



Association of Accounting Technicians of Sri Lanka

Level II Examination - January 2026

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

Association of Accounting Technicians of Sri Lanka
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Level II Examination – January 2026

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (2)

Depreciable Amount = Cost – Residual Value

$$= 2,500,000 - 500,000 = 2,000,000$$

Annual Depreciation = 2,000,000 / 5 years = Rs.400,000

Depreciation period from 1st of January 2023 to 31st March 2025 = 2 years and three months

For 2 years = 400,000 X 2 = 800,000

For 3 months = 400,000 / 12 X 3 = 100,000

Accumulated Depreciation = 900,000

Carrying value as at 31st March 2025 = Cost – Accumulated depreciation

$$= 2,500,000 - 900,000$$

$$= \underline{\underline{\text{Rs.1,600,000}}}$$

(02 marks)

1.2 (1)

The bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivables.

(02 marks)

1.3 (4)

	Rs.
Gross Salary	7,800,000
Less: Deductions	
Employees' Provident Fund (8%)	(624,000)
APIIT	(660,000)
Net Salary	<u>6,516,000</u>

(02 marks)

1.4 (1)

Rent Expense A/C

1/4/24 BBF	225,000	1/4/24 BBF	180,000
Cash	2,400,000	Expense (P&L)	2,510,000
31/3/25 BBD	240,000	31/3/25 BBD	175,000
	2,865,000		2,865,000
31/3/25 BBF	175,000	31/3/25 BBF	240,000

(02marks)

1.5 (4)

Re-order level = maximum usage X maximum lead time

= 400Kg X 6 months

=2,400Kg

(02 marks)

1.6 Full marks can be awarded for any two of the below. (Page. 6 of the study text)

1. Statement of Financial Position
2. Statement of Comprehensive Income
3. Statement of Changes in Equity
4. Statement of Cash Flow
5. Notes comprising a summary of significant accounting policies and other explanatory information

(02 marks)

1.7 Full marks can be awarded for any three of the below. (Page. 302 of the study text)

1. Simple to understand
2. Each worker is assured of a minimum wage
3. Standard quality of the product is maintained
4. It is preferred and accepted by the trade union
5. There is no discrimination among the workers
6. Average and the below-average workers are also equally benefited.
7. Easy to administrate

(03 marks)

1.8 Full marks can be awarded for any three of the below. (Page. 154-155 of the study text)

1. Partners are entitled to introduce equal capital.
2. Partners should share profit or loss equally.
3. Partners are not entitled to interest for employed capital. But if a loan is given by a partner in addition to the capital, an interest can be charged at a rate of 5% .
4. All partners are entitled to take part in the management.
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 the books and documents must be kept at the business place and every partner has a right to examine those.
7. Partners are entitled to reimburse the expenses incurred on partnership activities.
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 not entitled to receive remuneration for actions in the partnership

(03 marks)

1.9

VAT Control Account

VAT paid on purchase	99,000	Balance B/F	52,500
VAT on Sale Return	11,700	VAT payable on Sales	216,000
Balance C/D	157,800		
	268,500		
		Balance B/F	157,800
			268,500

Workings

VAT on Sales	1,200,000X18%	Rs.	216,000
VAT on Purchase	550,000X18%		99,000
VAT on Sale Return	65,000X18%		11,700

(03 marks)

1.10 Cost and Profit Analysis – Job No.205

	Rs.
Direct Materials (150Kg X Rs.150)	22,500
Direct Labour (75 hours X Rs.600)	45,000
Production Overhead – Dept Q (150% on 45,000)	67,500
Production Overhead – Dept R (60% on 45,000)	27,000
Total cost of the job	162,000
Add: Profit on selling price (162,000/80X20)	40,500
Selling Price	202,500

(04 marks)
(Total 25 marks)

End of Section A

Suggested Answers to Question Two:**Chapter 04: Financial Statements Using Incomplete Records****(a)****Thilak Catering****Statement of Profit and Loss****For the year ended 31st December 2025****Rs.**

Sales (W1)		9,790,000
Cost of Sales		
Opening Stock	16,300	
Purchases	3,200,000	
Closing Stock	(17,500)	(3,198,800)
Gross Profit		6,591,200
Less: Expenses		
Rent expense $(720,000/2) \times (6/12)$	180,000	
Electricity and Water (W2)	95,100	
Salaries (2 employees X Rs.60,000X12Months)	1,440,000	
Incentives $(9,600,000 \times 10\%)$	960,000	
Machinery Depreciation $(2,200,000 - 1,800,000)$	400,000	(3,075,100)
Net Profit		3,516,100

