



Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2020

**Suggested Answers
(AA 21)**

**ADVANCED FINANCIAL ACCOUNTING
(AFA)**

Association of Accounting Technicians of Sri Lanka
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

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

AA2 Examination - January 2020
(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 Answer 02

Method

Selling Price 1,400,000

Less - Written Down Value

Cost	3,200,000	
Acc. Depreciation 16/17	(640,000)	
Acc. Depreciation 17/18	(640,000)	
Acc. Depreciation 18/19	(640,000)	
Acc. Depreciation upto 30/09/2019	(320,000)	(960,000)

Profit on Disposal 440,000

(02 marks)

1.2 Answer 03

(02 marks)

1.3 Answer 03

(02 marks)

1.4 Answer 01

(02 marks)

1.5

$$\text{Anny} \quad \frac{5}{8} - \frac{3}{6} - \frac{30-24}{48} = \frac{6}{48}$$

$$\text{Canny} \quad \frac{3}{8} - \frac{1}{6} - \frac{18-8}{48} = \frac{10}{48}$$

$$= 6 : 10$$

$$\text{Gaining Ratio} = 3 : 5$$

(03 marks)

1.6	Provisions of the Ordinance	Description
		Section 24
(1)	Capital	All the partners are entitled to share equally.
(2)	Profits and losses	All the partners are entitled to share equally.
(3)	Indemnity	The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him in the ordinary and proper conduct of the business of the firm, or in or about anything necessarily done for the preservation of the business or property of the firm.
(4)	Interest on actual payments and advances are beyond the capital	Every Partner is entitled to interest at the rate of five percent per annum from the date of the payment of advance.
(5)	Interest on Capital	A partner is not entitled, before the ascertainment of profits; to interest on the capital subscribed by him.
(6)	Management	Every partner may take part in the management of the partnership business.
(7)	Remuneration	No partner shall be entitled to remuneration for acting in the partnership business.
(8)	Introducing a new partner	No person may be introduced as a partner without the consent of all existing partners.
(9)	Any difference arising as to ordinary matters connected with the partnership business	May be decided by a majority of the partners.
(10)	Change in nature of the business	Decision must be unanimous.
(11)	Partnership books	Partnership books must be kept in the main place of the business and must be open to inspection by all partners.

(03 marks)

- 1.7
1. Statement of Financial Position
 2. Statement of Other Comprehensive Income
 3. Statement of Changes in Equity
 4. Statement of Cash Flows
 5. Notes to the Financial Statements

(03 marks)

1.8	Membership Subscription		
B/B/F (9 * 3,000)	27,000	Cash	504,000
P&L (157 * 3,000)	471,000	B/C/F (6 * 3,000)	18,000
B/C/D (8 * 3,000)	24,000		
	522,000		522,000

Alternative Answer:

$$\begin{aligned} \text{Total Members} &= 123 + 34 &= 157 \\ \text{Income for the year} &= 157 * 3,000 &= 471,000 \end{aligned}$$

(03 marks)

(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

(a)

Adjusted Cash Book			
B/B/F	625,250	Loan	550,000
Debtors	110,200	Bank Charges	3,200
		B/C/F	182,250
	735,450		735,450

(03 marks)

(b)

Bank Reconciliation Statement

Description	+ / -	Balance Rs.
Balance as Per Cash Book		182,250
Less : Unrealized Deposits	(85,000)	
Add : Unpresented Cheques	72,500	(12,500)
Balance as per Bank Statement		169,750

Note: Reconciliation starting from Balance as per Bank Statement is also acceptable.

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 01 – Performing of Financial Accounting Controls

a)

Debtors' Control Account			
B/B/F	297,750	Returns inwards	27,675
Sales	204,300	Cash	117,450
		Discount allowed	7,500
		Bad debt	1,290
		B/C/F	348,135
	502,050		502,050

(03 marks)

(b)

Debtors Reconciliation Statement	
Balance as per Control Account	348,135
Add: Sales Invoice	22,500
	370,635
Less: Overcast	(17,025)
	353,610

(02 marks)

(Total 05 marks)

Suggested Answers to Question Four:

Chapter 03 - Matters Related Partnerships

(a)

**DBM Partners
Profit or Loss Appropriation Account
For the year ended 31st March 2019**

Rs“000”

