SRI LANKA

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 02 EXAMINATION - JULY 2026

(2801) FINANCIAL & COST ACCOUNTING

25-07-2026
Morning
[08.45 – 12.00]

No. of Pages : 10
No. of Questions : 07

- **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 An element of financial statements which is directly related to the measurement of financial position of a company is:

(1) Income. (2) Trial Balance.

(3) Expenses. (4) Liabilities. (02 marks)

1.2 Consider the following costing methods:

(a) Job Costing.

(b) Contract Costing.

(c) Process Costing.

Of the above, specific order costing method/s is/are:

(1) **(c)** only. (2) **(a)** and **(b)** only.

(3) **(a)** and **(c)** only. (4) **(b)** and **(c)** only. (02 marks)

1.3 The following information is given for **Alpha Ltd.** for the year ended 31st March 2026:

	As per Cost Accounts (Rs.)	**As per Financial Accounts (Rs.)**
Opening Stocks:		
Raw Material	64,000	73,000
Finished Goods	82,000	69,000
Closing Stocks:		
Raw Material	56,000	68,000
Finished Goods	90,000	87,000

If the profit as per cost accounts is Rs.454,000/-, the profit as per the financial accounts would be:

(1) Rs.441,000/-. (2) Rs.467,000/-. (3) Rs.461,000/-. (4) Rs.447,000/-.

(02 marks)

1.4 A motor vehicle of **X Ltd.** which was acquired on 01st April 2023 at a cost of Rs.5,000,000/- was sold for Rs.4,500,000/- on 30th June 2025. The estimated useful life of the motor vehicle is 5 years and the company depreciates its motor vehicles on the straight-line method at cost. The profit on disposal of the motor vehicle was:

(1) Rs.750,000/-. (2) Rs.1,750,000/-. (3) Rs.2,000,000/-. (4) Rs.3,000,000/-.

(02 marks)

1.5 The following information has been extracted from a manufacturing company for the last year:

	Budgeted	**Actual**
Production Overheads (Rs.)	2,000,000	1,900,000
Number of Direct Labour Hours	100,000	90,000

The production overheads are:

(1) Under absorbed by Rs.100,000/-. (2) Over absorbed by Rs.100,000/-.

(3) Under absorbed by Rs.200,000/-. (4) Over absorbed by Rs.200,000/-.

(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 State two(02) provisions of Section 24 as per the Partnership Ordinance 1890. (02 marks)

1.7 State three(03) objectives of material control. (03 marks)

1.8 State three(03) differences between "Financial Accounting" and "Cost Accounting". (03 marks)

1.9 **X** and **Y** were partners of **Moon Partnership** sharing profits and losses at the ratio 3 : 2 respectively. **Z** joined as a new partner on 01st April 2025 and it was decided to share profits and losses equally among partners.

Calculate the sacrificing ratio of **X** and **Y**. (03 marks)

1.10 **Mag Ltd.** values its inventory using the First In First Out (FIFO) method. The following information was extracted from the records of the company in relation to inventory:

Date	Description	Unit Price (Rs.)	Quantity (in units)
01.03.2026	Opening Balance	58	150
08.03.2026	Purchases	45	250
15.03.2026	Sales	-	200
24.03.2026	Purchases	52	160

Calculate the value of inventory as at 31st March 2026. (04 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Ravi, who is the owner of **"Ceylon Taste"** a sole proprietorship, buys spices from the farmers, processes and adds value to them, and then exports them to Middle East countries through agents.

