



**Association of Accounting Technicians of Sri Lanka**

**AA2 Examination - January 2018**

**Questions and Suggested Answers  
(AA 21)**

**ADVANCED FINANCIAL ACCOUNTING  
(AFA)**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**  
EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2018**  
**(AA21) Advanced Financial Accounting**

**SUGGESTED ANSWERS**

**SECTION – A**

**Objective Test Questions (OTQs)**

Seven (07) compulsory questions

(Total 20 marks)

***Suggested Answers to Question One:***

- 1.1 Depreciation =  $(1,000,000 - 100,000) / 5$   
= 180,000  
CV after one year =  $1,000,000 - 180,000$   
= **820,000**

**Answer (3)**

1.2 **Debtors' Control a/c**

B/F	130,000	Cash	686,400
Sales	<b>738,800</b>	Discount	1,400
		C/F	181,000
	<u><b>868,800</b></u>		<u><b>868,800</b></u>

**Answer (3)**

- 1.3 Sales 2,462,500 → 100%
- Cost of Sales
- Opening Stocks 670,000
- Purchases 1,840,000
- Closing Stocks  $(540,000) - (1,970,000)$  → 80%
- Gross Profit 492,500 → 20%

**Answer (2)**

- 1.4 **Answer (4)**

1.5

VAT Control a/c			
Purchases (1,777,900 x 15%)	266,685	B/F	22,500
C/F	496,806	Sales (4,939,940 x 15%)	740,991
	<u>763,491</u>		<u>763,491</u>

**Answer (1)**

- 1.6 (a) Partners loan will carry an interest of minimum 5% per annum.  
(b) Partners can participate in the Management of Partnership.  
(c) Profit losses should be shared equally.

1.7

Opening balance	600 @ 140	=	84,000
Purchases	400 @ 220	=	88,000
Issue (under FIFO)	600 @ 140	=	(84,000)
	150 @ 220	=	(33,000)
Purchases	300 @ 245	=	73,500
<b>Closing balance (250 x 220 + 300 x 245)</b>			<u><u>128,500</u></u>

*(Total 20 marks)*

*End of Section A*

Five (05) compulsory questions  
(Total 25 marks)

*Suggested Answers to Question Two:*

(a)

**Tex Garments (Pvt) Ltd**  
**Adjusted Cash Book as at 31st December 2017**

B/F	136,240	Cheque book charges	500
		Bank charges	13,670
		Standing Order	69,000
		B/F	53,070
	<b>136,240</b>		<b>136,240</b>

*(03 marks)*

(b)

**Tex Garment (Pvt) Ltd**  
**Bank Reconciliation**  
**as at 31.12.2017**

Description	+ / -	Balance Rs.
Balance as per adjusted cash book		53,070
(+) Unpresented cheques :		
637102 - Rent	125,540	
637104 - Creditors	52,480	178,020
<b>Balance as per Bank Statement as at 31.12.2017</b>		<b>231,090</b>

*(02 marks)*

*(Total 05 marks)*

***Suggested Answers to Question Three:***

**General Journal**

	<b>Description</b>		<b>Dr.</b>	<b>Cr.</b>
	Salaries and wages account (Basic salary)	Dr.	8,700,000	
	Salaries and wages account (Allowances)	Dr.	5,400,000	
1)	Loan payables account	Cr.		2,300,000
	EPF payable account	Cr.		696,000
	Salary payable account	Cr.		11,104,000
	(Being recording salary for the month)			
	EPF account	Dr.	1,044,000	
	ETF account	Dr.	261,000	
2)	EPF payable account	Cr.		1,044,000
	ETF payable account	Cr.		261,000
	(Being accounting of EPF and ETF payables)			
	EPF payable account	Dr.	1,740,000	
	ETF payable account	Dr.	261,000	
	Salary payable account	Dr.	11,104,000	
3)	Loan payable account	Dr.	2,300,000	
	Cash account	Cr.		15,405,000
	(Being payment of salary related expenses and loan installments)			

***(05 marks)***

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***Suggested Answers to Question Four:***

(a)

<b>Amal Traders</b>			
<b>Debtors' Control a/c</b>			
B/F	1,780,000	Cash	3,950,000
Sales	4,800,000	Bad Debts	70,000
		B/C/F	2,560,000
	<u>6,580,000</u>		<u>6,580,000</u>
			<i>(03 marks)</i>

(b)

<b>Amal Traders</b>			
<b>Creditors Control a/c</b>			
Discount	250,000	B/F	2,350,000
Cash	4,050,000	Purchases	6,100,000
B/C/F	4,150,000		
	<u>8,450,000</u>		<u>8,450,000</u>
			<i>(02 marks)</i>
			<i>(Total 05 marks)</i>