W1: Sales**Trade Debtors A/C**

	480,000	Cash	9,600,000
Sales	9,790,000	BDD	670,000
	10,270,000		10,270,000
BBF	670000		

W2: Electricity and Water**Accrued Electricity and Water**

Cash	96,000		6,200
B/C/D	5,300	Profit and Loss	95,100
	101,300		101,300
			5,300

(07 marks)**(b)**

Frist Method	
Capital Balance as at 31st December 2025	
Opening Capital	3,590,100
(2,200+480+16.3+1,530-630-6.2)	
Add: Profit For the Year	3,516,100
Additional Capital	-
Less: Drawings	-
Closing Capital / Equity	7,106,200
Second Method	
Closing Net Assets	
Machinery	1,800,000
Trade Debtors	670,000
Inventories	17,500
Cash and Bank (W3)	4,804,000
Prepaid Rent (720,000-180,000)	540,000
Trade Creditors	(720,000)
Accrued Electricity and Water	(5,300)
Closing Net Assets/Capital / Equity	7,106,200

W3: Cash and Bank A/C

Cash A/C			
	1,530,000	Trade Creditors (W4)	3,110,000
Receipts from debtors	9,600,000	Electricity and Water	96,000
		Rent	720,000
		Salaries	1,440,000
		Incentives	960,000
		B/C/D	4,804,000
	<u>11,130,000</u>		<u>11,130,000</u>
	4,804,000		-

W4: Payment to Creditors

Trade Creditors A/C			
Cash	3,110,000	Profit and Loss	630,000
B/C/D	720,000		3,200,000
	<u>3,830,000</u>		<u>3,830,000</u>
			720,000

(03 marks)
(Total 10 marks)

Suggested Answers to Question Three:

(a)

Partners' Capital A/C

	Hilan	Nilan	Dilan		Hilan	Nilan	Dilan
Goodwill	1,500,000	1,500,000	-	B/B/F	8,000,000	8,000,000	4,000,000
loan/Cash			5,638,000	Goodwill	1,200,000	1,200,000	600,000
B/C/D	8,420,000	8,420,000	-	Revaluation gain (W1)	720,000	720,000	360,000
				Current A/C	-	-	678,000
	9,920,000	9,920,000	5,638,000		9,920,000	9,920,000	5,638,000
					8,420,000	8,420,000	-

(05 marks)

(b)

Partners' Current A/C

	Hilan	Nilan	Dilan		Hilan	Nilan	Dilan
Balance B/F	200,000	-	200,000	Balance B/F	-	800,000	-
Capital A/C			678,000	Partners' Salary	-	-	300,000
				Interest on Capital	800,000	800,000	400,000
B/C/D	956,000	1,956,000		Profit Share	356,000	356,000	178,000
	1,156,000	1,956,000	878,000		1,156,000	1,956,000	878,000
				BBF	956,000	1,956,000	-

(05 marks)

Workings

SRI LANKA

HND Associates

Profit and Loss Appropriation A/C

For the Year Ended 31st December 2025

Net Profit		3,190,000
		3,190,000
Partners' Salary		
Dilan (25,000X12)	300,000	(300,000)
Interest on Capital		
Hilan (8,000X10%)	800,000	
Nilan (8,000X10%)	800,000	
Dilan (4,000X10%)	400,000	(2,000,000)
Profit Share		
Hilan	356,000	
Nilan	356,000	
Dilan	178,000	890,000

Working 01: Revaluation Gain (Rs.000)

Item	Cost	Accumulated Dep.	Carrying Amount	Revalued Amount	Revaluation gain/loss
Land and Buildings	6,000	200	5,800	6,500	700
Motor Vehicles	2,000	500	1,500	2,600	1,100
Total Revaluation Gain					1,800

* Total revaluation gain should be shared among partners as per the old profit-sharing ratio
(Total 10 marks)

Suggested Answers to Question Four:**Chapter 04: Financial Statements Using Incomplete for Not for Profit Organizations**

(a)

Members' Subscription Account

Balance B/F (W1)	10,000	Balance B/F (W2)	15,000
Income and Expenditure (W4)	2,420,000	Receipt and Payment	2,440,000
Balance B/D (W3)	25,000		
	<u>2,455,000</u>		<u>2,455,000</u>
		Balance B/F	<u>25,000</u>