The assets and liabilities of **Ceylon Taste** are as follows: *(Rs.)*

As at	31st March 2026	01st April 2025
Inventory	1,935,000	1,974,500
Trade Receivables	950,700	829,200
Cash and Bank Balances	?	1,276,500
Equity (Capital)	?	2,935,200
Trade Payables	2,100,000	1,145,000

The following additional information is also provided for the year ended 31st March 2026:

(1) As per the records, **Ceylon Taste** has made the following transactions during the year on credit basis:

	Rs.
Sales	35,000,000
Purchases	21,000,000

(2) The following cash payments were made during the year ended 31st March 2026:

	Rs.
Office Rent	1,240,000
Distribution Expenses	1,680,000
Vehicle Maintenance Expenses	302,400
Vehicle Rent	960,000
Office Maintenance Expenses	44,000
Electricity and Water	400,000
Salaries	4,200,000
Cash Withdrawn by **Ravi** for his personal use	1,200,000

(3) Electricity and water expenses for the month of March 2026 were Rs.100,000/- and were settled in April 2026.

You are required to:

Calculate the following for **Ceylon Taste**:

(a) Net profit for year ended 31st March 2026. (07 marks)

(b) Capital (Equity) balance as at 31st March 2026. (03 marks)

(Total 10 marks)

Question 03

Asitha, Bandu and **Charith** are partners of **ABC associates**.

(1) The partnership agreement includes the following:

- Profit and losses are shared among **Asitha**, **Bandu** and **Charith** in the ratio of 2 : 2 : 1 respectively.
- **Asitha**, **Bandu** and **Charith** are entitled to receive a monthly salary of Rs.300,000/-, Rs.200,000/- and Rs.150,000/- respectively for managing the partnership.
- The partners are entitled to receive an interest of 10% per annum on the opening capital account balances as at 01st April 2025.
- The partners are entitled to receive an interest of 5% per annum on the opening current account balances as at 01st April 2025.

(2) The following balances were extracted from the books of accounts of the partnership as at 01st April 2025:

(Rs.'000)

	Dr.	**Cr.**
Capital Accounts Balances:		
Asitha		200,000
Bandu		160,000
Charith		100,000
Current Accounts Balances:		
Asitha		20,000
Bandu		10,000
Charith		5,000

(3) On 31st March 2026, **Charith** decided to resign from the partnership and **Asitha** and **Bandu** agreed to continue the partnership under the same name sharing profits and losses equally.

(4) Goodwill of the partnership was valued at Rs.18,000,000/- as at 31st March 2026 and it should be adjusted through partners' capital accounts without maintaining a goodwill account.

(5) The Net Profit of the partnership for the year ended 31st March 2026 was Rs.120,000,000/-.

(6) All dues to **Charith** are to be settled in full on 01st April 2026.

You are required to:

Prepare the following of **ABC Associates** for the year ended 31st March 2026:

(a) Partners' Current Accounts. (06 marks)

(b) Partners' Capital Accounts. (04 marks)

(Total 10 marks)

Question 04

The following information has been extracted from the books of accounts of **South Rowing Club** for the year ended 31st December 2025. The club commenced its operations on 01st January 2022.

(1) The following expenses were incurred and income was earned during the year:

	Rs.
Sales - Restaurant	2,544,000
Purchases - Restaurant	1,526,400
Salaries and Wages	1,440,000
Electricity and Water	780,000
Rent Expenses	540,000
Club's Miscellaneous Expenses	75,000

Relevant expenses for Restaurant are 20% on salaries & wages, electricity & water and rent expenses.

(2) Assets of the club are as follows: *(Rs.)*

As at	31st December 2025	01st January 2025
Inventory - Restaurant	285,000	175,000
Office Equipment – Restaurant (At Cost)	768,000	768,000
Other Office Equipment (At Cost)	2,500,000	1,500,000
Furniture – Restaurant (At Cost)	300,000	300,000
Other Furniture (At Cost)	250,000	250,000
Investment on Fixed Deposits	805,000	750,000

(3) Investments on fixed deposits have been placed with banks on the basis of auto renewal with interest and no new investments were made during the year.

(4) As at 01st January 2025, there were 120 members in the club. As at 01st January 2025, 25 members have not paid their membership fees for the year 2024, while 5 members have prepaid their membership fees for the year 2025. As at 31st December 2025, 4 members have not paid the membership fees for the year 2025 while 8 members prepaid their membership fees for the year 2026. There was no change in the number of members during the year.

