.   |
| 5   | Received Rs. 75 million from trade debtors after allowing a discount of Rs. 5 million.   |
| 6   | Paid a bank loan installment of Rs. 50 million, including interest expense of Rs. 10 million for this quarter.                                 |
| 7   | Purchased a new machine for Rs. 12 million for cash and also paid raw material cost of Rs. 1 million for the initial test run of this machine. |
| 8   | Paid electricity expenses of Rs. 3 million relevant to this quarter.   |
| 9   | Donated goods costing Rs. 2 million to a school as a business promotional activity.  |
| 10  | Issued ordinary shares by capitalising Rs.25 million retained earnings.  |
| 11  | Paid Rs. 40 million VAT payable as at 01.04.2025 to the Inland Revenue Department.   |
| 12  | Paid Rs. 4 million for the personal income tax of the Managing Director by the company.  |
| 13  | Paid Rs. 8 million income tax for this quarter calculated based on the self-assessment.  |
| 14  | Provided Rs. 14 million depreciation on property, plant and equipment for this quarter.  |

**Required:**

- (1) Record the balances as at 01.04.2025 and show the impact of above transactions No. 1 to 14 (with values) using the accounting equation. State (+) if the value increases or (-) if the value decreases in front of each value. VAT on purchases, sales and sales returns should be recorded in the VAT control column in the accounting equation. (In answering this question, use a format similar to the one given below).

(Rs.' Million)

Balance / Transaction No.	Assets				=	Liabilities			+		Equity	
	Property, plant, and equipment	Inventory	Trade and other receivables	Cash and cash equivalents		Bank loan	Trade payables	VAT control			Ordinary share capital	Retained earnings
Balance as at 01.04.2025												
1												
2												
----												
-----												
Balance as at 30.06.2025												

- (2) Net profit for the quarter ending 30.06.2025 (based on the retained earnings column). 37 (25 marks)

(b) The following information has been extracted from the books of Ridma Sports Club.

	As at 31.03.2025 (Rs.'000)	As at 31.03.2024 (Rs.'000)
Accumulated fund .....	?	900
Life membership fund .....	320	400
Sport equipment fund .....	?	800
Building fund .....	2 000	-
Property, plant and equipment - at carrying amount.....	1 350	1 500
Building work-in-progress .....	300	-
Subscription in arrears .....	? 15	30

Sub Cash 747

#### Additional information:

- (i) The club had 60 members as at 31.03.2024, of them 10 are life members. Life membership is confined to the initial members of the club.
- (ii) Life membership fee is recognised as income annually.
- (iii) The annual subscription per member is Rs. 12 000. The annual subscription could be paid in full at the beginning of the year or monthly on equal payments of Rs. 1 000. The members are given a 10% discount if the annual subscription is paid in full at the beginning of the year and the policy of the sports club is to recognise the net subscription received as the income.
- (iv) 15 new members joined the sports club on 01.04.2024. It is required to pay an entrance fee of Rs. 5 000 when a new member joins the club. During the year ending 31.03.2025, 40 members (including the 15 new members) paid the annual subscription at once at the beginning of the year. The remaining members paid subscription on monthly basis. 5 of these members paid subscription only for 09 months and the balance members paid subscription for the full year. The subscription in arrears as at 31.03.2024 was received during the year.
- (v) The policy of the sports club is to recognize donations as income based on the total of the amount used and the amount committed to use.
- (vi) A donation received in a previous year to purchase sports equipment has been recognised as the sports equipment fund. The club purchased sports equipment costing Rs. 400 000 for cash during the year ending 31.03.2025. Rs. 300 000 was used from the sports equipment fund for this purchase.
- (vii) A donation of Rs. 2 000 000 received on 01.01.2025 to construct an indoor sports stadium has been recognised as the building fund. The sports club paid a cost of Rs. 150 000 on 20.01.2025 to develop the design of this stadium and commenced the construction on 01.03.2025. The first payment of Rs. 300 000 for the construction activities was payable as at 31.03.2025. This amount was paid on 10.04.2025. The building fund is used to bear all cost relating to this construction.
- (viii) The operating expenses of the sports club has been calculated as Rs. 550 000 for the current year and it also includes the indoor sports stadium design cost. However, these expenses do not include the depreciation of property, plant and equipment.
- (ix) There was no acquisition or disposal of property, plant and equipment during the year other than the purchase of sports equipment.

#### Required:

In relation to the sports club:

- Subscription Account for the year ending 31.03.2025
- Income Statement for the year ending 31.03.2025
- Equity as at 31.03.2025 (Show each item separately)

237  
supn

3507

(15 marks)

(Total 40 marks)





- (b) Gihan PLC commenced a trading business on 01.04.2024. The company issued ordinary shares on 01.04.2024 and obtained a 10% bank loan on 30.09.2024. There was no other issue of ordinary shares during the year ending 31.03.2025. The following information relates to the current year.

As at 31.03.2025:	Rs.'000
Total assets .....	42 000
Total equity .....	24 000
Total liabilities .....	18 000
Inventory .....	3 016
Trade debtors .....	2 580
Cash .....	164
<b>For the year ending 31.03.2025:</b>	
Cost of sales .....	15 080
Operating expenses (including depreciation) .....	2 720
Interest expense .....	720
Tax expense .....	1 080

**Additional information:**

- Debt to Equity Ratio as at 31.03.2025 0.60
- Return on Equity (ROE) Ratio for the current year 15%
- No. of ordinary shares 2 000 000
- There were no non-current liabilities other than the bank loan.
- All sales of the company are made on credit basis.
- Sales is the only source of income for the company during the current year.
- The company has paid Rs. 800 000 dividends for the current year.
- Assume 360 days per annum.