Workings

Workings 01	Rs.
Opening Receivables (5members X Rs.1,000 per month X 2 months)	10,000

Workings 02	Rs.
Opening Received in Advance (15 members X 1,000)	15,000

Working 03	Rs.
Closing Paid in Advance (25 members X Rs.1,000)	25,000

Workings 04	Rs.
Subscription for the year (200members X Rs.1,000X12)	2,400,000
New Member joined (20 members X Rs.1,000X 1 month)	20,000
Total	2,420,000

(04 marks)

(b)

Hamilton Welfare Association
Income and Expenditure A/C
For the Year Ended 31st December 2025

Depreciation on Laptop (200,000/5)X(6/12)	20,000	Membership Subscription	2,420,000
Printing and Stationery (80%)	41,600	Surplus for Christmas Party (W1)	594,600
Funerals of members' families	20,000	Interest Income on FD	230,000
Wedding ceremonies of the members	50,000		
Surplus	3,113,000		
	3,244,600		3,244,600

Workings

W1

Surplus from Christmas Party		
Receipts		
From Hamilton PLC	1,100,000	
From Members	900,000	
Sponsorships	750,000	2,750,000
Less: Expenses		
Hotel charges	1,950,000	
Musical Band	75,000	
Gifts Items	120,000	
Printing and Stationery (20%)	10,400	(2,155,400)
Surplus		594,600

(06 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 06: Accounting for Materials and Labour

(A)

Y0002: Stores Ledger (AVCO)

Date	Receipts			Issues			Balance		
	Qty	Price (Rs.)	Value	Qty	Price (Rs.)	Value	Qty		Value
01.03.2025	-	-	-	-	-	-	4,000	50	200,000
05.03.2025	5,000	47	235,000	-	-	-	9,000	48.33	435,000
11.03.2025	-	-	-	2,600	48.33	125,658	6,400	48.33	309,342
19.03.2025	3,000	52	156,000	-	-	-	9,400	49.5	465,342

(05 marks)

(B)

Chapter 08: Integrated and Non-Integrated Accounting Systems

Sunshine (Pvt) Ltd

Profit Reconciliation Statement

For the year ended 31st March 2025

Rs.

Profit as per cost accounts		220,800
Add		
Over valuation of Opening Stocks in Cost Accounts	9,000	
Under Valuation of Closing Stocks in Cost Accounts	13,000	
Unrecorded Dividend Income	18,000	
Overhead Cost Over Absorption in Cost Accounts	5,000	45,000
Less:		
Legal Expenses not recorded in the Cost Accounts	(21,000)	(21,000)
Profit as per the Financial Accounts		244,800

Or

Sunshine (Pvt) Ltd

Profit Reconciliation Statement

For the year ended 31st March 2025

Rs.

Profit as per the Financial Accounts		244,800
Add:		
Legal Expenses not recorded in the Cost Accounts	21,000	
Less:		
Over valuation of Opening Stocks in Cost Accounts	9,000	45,000
Under Valuation of Closing Stocks in Cost Accounts	13,000	
Unrecorded Dividend Income	18,000	
Overhead Cost Over Absorption in Cost Accounts	5,000	(21,000)
Profit as per cost accounts		220,800

(05 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter 07: Accounting for Overheads and Costing Methods

(a)

Cost Item	Allocation Basis	Total Cost (Rs.)	Production Dept.		Service Dept. C
			A	B	
Indirect Materials	Direct Allocation	810,000	360,000	270,000	180,000
Machinery Depreciation	Value of Machinery	1,800,000	600,000	1,000,000	200,000
	(3:5:1)				
Rent	Floor Area (Square Feet)	600,000	250,000	150,000	200,000
	(5:3:4)				
Electricity	Usage of Electricity (Kilowatts)	900,000	400,000	300,000	200,000
	(4:3:2)				
Quality Control Expenses	No. of quality inspections	450,000	200,000	100,000	150,000
	(4:2:3)				
Total Overhead Costs		4,560,000	1,810,000	1,820,000	930,000
Re-Appportionment			-	-	
Service Department (C)	(65%,35%)		604,500	325,500	(930,000)
Total Overhead Costs of Production Departments			2,414,500	2,145,500	-

(07 marks)

Chapter 06: Accounting for Materials and Labour

$$(a) \text{ EOQ} = \sqrt{\frac{2DCo}{Ch}}$$

$$(b) \text{ EOQ} = \sqrt{\frac{2 \times 100,000 \times 34,560}{(120 \times 10\%)}} = \underline{\underline{24,000 \text{ units}}}$$

(03 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:

Chapter 02: Financial Statements for a Limited Liability Company

(a)

Asia (Pvt) Ltd

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st March 2025

Rs.

