



**Association of Accounting Technicians of Sri Lanka**

**Level II Examination - July 2022**

**Suggested Answers**

**(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)**

**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**

Level II Examination - July 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)

Workings

$$\text{Depreciation} = (840,000 - 40,000) / 5 = 160,000$$

$$4 \text{ Years Accumulated Depreciation} = 160,000 \times 4 = 640,000$$

$$\text{Carrying value} = 840,000 - 640,000 = \underline{200,000}$$

(02 marks)

1.2 (1)

(02 marks)

1.3 (3)

Workings

$$\text{Cost} = 500,000$$

$$\text{Residual Value} = \underline{(20,000)}$$

$$\text{Depreciable Value} = \underline{480,000}$$

(02 marks)

1.4 (3)

(02 marks)

1.5 (2)

Workings

$$\text{Re-Order level} = \text{Maximum usage} \times \text{Maximum lead time}$$

$$= 400 \times 8$$

$$= \underline{3,200}$$

(02 marks)

1.6 (1)

(02 marks)

1.7

| Criteria  | Financial Accounting  | Cost Accounting   |
|-----------|---|---|
| Time Span | Transactions are recorded and Statements are prepared for a specific/definite period. Eg: Quarterly, Bi-Annual, Annual Financial Statements | Transactions related to Cost Accounting are identified with cost unit / cost object. Reports/ Statements related to Cost Accounting are reported to the Management at different intervals of time (Ad-hoc / When required). |

|                |  |   |
|----------------|--|---|
| <b>Purpose</b> | The purpose of financial accounting is to report the financial performance and Financial position of the business to the users of Financial statements in order to facilitate decision making. (Primarily Financial accounting information facilitates the information needs of External Stakeholders) | The purpose of Cost Accounting is to assist the management to take effective decisions while facilitating an efficient planning and control environment within the organization. (Primarily Cost accounting information facilitates the information needs of Internal Stakeholders) |
|----------------|--|---|

(02 marks)

**1.8 Basic contents included in the partnership agreement**

- 1 The name of the partnership, business place and the nature of the business.
- 2 Name and the address of the partners.
- 3 Date of the commencement of the business.
- 4 The amount of capital introduced by each partner and capital ratios.
- 5 Method of profit/loss sharing among partners.
- 6 Whether partners are entitling for interest on capital or not, if any it's percentages.
- 7 Methods that should be followed when admitting a new partner.
- 8 If any loan is given by a partner in addition to capital whether it is entitling for interest if any its interest.
- 9 Methods of adjusting goodwill revaluation.
- 10 Methods and conditions related to the dissolution of partnerships.
- 11 Whether partners are entitling for remuneration for actions in the partnership business or not, if any it's the amount.
- 12 Methods that should be followed if an existing partner retries.
- 13 Whether interest is charged on drawings or not if any it's rate.
- 14 Whether interest is applicable for current account balances or not, if any it's percentage.
- 15 Any other matter related to partnership business.

(03 marks)

**1.9**

**VAT Payable Account**

|              |                |             |                |
|--------------|----------------|-------------|----------------|
| Input (W3)   | 60,000         | B/B/F       | 245,000        |
| Return (W2)  | 24,000         | Output (W1) | 103,680        |
| <b>B/C/F</b> | <b>264,680</b> |             |                |
|              | <u>348,680</u> |             | <u>348,680</u> |

**Workings**

**W1** Sales = 1,296,000 × 8% = 103,680

**W2** Sales Return = 300,000 × 8% = (24,000)

Output VAT = 79,680

**W3** Input VAT = Purchases × VAT% = 750,000 × 8% = 60,000

(04 marks)

**1.10**

| <b>Job No. 2000</b>           |               | <b>(Rs.)</b>            |
|-------------------------------|---------------|-------------------------|
| Direct Raw Material           | 8,000 × 40    | 320,000                 |
| Direct Labour - Department I  | 300 × 800     | 240,000                 |
| Direct Labour - Department II | 450 × 1200    | 540,000                 |
| Production Overhead           | 780,000 × 75% | 585,000                 |
| Total Cost                    |               | 1,685,000               |
| Profit Margin                 | 20%           | 337,000                 |
| <b>Selling Price</b>          |               | <b><u>2,022,000</u></b> |

(04 marks)

aat  
SRI LANKA

(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)

