



Association of Accounting Technicians of Sri Lanka

Level II Examination - July 2023

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

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A publication of the Education and Training Division

Level II Examination - July 2023

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (2) (02 marks)

1.2 (1) (02 marks)

1.3 (2)
Workings
NRV = Expected selling price – (estimated costs of completion – estimated cost necessary to make the sale)
NRV = (80-2) X 1,000 units = Rs.78,000 (02 marks)

1.4 (1) (02 marks)

1.5 (2) (02 marks)

1.6 (4)
Workings

VAT Control Account

Input VAT	720,000	B/B/F	125,000
Sales Return	36,000	Output VAT	900,000
B/C/D	269,000		
	1,025,00		1,025,00
		B/B/F	269,000

(02 marks)

1.7 Three Objectives of Cost Accounting

- 1 Ascertainment of cost
- 2 To facilitate planning and control of regular business activities
- 3 To provide information for decisions

(03 marks)

1.8

- In the Non – Integrated accounting system two separate sets of books are maintained for cost and financial accounts but integrated accounting system keeps only one set of books for both cost & financial accounts.
- In a Non – integrated system, two profit & loss accounts are prepared and it gives rise to two profits. Therefore, profit should be periodically reconciled and so many reasons to differ these profit.

(03 marks)

1.9 Optimum no. of orders = Total demand/EOQ

$$= 30,000 \text{ units} / 5,000 \text{ units} = 6$$

(03 marks)

1.10

- 1 All partners are entitled to take part in the management but are not entitled to remuneration for actions in the partnership business.
- 2 Partners are entitled to introduce equal capital to the partnership
- 3 An admission of a new partner can be done only with the consent of all existing partners
- 4 An interest of 5% can be charged on the loan provided by a partner in addition to the capital.

(04 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:**Chapter 04.01 Preparation of Financial Statements Based on Incomplete Records**

(a)

	Rs.'000	Rs.'000
Printing Machinery		1,500
Inventory-stationary		32
Pre-payment of rent		10
		1,542
Accrued Electricity	5	
Payable to stationery suppliers	15	
Bank Overdraft (W1)	626	(646)
Capital/Equity as at 1st January 2022		896

Working 01: Bank Overdraft Opening Balance

Cash Account			
Receipts	1,825,000	Opening Balance	626,000
B/C/D	220,000	Payments	1,419,000
	2,045,000	B/B/F	220,000
			2,045,000

(03 marks)

(b) Calculation of the net profit for the year ended 31st December 2022**Method 01: Income Statement for the Year ended 31st December 2022**

(Rs.'000)		
Sales (1,825+Salaries paid 720)		2,545
Less: Cost of Sales		
Opening Stocks	32	
Add: Purchase (W1)	1,203	
Less: Closing stocks	(30)	(1,205)
Gross Profit		1,340
Less: Expenses		

Depreciation: Printing Machine (W2)	300	
Rent (W3)	120	
Electricity (W4)	67	
Telephone	24	
Labor Costs (2X1,500X240)	720	(1,231)
Net Profit		109

Workings

W1: Purchases

Payable to Stationary Suppliers

Cash	1,200	Opening Balance	15
B/C/D	18	Purchase	1,203
	1,218		1,218
		B/B/F	18

W2: Depreciation Printing Machinery

Printing Machinery Account

B/B/F	1,500	P&L- Dep.	300
		B/C/D	1,200
	1,500		1,500
B/B/F	1,200		

W3: Rent Expense

Prepaid Rent Account

B/B/F	10	P&L	120
Cash	130	B/C/D	20
	140		140
B/B/F	20		

W4: Electricity Expense

Accrued Electricity Account

Cash	65	B/B/F	5
B/C/D	7	P&L	67
	72		72
		B/B/F	7

Method 02: Using profit equation

Profit = Closing Equity – Opening Equity + Drawings – Additional capital

Closing Equity = 1,200+30+20-7-18-220

Profit = 1,005 - 896 = **109**

(07 marks)
(Total 10 marks)

Suggested Answers to Question Three:

Chapter 04.2: Accounting for not for profit organizations

(a)

