

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2026

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

- **Instructions to candidates** (Please Read Carefully):
(1) **Time Allowed:** *Reading : 15 minutes.*
Writing : 03 hours.
(2) **All questions should be answered.**
(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
(4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
(5) **Use of Non-programmable calculators is only permitted.**
(6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
(7) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

(Total 25 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 **Ann Ltd.** acquired a machinery on 01st January 2023 at a cost of Rs.2,500,000/-. The expected useful life of the machinery is 5 years and residual value at the end of 5th year was estimated as Rs.500,000/-. The machinery depreciates on the straight-line basis at cost. The carrying value of the machinery as at 31st March 2025 would be:

(1) Rs.1,500,000/-. (2) Rs.1,600,000/-. (3) Rs.1,375,000/-. (4) Rs.1,100,000/-.
(02 marks)

1.2 Consider the following events occurred between the financial year reporting date (31st March 2025) and date of authorization for issue of the financial statements (15th May 2025). Which one of the following events is an adjusting event as per LKAS 10 – Events after the Reporting Period?

(1) A customer owing money as at 31st March 2025 was declared as bankrupt on 05th April 2025.
(2) The destruction of a major production plant by a fire on 02nd April 2025.
(3) Announcement of a major share issue on 15th May 2025.
(4) Decrease in the market value of an investment on 18th April 2025. (02 marks)

1.3 The following amounts relating to the month of December 2025 are extracted from the books of accounts of **Rana Ltd.**:

	Rs.
Gross Salary	7,800,000
Advanced Personal Income Tax (APIT)	660,000

The company contributes to Employees' Provident Fund (EPF) at 12% and Employees' Trust Fund (ETF) at 3% from the gross salary. Employees contribute to EPF at 8%.

Based on the above information, net salary for the month of December 2025 was:

(1) Rs.5,911,000/-. (2) Rs.7,140,000/-.
(3) Rs.5,340,000/-. (4) Rs.6,516,000/-. (02 marks)

1.4 **XYZ Ltd.** has obtained two buildings on rent. During the year ended 31st March 2025, the company has paid Rs.2,400,000/- as rent.

The following balances were appeared in the books of accounts of **XYZ Ltd.**:

(Rs.)

	As at 31st March 2025	As at 01st April 2024
Rent payable	240,000	180,000
Rent paid in advance	175,000	225,000

The correct rent expense for the year ended 31st March 2025 was:

(1) Rs.2,510,000/-. (2) Rs.2,290,000/-.
(3) Rs.2,400,000/-. (4) Rs.2,625,000/-. (02 marks)

1.5 The following information was extracted with reference to **Material A of Mark PLC**:

Maximum usage	400 kg
Minimum usage	200 kg
Lead time	2 - 6 months
Re-order quantity	1,500 kg

The Re-order Level of **Material A** is:

(1) 400 kg. (2) 800 kg. (3) 1,200 kg. (4) 2,400 kg.
(02 marks)

Write the answers for question No 1.6 to 1.10 in your answer booklet with the number assigned to the question.

1.6 Identify two(02) components of financial statements. (02 marks)

1.7 State three(03) advantages of a time rate remuneration system. (03 marks)

1.8 State three(03) provisions of the Section 24 of the Partnership Ordinance of 1890.(03 marks)

1.9 **Synergy (Pvt) Ltd.** is a Value Added Tax (VAT) registered company. The following information is relating to quarter ended 31st December 2025:

	Rs.
Credit balance of VAT control account as at 01 st October 2025	52,500
Sales (Exclusive of VAT)	1,200,000
Purchases (Exclusive of VAT)	550,000
Sales returns (Exclusive of VAT)	65,000

(All purchases and sales are supported with tax invoices and applicable VAT rate is 18%).

