



Association of Accounting Technicians of Sri Lanka

Level II Examination- January 2021

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

Association of Accounting Technicians of Sri Lanka
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Level II Examination - January 2021

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 Answer(3) - Statement of Financial Position and Statement of Comprehensive Income

(02 marks)

1.2 Answer(1) - Rs.200,000/-(profit)

| | | |
|--------------------|---|--------------------|
| Selling Price | | 3,200,000 |
| Cost | = | 5,000,000 |
| Acc.dep 31.02.2020 | = | (2,000,000) |
| Profit | | <u>(3,000,000)</u> |
| | | <u>200,000</u> |

(02 marks)

1.3 Answer (2) - (b) only

(02 marks)

1.4 Answer (1) - 1,600 units

$$\text{Maximum Demand} \times \text{Maximum Lead Time} = 400 \times 4 = 1,600$$

(02 marks)

1.5 Answer (2)

(02 marks)

1.6 **Provisions of Section 24 of the Partnership Ordinance of 1890**

1. Partners are entitled to introduce equal capital.
2. Profit or loss should be shared equally.
3. Partners are not entitled to interest for employed capital.
4. If a loan is given by a partner in addition to the capital, an interest can be charged at a rate of 5%.
5. An admission of a new partner or resignation of an existing partner can be done only with the consent of all the existing partners.
6. All partners are entitled to take part in the management but not entitled for remuneration for engaging in the partnership business.
7. All the books and documents must be kept at the business place and every partner has a right to examine those.

8. Any decision, which can be affected, to the composite and the nature of the partnership should be made with the consent of all the partners and general matters should be solved by majority consent.

9. Partners are entitled to reimburse the expenses they incur on partnership activities. **(02 marks)**

1.7 Rights of a partner as per the Partnership Ordinance 1890

1. To contribute equally to the capital of the partnership.
2. To share the profit and loss.
3. Each partner can actively participate for business activities of the partnership.
4. Without the consent of all partners, not to admit a new partner.
5. No partner can be dismissed from the partnership unless with the consent of all partners.
6. To check or examine the account books or any documents of the partnership at any time.
7. The partnership business is to be carried out with the consent of the majority of the partners regarding ordinary matters while with the consent of all the partners regarding any decision that will change the nature of the partnership.
8. To obtain a 5% interest per annum on loans financed by a partner in addition to capital.
9. To reimburse the expenses incurred by any partner on behalf of the partnership business. **(03 marks)**

1.8

| In respect of | Financial Accounting | Cost Accounting |
|---------------------------------|---|---|
| Time Span | Transactions are recorded and statements are prepared for a definite period. | Transactions are identified with cost unit / cost object. |
| Coverage of transactions | It covers transactions of the whole business. | It covers only a part of the transactions. |
| Purpose | It is prepared to present operational results and financial position of the business. | It aims to help the management for proper planning, control and decision making. |
| Analysis of expenditure | It analyses the expenditure according to the function. | It analyses expenditure on different bases. Eg: Direct and indirect variable and fixed, etc. |
| Efficiency | The overall results and financial position of the business is revealed by financial statements. | It analyses the profitability of each department cost unit, job or process. |

| | | |
|-----------------------------------|--|--|
| Material control | It does not say anything about the efficiency/ inefficiency of material handling. (because figures are in total) | It provides a system of good inventory control by prescribing procedures for purchases, storage, issues etc. |
| Independence of the system | It is independent of cost accounting. | It depends upon financial accounting data. |
| Reconciliation of results | It does not need any reconciliation. | It needs reconciliation of its profit with that of financial records. |
| Wastages | There are no such categories. | Wastages or losses are identified and categorized into normal and abnormal. |
| Transactions | It deals with actual facts and figures. | It deals partly with actual facts and figures and partly with estimates. |
| Stock valuation | Stocks are valued at "Cost price" or "Net realizable value" whichever is less. | Stocks are valued at cost. |
| Legal requirements | Should adhere to various legislatives. | These records are generally kept to meet the requirements of the management. |

(03 marks)

1.9

| VAT CONTROL A/C | | (Rs.'000) |
|------------------------|---------------|------------------|
| Purchases | 5,500 | B/B/F 4,500 |
| Return goods | 550 | Sales 9,000 |
| B/C/F | 7,450 | |
| | <u>13,500</u> | <u>13,500</u> |
| | | B/B/F 7,450 |

(03 marks)

