



Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2019

**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 2019
(AA21) Advanced Financial Accounting**

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Suggested Answers to Question One:

1.1 **Answer (2) - (Chapter 02 - Preparation of Financial Statements)**

Gross Salary	=	9,600,000
Less - EPF 8%	=	(768,000)
Less - PAYE	=	(325,000)
Net Salary	=	<u>8,507,000</u>

1.2 **Answer (3) - (Chapter 02 - Preparation of Financial Statements)** (02 marks)

1.3 **Answer (2) (B and C only) -
(Chapter 04 - Accounting for Limited Liability Company)** (02 marks)

1.4 **Answer (1) - (Chapter 02 - Preparation of Financial Statements)**

Balance B/F (Arrears)	21,200	Balance B/F (Advance)	28,700
		Cash Received	481,200
Income	475,900		
Balance CF (Advance)	31,200	Balance C/F (Arrears)	18,400
	<u>528,300</u>		<u>528,300</u>

(02 marks)

1.5 **(Chapter 02 - Preparation of Financial Statements)**

1. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
2. It expects to realize the asset within twelve months after the reporting period.
3. It holds the liability primarily for the purpose of trading.

-
4. It does not have a right at the reporting date to defer settlement of the liability by the transfer of cash or other assets for at least 12 months after the reporting period.

(02 marks)

1.6 **(Chapter 02 - Preparation of Financial Statements)**

Inventories will be valued at lower of cost and NRV

Therefore value will be $= 1,800,000.00 - (1,800,000.00 \times 15\%)$
 $= 1,530,000.00$

Resulting in a loss of 470,000.00

(03 marks)

1.7 **(Chapter 03 - Matters related to Partnerships)**

1. Admission of new partner
2. Retirement of existing partner
3. Changes in profit sharing ratio
4. Death of an existing partner
5. Amalgamation of the partnership firm

(03 marks)

1.8 **(Chapter 03 - Matters related to Partnerships)**

A, Section 24, Provision / Rule Number 8

Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

B, Section 24, Provision / Rule Number 7

No person may be introduced as a partner without the consent of all existing partners.

(As the partnership Ordinance – it was mentioned as rule)

(Total 20 marks)

End of Section A

Five (05) compulsory questions
(Total 25 marks)

Suggested Answers to Question Two:

Chapter 01 - Performing of Financial Accounting Controls

Debtors Control			
Balance B/F	585,600.00	Sales Return	23,800.00
Sales	258,000.00	Cash	189,000.00
		Discount allowed	4,900.00
		Error Overcasting	20,000.00
		Error Purchases	27,000.00
		Balance C/F	578,900.00
	843,600.00		843,600.00

Adjusted Balance = 578,900.00

(05 marks)

Suggested Answers to Question Three:

Chapter 03 - Matters related to Partnerships

K,D,S Partnership

Profit & Loss Appropriation Account for the year ended 31.03.2018

Net Profit			2,031,250
Less:			
Interest on Capital	Kasun	10%	(400,000)
	Dasun	10%	(300,000)
	Supun	10%	(300,000)
			(1,000,000)
Partner Salary	Dasun		(300,000)
			731,250
Share of Profit	Kasun		(292,500)
	Dasun		(219,375)
	Supun		(219,375)
			(731,250)
			-

(05 marks)

Suggested Answers to Question Four:

Chapter 02 - Preparation of Financial Statements

Gross Salary	Welfare Deduction - 2%	EPF Deduction - 8%	Net Salary	Company Contribution	
				EPF - 12%	ETF - 3%
30,000,000	600,000	2,400,000	27,000,000	3,600,000	900,000

Workings:

Gross Salary

$$\begin{aligned}
 27,000,000 &= X - [X \times 0.08] - (X \times 0.02) \\
 &= X - 0.08X - 0.02X \\
 27,000,000 &= X - 0.1X \\
 27,000,000 &= 0.9X \\
 \underline{\underline{30,000,000}} &= \underline{\underline{X}}
 \end{aligned}$$

(05 marks)

Suggested Answers to Question Five:

Chapter 01 - Performing of Financial Accounting Controls

Adjusted Cash Book

As at 31st May 2018

Balance B/F	328,500	Loan	30,000
Direct Deposits	12,000	Bank Charges	2,500
		Balance C/F	308,000
	<u>340,500</u>		<u>340,500</u>

(03 marks)

Bank Reconciliation Statement as at 31st May 2018

(Rs.)