Based on the above information,

Calculate VAT payable account balance as at 31st December 2025. (03 marks)

1.10 The following information was extracted with reference to **Job No. 205 of Lanka Ltd.**:

Direct Materials	150 kilograms @ Rs.150/- per kilogram
Direct Labour	75 hours @ Rs.600/- per hour
Production Overheads - Department Q	150% on Direct Labour Cost
- Department R	60% on Direct Labour Cost

The company keeps a 20% profit on selling price.

Calculate the price to be charged on **Job No. 205**. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Thilak started an outdoor catering services business as **Thilak Catering** on 01st January 2024 by investing Rs.2,000,000/- in cash.

However, he has not maintained proper books of accounts and the following information is extracted from the business for the year ended 31st December 2025:

(1) Other assets and liabilities of the business are as follows: (Rs.)

As at	31 st December 2025	01 st January 2025
Machinery at Carrying Value	1,800,000	2,200,000
Trade Debtors	670,000	480,000
Inventories	17,500	16,300
Cash and Bank Balances	?	1,530,000
Trade Creditors	720,000	630,000
Accrued Electricity and Water	5,300	6,200

(2) No Property, Plant and Equipment were purchased or disposed during the year 2025.

(3) All the sales and purchases were made on credit and purchases made during the year were Rs.3,200,000/-. An amount of Rs.9,600,000/- was collected from the trade debtors during the year 2025.

(4) Initially, the business was operated at **Thilak's** home and as a result of the expansion, it has been shifted to a rented premises from 01st July 2025. A payment of Rs.720,000/- has been paid as two years' rent at the time of signing the rent agreement on 01st July 2025.

(5) The payments made for the electricity and water were Rs.96,000/- during the year.

(6) Two full-time employees are deployed in the business. Each employee is entitled to a monthly salary of Rs.60,000/-. In addition to the salary, an incentive of 10% was paid to employees on cash collected from trade debtors during the year.

You are required to:

Calculate the following for Thilak Catering:

(a) Net profit for year ended 31st December 2025. (07 marks)

(b) Capital (equity) balance as at 31st December 2025. (03 marks)

(Total 10 marks)

Question 03

Hilan, Nilan and Dilan are partners of **HND Associates**.

(1) The partnership agreement includes the following:

- Profit and losses are shared among **Hilan, Nilan & Dilan** in the ratio of 2 : 2 : 1 respectively.
- The partners are entitled to receive an interest of 10% per annum on the opening capital account balances as at 01st January 2025.
- Dilan** is entitled to receive a monthly salary of Rs.25,000/- for managing the partnership.

(2) The following balances were extracted from the books of accounts of the partnership as at 01st January 2025: (Rs.'000)

	Dr.	Cr.
Capital Accounts Balances:		
Hilan		8,000
Nilan		8,000
Dilan		4,000
Current Accounts Balances:		
Hilan	200	
Nilan		800
Dilan	200	

(3) On 31st December 2025, **Dilan** decided to resign from the partnership and **Hilan** and **Nilan** agreed to continue the partnership under the same name sharing profits and losses equally. On that date, Goodwill of the partnership was valued at Rs.3,000,000/-. It was decided to adjust the goodwill through the partners' capital accounts without creating a goodwill account.

(4) Non-current assets of the partnership were revalued on 31st December 2025 as follows:

(Rs.'000)

	Cost	Accumulated Depreciation as at 31 st December 2025	Revalued amount as at 31 st December 2025
Land and Buildings	6,000	200	6,500
Motor Vehicles	2,000	500	2,600

Non-current assets were agreed to be maintained at revalued amounts in the partners' books of accounts.

(5) Net profit of the partnership for the year ended 31st December 2025 was Rs.3,190,000/-.

You are required to:

Prepare the following of **HND Associates** for the year ended 31st December 2025:

(a) Partners' Capital Accounts. (05 marks)

(b) Partners' Current Accounts. (05 marks)

(Total 10 marks)

Question 04

Hamilton PLC, an apparel manufacturing company has set up an employees' welfare association under the name of "**Hamilton Welfare Association**" for the benefit of its' employees.