***Suggested Answers to Question Five:***

<b>Journal Entries</b>		<b>Dr.</b>	<b>Cr.</b>
Goodwill account	Dr.	930,000	
Capital account	Cr.		372,000
- A			
- B	Cr.		279,000
- C	Cr.		279,000
(Being account of goodwill)			
Capital account	Dr.	465,000	
- A			
- C	Dr.	465,000	
Goodwill account	Cr.		930,000
(Being reversal of goodwill)			
Motor vehicle account	Dr.	300,000	
Revaluation account	Cr.		300,000
(Being accounting of Motor Vehicle revaluation)			
Revaluation account	Dr.	300,000	
Capital account	Cr.		120,000
- A			
- B	Cr.		90,000
- C	Cr.		90,000
(Being transfer of revaluation to capital accounts)			

***(05 marks)***

***Suggested Answers to Question Six:***

(a)

Sales proceed of old M/Vehicle		2,000,000
(Less) - Net book value		
Cost of the M/vehicle	3,200,000	
(-) Acc. Depreciation (2 yrs.)	(1,600,000)	(1,600,000)
<b>Disposal Profit</b>		<u><u>400,000</u></u>
		<i>(03 marks)</i>

**Alternative Answer**

Disposal Account			
Cost	3,200,000	Cash	2,000,000
Profit	400,000	Depreciation	1,600,000
	<b>3,600,000</b>		<b>3,600,000</b>

(b)

<b>Depreciation</b>		
Old M/vehicle	$3,200,000 \times 25\% \times 3/12$	= 200,000
New M/vehicle	$4,500,000 \times 25\% \times 6/12$	= 562,500
<b>Total</b>		<u><u>= 762,500</u></u>

*(02 marks)*

*(Total 05 marks)*

***End of Section B***

Three (03) compulsory questions  
(Total 30 marks)

*Suggested Answers to Question Seven:*

(a)

Trading Profit and Loss (Restaurant)		(Rs. '000)
Sales		14,700
<b><u>(-) Cost of Sales</u></b>		
Opening Inventory	3,200	
Purchases (W 01)	7,400	
Closing Inventory	(2,600)	(8,000)
<b>Gross Profit</b>		<b>6,700</b>

Workings:

W 01

Creditors Account		(Rs. '000)
Cash	7,200	B/B/F 1,200
B/C/F	1,400	Purchases 7,400
	<b>8,600</b>	<b>8,600</b>

(03 marks)

(b)

**Income and Expenditure Statement  
for the year ended 31.12.2017**

(Rs. '000)

<b>Income:</b> (W 02)		
Subscription	26,200	
Donation	7,500	
Rent Income	8,200	
Profit from restaurant (6,700 - 1,200)	5,500	
		47,400
<b>Expenditure:</b>		
Secretarial expenses	600	
Stationary and printing (W 04)	1,800	
Depreciation - Sports equipment (W 03)	15,000	
Sundry expenses	5,100	(22,500)
<b>Surplus for the year</b>		<b>24,900</b>

W 02

Subscription a/c		(Rs. '000)	
B/F	600	B/F	400
Income & expenditure	26,200	Receipts & payments	26,300
B/C/F	200	B/C/F	300
	<b>27,000</b>		<b>27,000</b>

W 03

Sports equipment		(Rs. '000)	
B/B/F	54,000	Depreciation	15,000
Cash	18,000	Balance C/F	57,000
	<b>72,000</b>		<b>72,000</b>
Balance B/F	57,000		

W 04

Stationery Account		(Rs. '000)	
Cash	1,500	B/B/F	500
B/C/F	800	P & L	1,800
	<b>2,300</b>		<b>2,300</b>

(07 marks)

(Total 10 marks)

***Suggested Answers to Question Eight:***

**(a) Gami Collections**

**Trial Balance**

**as at 31.03.2017**

Description	Dr.	Cr.
Office equipment	495,000	
Depreciation (550,000 - 495,000)	55,000	
Inventory	180,000	
Trade payables		282,000
Accrued electricity		3,000
Capital (550,000 + 192,000 + 230,000 + 300,000 - 160,000)		1,112,000
Sales (W 04)		738,000
Cost of Sales (W 03)*	492,000	
Cash in hand (W 01)	244,000	
Cash at Bank (W 02)	498,000	
Wages	90,000	
Drawings	10,000	
Electricity (13,000 + 3,000)	16,000	
Other expenses	55,000	
Surplus for the year	<b>2,135,000</b>	<b>2,135,000</b>