1.10

| DAY | | PAY |
|--------------|---------------------------------------|---------------------|
| 1 | $7 \times 150 = 1,050$ | 1,200 |
| 2 | $8 \times 150 = 1,200$ | 1,200 |
| 3 | $9 \times 150 = 1,350$ | 1,350 |
| 4 | $7 \times 150 = 1,050$ | 1,200 |
| 5 | $11 \times 150 + 1 \times 30 = 1,680$ | <u>1,680</u> |
| TOTAL | | <u>6,630</u> |

(04 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:**Chapter 03- Financial Statements for a Partnership**

(a)

| Partners' Current Accounts | | | | (Rs.'000) | | | |
|----------------------------|--------------|--------------|--------------|---------------------|--------------|--------------|--------------|
| | Anuhas | Dewmi | Lihini | | Anuhas | Dewmi | Lihini |
| B/B/F | - | 900 | - | B/B/F | 1,200 | - | 600 |
| Drawings | 1,400 | 800 | 400 | Interest on Capital | 600 | 450 | 300 |
| Capital | - | - | 1,010 | Salaries | - | 600 | - |
| B/C/F | 1,675 | 115 | - | Profit Share | 1,275 | 765 | 510 |
| | 3,075 | 1,815 | 1,410 | | 3,075 | 1,815 | 1,410 |

(04 marks)

| Partners' Capital Accounts | | | | (Rs.'000) | | | |
|----------------------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|
| | Anuhas | Dewmi | Lihini | | Anuhas | Dewmi | Lihini |
| Goodwill | 900 | 600 | - | B/B/F | 6,000 | 4,500 | 3,000 |
| Loan | - | - | 4,490 | Goodwill | 750 | 450 | 300 |
| | | | | Revaluation | 450 | 270 | 180 |
| B/C/F | 6,300 | 4,620 | - | Current | - | - | 1,010 |
| | 7,200 | 5,220 | 4,490 | | 7,200 | 5,220 | 4,490 |

Land and Building = 6,000 (8,000-2,500) = 500

Motor Vehicle = 3,000 (4,000-1,400) = 400
900

(06 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 04 - Financial Statements Using Incomplete for Not For Profit Organizations

**Wenura Traders
Trial Balance
as at 31st March 2020 (Rs.'000)**

| | Dr. | Cr. |
|-------------------------------|---------------|---------------|
| Land & Buildings | 6,500 | |
| Motor Vehicles | 6,400 | |
| Inventory 01.04.2019 | 1,700 | |
| Trade Receivables | 1,400 | |
| Trade Payables | | 1,450 |
| Accrued Electricity | | 570 |
| Depreciation - Buildings | 800 | |
| Depreciation - Motor Vehicles | 400 | |
| Drawings | 480 | |
| Sales (4,200+2,700+480) | | 7,380 |
| Purchases (1,320+1,660) | 2,980 | |
| Electricity | 810 | |
| Salaries and Wages | 1,200 | |
| Stationery | 250 | |
| Capital | | 15,760 |
| Cash in Bank | 2,240 | |
| Closing Inventory | 1,300 | |
| Trading A/C | | 1,300 |
| | 26,460 | 26,460 |

Workings:

W1

Cash Account

| | | | |
|------------|-------|----------------|-------|
| B/B/F | 1,500 | Cash | 1,320 |
| Cash Sales | 4,200 | Creditors | 1,410 |
| Debtors | 3,100 | Motor Vehicles | 1,800 |
| | | Electricity | 580 |
| | | Salaries | 1,200 |
| | | Stationeries | 250 |
| | | B/C/F | 2,240 |
| | 8,800 | | 8,800 |

or

Cash Account

| | | | |
|----------|-------|----------|-------|
| B/B/F | 1,500 | Payments | 6,560 |
| Receipts | 7,300 | B/C/F | 2,240 |
| | 8,800 | | 8,800 |

W2

| Trade Debtors Account | | | |
|-----------------------|-------|-------|-------|
| B/B/F | 1,800 | Bank | 3,100 |
| Sales | 2,700 | | |
| | | B/C/F | 1,400 |
| | 4,500 | | 4,500 |

W3

| Trade Payables Account | | | |
|------------------------|-------|-----------|-------|
| Cash | 1,410 | B/B/F | 1,200 |
| | | Purchases | 1,660 |
| B/C/F | 1,450 | | |
| | 2,860 | | 2,860 |

W4

| Electricity Account | | | |
|---------------------|-------|-------|-------|
| Cash | 580 | B/B/F | 340 |
| | | P & L | 810 |
| B/C/F | 570 | | |
| | 1,150 | | 1,150 |

W5

| | | |
|------------------------------------|---|--------------------------|
| Total assets as at 31.03.2019 | = | 17,300,000 |
| Total liabilities as at 31.03.2019 | = | (1,540,000) |
| Capital | = | <u>15,760,000</u> |

