



Association of Accounting Technicians of Sri Lanka

Level II Examination- January 2022

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

Association of Accounting Technicians of Sri Lanka
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Level II Examination - January 2022

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (3)

(02 marks)

1.2 (2)

Workings

Consideration received from disposal		3,000,000
Less: Carrying value of the disposed lorry		
Cost	3,600,000	
Depreciation $(3,600,000/5 \times 2 \times 9/12 \text{ months})$	(1,980,000)	(1,620,000)
Profit from disposal		1,380,000

(02 marks)

1.3 (4)

(02 marks)

1.4 (1)

(02 marks)

1.5 (2)

Workings

$$\begin{aligned} \text{O/H absorption rate per machine hour} &= \frac{\text{Total budgeted overhead costs}}{\text{Total budgeted machine hours}} \\ &= \frac{1,200,000}{25,000} \\ &= \underline{\underline{\text{Rs. 48 per machine hour}}} \end{aligned}$$

$$\begin{aligned} \text{Total overheads absorbed} &= \text{Rate per hour} \times \text{Actual hours} \\ &= \text{Rs. 48} \times 21,500 \text{ hours} \\ &= \underline{\underline{\text{Rs. 1,032,000}}} \end{aligned}$$

$$\begin{aligned} \text{Under Absorption} &= 1,032,000 - 1,100,000 \\ &= \underline{\underline{\text{Rs. 68,000}}} \end{aligned}$$

(02 marks)

1.6 Current assets are assets that are:

1. It expects to utilize the assets or intends to sell or consume it in the normal operating cycle
2. Held primarily for the purpose of trading

3. Expected to be realized within 12 months after the reporting period
4. The asset is cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

(02 marks)

1.7 Advantages of piece rate system

1. Increased output.
2. This system itself calculates an incentive to worker.
3. Workers' efforts and rewards are matched
4. Level of supervision is low and consequently cost of supervision is low.
5. Machines are handled with care since machine break-downs will reduce output.
6. No idle time.
7. Overhead costs are favourably reduced.
8. Efficient employees are compensated.
9. Wage calculations become easy.
10. Employees act their own directions and are not waiting for directions of their superiors.

(03 marks)

1.8

	Ruwan	Saman	Wasantha
Old	1	1	
New	2	1	3
Sacrificing Ratio Ruwan	$= 3/6 - 2/6 = 1/6$		
Sacrificing Ratio Saman	$= 3/6 - 1/6 = 2/6$		

(03 marks)

1.9

- A **Provision** is a liability of uncertain timing or amount.
- A **contingent liability** is a possible obligation that arises from a past event and is completely out of control of the organization because the occurrence or non-occurrence of one or more uncertain events would determine the existence of contingent liability.

(03 marks)

1.10

Stock Ledger - FIFO

Date	Receipts			Issues			Balance	
	Qty (Units)	Price (Rs.)	Value (Rs.)	Qty (Units)	Price (Rs.)	Value (Rs.)	Qty (Units)	Value (Rs.)
01.01.2022							200	9,600
10.01.2022	300	50	15,000				500	24,600
18.01.2022				200	48	9,600		
				100	50	5,000	200	10,000
22.01.2022	200	49	9,800				400	19,800

(04 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:**Chapter 04 – Financial Statements using Incomplete Records and Financial Statements for Not for Profit Organizations**

(a)

Tharu Traders
Trial Balance
As at 31st December 2021 **(Rs.'000)**

	Dr	Cr
Cash at bank	5,339	
Sales (W1)		2,885,615
Sales Returns (Return Inwards)	125,000	
Trade Receivables (452,800 – 125,000)	327,800	
Purchases (W2)	1,914,284	
Trade payables		320,458
Office Equipment	725,000	
Depreciation	50,000	
Inventory	327,250	
Closing Inventory 31.12.2021		341,050
Trading Account	341,050	
Rent	180,000	
Salaries & Wages	360,000	
Electricity (W3)	18,000	
Accrued Electricity		7,000
Drawings	385,000	
Bank Charges	6,900	
Capital		1,211,500
	4,765,623	4,765,623