Net Profit	8,775	
Interest on Capital		
Danny	(1,440)	
Berny	(1,080)	
Merely	(720)	(3,240)
Salaries		
Berny		(1,800)
Profit Share:		3,735
Danny	(1,867.50)	
Berny	(1,120.50)	
Merely	(747)	(3,735)
-		

(05 marks)

Suggested Answers to Question Five:

Chapter 02 - Preparation of Financial Statements

(a)

Salary Control Account			
EPF	870,000	Salary	10,875,000
Cash	23,655,000	Overtime	13,650,000
	<u>24,525,000</u>		<u>24,525,000</u>

(02 marks)

(b)

EPF Payable Account			
B/C/F	2,175,000	Salary Control	870,000
		EPF 12%	1,305,000
	<u>2,175,000</u>		<u>2,175,000</u>

(02 marks)

(c)

ETF Payable Account			
B/C/F	326,250	ETF Expenses	326,250
	<u>326,250</u>		<u>326,250</u>

(01 mark)

(Total 05 marks)

Suggested Answers to Question Six:

Chapter 02 - Preparation of Financial Statements

VAT Control Account			
Purchases	776,085	Balance B/F	225,700
Services	171,135	Debtors / Sales	1,687,590
Balance C/D	966,070		
	<u>1,913,290</u>		<u>1,913,290</u>

(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

(a)

Star Dancing Club
Trading Profit & Loss Account
For the Year Ended 31st December 2019

		Rs“ 000”
Sales		42,450
Opening Inventories	4,200	
Purchases (W-01)	27,600	
Closing Inventories	(3,300)	(28,500)
Gross Profit	13,950	
Rent	(2,700)	
Other Expenses	(4,800)	(7,500)
Net Profit		6,450

(03 marks)

(b)

Star Dancing Club
Income and Expenditure Account
for the year ended 31st December 2019

(Rs. '000)

Income:		
Membership Subscription Fee (W-2)	8,025	
Profit on restaurant	6,450	
Donation	12,450	
Ticket sales	32,250	59,175
Expenses:		
Secretarial expenses	(900)	
Rent	(2,700)	
Fees on guest artists	(1,500)	
Printing & Stationery	(2,250)	
Depreciation	(9,000)	
Drama production expenses	(27,000)	
Other expenses	(6,150)	(49,500)
Surplus for the year		9,675

Workings

W-1

Payable Account

Cash	27,300	B/B/F	1,800
B/C/F	2,100	Purchases	27,600
	29,400		29,400

W-2

Members' Subscription Account

B/B/F	750	B/B/F	300
Income	8,025	Cash	8,100
B/C/F	75	B/C/F	450
	8,850		8,850

(07 marks)

(Total 10 marks)

Suggested Answers to Question Eight:

Chapter 03 – Matters Related to Partnerships

(a)

Partners' Capital Accounts				(Rs'000)			
	Sanduni	Kasuni	Naduni		Sanduni	Kasuni	Naduni
Goodwill	900	600	-	B/B/F	7,500	9,000	10,000
Loan A/C	-	-	13,420	Goodwill	600	600	300
B/C/F	7,800	9,600	-	Revaluation	600	600	300
				Current	-	-	2,820
	8,700	10,200	13,420		8,700	10,200	13,420

Workings:

$$\begin{aligned}
 \text{Land and Building} &= 5,400 - (7,500 - 4,200) = 2,100 \\
 &= 900 (2,250 - 750) = (600) \\
 &= \underline{\underline{1,500}}
 \end{aligned}$$

(05 marks)

(b)

Partners' Current Accounts				(Rs'000)			
	Sanduni	Kasuni	Naduni		Sanduni	Kasuni	Naduni
B/B/F	-	1,200	-	B/B/F	3,000	-	1,500
Capital	-	-	2,820	Interest	900	1,080	1,200
B/C/F	4,140	840	-	Salary	-	720	-
				Profit Share	240	240	120
	4,140	2,040	2,820		4,140	2,040	2,820

(05 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

Chapter 02 – Preparation of Financial Statements

(a)

Pavani Traders
Trial Balance
as at 31st March 2019

	Dr.	Cr.
Land & Building	7,200	
Motor Vehicles	11,100	
Inventories as at 1st April 2018	3,750	
Depreciation -Buildings	300	
-Motor Vehicles	900	
Trade Debtors	4,050	
Insurance Prepaid	900	
Trade Creditors		2,025
Accrued electricity		255
Sales (5,250 + 3,600) (W-1)		8,850
Purchases (2,250 + 1,500) (W-2)	3,750	
Depreciation – Buildings	300	
Depreciation – MV	900	
Insurance (W-3)	225	
Electricity	345	
Wages	2,100	
Other Expenses	495	
Capital		25,920
Bank Balance (1,950 + 9,000 - 9,015)	1,935	
	37,050	37,050