*(Total 10 marks)***Suggested Answers to Question Four:**

| |
|---|
| Chapter 04- Financial Statements Using Incomplete for Not For Profit Organizations |
|---|

(a)**Membership Account**

| | | | |
|----------------------------|---------|------------------------------------|---------|
| B/B/F – Arrears (10×2,000) | 20,000 | B/B/F –Advance (2×2,000) | 4,000 |
| Income (350×2,000) | 700,000 | | |
| | | Receipts & Payments (364×2,000) | 728,000 |
| B/C/F – Advance (6×2,000) | 12,000 | | |
| | 732,000 | | 732,000 |

(05 marks)

(b)

Future Sports Club
Income and Expenditure Account
For the year ended 31st December 2020 **(Rs.'000)**

| | | |
|-------------------------------------|---------|----------------|
| Income: | | |
| Donations | 720,000 | |
| Interest Income | 432,500 | |
| Membership Subscription Income (W1) | 700,000 | 1,852,500 |
| Expenses: | | |
| Electricity & Ground Maintenance | 397,000 | |
| Depreciation of Sports Equipment | 23,000 | |
| Payments for Coaches | 45,000 | |
| Printing and Stationary | 50,000 | |
| Wages | 400,000 | |
| Advertising | 25,000 | (940,000) |
| Surplus for the year | | 912,500 |

Working:

W1 - Membership Subscription Income
 $350 \times 2,000 = \underline{700,000}$

(05 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 8 - Integrated and Non Integrated Accounting Systems

(a)

Birthday Party Cost

| | | |
|--------------------------------|-----------|---------------|
| Cost of Foods | 300×32 | 9,600 |
| Cost of Music and Band | Per Event | 8,500 |
| Photography | Per Event | 10,000 |
| Hall Charges | Per Event | 15,000 |
| Service Staff | 2500×2 | 5,000 |
| Other Overheads | Per Event | 3,950 |
| Total Cost of the Event | | 52,050 |

(05 marks)

(b)

Profit Reconciliation Statement **(Rs.'000)**

| | | |
|--------------------------------------|--------|----------------|
| Profit as per cost accounts | | 120,300 |
| Add: | | |
| Opening Stock | 13,950 | |
| Closing Stock | 11,800 | |
| Internet Income | 35,850 | |
| Overhead | 5,000 | 66,600 |
| | | 186,900 |
| Less: | | |
| Consultancy fee | 39,000 | (39,000) |
| Profit as per Finance Account | | 147,900 |

(05 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 7 – Accounting for Overhead & Costing Methods

(a)

Over Head Allocation & Apportion

| Description | Basis | Amount | Manufacturing | Packing | Technical |
|--------------------------|-----------------------------|------------------|------------------|------------------|------------------|
| Machinery Depreciation | Machine Hours 300:150:50 | 2,500,000 | 1,500,000 | 750,000 | 250,000 |
| Building Rent | Floor Area 1,600:500:400 | 2,400,000 | 1,536,000 | 480,000 | 384,000 |
| Quality Control Expenses | No. of Inspection 12:8 | 800,000 | 480,000 | 320,000 | - |
| Electricity | Usage 1000:600:200 | <u>1,800,000</u> | <u>1,000,000</u> | <u>600,000</u> | <u>200,000</u> |
| | | 7,500,000 | 4,516,000 | 2,150,000 | 834,000 |
| Allocation | 60%: 40% | 834,000 | <u>500,400</u> | <u>333,600</u> | <u>(834,000)</u> |
| Total | | | 5,016,400 | 2,483,600 | - |

(05 marks)

(b)

| | | | | |
|---|---|---------------------|----------------------|----------------|
| | | | Manufacturing | Packing |
| | | Cost | 5,016,400 | 2,483,600 |
| Overhead Absorption Rate based on Labour Hour | = | Basis/ Labour Hours | = | 100,000 |
| | | | = | <u>50.164</u> |
| | | | | <u>12.418</u> |

(02 marks)

(c)

| <u>Cost of Bottle</u> | Rs. |
|---------------------------------|-------------------|
| Direct Material | 20 |
| Direct Labour | <u>15</u> |
| Prime Cost | 35 |
| Overhead | |
| Manufacturing (1 Hour × 50.164) | 50.164 |
| Packing (2 Hours × 12.418) | <u>24.836</u> |
| Total Cost | <u>110</u> |

(03 marks)
(Total 10 marks)

End of Section B

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*Suggested Answers to Question Seven:***Chapter 2- Financial Statements for a Limited Liability Company**