Membership Subscription Account

Income and Exp. 7,500X78	585,000	Receipts and payments	630,000
B/B/D (7,500X10)	75,000	B/B/D (7,500X4)	30,000
	660,000		660,000
B/B/F (7,500X4)	30,000	B/B/F	75,000

(02 marks)

(b)

**Blue Whale Swimming Club
Income & Expenditure Account
For the Year Ended 31st December 2022**

Income		
Membership Subscription Fees	585,000	
Revenue From Swimming Classes	325,000	
Net Income from swimming meet (220,000+25,000-58,000)	187,000	
Special Donation	250,000	1,347,000
Less: Expenses		
Electricity (96,000+9,000)	105,000	
Water and chemical expenses	180,000	
Salary for cleaners	312,000	
Swimming Couches fee	265,000	
Rent	84,000	
Swimming pool Equipment	70,000	

Depreciation (360,000/3X7/12)		
Other Expenses	27,000	(1,043,000)
Surplus for The Year		304,000

(08 marks)
(Total 10 marks)

Suggested Answers to Question Four:

Chapter 03: Financial Statements for a Partnership

(a)

Partners' Capital Accounts

(Rs'000)

	Chanaka	Malaka	Nuwan		Chanaka	Malaka	Nuwan
Goodwill	800	1,200	400	B/B/F	3,200	4,800	-
				Cash	-	-	3,000
B/C/D	3,600	4,800	2,600	Goodwill	1,200	1,200	-
	4,400	6,000	3,000		4,400	6,000	3,000
				B/B/F	3,600	4,800	2,600

(04 marks)

(b)

Partners' Current Accounts

	Chanaka	Malaka	Nuwan		Chanaka	Malaka	Nuwan
B/B/F	1,200	-	-	B/B/F	-	2,300	-
Drawings	200	150		Loan interest		20	
				Interest on Capital	160	240	150
				Salary	600		
B/C/D	560	4,210	750	Profit Share (W1)	1,200	1,800	600
	1,960	4,360	750		1,960	4,360	750
				B/B/F	560	4,210	750

Working 01: Calculation of Profit Share

	Rs.'000	Rs.'000
Net Profit for the Year		4,770
Less: Loan interest- Malaka		(20)
		4,750
Interest on Capital: Chanaka	160	
Malaka	240	
Nuwan	150	(550)

Partners' Salary	Chanaka	600	(600)
Profits share	Chanaka	1,200	
	Malaka	1,800	
	Nuwan	600	3,600

(06 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 08: Integrated and Non-Integrated Accounting Systems

(A)

Nuwan (Pvt) Ltd Profit Reconciliation Statement

		Rs.
Profit As per Cost Accounts		450,000
Add:		
Under Valuation of Raw Material Closing Stocks in cost accounts	21,000	
FD Interest received	48,000	69,000
		519,000
Less:		
Under Valuation of Raw Material Opening Stocks in cost accounts	5,000	
Director's fee paid	50,000	
Depreciation overcharged in financial accounts	55,000	(110,000)
Profit as per financial accounts		409,000

(05 marks)

Chapter 06: Accounting for Materials and Labor

(B)

STORES LEDGER: WAC									
Date	Receipts			Issues			Balance		
	Qty (Units)	Price (Rs.)	Value	Qty (Units)	Price (Rs.)	Value	Qty (Units)	Price (Rs.)	Value
01.06.2023							220	670	147,400
10.06.2023	500	619.60	309,800				720	635	457,200
15.06.2023				600	635	381,000	120	635	76,200
20.06.2023	200	690	138,000				320	669.38	214,200
Closing Inventory Value									214,200

(05 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 06: Accounting for Materials and Labor

(A)

$$(a) \text{ Economic Order Quantity (EOQ)} = \sqrt{\frac{2Dco}{Ch}} = \sqrt{\frac{2 \times 180,625 \times 500}{12.5 \times 20\%}} = \sqrt{\frac{180,625,000}{2.5}}$$

=8,500 units (03 marks)