Sales		42,040,000
Less: Cost of Sales		(17,320,000)
Gross Profit		24,720,000
Other Income		
Profit on Disposal of Motor Vehicle (W1)	1,300,000	1,300,000
		26,020,000
Distribution Exp		
Motor Vehicle Depreciation (W3)	3,243,750	
Allowance for Trade Receivables (W4)	58,700	
Bad Debts	450,000	
Travelling and Transport	432,250	
Advertising and Marketing	725,300	
Sales Commission	1,006,200	(5,916,200)
Admin Expenses		
Office Rent Paid (W6)	411,000	
Water and Electricity (338,000+27,500)	365,500	
Office Equipment Depreciation (W2)	510,000	
Salaries, EPF and ETF	7,038,600	
Other Administration	89,240	(8,414,340)
Finance Exp		
Bank Charges	12,250	(12,250)
Other Exp		
Profit Before Tax		11,677,210
Income Tax for the year		(1,528,000)
Profit For the Year		10,149,210

(14 marks)

(b)

Asia (Pvt) Ltd

Statement of Financial Position

As at 31st March 2025

Rs.

		Rs.
Assets		
Non-Current Assets		
Property, Plant and Equipment (W5)		8,576,250
Current Assets		
Inventory		5,950,000
Rent paid in advance (W6)		822,000
Trade Receivables (W4)		14,028,300
Cash in Hand and at Bank		10,410,910
Total Assets		39,787,460
Equity		
Stated Capital		22,000,000
Retained earnings (5,670,000+10,1549,210)		15,819,210
Non Current Liabilities		
Current Liabilities		
Electricity Payable		27,500
Income Tax Payable (W7)		703,000
Trade payables		1,225,000
EPF and ETF Payable		12,750
Total Equity and Liabilities		39,787,460

(11 marks)

W1: Gain on Motor Vehicle Disposal

Sale proceed 4,000,000

Less: WDV

Cost 3,600,000

Less: Acc. Dep. (900,000) 2,700,000

(3,600,000/4)

Profit on disposal - 1,300,000

W2: Office Equipment Depreciation

(2,550,000/5) 510,000

W3: Motor Vehicles Depreciation

Disposal	900,000	B/B/F	6,000,000
B/C/F	8,343,750	Depreciation-New	468,750
		Disposal Vehicle' (3,600*1/4*9/12)	675,000
		Balance Dept.	2,100,000
	9,243,750		9,243,750

W4:**Allowance for Trade Receivables**

		B/B/F	1,500,000
B/B/D	1,558,700	P&L	58,700
	1,558,700		1,558,700
		B/B/F	1,558,700

Trade receivables as at 31/3/2025	16,037,000
less: Bad debts	(450,000)
Balance trade receivables	15,587,000
Allowance for TR as at 31/3/2025	(1,558,700)
Balance Trade Receivables	14,028,300

W5: Property, Plant and Equipment

Cost	Balance as at 1/4/2024	Disposal	Addition	Balance as at 31/3/2025
Motor Vehicles	12,000,000	(3,600,000)	7,500,000	15,900,000
Office Equipment	2,550,000	-		2,550,000
Total	14,550,000	(3,600,000)	7,500,000	18,450,000
Accumulated Depreciation	Balance as at 1/4/2024	Disposal	Charge for the Year	Balance as at 31/3/2025
Motor Vehicles	6,000,000	(900,000)	3,243,750	8,343,750
Office Equipment	1,020,000	-	510,000	1,530,000
Total	7,020,000	(900,000)	4,653,750	9,873,750
Carrying Value as at 31/3/2025				8,576,250

W6: Office Rent

Expense for the year (137,000X3)	411,000
Rent prepaid (137,000X6)	822,000
total office rent paid	1,233,000

W7: Income Tax Payable

Income Tax Payable A/C			
Tax Paid	825,000	Income Tax	1,528,000
B/B/D	703,000		
	1,528,000		1,528,000
		B/B/F	703,000

(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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