



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2025

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

• Instructions to candidates (Please Read Carefully):

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

26-07-2025

Morning

[08.45 – 12.00]

(2) **All questions should be answered.**

No. of Pages : 10

No. of Questions : 07

(3) **Answers** should be in **one language**, in the **medium** applied for, in the **booklets** provided.

(4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**

(5) **Use of Non-programmable calculators is only permitted.**

(6) **Action Verb Check List** with definitions is attached. Each question will begin with an **action verb** excluding OTQ's. Candidates should answer the questions based on the **definition** of the verb given in the Action Verb Check List.

(7) 100 Marks.

**SECTION A**

**Objective Test Questions (OTQs)**

(Total 25 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1 Zara Ltd.** purchased a motor vehicle on 01<sup>st</sup> April 2023 at a cost of Rs.65,000,000/-. The expected useful life of the motor vehicle is 4 years and estimated residual value at the end of useful life is Rs.5,000,000/-. The company depreciates its motor vehicles on the straight line method at cost. The carrying value of the motor vehicle as at 31<sup>st</sup> March 2025 was:

(1) Rs.32,500,000/-.

(2) Rs.35,000,000/-.

(3) Rs.30,000,000/-.

(4) Rs.41,000,000/-.

(02 marks)

**1.2** Which one of the following is an example for a cost unit?

(1) A bakery.

(2) A canteen.

(3) A hotel.

(4) A bread.

(02 marks)

**1.3** Consider the following statements:

- (a) The First-In-First-Out (FIFO) Method and Weighted Average Cost Method are used to value the inventory.
- (b) Inventory is valued at cost or net realizable value whichever is lower.
- (c) Office Equipment held for office use is considered as inventory.

Select the correct statements from the above, as per LKAS 02 – Inventories:

- (1) (a) and (b) only.
- (2) (a) and (c) only.
- (3) (b) and (c) only.
- (4) All of the above. (02 marks)

**1.4** The following information has been extracted from **Sun Ltd.** for the month of June 2025:

Actual overhead cost for the month	Rs.840,000/-
Budgeted overhead cost for the month	Rs.800,000/-
Budgeted direct labour hours for the month	25,000 hours
Actual direct labour hours for the month	28,000 hours

The under / over absorbed overhead cost for the month is:

- (1) Rs.56,000/- over absorbed.
- (2) Rs.56,000/- under absorbed.
- (3) Rs.100,800/- over absorbed.
- (4) Rs.100,800/- under absorbed. (02 marks)

**1.5** Which one of the following is correct with reference to Section 24 of the Partnership Ordinance 1890?

- (1) Partners are not entitled for interest on loans given by partners.
- (2) Partners are entitled to receive an equal monthly salary.
- (3) Partners are entitled to share profits/losses equally.
- (4) The consent of all existing partners is not required when joining a new partner to the partnership. (02 marks)

*Write the answers for question No 1.6 to 1.10 in your answer booklet with the number assigned to the question.*

**1.6** State three(03) elements of financial statements. (03 marks)

**1.7** State three(03) differences between the financial accounting and the cost accounting. (03 marks)

**1.8** The following information was extracted with reference to **Job 5000** of **Azeen Ltd.:**

Direct raw material	:	1,200 kilograms @ Rs.150/- per kilogram
Direct labour	:	400 hours @ Rs.500/- per hour
Production overheads	:	75% of direct labour cost

The company keeps a 15% profit on selling price.

Calculate the price to be charged on **Job 5000**. (03 marks)

**1.9** The following information has been extracted from the books of accounts of **World-Wide (Pvt) Ltd.** for the month of March 2025:

	Rs.
Basic salary	9,420,000
Overtime	1,100,000
Deductions for Staff welfare contribution	15,000
Deductions on Advance Personal of Income Tax (APIT)	520,000

The company contributes to the Employees' Provident Fund (EPF) at 12% and the Employees' Trust Fund (ETF) at 3% from the basic salary. The employees' contribution to EPF is 8%.

Calculate the Net Salary paid by **World-Wide (Pvt) Ltd.** for the month of March 2025.

