SRI LANKA

Association of Accounting Technicians of Sri Lanka

Level II Examination - July 2026

Question Paper and Suggested Answers

(2801) FINANCIAL & COST ACCOUNTING (FCA)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level II Examination – July 2026

(2801) FINANCIAL & COST ACCOUNTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (4)

(02 marks)

1.2 (2)

(02 marks)

1.3 (2)

	Alpha Ltd		
	Profit Reconciliation Statement		
	Profit as per Cost Account		**454,000**
Add:	Over Valuation of Opening F/G in Costing	13,000	
	Under Valuation of Closing R/M in Costing	12,000	25,000
Less:	Under Valuation of Opening R/M stocks in Costing	9,000	
	Over Valuation of Closing F/G stocks in Costing	3,000	(12,000)
	Profit as per Financial Accounts		**467,000**

(02 marks)

1.4 (2)

Profit on Disposal of Motor vehicle		
Sales Proceed (Rs.)		4,500,000
Less: Written Down Value		
Cost	5,000,000	
Less: Acc. Dep.		
(5,000,000/5) X2 years and 3 months	(2,250,000)	2,750,000
Profit on Disposal		**1,750,000**

(02 Marks)

1.5 (1)

Predetermined overhead absorption rate

overhead absorption rate = Budgeted Production Overheads / Budgeted Direct Labour Hours

$$\frac{\text{Rs.}2{,}000{,}000}{100{,}000 \text{ hours}}$$ **Rs.20 per labour hour**

Total overhead absorbed 20X90,000 1,800,000

Actual overhead	1,900,000
Overhead under absorption	**(100,000)**

(02 marks)

1.6

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

(02 marks)

1.7

1. To make sure the supply of material in right quantity and quality at the right time.
2. To maintain a balance between price, Quality and delivery in choosing a supplier.
3. To ensure that the investment of capital in stocks is not tied up. (avoiding over – stocking)
4. To avoid abnormal wastages, leakages… etc.
5. To avoid obsolescence of materials
6. To provide the management with information with regard to materials. (Purchases,
7. issues and stocks)
8. To ensure proper storage and utilization.
9. To facilitate for stock taking.
10. To check stock levels physically on a regular basis.

(03 marks)

1.8

In Respect Of	Financial Accounting	Cost Accounting
Purpose	It is prepared to present operational results and the financial position of the business.	It aims to help the management with proper planning, control and decision-making.
Coverage of Transactions	It covers transactions of the whole business.	It covers only a part of the transactions. Ex: manufacturing
Stock Valuation	Stocks are valued at “Cost Price” or “Net Realizable Value” whichever is less.	Stocks are valued at cost.
Analysis of expenditure	It analyses the expenditure according to the function.	It analyses expenditure on different basses: 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.
Legal requirements	Should adhere to various legislatives.	These records are generally kept to meet the requirements of the management
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.

(03 marks)

1.9

Before Z joined:

- X's profit share = 3/5
- Y's profit share = 2/5

After Z joined, profits are shared equally:

- X's new share = 1/3
- Y's new share = 1/3
- Z's share = 1/3

Sacrifice made by X = $\frac{3}{5}$ -$\frac{1}{3}$ = $\frac{(9-5)}{15}$ = $\frac{4}{15}$

Sacrifice made by Y = $\frac{2}{5}$ -$\frac{1}{3}$ = $\frac{(6-5)}{15}$ = $\frac{1}{15}$

$$\mathbf{\frac{4}{15} : \frac{1}{15}}$$

(03 marks)

1.10

Date	Receipts			Issues			Balance	
	Qty	Price	Value	Qty	Price	Value	Qty	Value
1/03/2026				-	-	-	150	8,700
8/03/2026	250	45	11,250	-	-	-	400	19,950
15/03/2026	-	-	-	150	58	8700		
	-	-	-	50	45	2250	200	9,000
24/03/2026	160	52	8,320	-	-	-	360	**17,320**

(04 marks)
(Total 25 marks)

End of Section A

Suggested Answers to Question Two:

(a)

Ceylon Taste
Income Statement
For the year Ended 31st March 2026 **Rs.**

Sales **(W1)**		35,000,000
Cost of Sales (W2)		
Opening Stocks	1,974,500	
Purchases	21,000,000	
Closing Stocks	(1,935,000)	(21,039,500)
Gross Profit		**13,960,500**
Other Income		
Less: Expenses		
Office Rent	1,240,000	
Distribution	1,680,000	
Vehicle Maintenance	302,400	
Vehicle Rent	960,000	
Office Maintenance	44,000	
Electricity and Water (400,000+100,000)	500,000	
Salaries	4,200,000	(8,926,400)
Net Profit		**5,034,100**

(07 marks)