Workings**W-1****Trade Debtors Account**

B/C/F	4,200	Cash	3,750
Sales	3,600	B/C/F	4,050
	<u>7,800</u>		<u>7,800</u>

W-2**Trade Creditors Accounts**

Cash	1,875	B/B/F	2,400
B/C/F	2,025	Purchases	1,500
	<u>3,900</u>		<u>3,900</u>

W-3**Insurance Account**

B/B/F	750	P&L	225
Cash	375	B/C/F	900
	<u>1,125</u>		<u>1,125</u>

W-4**Electricity Account**

Cash	420	B/B/F	330
B/C/F	255	P&L	345
	<u>675</u>		<u>675</u>

(10 marks)

End of Section C

A Compulsory Question

(25 marks)

Suggested Answers to Question Ten:**Chapter 04 - Accounting for Limited Liability Companies**(a) **Aseni (Pvt) Ltd****Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31st March 2019**

		Rs. "000"
Sales		839,780
Cost of Sales (641,350 + 700)		(642,050)
Gross Profit		197,730
Expenses:		
Distribution Expenses (W-01)	55,200	
Administration Expenses (W-02)	83,000	
Finance Expenses (2,400 + 2,400)	4,800	(143,000)
Profit before tax		54,730
Income Tax (600 + 11,500)		(12,100)
Profit After Tax		42,630

(13 marks)

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

as at 31st March 2019

(Rs. '000)

	Cost	Acc. Dep.	Carrying Value
Land	20,000	-	20,000
Buildings	80,000	36,000	44,000
Motor Vehicles	75,000	37,500	37,500
	175,000	73,500	101,500
Current Assets:			
Inventory		184,200	
Trade Receivables (74,300-2,300)	72,000		
Allowance for Trade Receivables	(3,600)	68,400	
Prepayment		200	
Cash in hand Cash at Bank		14,730	267,530
Total Assets			369,030
Equity & Liabilities:			
Stated Capital		108,000	
Retained Earnings (25,600+42,630-18,500)		49,730	157,730
Non-Current Liabilities:			
Debentures 12%			40,000
Current Liabilities:			
Trade Payables		162,300	
Debenture Interest Payable (4,800-2,400)		2,400	
Accrued Electricity		100	
Income Tax Payable (W-3)		6,500	171,300
Total Equity & Liabilities			369,030

(15 marks)

Workings**(W-1) Distribution Expenses**

Distribution Expenses	43,600
Bad Debt	2,300
Allowance for Trade Receivables	1,800
Depreciation-Motor Vehicles	7,500
	<u>55,200</u>

(W-2) Administration Expenses

Vehicle Maintenance (3,300 - 200)	3,100
Electricity and Water (12,200 + 100)	12,300
Depreciation - Building	4,000
Directors' fee	12,000
Staff Salaries	35,800
Printing and Stationery	3,700
Telephone Charges	2,800
Audit Fee	1,100
Other expenses	8,200
	<hr/> 83,000 <hr/>

(W-1) Income Tax Liability

Cash	18,300	B/B/F	12,700
B/C/F	6,500	P&L	600
		P&L	11,500
	<hr/> 24,800 <hr/>		<hr/> 24,800 <hr/>

aat
SRI LANKA

(12 marks)

(Total 25 marks)

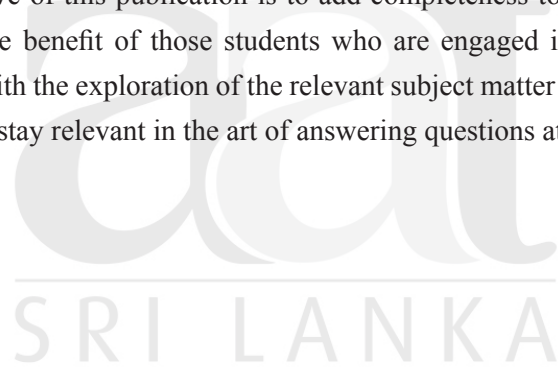
End of Section D

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.



© 2020 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)