**Workings :**

**W 01**

**Cash in Hand Account**

B/B/F	230,000	Trade payable	168,000
Sale (W 04)	738,000	Wages	90,000
		Drawings	10,000
		Bank	456,000
		B/C/F	244,000
	<b>968,000</b>		<b>968,000</b>

**W 02**

**Cash at Bank Account**

B/B/F	300,000	Trade payable	190,000
Cash	456,000	Electricity	13,000
		Other expenses	55,000
		B/C/F	498,000
	<b>756,000</b>		<b>756,000</b>

**W 03**

**Trade Payable Account**

Cash	168,000	B/B/F	160,000
Bank	190,000	Purchases	480,000
B/C/F	282,000		
	<b>640,000</b>		<b>640,000</b>

**W 04**

Sales:	
Opening stock	192,000
Purchases (W 03)	480,000
Closing stock	(180,000)
Cost of sales	492,000
<b>Sales (492,000 x 150%)</b>	<b>738,000</b>

*(10 marks)*

***Suggested Answers to Question Nine:***

(a)

**MAD Partnership**

**Profit and Loss Appropriation**

**For the year ended 31st March 2017**

Net Profit			3,000,000
<b><u>Interest on appropriation</u></b>			
Interest on capital	- Manu	(960,000)	
	- Anu	(480,000)	
	- Danu	(720,000)	(2,160,000)
Salaries	- Manu	(360,000)	(360,000)
Share of Profit	- Manu	(240,000)	
	- Anu	(144,000)	
	- Danu	(96,000)	(480,000)
			<b>0</b>

(b)

**Partners' current account**

**(Rs. '000)**

	<b>Manu</b>	<b>Anu</b>	<b>Danu</b>		<b>Manu</b>	<b>Anu</b>	<b>Danu</b>
B/B/F	-	400	-	B/B/F	1,000	-	-
Drawings	300	200	100	Interest on capital	960	480	720
				Salaries	360	-	-
B/C/F	2,260	24	716	Profit share	240	144	96
	<b>2,560</b>	<b>624</b>	<b>816</b>		<b>2,560</b>	<b>624</b>	<b>816</b>

*(10 marks)*

***End of Section C***

**A Compulsory Question**

(25 marks)

***Suggested Answers to Question Ten:***(a) **Lucky 13 (Pvt) Ltd****Statement of Profit & Loss & Other Comprehensive Income  
for the year ended 31st March 2017**

	Rs.	Rs.
Sales		463,600
Cost of sales (265,500 + 800)		(266,300)
<b>Gross profit</b>		<b>197,300</b>
<b>Distribution Expenses</b>		
Bad debts	(1,500)	
Under provided doubtful debts	(475)	
General selling exp. (51,700 + 800)	(52,500)	(54,475)
<b>Administration Expenses</b>		
Depreciation on buildings (50,000 / 25,000)	(2,000)	
Depreciation on office equipment (40,000 / 10)	(4,000)	
General admin. expenses (68,000 - 120)	(67,880)	(73,880)
<b>Finance Expenses</b>		
Debenture interest	(2,400)	(2,400)
<b>Profit before taxation</b>		<b>66,545</b>
Taxation (W1)		(3,500)
<b>Profit After Taxation</b>		<b>63,045</b>

(10 marks)

**(b) Lucky 13 (Pvt) Ltd****Statement of Financial Position**

as at 31.03.2017

**(Rs. '000)**

	<b>Cost</b>	<b>Acc. Dep.</b>	<b>Carrying Value</b>
<b><u>Non-Current Assets</u></b>			
Land	30,000	---	30,000
Buildings	50,000	(7,000)	43,000
Office equipment	40,000	(29,000)	11,000
	120,000	36,000	<b>84,000</b>
<b><u>Current Assets</u></b>			
Inventory		59,200	
Trade debtors (43,000 - 1,500)	41,500		
(-) Prov. for doubtful debts	(2,075)	39,425	
Prepayment		120	
Cash at bank		1,000	99,745
<b>Total Assets</b>			<b>183,745</b>
<b><u>Equity and Liabilities</u></b>			
Stated capital		32,000	
Retained earnings (63,045 + 12,000)		75,045	
<b>Total Equity</b>			107,045
<b><u>Non-current Liabilities</u></b>			
12% Debentures		20,000	20,000
<b><u>Current Liabilities</u></b>			
Trade payables		50,900	
Accrued debenture interest		1,200	
Accrued expenses		800	
Tax payable		3,800	56,700
<b>Total Equity and Liabilities</b>			<b>183,745</b>

*(15 marks)***W1 Taxation**

Current year tax	3,800
Over provision (3,500 - 3,200)	(300)
	<u>3,500</u>

*(Total 25 marks)***End of Section D**

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***Notice :***

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.

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