(03 marks)

**1.10 A and B** were partners of "**Young Partners**", sharing profits and losses at the ratio of 2 : 1 respectively. **C** joined as a new partner on 01<sup>st</sup> April 2024 and it was decided to share profits and losses equally among partners.

Calculate the sacrificing ratio of **A** and **B**.

(03 marks)

(Total 25 marks)

*End of Section A*

## **SECTION B**

(Total 50 marks)

### **Question 02**

**Janath** has started a business in the name of "**Janath Care**" on 01<sup>st</sup> January 2023 by investing Rs.5,000,000/- in cash. The business is engaged in importing skincare products from India and distributing across the Western Province through Sales Executives.

Other assets and liabilities of "**Janath Care**" are as follows:

(Rs.'000)

As at	31 <sup>st</sup> December 2024	01 <sup>st</sup> January 2024
Motor Vehicles at carrying value	20,000	22,500
Furniture and Fittings at carrying value	2,300	2,800
Inventories	3,488	2,678
Trade Debtors	4,895	3,475
Cash and Bank Balances	?	12,858
Accrued Electricity and Water	62	54

The following additional information is also provided for the year ended 31<sup>st</sup> December 2024:

- (1) The business operates in a rented building and a rent agreement was entered on 01<sup>st</sup> January 2024 for this building. Monthly rent is Rs.60,000/-. Rent for the year and key money of 6 months were paid on 01<sup>st</sup> January 2024 to the building owner.
- (2) No Property, Plant and Equipment were purchased or disposed during the year.
- (3) Sales on credit made during the year were Rs.28,200,000/- and this was 75% of total sales. Gross profit margin of the business was 40% on sales and all purchases were made in cash.

- (4) **Janath** deployed 5 sales executives from 01<sup>st</sup> January 2023 and in addition to the sales commission, each one is getting a monthly salary of Rs.145,000/-. Sales commission to Sales Executives is paid as 2% of the total sales. The Administrative Officer of the business is entitled to receive a monthly salary of Rs.50,000/- from 01<sup>st</sup> January 2024. Sales commission and Salaries are paid at the end of each month.
- (5) Electricity and Water expenses for the year were Rs.672,000/-.
- (6) There are no other expenses or income for the year ended 31<sup>st</sup> December 2024.

**You are required to:**

**Calculate** the following:

- (a) The net profit of the business for year ended 31<sup>st</sup> December 2024. (07 marks)
- (b) The capital (equity) balance as at 31<sup>st</sup> December 2024. (03 marks)
- (Total 10 marks)

### Question 03

**Lasith, Nisith, and Sumith** recently completed their professional studies and started a business as a partnership on 01<sup>st</sup> January 2024 under the name "**LNS Associates**" sharing profits and losses equally.

- (1) The partnership agreement includes the following:
- Partners are entitled to receive a monthly salary of Rs.20,000/-.
  - Partners are entitled to receive an interest of 5% per annum on the initial capital investment.
- (2) Business is located at a premises of **Sumith** and he is entitled to receive a monthly rent of Rs.25,000/-. Rent relevant for the year was not paid and was not accounted.
- (3) The Net Profit of the partnership for the year ended 31<sup>st</sup> December 2024 was Rs.11,901,000/-.
- (4) The following balances were extracted from the books of accounts of the partnership:

(Rs.'000)

	Dr.	Cr.
Capital Accounts as at 01 <sup>st</sup> January 2024:		
<b>Lasith</b>		1,500
<b>Nisith</b>		1,500
<b>Sumith</b>		1,800
Drawings made during the year ended 31 <sup>st</sup> December 2024:		
<b>Lasith</b>	300	
<b>Nisith</b>	200	

- (5) On 31<sup>st</sup> December 2024, **Sumith** decided to resign from the partnership and **Lasith** and **Nisith** agreed to continue the partnership under the same name sharing profits and losses in the ratio of 2 : 1 respectively.
- (6) Goodwill of the partnership was valued at Rs.2,400,000/- as at 31<sup>st</sup> December 2024 and it should be adjusted through partners' capital accounts without showing the goodwill account.