Amended Cash Book Balance		308,000
Add: Unpresented Chq - 157845	11,000	
- 157846	13,500	
Less: Unrealised Chq - 117654	(35,000)	(10,500)
		<u>297,500</u>

(02 marks)

(Total 05 marks)

Suggested Answers to Question Six:

Chapter 05 - Accounting for Not for Profit Organizations

Subscription Account			
Balance B/F - Arrears	15,000	Balance B/F - Advance	9,000
Income & Exp	459,000	Cash / Receipt	447,000
Balance C/F - Advance	15,000	Balance C/F - Arrears	33,000
	489,000		489,000
Balance C/F - Arrears	33,000	Balance C/F -Advance	15,000

(05 marks)



End of Section B

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Seven:

Chapter 05 - Accounting for Not for Profit Organizations

**Old Boys' Cricket Club
Resurant Trading Account
31.12.2018**

		(Rs.)
Sales		30,500
Cost of Sales:		
Opening Inventories	4,500	
Purchases (24,3200 + 3,800 - 3,200)	24,800	
Closing Inventory	(3,200)	(26,100)
Gross Profit		4,400
Expenses:		
Other expenses	2,500	
Electricity and water	1,700	(4,200)
Net Profit		200

(03 marks)

**Old Boys' Cricket Club
Income and Expenditure Account
31.12.2018**

		(Rs.)
Income :		
Donation		12,300
Rent Income		21,500
Subscription (8,400 + 500 - 800)		8,100
Life Membership		240
Profit of restaurant (4,400 - 2,500 - 1,700)		200
		42,340
Expenses :		
Salaries	(2,900)	
Ground Maintenance	(3,600)	
Depreciation Sport Equipment	(9,000)	
Depreciation Building	(1,000)	
Other Expenses	(4,100)	
Advertisement	(2,500)	(23,100)
Surplus for the year		19,240

(07 marks)

(Total 10 marks)

Workings:**W 01**

Life Membership Fund Account		(Rs. '000)	
Income	240	B/B/F	2,200
B/C/F	2,160	Cash	200
	<u>2,400</u>		<u>2,400</u>

W 02

Creditors Account		(Rs. '000)	
Cash	24,200	B/B/F	3,200
B/C/F	3,800	Purchases	24,800
	<u>28,000</u>		<u>28,000</u>

W 03

Electricity and Water Account		(Rs. '000)	
B/B/F	200	P & L	1,700
Cash	1,600	B/C/F	100
	<u>1,800</u>		<u>1,800</u>

W 04

Membership Subscription Account		(Rs. '000)	
B/B/F	800	Cash	8,400
Income	8,100	B/C/F	500
	<u>8,900</u>		<u>8,900</u>

Suggested Answers to Question Eight:

Chapter 02 - Preparation of Financial Statements

**Statement of Financial Position of Suvimali Fashions
As at 31st March 2018**

			(Rs. '000)
	Cost	Acc.Dep	NBV
Non-Current Assets			
Motor Vehicles	2,900,000	(1,450,000)	1,450,000
Office Equipment	550,000	(137,500)	412,500
	3,450,000	(1,587,500)	1,862,500
Current Assets			
Inventory		150,000	
Trade Receivables		420,000	
Other receivables on Disposal		1,300,000	
Prepayments		11,500	
Cash in hand and Bank		125,000	2,006,500
Total Assets			3,869,000
Equity and Liabilities			
Capital as at 01st April 2001		1,190,000	
Profit for the Year (W 02)		2,068,000	
Drawings		(174,000)	
Equity			3,084,000
Current Liabilities			
Trade Payables		720,000	
Accrued Expenses		65,000	785,000
Total Equity and Liabilities			3,869,000

(10 marks)

Workings:**(W 01)**

Disposal Account			
Cost	2,000	Other Receivables	1,300
Profit	300	Depreciation	1,000
	<u>2,300</u>		<u>2,300</u>

(W 02)**Adjusted Net Profit**

Profit	1,783,000
Profit on disposal	300,000
Stock adjustments	(15,000)
	<u>2,068,000</u>

Suggested Answers to Question Nine:**Chapter 03 - Matters Related to Partnerships****(a)****Partners' current account****(Rs. '000)**