**Safety Distributors  
Trial Balance  
As at 31st March 2022**

|                                     | Dr               | Cr               |
|-------------------------------------|------------------|------------------|
| Furniture & Office Equipment        | 378,000          |                  |
| Open Inventory                      | 98,500           |                  |
| Rent                                | 96,000           |                  |
| Rent paid in Advance                | 40,000           |                  |
| Cash at Bank (W1)                   | 264,500          |                  |
| Trade Creditors                     |                  | 19,200           |
| Accrued Bills (Water & Electricity) |                  | 5,000            |
| Salaries and Wages                  | 360,000          |                  |
| Water & Electricity (W2)            | 77,000           |                  |
| Telephone                           | 12,000           |                  |
| Drawings                            | 420,000          |                  |
| Capital (W3)                        |                  | 611,500          |
| Sales                               |                  | 5,000,000        |
| Purchases (W4)                      | 3,807,700        |                  |
| Depreciation (W5)                   | 82,000           |                  |
|                                     | <u>5,635,700</u> | <u>5,635,700</u> |

W1

**Cash at Bank**

|       |                  |                           |                  |
|-------|------------------|---------------------------|------------------|
| B/B/F | 27,500           | Trade Creditors           | 3,800,000        |
| Sales | 5,000,000        | Rent                      | 96,000           |
|       |                  | Salaries & Wages          | 360,000          |
|       |                  | Telephone Bills           | 12,000           |
|       |                  | Water & Electricity Bills | 75,000           |
|       |                  | Drawings                  | 420,000          |
|       |                  | <b>B/C/D</b>              | <b>264,500</b>   |
|       | <u>5,027,500</u> |                           | <u>5,027,500</u> |

**W2**

**Accrued Bills (Water and Electricity) Account**

|       |        |                  |               |
|-------|--------|------------------|---------------|
| Cash  | 75,000 | B/B/F            | 3,000         |
| B/C/D | 5,000  | <b>P &amp; L</b> | <b>77,000</b> |
|       | <hr/>  |                  | <hr/>         |
|       | 80,000 |                  | 80,000        |
|       | <hr/>  |                  | <hr/>         |

**W3 - Hansi's Capital as at 31.03.2022**

|  |                       |
|--|-----------------------|
| Total Assets of Hansi Safety Distributors as at 31.03.2021<br>(310,000 + 98,500 + 40,000 + 27,500) | 476,000               |
| Total Liabilities of Hansi Safety Distributors as at 31.03.2021 (11,500 + 3,000)                   | <u>(14,500)</u>       |
| Hansi's capital as at 31.03.2021   | 461,500               |
| Purchase of Air conditioner out of Hansi's own money   | <u>150,000</u>        |
| <b>Hansi's capital as at 31.03.2022</b>  | <b><u>611,500</u></b> |

**W4**

**Trade Creditors Account**

|       |           |                  |                  |
|-------|-----------|------------------|------------------|
| Cash  | 3,800,000 | B/B/F            | 11,500           |
| B/C/D | 19,200    | <b>Purchases</b> | <b>3,807,700</b> |
|       | <hr/>     |                  | <hr/>            |
|       | 3,819,200 |                  | 3,819,200        |
|       | <hr/>     |                  | <hr/>            |

**W5 - Depreciation**

**Furniture & Office Equipment Account**

|         |         |                     |               |
|---------|---------|---------------------|---------------|
| B/B/F   | 310,000 | <b>Depreciation</b> | <b>82,000</b> |
| Capital | 150,000 |                     |               |
|         | <hr/>   | B/C/D               | <hr/>         |
|         | 460,000 |                     | 378,000       |
|         | <hr/>   |                     | <hr/>         |
|         |         |                     | 460,000       |
|         |         |                     | <hr/>         |

**(10 marks)**

### Suggested Answers to Question Three:

#### Chapter 03 - Financial Statements for a Partnership

(a)

| Partners' Capital Accounts |               |               |             | (Rs.'000)   |               |               |             |
|----------------------------|---------------|---------------|-------------|-------------|---------------|---------------|-------------|
|                            | Ranga         | Nanga         | Dulga       |             | Ranjith       | Nanga         | Dulga       |
| Goodwill                   | 1,500         | 1,500         |             | B/B/F       | 8,000         | 8,000         | 4,000       |
| Loan                       |               |               | 5650        | Goodwill    | 1,200         | 1,200         | 600         |
| B/C/D                      | 8,620         | 8,620         |             | Revaluation | 920           | 920           | 460         |
|                            |               |               |             | Current A/c |               |               | 590         |
|                            | <b>10,120</b> | <b>10,120</b> | <b>5650</b> |             | <b>10,120</b> | <b>10,120</b> | <b>5650</b> |

(06 marks)