**You are required to:**

**Prepare** the following of **LNS Associates** for the year ended 31<sup>st</sup> December 2024:

- (a) Partners' Current Accounts. (06 marks)
- (b) Partners' Capital Accounts. (04 marks)
- (Total 10 marks)

**Question 04**

The professional beauticians in the Central Province of Sri Lanka have formed a members Benevolent Association on 01<sup>st</sup> January 2022 with the objective of enhancing industry standards, providing training and support for salon professionals.

The following information is provided for the year ended 31<sup>st</sup> December 2024:

- (1) The details of the members as at 01<sup>st</sup> January 2024 as follows:

Membership fees in arrears	5 members
Membership fees paid in advance	8 members
Number of members	105 members

- (2) Membership fee per member is Rs.15,000/- per annum. During the year, 5 new members were joined the association by paying their membership fees for the year 2024.
- (3) As at 31<sup>st</sup> December 2024, there were no prepaid membership fees and membership fees of 8 members were in arrears.
- (4) The association has received a donation of Rs.1,500,000/- to conduct trainings for the members of the association. Accordingly, a training was conducted by utilizing entire amount of the donation received.
- (5) A secretary was recruited on 01<sup>st</sup> July 2024 with the expansion of the membership activities. The secretary is entitled to receive a monthly salary of Rs.30,000/-. A laptop of Rs.300,000/- has been purchased at the same day for the use of secretary and it was decided to depreciate over the useful life of 5 years under the straight-line basis at cost.
- (6) A get together of the members was held on 15<sup>th</sup> December 2024. 90 members of the association have participated by paying an admission fee of Rs.18,000/- per member.
- (7) The following expenses were incurred:

Expenses	Activities of the Association (Other than get together) (Rs.)	Activities of the get together (Rs.)
Stationery	55,000	25,000
Telephone and Internet Charges	* 60,000	-
Travelling Expenses	45,000	15,000
Rent Expenses	360,000	240,000
Music Band and Announcing	-	60,000
Gifts to Members	-	500,000

\* This includes Rs.5,000/- paid for the bill of December 2023.

**You are required to:**

**Prepare** the following for the year ended 31<sup>st</sup> December 2024 of the Association:

- (a) Members' Subscription Account. (03 marks)
- (b) Income and Expenditure Account. (07 marks)
- (Total 10 marks)

### Question 05

- (A) The following information of an employee is provided for the first week of June 2025 of **Victor (Pvt) Ltd.:**

Normal working hours per week	8 hours per day and 5 working days a week
Basic labour rate per hour	Rs.450/-
Standard time allowed to produce one unit	10 minutes
Bonus	125% of the saved time at basic labour rate
No. of units produced by the employee during the first week	360 units

Based on the above information:

**You are required to:**

**Calculate** the total earnings of the employee for the first week of June 2025. (04 marks)

- (B) You are provided the following information with reference to **Product Z** of **ABC Ltd.:**

Annual Demand	8,000 units
Purchase price per unit	Rs.30,000/-
Ordering Cost	Rs.300,000/- per order
Lead Time	2 - 3 months
Annual Holding cost per unit	25% of the purchase price
Usage	200 - 400 units

**You are required to:**

**Calculate** the following:

- (a) Economic Order Quantity (EOQ). (02 marks)
- (b) Re-order Level. (02 marks)
- (c) Minimum Stock Level. (02 marks)
- (Total 10 marks)

## Question 06

**X (Pvt) Ltd.** produces **Product Y** and it has two Production Departments (**A** and **B**) and one Service Department (**C**).

- (1) The company has estimated the following production overheads for the month of August 2025:

Cost item	Cost (Rs.)
Machinery depreciation	1,800,000
Factory rent	720,000
Electricity	1,200,000
Quality control expenses	400,000

- (2) You are given the following additional information also:

	Production Departments		Service Department
	Department A	Department B	Department C
Indirect Material Cost (Rs.)	450,000	280,000	175,000
Value of Machinery (Rs.)	15,000,000	18,000,000	7,000,000
Usage of Electricity (Kilowatts)	1,200	800	400
Floor area (Square Feet)	1,600	1,400	600
No. of quality inspections	24	36	40
Number of Direct labour hours	10,000	16,000	-
Apportionment of cost – <b>Department C</b>	45%	55%	-
Number of Direct labour hours required per product	1	2	-