The following ratios of Kasun PLC, a competitive company of Gihan PLC, for the current year are given below.

Dividends per share (Rs.)	0.30
Current ratio	1.80
Debtors' turnover ratio (times)	5.5
Inventory residence period (days)	80
Gross profit ratio	32%

**Required:**

- (1) Profit after tax of Gihan PLC for the year ending 31.03.2025 **3600**
- (2) The following ratios of Gihan PLC for the current year:
  - (i) Dividends per share **0.4**
  - (ii) Current ratio **1.6**
  - (iii) Debtors' turnover ratio (based on the year-end debtor's balance) **8.9**
  - (iv) Inventory residence period (based on the year-end inventory balance) **72**
  - (v) Gross profit ratio **37**
- (3) Indicate the name of the company for each of the following situations **with the reason** by comparing the ratios calculated in part (2) above with the given ratios of Kasun PLC.
  - (i) The company that maintains a higher profit ratio on sales **G**
  - (ii) The company that has a higher ability to settle the short-term liabilities **F**
  - (iii) The company that is more efficient in collecting cash from debtors **G**
  - (iv) The company that sells inventory within a shorter period of time **G**
  - (v) The company that retains a higher portion of profits for the future investment **K**

(15 marks)

(Total 40 marks)

6. (a) The following information has been extracted from the books of the company for the preparation of the Statement of Cash Flows of Dilan PLC for the year ending 31.03.2025.

	Rs.'000
Cash sales .....	36 500
Cost of sales .....	30 000
Operating expenses .....	10 000
Interest expense paid .....	6 000
Income tax expense .....	3 500
Cash paid for the investment in shares .....	12 000
Purchase of a machine .....	28 000
Issue of ordinary shares .....	25 000
Dividends for ordinary shareholders .....	3 000

**Additional information:**

(i) Total current assets and total current liabilities consisted of the following items.

	As at 31.03.2025 (Rs.'000)	As at 31.03.2024 (Rs.'000)
Inventories .....	8 000	6 500
Trade receivables .....	9 500	10 750
Cash and cash equivalents.....	(5 650)	1 100
Trade payables .....	4 750	6 250
Accrued operating expenses .....	1 000	600
Income tax payable.....	850	1 250

(ii) The credit sales for the year ending 31.03.2025 were Rs. 32 000 000.

(iii) Depreciation expense of Rs. 4 500 000 and discount allowed of Rs. 500 000 for the year ending 31.03.2025 were included in the operating expenses.

(iv) The machine costing Rs. 28 000 000 stated above had been purchased from Nalin PLC on 01.10.2024. In this respect, the company paid cash Rs. 20 000 000 and the company issued ordinary shares to Nalin PLC on the same day to settle the balance amount.

(v) The issue of Rs. 25 000 000 ordinary shares stated above consists of the following:

- Capitalisation of retained earnings Rs. 12 000 000
- Shares issued to Nalin PLC for the purchase of the machine
- A public issue of shares for cash during the year

(vi) The dividends for ordinary shareholders of Rs. 3 000 000 stated above have been calculated as follows.

	Rs.'000
Interim dividends paid to ordinary shareholders .....	2 500
Proposed dividends for ordinary shareholders .....	1 500
Dividend received from investment in shares .....	(1 000)
	<u>3 000</u>

**Required:**

Statement of Cash Flows of Dilan PLC for the year ending 31.03.2025 as per 'LKAS 7 - Statement of Cash Flows' (use the *direct method* to show the cash flows resulting from the operating activities).

(20 marks)

(b) The 'United Sports Club' is planning to hold a ceremony to celebrate its 50<sup>th</sup> Anniversary in the month of January 2026 with the participation of 8 special invitees. This sports club consists of 75 members. The estimated costs for the ceremony are as follows.

	Rs.
Sound system hiring cost .....	18 000
Garlands to special invitees.....	8 000
Decorations .....	20 000
Hall charges .....	12 000
Cost of dancing group .....	11 500
Water bottles for the ceremony.....	2 500
Cost of a souvenir .....	1 000
Cost of a drink bottle per member.....	400
Cost of a food pack per member.....	1 100
Cost of a T-shirt per member.....	1 500

**Additional information:**

- The sports club has decided to give a souvenir to each special invitee.
- All members participating in the ceremony are entitled to receive a souvenir and a T-shirt.
- It is decided to charge a fee of Rs. 6 000 from each member participating in the ceremony.

**Required:**

- (1) Total fixed cost of the ceremony
- (2) Variable cost per member
- (3) Contribution per member
- (4) The number of members required to participate in the ceremony to cover its total cost 40
- (5) The expected surplus if 60 members participate in the ceremony 40,000
- (6) The number of members required to participate to cover the total cost of the ceremony, if a sponsorship is received for the souvenirs given to the special invitees
- (7) The fee to be charged from each member to cover the total cost of the ceremony if a donation of Rs. 20 000 is received and 50 members participate in the ceremony 36

S200

(Total 40 marks)