(b)

| Partners' Current Accounts |              |              |            | (Rs.'000)         |              |              |            |
|----------------------------|--------------|--------------|------------|-------------------|--------------|--------------|------------|
|                            | Ranga        | Nanga        | Dulga      |                   | Ranjith      | Nanga        | Dulga      |
| B/B/F                      | 226          | -            | 50         | B/B/F             | -            | 632          | -          |
| Drawings                   |              | 550          |            | Salary            |              | 600          |            |
| Capital A/c                |              |              | 590        | Interest          | 800          | 800          | 400        |
| B/C/D                      | 1,054        | 1,962        |            | Profit Share (W1) | 480          | 480          | 240        |
|                            | <b>1,280</b> | <b>2,512</b> | <b>640</b> |                   | <b>1,280</b> | <b>2,512</b> | <b>640</b> |

#### Workings

##### W1 – Profit Share

|                             |                     |
|-----------------------------|---------------------|
| Profit before appropriation | 3,800               |
| Salary                      | (600)               |
| Interest                    | <u>(2,000)</u>      |
|                             | 1,200               |
| <b>Profit Share</b>         |                     |
| <b>Ranga</b>                | <b>(480)</b>        |
| <b>Nanga</b>                | <b>(480)</b>        |
| <b>Dulga</b>                | <b><u>(240)</u></b> |
|                             | -                   |

(04 marks)  
(Total 10 marks)

### Suggested Answers to Question Four:

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

(a)

**Membership Subscription Account**

|                                      |                  |                                    |                  |
|--------------------------------------|------------------|------------------------------------|------------------|
| B/B/F (15×15,000)                    | 225,000          | B/B/F (20×15,000)                  | 300,000          |
| Income & Expenditure<br>(127×15,000) | 1,905,000        | Bad debt Written Off<br>(3×15,000) | 45,000           |
| B/B/F (4×15,000)                     | 60,000           | Receipts & Payment                 | 1,845,000        |
|                                      | <u>2,190,000</u> |                                    | <u>2,190,000</u> |

(05 marks)

(b)

**Rohanians Colombo Association  
Income and Expenditure Account  
For the year ended 31.12.2021**

|   |           |                  |
|---|-----------|------------------|
| <b>Income</b>                             |           |                  |
| Membership subscription fee               | 1,905,000 |                  |
| Profit of annual get together income (W1) | 110,000   | 2,015,000        |
| <b>Less: Expenses</b>                     |           |                  |
| Bad Debt                                  | 45,000    |                  |
| Stationery                                | 45,000    |                  |
| Postage                                   | 36,000    |                  |
| Travelling                                | 12,000    |                  |
| Telephone                                 | 15,000    |                  |
| Depreciation                              | 46,000    | (199,000)        |
| <b>Surplus for the year</b>               |           | <b>1,816,000</b> |

W1

**Get Together Account**

|                     |          |                |
|---------------------|----------|----------------|
| Income (90 × 2,000) |          | 180,000        |
| Expenses:           |          |                |
| Hotel Fee           | (50,000) |                |
| Music Team          | (20,000) | (70,000)       |
|                     |          | <u>110,000</u> |

(05 marks)  
(Total 10 marks)



### Suggested Answers to Question Five:

#### Chapter 06 – Accounting for Material and Labour

(A)

1. Cutting Department – Production cost center
2. Sewing Department – Production cost center
3. Packing Department – Production cost center
4. Stores – Service cost center
5. Maintenance Department – Service cost center
6. Finance and Human Resource - Service cost center

(04 marks)

(B)

(a)

#### Raw Material Control Account

|                    |                |               |                |
|--------------------|----------------|---------------|----------------|
| B/B/F              | 250,000        | Issues to WIP | 550,000        |
| Purchases - Credit | 500,000        |               |                |
| Purchases - Cash   | 175,000        |               |                |
|                    |                | B/C/F         | 375,000        |
|                    | <u>925,000</u> |               | <u>925,000</u> |

(03 marks)

(b)

#### WIP Control Account

|               |                  |                |                  |
|---------------|------------------|----------------|------------------|
| B/B/F         | 300,000          | Finished Goods | 1,600,000        |
| Raw Material  | 550,000          | B/C/F          | 100,000          |
| Direct Wages  | 600,000          |                |                  |
| Production OH | 250,000          |                |                  |
|               | <u>1,700,000</u> |                | <u>1,700,000</u> |

(03 marks)

(Total 10 marks)

### Suggested Answers to Question Six:

#### Chapter 06 - Accounting for Material and Labour

(A)

(a) Annual Demand = Annual Production × Unit usage

$$\begin{aligned}
 &= \frac{100,000 \times 250}{1,000} \\
 &= \underline{25,000 \text{ kg}}
 \end{aligned}$$

(02 marks)

(b)

$$\begin{aligned}\text{Economic Order Quantity (EOQ)} &= \sqrt{\frac{2DC_0}{Ch}} \\ &= \sqrt{\frac{2 \times 25,000 \times 28,900}{20}} \\ &= \underline{\underline{8,500 \text{ kg}}}\end{aligned}$$