- (3) The estimated direct costs for a product are as follows:

Per Product	Rs.
Direct material	300
Direct labour	220
<b>Prime Cost</b>	<b>520</b>

**You are required to:**

- (a) **Prepare** a statement showing how the overheads are allocated and apportioned to each production department. (06 marks)
- (b) **Calculate** the estimated total production cost of a product. (04 marks)

(Total 10 marks)

End of Section B

## SECTION C

(Total 25 marks)

### Question 07

The Trial Balance of **Power Hub (Pvt) Ltd.** as at 31<sup>st</sup> March 2025 is as follows: (Rs.)

	Dr.	Cr.
Stated Capital (1,200,000 Ordinary Shares) as at 01 <sup>st</sup> April 2024		12,000,000
Retained Earnings as at 01 <sup>st</sup> April 2024		12,550,000
Application and Allotment Account - Right Issue		2,400,000
Disposal of Machinery		2,800,000
<b>Plant and Equipment at cost:</b>		
Machinery	8,000,000	
Motor Vehicles	9,500,000	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2024:</b>		
Machinery		1,600,000
Motor Vehicles		4,750,000
Inventory as at 31 <sup>st</sup> March 2025	9,425,300	
Trade Receivables / Trade Payables	21,519,500	6,899,700
Cash in Hand and Banks	7,593,825	
Allowance for Trade Receivables as at 01 <sup>st</sup> April 2024		645,000
Interim Dividends Paid	3,000,000	
Sales		63,352,500
Cost of Sales	34,843,875	
Advertising Expenses	3,600,000	
Sales Commission	1,800,000	
Travelling and Transport	1,074,700	
Salaries and Wages	2,500,000	
Printing & Stationary	209,800	
Electricity	1,150,000	
Office Rent	300,000	
Bank Charges	80,200	
Income Tax Paid	2,400,000	
	<b>106,997,200</b>	<b>106,997,200</b>



The following additional information is also provided:

- (1) Net Realizable Value (NRV) of inventory as at 31<sup>st</sup> March 2025 was Rs.9,200,000/-.
- (2) A machinery purchased on 01<sup>st</sup> April 2022 at Rs.3,300,000/- was sold for Rs.2,800,000/- on 01<sup>st</sup> October 2024. Further, a new machinery was purchased for Rs.3,000,000/- on 01<sup>st</sup> October 2024 and it was installed on the same date. The sale proceed on disposal of machinery has been recorded in the Disposal of Machinery Account while the cost of the new machinery was recorded in the Machinery Account. Other than these, no entries were made in the books of accounts.
- (3) Plant and Equipment are to be depreciated on the straight-line method at cost and useful life of Plant and Equipment is as follows:

Machinery	10 years
Motor Vehicles	4 years

- (4) The following prepayments and accruals have not been accounted as at 31<sup>st</sup> March 2025 in the books of the accounts:

	Rs.
Prepaid Rent	60,000
Audit Fee Payable	370,000

- (5) The income tax liability for the year of assessment 2024/25 is Rs.2,465,000/- and out of that an amount of Rs.2,400,000/- has been paid as quarterly installments during the year.
- (6) On 31<sup>st</sup> January 2025, the company has made a right issue to all existing shareholders and issued one share each for every 5 shares held as at 01<sup>st</sup> April 2024 at Rs.10/- per share. Cash received has been debited to "Cash Account" and credited to "Application and Allotment Account – Right Issue". Other than that no entries were made on this regard.
- (7) The company has paid an interim dividend of Rs.2.50 per share to its ordinary shareholders on 30<sup>th</sup> September 2024.
- (8) The Board of Directors decided to maintain the allowance for the trade receivables at 5% on trade receivables as at 31<sup>st</sup> March 2025.
- (9) The financial statements were authorized for the issue by the Board of Directors on 30<sup>th</sup> May 2025.

**You are required to:**

**Prepare** the following of **Power Hub (Pvt) Ltd.** for the use of management:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income) for the year ended 31<sup>st</sup> March 2025. (13 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2025. (12 marks)
- (Total 25 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.