The **Hamilton Welfare Association** has not maintained proper accounting records. However, it was able to gather following information from the books of accounts of the **Hamilton Welfare Association**:

(1) The Receipts and the Payments of **Hamilton Welfare Association** for the year ended 31st December 2025 were as follows:

Receipts:	Rs.
Member Subscriptions Received	2,440,000
Contribution received from Hamilton PLC for Christmas party	1,100,000
Amount collected from Members for the Christmas Party	900,000
Sponsorships received for the Christmas Party	750,000
Payments:	
For Funerals of Members' Families	20,000
For Wedding Ceremonies of the Members	50,000
Hotel charges (Christmas Party)	1,950,000
Musical band (Christmas Party)	75,000
Gifts items of the Christmas Party	120,000
Printing and Stationery Expenses	52,000
Laptop Purchased	200,000

(2) The cash and bank balance of the association as at 01st January 2025 was Rs.3,500,000/- and interest income of Rs.230,000/- was earned during the year from the fixed deposits.

(3) Membership subscription per month is Rs.1,000/-. As at 01st January 2025, 5 members have not paid their subscriptions for 2 months of the year 2024. However, those subscription arrears as at 01st January 2025 were settled during the year 2025. Further, 15 members have paid membership subscriptions for the month of January 2025 in December 2024.

(4) During the December 2025, 25 members have paid their membership subscriptions in advance for the month of January 2026.

(5) As at 01st January 2025, there were 200 members in the association and 20 new members joined the association during the December 2025 paying the membership subscriptions.

(6) **Hamilton Welfare Association** purchased a laptop on 01st July 2025 and the useful life time of the laptop is 5 years.

(7) During the year 2025, **Hamilton Welfare Association** organized a Christmas party and 20% of printing and stationery are relating to Christmas party.

You are required to:

Prepare the following for the year ended 31st December 2025 of the **Hamilton Welfare Association**:

(a) Members' Subscription Account. (04 marks)

(b) Income and Expenditure Account. (06 marks)

(Total 10 marks)

Question 05

(a) The following information was extracted from **Thushara (Pvt) Ltd.** with reference to **Product Y002** for the month of March 2025:

Date	Description	Quantity (in units)	Unit Price (Rs.)
01.03.2025	Opening Balance	4,000	50
05.03.2025	Purchases	5,000	47
11.03.2025	Issues	2,600	-
19.03.2025	Purchases	3,000	52

You are required to:

Prepare the stock ledger for **Product Y002** using the Weighted Average Cost (AVCO) method for the month of March 2025. (05 marks)

(b) **Sunshine (Pvt) Ltd.** maintains a non-integrated accounting system. The profit shown in the cost accounts for the year ended 31st December 2025 was Rs.220,800/- while profit as per financial accounts was Rs.244,800/-.

Reasons for the difference are as follows:

(1) Stock valuation: (Rs.)

	As per Cost Accounts	As per Financial Accounts
Opening Stock	225,000	216,000
Closing Stock	195,000	208,000

(2) Dividend income of Rs.18,000/- received from another company was recorded only in the financial accounts.

(3) Legal expense of Rs.21,000/- was charged in the financial accounts, but it was not recorded in the cost accounts.

(4) Factory overhead costs as per cost accounts were Rs.620,000/-, while they were recorded as Rs.615,000/- in the financial accounts.

You are required to:

Prepare the profit reconciliation statement between financial accounts and cost accounts.

(05 marks)

(Total 10 marks)

Question 06

(a) **Smart (Pvt) Ltd.** which is a manufacturing company, has two (2) Production Departments (A and B) and one (1) Service Department (C).