(b) Re-order Level = Maximum Usage X Maximum Lead Time

$$= 10,000 \text{ units} \times 4 \text{ Months}$$

$$= 40,000 \text{ Units} \quad (01 \text{ marks})$$

(c) Minimum Stock Level = Reorder level – (average usage X Average Lead Time)

$$= 40,000 - (6,000 \times 3)$$

$$= 22,000 \text{ units} \quad (02 \text{ marks})$$

(B) Job Card 9000

		Rs.
Direct Raw Materials	(250Kg X Rs.250)	62,500.00
Direct Labour	(125 Hours X Rs.1,000)	125,000.00
Production Overheads – Department A	(125,000X200%)	250,000.00
Production Overheads – Department B	(125,000X75%)	93,750.00
Total Costs		531,250.00
Add: 20% profit margin		132,812.50
Selling Price		664,062.50

(04 marks)
(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:

Chapter 02 – Financial Statements for a Limited Liability Company

(a)

Win World (Pvt) Ltd.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2023 (Rs.'000)

Sales		20,825
Cost of Sales		(6,047)
Gross Profit		14,778
Other Income (W1)		2,600
		17,378
Distribution Expenses (W2)	5,537	
Administration Expenses (W3)	10,369	
Finance Expenses (W4)	1,180.50	(17,086.50)
Profit Before Tax		291.5
Income tax for the year		(207)
Profit for the year		84.50

Workings

W1: Interest on Fixed Deposit = $22,000 \times 10\% = 2,200$

W1 –Other Income

Interest on Fixed Deposit	2,200	
Other Income (4,000-3,600)	<u>400</u>	<u>2,600</u>

W2 –Distribution Expenses

Distribution Expenses		
Motor vehicles depreciation	2,500	
Bad debts Provision	503	
Advertising and marketing	1,182	
Sales Commission	926	
Fuel	426	
		(5,537)

Depreciation

Motor Vehicles- $10,000/4 = 2,500$

Office Equipment $5,550/5 = 1,110$

Provision for Bad Debts Account

BBD (6,280X10%)	628	B/B/F	125
	628	P&L	503
			628

W3 –Administration Expenses

Administration Expenses		
Rent (725+50.5)	775.5	
Water & Electricity (132-13.5)	118.5	
Office equipment depreciation (W2)	1,110	
Office Maintenance	372	
Salaries, Wages, EPF, and ETF	7,697	
Other Administration Expenses	296	(10,369)

W4 – Finance Expenses

Finance Expenses		
Loan Interest (4,650X25%)	1,162.5	
Bank Charges	18	(1,180.5)

(13 marks)

(b)

Win World (Pvt) Ltd.
Statement of Financial Position
As at 31st March 2023

(Rs.'000)

Plant and Equipment	Cost	Accumulated Depreciation	Carring Value
Motor Vehicles	10,000	7,500	2,500
Office Equipment	<u>5,550</u>	<u>3,330</u>	<u>2,220</u>
	<u>15,550</u>	<u>10,830</u>	<u>4,720</u>
Fixed Deposit			10,000
Current Assets			
Inventory		650	
Trade Receivables 6,280-(6,280X10%)		5,652	
Prepaid Electricity		13.5	
Interest Receivables		2,200	
Cash & Cash equivalents		3,511	12,026.5
Total Assets			26,746.50
Equity & Liabilities			
Stated Capital (W4)		8,400	
Retained Earnings (W5)		3,198.5	
General Reserve		7,500	19,098.50
Non-Current Liabilities			
Bank Loan		4,650	4,650
Current Liabilities			
Trade Payable		1,559	
Rent payable		50.5	
Income tax payable (W6)		152	
Interest payable		1,162.5	
EPF & ETF Payable		74	2,998
Total Equity and Liabilities			26,746.50

W4: Stated Capital (Rs.'000)Opening Balance as at 1st April 2022 = 4,800

Add: Right Issue

(No. of share 1,200,000/20 =60,000)

Total consideration = 60,000 X Rs.60 = 3,600

Balance as at 31st March 2023 = 8,400

W5: Retained Earnings (Rs.'000)

Opening Balance as at 1 st April 2022	=	10,614
Profit for the year	=	84.5
Transfer to general reserve	=	(7,500)
Balance as at 31st March 2023	=	3,198.5

W6: Income Tax Payable

Income Tax Payable Account

Cash	55	Income Tax Expense	207
BBD	152		
	207		207

(12 marks)

(Total 25 marks)



End of Section C

Notice:

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