Workings**W1****Trade Receivables Account**

B/B/F	250,725	Cash	2,683,540
Sales	2,885,615	B/C/D	452,800
	<u>3,136,340</u>		<u>3,136,340</u>

W2**Trade Payables Account**

Cash	1,744,301	B/B/F	150,475
B/C/D	320,458	Purchases	1,914,284
	<u>2,064,759</u>		<u>2,064,759</u>

W3

Electricity Account

Cash	27,000	B/B/F	16,000
		P & L	18,000
B/C/D	7,000		
	<u>34,000</u>		<u>34,000</u>

(10 marks)

Suggested Answers to Question Three:

Chapter 03 - Financial Statements for a Partnership

(a)

Partners' Capital Accounts

(Rs.'000)

	Ranjith	Malith	Udith		Ranjith	Malith	Udith
Goodwill	875	-	875	B/B/F	3,000	6,000	6,000
Loan		12,160		Goodwill	350	700	700
B/C/D	3,875		8,625	Revaluation	1,400	2,800	2,800
				Current A/C		2,660	
	4,750	12,160	9,500		4,750	12,160	9,500

(06 marks)

(b)

Partners' Current Accounts

(Rs.'000)

	Ranjith	Malith	Udith		Ranjith	Malith	Udith
B/B/F		560		B/B/F	125	-	25
		2,660		Salary		420	
B/C/D	1,525		2,825	Interest	180	360	360
				Profit Share	1,220	2,440	2,440
	1,525	3,220	2,825		1,525	3,220	2,825

(04 marks)

Workings

Profit before appropriation (7,000 + 420)	7,420
Salary	(420)
Interest	(900)
	6,100
Profit Share	
Rajith	(1,220)
Malith	(2,440)
Udith	(2,440)
	-

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 - Financial Statements using Incomplete Records and Financial Statements for Not for Profit Organizations

(a)

Happy Sport Club
Income Statement of the Restaurant
For the year ended 31st December 2021

Sales		1,575,000
Cost of Sales		
Opening Inventory	52,000	
Purchases	682,500	
Closing Inventory	(33,500)	(701,000)
Gross Profit		874,000
Salaries and Wages	450,000	
Rent on Building	87,500	
Electricity and Water	116,400	
Depreciation - Furniture	25,000	(678,900)
Profit		195,100

(04 marks)

(b)

Happy Sport Club
Income and Expenditure Account
For the year ended 31.12.2021

Income		
Membership subscription fee (W1)	2,790,000	
Income on renting the play ground	557,000	
Profit on Restaurant	195,100	3,542,100
Less: Expenses		
Salaries and Wages	1,050,000	
Rent on Building	262,500	
Electricity and Water	174,600	
Playground Maintenance	228,000	
Depreciation - Sport Equipment	250,000	(1,965,100)
Surplus for the year		1,577,000

Working

W1 – Membership Subscription Fee

Membership Subscription Fee A/c			
Income	2,790,000	Receipt & Payment	2,250,000
		B/C/D	540,000
	<u>2,790,000</u>		<u>2,790,000</u>

(06 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 06 – Accounting for Material and Labour

(A)

Normal hours (per week)	=	8 × 5	=	40
Basic wage per week	=	40 × 275	=	11,000
Bonus (W1)	=	13 × 275 × 120%	=	4,290
Total Earnings			=	15,290

Working - (W1)

Number of times worked	=	2,400 minutes	
Standard time per unit	=	12 minutes	
Total time taken to produce 265 units	=	$\frac{12 \times 265}{60}$	= 3,180
Saved time	=	3,180 – 2,400	= 780 minutes
Number of saved hours	=	780/60	= 13 hours
Therefore, Bonus	=	13 hours × Rs.275 × 120%	= <u>Rs.4,290</u>

(05 marks)

(B)

(a)

$$\begin{aligned} \text{Economic Order Quantity (EOQ)} &= \sqrt{\frac{2DC_0}{Ch}} \\ &= \sqrt{\frac{2 \times 4,000 \times 450,000}{12,500 \times 20\%}} \\ &= \sqrt{\frac{2 \times 4,000 \times 450,000}{2,500}} \\ &= \underline{\underline{1,200 \text{ units}}} \end{aligned}$$