	Rashmi	Pushmi	Kushmi		Rashmi	Pushmi	Kushmi
B/B/F	65	-	50	B/B/F	-	5	-
B/C/F	325	555	500	Interest	90	30	30
				Salary	-	420	420
				Profit share	300	100	100
	390	555	550		390	555	550

(06 marks)**(b)****Partners' Capital Account****(Rs. '000)**

	Rashmi	Pushmi	Kushmi		Rashmi	Pushmi	Kushmi
Goodwill	500	250	250	B/B/F	1,500	500	500
B/C/F	1,600	450	450	Goodwill	600	200	200
B/F	2,100	700	700		2,100	700	700

(04 marks)

Workings:

		(Rs. '000)
Profit before appropriation		1,490
Insert on Capital:		
Rashmi	90	
Pushmi	30	
Kushmi	30	(150)
Partners' Salaries:		
Pushmi	420	
Kushmi	420	(840)
		500
Share of Profit:		
Rashmi	300	
Pushmi	100	
Kushmi	100	(500)
		-

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End of Section C

A Compulsory Question
(25 marks)

Suggested Answers to Question Ten:

(a)

Chapter 04 - Accounting for Limited Liability Companies

Bhasha (Pvt) Ltd
Comprehensive Income Statement
for the year ended 31st March 2018

		(Rs. '000)
Sales		47,125
Cost of sales		(23,500)
Gross Profit		23,625
Expenses:		
Distribution Expenses (W 02)	(8,613)	
Administration Expenses (W 03)	(3,727)	
Finance Expenses (W 01)	(810)	(13,150)
Profit Before Taxation		10,475
Income Tax		(200)
Profit After Tax		10,275

(11 marks)

(b) Bhasha (Pvt) Ltd**Statement of Financial Position**

as at 31st March 2018

(Rs. '000)

	Cost	Acc. Dep.	Carrying Value
<u>Non-Current Assets</u>			
Motor Vehicles	32,500	29,000	3,500
Office Equipment	2,000	1,800	200
Machinery	52,800	440	52,360
	87,300	31,240	56,060
<u>Current Assets</u>			
Inventory		6,615	
Trade Receivables	8,220		
Allowance	(123)	8,097	
Prepayment		8	
Fixed deposit		11,000	
Cash in hand and Bank (3,190 - 400)		2,790	28,510
Total Assets			84,570
<u>Equity and Liabilities</u>			
Stated Capital (5,000 + 2,000)		7,000	
Retained earnings (7,325-375+10,275)		17,225	
General reserves		850	
Total Equity			25,075
<u>Non-current Liabilities</u>			
12% Debentures		5,000	5,000
<u>Current Liabilities</u>			
Payable to machine purchase		52,800	
Accrued expenses		345	
Trade payables		1,350	54,495
Total Equity and Liabilities			84,570

(14 marks)

(Total 25 marks)

Workings:

(W 01)

Accrued Expenses:

Debenture interest	300
Rent	45
	<u>345</u>

(W 02)

Distribution Expenses:

TB	2,047
Depreciation - Motor vehicle	6,500
Allowance for Trade Receivables	66
	<u>8,613</u>

(W 03)

Administration Expenses:

TB	3,050
Depreciation - Machinery	440
- Office Equipment	200
Rent	45
Insurance	(8)
	<u>3,727</u>

(W 04)

Finance Expenses:

Debenture Interest	600
Other Finance Expenses	210
	<u>810</u>

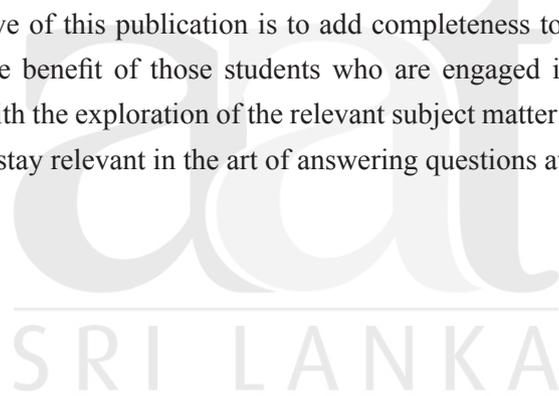
End of Section D

Notice :

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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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