(1) The company has estimated the following production overhead cost as follows:

Cost item	(Rs.)
Machinery Depreciation	1,800,000
Rent	600,000
Electricity	900,000
Quality Control Expenses	450,000

(2) You are given the following information also:

Basis	Production Departments		Service Department	Total
	Department A	Department B	Department C	
Indirect Material (Rs.'000)	360	270	180	810
Value of Machinery (Rs.'000)	1,500	2,500	500	4,500
Floor Area (Square Feet)	500	300	400	1,200
Usage of Electricity (Kilowatts)	400	300	200	900
No. of Quality Inspections	20	10	15	45
Apportionment of cost - Department C	65%	35%	-	-

You are required to:

Prepare a statement showing how the overheads are allotted and apportioned to each production departments.

(07 marks)

(b) The following information was extracted from the books of **Ceylon Clothing (Pvt) Ltd.** relating to **Material C005**:

Purchase price per unit	Rs.120/-
Annual holding cost per unit	10% of the purchase price
Annual demand	100,000 units per annum
Ordering cost	Rs.34,560/- per order

Based on the above,

Calculate the Economic Order Quantity (EOQ) of **Material C005**.

(03 marks)

(Total 10 marks)

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Asia (Pvt) Ltd.** as at 31st March 2025 is as follows: (Rs.)

	Dr.	Cr.
Stated Capital (1,000,000 Ordinary Shares)		22,000,000
Retained Earnings as at 01 st April 2024		5,670,000
Plant and Equipment at cost:		
Motor Vehicles	19,500,000	
Office Equipment	2,550,000	
Accumulated Depreciation as at 01st April 2024:		
Motor Vehicles		6,000,000
Office Equipment		1,020,000
Cash in Hand and Banks	10,410,910	
Trade Receivables / Trade Payables	16,037,000	1,225,000
Allowance for Trade Receivables as at 01 st April 2024		1,500,000
Sales		42,040,000
Cost of Sales	16,770,000	
Office Rent Paid	1,233,000	
Travelling and Transport Expenses	432,250	
Advertising and Marketing Expenses	725,300	
Sales Commission	1,006,200	
Water and Electricity	338,000	
Inventory as at 31 st March 2025 at Cost	6,500,000	
Salaries, EPF and ETF	7,038,600	
Bank Charges	12,250	
Other Administration Expenses	89,240	
Income Tax Paid	825,000	
EPF and ETF Payable		12,750
Motor Vehicle Disposal Account		4,000,000
	83,467,750	83,467,750

The following additional information is also provided:

- (1) Net Realizable Value (NRV) of the inventory as at 31st March 2025 was Rs.5,950,000/-.
- (2) On 01st January 2025, the company rented out an office building for 3 years with a monthly rental of Rs.137,000/-. In addition to the monthly rent, 6 months' rent in advance was paid during the year. The company has debited all payments related to rentals to Office Rent Paid Account.
- (3) The electricity bill for the month of March 2025 was Rs.27,500/- and it has not been accounted yet.
- (4) Plant and Equipment are to be depreciated on the straight-line method at cost and useful life of Plant and Equipment is as follows:

Motor Vehicles	4 years
Office Equipment	5 years

- (5) A motor vehicle purchased on 01st January 2024 at Rs.3,600,000/-, was sold for Rs.4,000,000/- on 01st January 2025. The sales proceed on disposal was credited to Motor Vehicle Disposal Account and other than that no entries were recorded in respect of disposal of motor vehicle. The company purchased a new motor vehicle on the same day at Rs.7,500,000/- and it has been correctly debited to the Motor Vehicles Account.
- (6) Income tax liability for the year of assessment 2024/25 was estimated to be Rs.1,528,000/-. The company has paid Rs.825,000/- as the quarterly income tax installments during the year.
- (7) It was decided by the board of directors to write-off an amount of Rs.450,000/- as a bad debt due to death of a customer. Further, the company decided to maintain an allowance for trade receivables at 10% of the balance trade receivables as at 31st March 2025.
- (8) The financial statements were authorized for the issue by the Board of Directors on 30th May 2025.

You are required to:

Prepare the following of **Asia (Pvt) Ltd.** for the use of management:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income) for the year ended 31st March 2025. (14 marks)
- (b) Statement of Financial Position as at 31st March 2025. (11 marks)

(Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.