(03 marks)

(b)

$$\begin{aligned}\text{Re-order level} &= \text{Maximum Usage} \times \text{Maximum Lead Time} \\ &= 4 \times 400 \\ &= \underline{\underline{1,600}}\end{aligned}$$

(02 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter 07 – Accounting for Overhead & Costing Methods

(A)

Overhead allocation and apportionment sheet

Description	Base	Basis	Amount	Manufacturing	Package	Service
Factory Rent	Square Feet	1400:3350:250	350,000	98,000	234,500	17,500
Supervision Cost	Employee	40:100:20	120,000	30,000	75,000	15,000
Electricity	Electricity K.W	1000:300:200	150,000	100,000	30,000	20,000
Depreciation	Value of Machine	620:930:50	24,000	9,300	13,950	750
Total			644,000	237,300	353,450	53,250
Service Cost Appropriation		60% : 40%	53,250	31,950	21,300	(53,250)
Total				269,250	374,750	-

SRI LANKA

(06 marks)

(B)

Job card 100

(Rs.)

Direct Material	1,800 × 120	216,000
Direct Labour	300 × 800	240,000
Production Overheads	240,000 × 80%	192,000
Total cost		648,000
Profit 15%		97,200
Selling Price		745,200

(04 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:

Chapter 02 – Financial Statements for a Limited Liability Company

(a)

Go Lanka (Pvt) Ltd
Statement of Profit or Loss and Other Comprehensive Income Statement
For the year ended 31 March 2021 **(Rs.'000)**

Sales		850,000
Cost of Sales (603,500 + 250)		(603,750)
Gross Profit		246,250
Other Income – Insurance Claim		160
		246,410
<u>Expenses</u>		
<u>Distribution Expenses</u>		
Depreciation - Motor Vehicles (W2)	18,750	
Allowance for Trade Receivables	560	
Sales Incentives	8,500	
Advertising	25,500	(53,310)
<u>Administration Expenses</u>		
Depreciation - Office Equipment (W2)	10,600	
Office Rent	900	
Water & Electricity	1,225	
Salaries, EPF and ETF	95,744	
Other Expenses	27	(108,496)
<u>Finance Expenses</u>		
Bank charges	560	
Interest on Debentures	1,800	(2,360)
Profit Before Tax		82,244
Taxation (W1)	(3,825)	(3,825)
Profit for the year		<u>78,419</u>

(13 marks)

(b)

Go Lanka (Pvt) Ltd
Statement of Financial Position
As at 31st March 2021

(Rs.'000)

	Cost	Accumulated Depreciation	Carrying Value
<u>Non-Current Assets</u>			
Motor Vehicles	75,000	37,750	37,250
Office Equipment	53,000	38,100	14,900
	128,000	75,850	52,150
<u>Current Assets</u>			
Inventory (189,941 -250)		189,591	
Trade Debtors (357,500 - 3,310)		354,190	
Insurance Claim Receivables		160	
Prepaid Rent		225	
Cash and Bank		144,319	688,485
Total Assets			740,635
<u>Equity</u>			
<u>Equity and Liabilities</u>			
Stated Capital		250,000	
Retained Earnings (108,000 + 78,419)		186,419	436,419
Total Equity			
<u>Liabilities</u>			
<u>Non-Current Liabilities</u>			
12% Debentures	-	15,000	15,000
<u>Current Liabilities</u>			
Trade Payables		287,425	
Debentures Interest Payable		900	
Income Tax Payable		825	
EPF & ETF Payable		66	289,216
Total Equity and Liabilities			740,635

Workings**W1 Income Tax Payable Account**

Cash	3,055	B/B/F	55
B/C/D	825	P & L	3,825
	<u>3,880</u>		<u>3,880</u>

W2 Depreciation

Motor Vehicle	=	75,000/4	=	18,750
Office Equipment	=	53,000/5	=	16,600

(12 marks)
 (Total 25 marks)

End of Section C

Notice:

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