(b)

Capital as at 1st April 2025	2,935,200
Add: Profit	5,034,100
Less: Drawings	(1,200,000)
Net assets as at 31st March 2026	**6,769,300**

(03 marks)

(Total 10 marks)

Suggested Answers to Question Three:

(a)

Partners' Current A/C **Rs.'000**

	Asitha	**Bandu**	**Charith**		**Asitha**	**Bandu**	**Charith**
Capital A/C			29,940	B/B/F	20,000	10,000	5,000
				Partners' Salary	3,600	2,400	1,800
				Interest on Capital	20,000	16,000	10,000
				Interest on Current	1,000	500	250
B/C/D	**70,380**	**54,680**	**-**	Profit Share	25,780	25,780	12,890
	70,380	**54,680**	**29,940**		**70,380**	**54,680**	**29,940**
				B/B/F	**70,380**	**54,680**	**-**

(06 marks)

(b)

Partners' Capital A/C **Rs.'000**

	Asitha	**Bandu**	**Charith**		**Asitha**	**Bandu**	**Charith**
Goodwill	9,000	9,000	-	B/B/F	200,000	160,000	100,000
Loan A/C			133,540	Goodwill	7,200	7,200	3,600
B/C/D	**198,200**	**158,200**	-	Current A/C			29,940
	207,200	**167,200**	**133,540**		**207,200**	**167,200**	**133,540**
				B/B/F	**198,200**	**158,200**	-

(04 marks)

(Total 10 marks)

Workings

ABC Associates

Profit and Loss Appropriation A/C

For the Year Ended 31st December 2024 **Rs.'000**

Net Profit		120,000
		120,000
Partners' Salary		
Asitha	3,600	
Bandu	2,400	
Charith	1,800	(7,800)
Interest on Capital		
Asitha (200,000X10%)	20,000	
Bandu (160,000X10%)	16,000	

Charith (100,000X10%)	10,000	(46,000)
Interest on Current Account		
Asitha (20,000X5%)	1,000	
Bandu (10,000X5%)	500	
Charith (5,000X5%)	250	(1,750)
Profit Share		**64,450**
Asitha	25,780	
Bandu	25,780	
Charith	12,890	**(64,450)**
		-

Suggested Answers to Question Four:

(a)

Members' Subscription Account

B/B/F (W1)	625,000	Balance B/F **(W2)**	125,000
Income and Expenditure **(W3)**	3,000,000	**Receipt and Payment**	**3,600,000**
B/B/D (W5)	200,000	Balance B/D **(W4)**	100,000
	3,825,000		**3,825,000**
Balance B/F	100,000	B/B/F	200,000

(03 marks)

<u>**Workings**</u>

Workings 01	**Rs.**
Opening receivables (25members X Rs.25,000)	625,000
Workings 02	**Rs.**
Opening Received in Advance (5 members X Rs.25,000)	125,000
Working 03	**Rs.**
Annual Membership Fees (120 members X Rs.25,000)	3,000,000
Workings 04	**Rs.**
Closing receivables (4 members X Rs.25,000)	100,000
Workings 05	**Rs.**
Closing Received in Advance (8 members X Rs.25,000)	200,000

(b)

South Rowing Club			
Income and Expenditure A/C			
For the Year Ended 31st December 2025			
Salaries and wages	1,152,000	Subscriptions from Members	3,000,000
Electricity and Water	624,000	Profit From Restaurant **(W1)**	377,000
Rent	432,000	Interest on FD	55,000
Miscellaneous expenses	75,000		
Office equipment dep.	400,000		
furniture dep.	37,500		
Surplus	**711,500**		
	3,432,000		**3,432,000**

Working 1: Profit from Restaurant		
Income		
Sales		2,544,000
Less: Cost of Sales		
Opening inventories	175,000	
Add: Purchases	1,526,400	
Less: Closing Inventories	(285,000)	(1,416,400)
Less: Expenses		**1,127,600**
Salaries and Wages	288,000	
Electricity and Water	156,000	
Rent Expenses	108,000	
Office equipment Dep.	153,600	
Furniture dep.	45,000	(750,600)
Profit		**377,000**

Office Equipment Depreciation	
1,500,000X20%	300,000
1,000,000X20%X(6/12)	100,000
	400,000

(07 marks)
(Total 10 marks)

Suggested Answers to Question Five:

(A)

EOQ = $\sqrt{\dfrac{2 \times D \times Co}{Ch}}$

$$\text{EOQ} = \sqrt{\frac{2X9,000X200}{2.50}}$$

a) **<u>1,200 units</u>**

b) Re-order Level=Maximum usage × Maximum lead time

= 1,000 units X 4 months
= 4,000 units

c) Maximum Stock Level=Re-order Level + EOQ−(Minimum usage × Minimum lead time)
= 4,000 units + 1,200 units – (500units X 2 months)
= 4,200 units