(03 marks)

(B)

|                                | Rs.           |
|--------------------------------|---------------|
| Normal Wage (8 × 125 × 20)     | 20,000        |
| Bonus (W1)<br>(30 × 125 × 60%) | 2,250         |
| <b>Total Earnings</b>          | <b>22,250</b> |

**Working**

$$\begin{aligned}\text{Standard Time per unit} &= 4 \text{ minutes} \\ \text{Time allowed to produce 2,859 units} &= \frac{4 \times 2,850}{60} \\ &= 190 \text{ hours} \\ \text{Actual hours spent (8 × 20)} &= 160 \text{ hours} \\ \text{Saved hours} &= \underline{\underline{30 \text{ hours}}}\end{aligned}$$

(05 marks)  
(Total 10 marks)

**End of Section B**

*Suggested Answers to Question Seven:*

**Chapter 02 – Financial Statements for a Limited Liability Company**

(a)

| Pearl (Pvt) Ltd  |        |                |
|--|--------|----------------|
| Statement of Profit or Loss and Other Comprehensive Income Statement |        |                |
| For the year ended 31 March 2022                                     |        | (Rs.'000)      |
| Sales  |        | 973,880        |
| Cost of Sales (606,254 + 600)  |        | (606,854)      |
| Gross Profit   |        | <b>367,026</b> |
| <b><u>Distribution Expenses</u></b>                                  |        |                |
| Depreciation - Motor Vehicle (W2)                                    | 21,250 |                |
| Bad Debt   | 70     |                |
| Allowance for Trade Receivables (17,970 - 3,150)                     | 14,820 |                |
| Advertising & Sales Commission                                       | 25,287 |                |
| Fuel & Transport   | 8,540  | (69,967)       |
| <b><u>Administration Expenses</u></b>                                |        |                |
| Depreciation - Office Equipment (W2)                                 | 3,000  |                |
| Water & Electricity (1,309 + 65)                                     | 1,374  |                |
| Office Rent  | 1,125  |                |
| Salaries & Wages   | 88,244 |                |
| Other Administration Expenses  | 3,602  | (97,345)       |
| <b><u>Other Expenses</u></b>   |        |                |
| Debenture Interest   | 6,000  |                |
| Bank Charges   | 751    | (6,751)        |
| <b>Profit Before Tax</b>   |        | <b>192,963</b> |
| Taxation (3,825 + 445)   |        | (4,270)        |
| <b>Profit for the year</b>   |        | <b>188,693</b> |

(13 marks)

(b)

**Pearl (Pvt) Ltd**  
**Statement of Financial Position**  
**As at 31<sup>st</sup> March 2022**

(Rs.'000)

|   | Cost    | Accumulated Depreciation | Carrying Value |
|---|---------|--------------------------|----------------|
| <b><u>Non-Current Assets</u></b>          |         |                          |                |
| Motor Vehicles                            | 85,000  | 58,350                   | 26,650         |
| Office Equipment                          | 15,000  | 12,000                   | 3,000          |
|   | 100,000 | 70,350                   | 29,650         |
| <b><u>Current Assets</u></b>              |         |                          |                |
| Inventories (190,552 - 600)               |         | 189,952                  |                |
| Trade Receivables (359,470 - 70 - 17,970) |         | 341,430                  |                |
| Cash in hand and at bank                  |         | 157,169                  | 688,551        |
| <b>Total Assets</b>                       |         |                          | <b>718,201</b> |
| <b><u>Equity and Liabilities</u></b>      |         |                          |                |
| Stated Capital                            |         | 300,000                  |                |
| Retained Earnings (80,000 + 188,693)      |         | 268,693                  |                |
| <b>Total Equity</b>                       |         |                          | 568,693        |
| <b><u>Non-Current Liabilities</u></b>     |         |                          |                |
| 15% Debenture                             |         |                          | 40,000         |
| <b><u>Current Liabilities</u></b>         |         |                          |                |
| Trade Payables                            |         | 105,618                  |                |
| Debenture Interest Payable                |         | 3,000                    |                |
| Income Tax Payable (W1)                   |         | 825                      |                |
| Accrued Expenses                          |         | 65                       | 109,508        |
| <b>Total Equity and Liabilities</b>       |         |                          | <b>718,201</b> |

**Workings****W1****Income Tax Payable Account**

|       |              |       |              |
|-------|--------------|-------|--------------|
| Cash  | 3,445        | B/B/F | 445          |
| B/C/F | 825          | P & L | 3,825        |
|       | <u>4,270</u> |       | <u>4,270</u> |

**W2 - Depreciation**

Motor Vehicle = 85,000/4 = 21,250

Office Equipment = 15,000/5 = 3,000

*(12 marks)*

*(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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