(a)

Udara (Pvt) Ltd**Statement of Profit or Loss and Other Comprehensive Income****For the year ended 31st March 2020****(Rs.'000)**

| | | |
|---------------------------------------|--------|----------------|
| Sales | | 919,500 |
| Cost of Sales (648,300 + 700) | | (649,000) |
| Gross Profit | | 270,500 |
| <u>Distribution Expenses</u> | | |
| Bad debt written off | 2,300 | |
| Bad debt provision (W2) | 3,120 | |
| Depreciation – Motor vehicles (W3) | 7,500 | |
| Travelling & Transport | 15,400 | |
| Advertising | 10,600 | |
| Sales commission | 7,600 | (46,520) |
| <u>Administration Expenses</u> | | |
| Electricity & Water (8,600+100) | 8,700 | |
| Repair & Maintenance (2,400-200) | 2,200 | |
| Depreciation - Buildings (W3) | 3,000 | |
| - Plant & Equipment (W3) | 8,000 | |
| Salaries & Wages | 56,000 | |
| Print & Stationery | 2,400 | |
| Telephone | 3,800 | |
| Insurance | 3,600 | (87,700) |
| <u>Finance Expenses</u> | | |
| Debenture Interest | 2,000 | |
| Bank Charges | 250 | (2,250) |
| Profit Before Tax | | 134,030 |
| Income Tax (11,500-700) (W1) | | (10,800) |
| Profit After Tax | | 123,230 |

(b)

Udara (Pvt) Ltd
Statement Of Financial Position
As at 31st March 2020

(Rs.'000)

| | Cost | Accumulated Cost | Carrying Value |
|---|----------------|------------------|----------------|
| <u>Non - Current Assets</u> | | | |
| Land | 40,000 | - | 40,000 |
| Building | 60,000 | 35,000 | 25,000 |
| Motor Vehicles | 75,000 | 37,500 | 37,500 |
| Plant and Equipment | 120,000 | 56,000 | 64,000 |
| | 295,000 | 128,500 | 166,500 |
| <u>Current Assets</u> | | | |
| Inventory (54,900-700) | | 54,200 | |
| Trade Receivables (84,300-2,300) | 82,000 | | |
| Bad debt provision | (8,200) | 73,800 | |
| Prepayment | | 200 | |
| Cash in hand and at bank | | 15,230 | 143,430 |
| Total Assets | | | 309,930 |
| <u>Equity & Liabilities</u> | | | |
| <u>Equity</u> | | | |
| Stated Capital | | 108,000 | |
| General Reserve (W4) | | 30,000 | |
| Retained Earnings (W4) | | 131,330 | 269,330 |
| <u>Non - Current Liabilities</u> | | | |
| 10% Debentures | | | 20,000 |
| <u>Current Liabilities</u> | | | |
| Trade Payables | | 8,000 | |
| Accrued Electricity | | 100 | |
| Income Tax Payable | | 11,500 | |
| Debenture Interest Payable | | 1,000 | 20,600 |
| Total Equity and Liabilities | | | 309,930 |

Workings:**W1****Income Tax Payable**

| | | | |
|--------|---------------|--------|---------------|
| Cash | 15,300 | B/B/F | 16,000 |
| Income | 700 | Income | 11,500 |
| B/C/F | 11,500 | | |
| | 27,500 | | 27,500 |

W2**Provision for Bad Debt**

| | | | |
|-------|--------------|-------|--------------|
| | | B/B/F | 5,080 |
| | | P & L | 3,120 |
| B/C/F | 8,200 | | |
| | 8,200 | | 8,200 |

W3 - Depreciation of PPE

| | | | | |
|-----------------------------------|---|----------------|---|--------------|
| Depreciation on Building | = | <u>60,000</u> | = | 3,000 |
| | | 20 | | |
| Depreciation on Motor Vehicles | = | <u>75,000</u> | = | 7,500 |
| | | 10 | | |
| Depreciation on Plant & Equipment | = | <u>120,000</u> | = | 8,000 |
| | | 15 | | |

W4 - Statement of Changes in Equity

| Description | Stated Capital | General Reserve | Retained Earnings | Total |
|---------------------|----------------|-----------------|-------------------|----------------|
| Balance 01.04.2019 | 108,000 | 20,000 | 45,600 | 173,600 |
| Profit for the year | - | - | 123,230 | 123,230 |
| Transfer | - | 10,000 | (10,000) | - |
| Interim Dividends | - | - | (27,500) | (27,500) |
| | 108,000 | 30,000 | 131,330 | 269,330 |

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

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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