(06 marks)

(B)

		Rs.
Basic Salary	(9 Hours X 5 Days X Rs.375)	16,875
Bonus (W1)		9,000
Total Earnings		**25,875**

Working 1: Bonus		**Hours**
Standard time in hours	(15 minutes X 300 units)/60	75
Actual Hours Spent	(9 hours X 5 Days)	(45)
Time Saved		30
	30 hours X 80% X Rs.375	9,000

(04 marks)
(Total 10 marks)

Suggested Answers to Question Six:

(a)

Item	**Basis**	**Total (Rs.)**	**Production**		**Service Department**
			P	**A**	
Indirect Materials	Allocation	150,000	80,000	50,000	20,000
Indirect Labour	Allocation	40,000	30,000	7,000	3,000
Rent	Floor Area (Square Feet) (4:3:1)	60,000	30,000	22,500	7,500
Electricity	Usage of Electricity (Kilowatts) (6:2:1)	45,000	30,000	10,000	5,000
Staff Welfare	Number of Employees (5:4:1)	40,000	20,000	16,000	4,000

Depreciation of Machinery	Value of Machinery (5:3:2)	20,000	10,000	6,000	4,000
Total Overhead Costs		**355,000**	**200,000**	**111,500**	**43,500**
Re-Apportionment					
Service Department	(55%, 45%)		23,925	19,575	(43,500)
Total Overhead Costs of Production Departments			**223,925**	**131,075**	**-**

(07 marks)

(b) ***(Rs,000)***

Direct Material	250
Direct Labour	120
Production Overhead - P (89.57×2)	179.14
- A	104.86
Producting Cost per Unit	654

Working

Estimated total production cost of a product

Production cost absorption rate P		223,925/2,500		89.57
Production cost absorption rate A		131,075/1,250		104.86

(03 marks)

(Total 10 marks)

End of Section B

One (01) Compulsory Question
(Total 25 Marks)

SECTION - C

Suggested Answers to Question Seven:

(a)

Path (Pvt) Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2026

		Rs.
Sales		46,464
Less: Cost of Sales (17,957+150)		(18,107)
Gross Profit		**28,357**
Distribution Expenses		
Motor Vehicle Dep	6,250	
Allowance for trade receivables	499	
Sales Commission	1,400	
Advertising	600	
Travelling and Transport	900	
Other Distribution	296	(9,945)
Admin Expenses		
Machine Depreciation	3,000	
Furniture and Fittings Dep.	300	
Insurance	134	
Audit fees	95	
Salaries and Wages	1,900	
Electricity & Water	400	
Office Rent	900	
Other Administration	800	(7,529)
Finance Exp		
Debenture interest	300	
Other Finance	189	(489)
Profit Before Tax		10,394
Income Tax		(950)
Profit For the Year		**9,444**

(13 marks)

(b)

Path Pvt Ltd

Statement of Financial Position

As at 31st March 2026

Rs.

	Cost	Accumulated Dep.	Carrying Value
Non-Current Assets			
Property, Plant and Equipment			
Motor Vehicle	25,0000	9,375	15,625
Machinery	24,000	6,000	18,000
Furniture & Fittings	1,500	600	9000
	50,500	**15,975**	**34,525**
Current Assets			
Inventory (2,902-150)		2,752	
Prepaid insurance		16	
Trade Receivables		4,491	
Cash in Hand and Bank		15,757	23,016
Total Assets			**57,541**
Equity			
Stated Capital (30,000+2,500)		32,500	
Retained earnings (6,834+9,444-500)		15,778	
General Reserve (3,200+500)		3,700	51,978
Non Current Liabilities			
12% Debentures			2,500
Current Liabilities			
Debenture Interest Payable		150	
Audit Fees payables		95	
Refund Payable (Shares)		500	
Trade Payables		2,093	3,063
Income Tax Payable		225	
Total Equity and Liabilities			**57,541**

(12 marks)

Cost			
Machine	24,000		
Motor Vehicles	25,000	-	
Furniture and Fittings	1,500		
	50,500		
Acc.Depreciation	**At the beginning**	**Annual Depr.**	**Year End Bal.**
Machine	3,000	3,000	6,000
Motor Vehicles	3,125	6,250	9,375
Furniture and Fittings	300	300	600
	6,425	**9,550**	**15,975**

Accounts Receivables	4,990
Less: Provision @ 10%	(499)
Balance	**4,491**

Income Tax Payable A/C

Tax Paid	725	Income Tax	950
B/B/D	225		
	950		**950**
		B/B/F	225

(Total 25 marks)

End of Section C

Notice:

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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.