(5) The annual membership fee is Rs.25,000/- per member.

(6) An office equipment worth of Rs.1,000,000/- was purchased for office use of **South Rowing Club** on 01st July 2025.

(7) Plant and Equipment are to be depreciated on the straight-line basis at cost using the following rates:

Office Equipment	20%
Furniture	15%

You are required to:

Prepare the following of the **South Rowing Club** for the year ended 31st December 2025:

(a) Members' Subscription Account. (03 marks)

(b) Income and Expenditure Account. (07 marks)

(Total 10 marks)

Question 05

(A) Consider the following information of **Product Y** of **Rose Ltd.**:

Annual Demand	9,000 units
Purchase Price per Unit	Rs.10/-
Ordering Cost	Rs.200/- per order
Annual Holding Cost per Unit	Rs.2.50
Lead Time	2 – 4 months
Usage	500 – 1,000 units

You are required to:

Calculate the following of **Product Y**:

(a) Economic Order Quantity (EOQ). (02 marks)

(b) Re-order level. (02 marks)

(c) Maximum stock level. (02 marks)

(B) **Salu Pili (Pvt) Ltd.** is a garment manufacturer.

The following information relating to an employee of the company is provided for the last week of May 2026:

Normal working hours per day	9 hours (5 working days per week)
Basic labour rate per hour	Rs.375/-
Standard time taken to produce a unit	15 minutes
Premium bonus	80% of the saved time at basic labour rate
No. units produced during the week	300 units

You are required to:

Calculate the total earnings of the employee for the last week. (04 marks)

(Total 10 marks)

Question 06

The following information was extracted from **PQR (Pvt) Ltd.** for the month of December 2025 and the company has two Production Departments (**P** and **A**) and a Service Department.

(1) The company has estimated the following production overheads for the month of December 2025:

Cost item	Cost (Rs.)
Rent	60,000
Electricity	45,000
Staff Welfare	40,000
Depreciation on Machinery	20,000

(2) You are given the following additional information also:

	Production Departments		Service Department
	Department P	Department A	
Indirect Materials (Rs.)	80,000	50,000	20,000
Indirect Labour (Rs.)	30,000	7,000	3,000
Floor Area (Square Feet)	2,000	1,500	500
Usage of Electricity (Kilowatts)	300	100	50
Number of Employees	250	200	50
Value of Machinery (Rs.)	500,000	300,000	200,000
Number of Direct labour hours	2,500	1,250	-
Apportionment of Cost – **Service Department**	55%	45%	-
Number of Direct labour hours required per product	2	1	-

(3) The estimated direct costs for a product are as follows:

Per Product	Rs.
Direct Material	250
Direct Labour	120
Prime Cost	**370**

You are required to:

(a) **Prepare** a statement showing how overheads are allocated and apportioned to each production department. (07 marks)

(b) **Calculate** the estimated total production cost of a product. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

The Trial Balance of **Path (Pvt) Ltd.** as at 31st March 2026 is as follows: *(Rs.'000)*

	Dr.	Cr.
Stated Capital (300,000 Ordinary Shares)		30,000
Retained Earnings as at 01st April 2025		6,834
General Reserves as at 01st April 2025		3,200
Plant and Equipment at cost:		
Motor Vehicles	25,000	
Machinery	24,000	
Furniture and Fittings	1,500	
Accumulated Depreciation as at 01st April 2025:		
Motor Vehicles		3,125
Machinery		3,000
Furniture and Fittings		300
Inventory as at 31st March 2026 at cost	2,902	
Trade Receivables / Trade Payables	4,990	2,093
Cash in Hand and Banks	15,757	
12% Debentures (25,000 at Rs.100/- each)		2,500
Application and Allotment Account		3,000
Sales		46,464
Cost of Sales	17,957	
Insurance	150	
Salaries and Wages	1,900	
Electricity and Water	400	
Office Rent	900	
Other Administration Expenses	800	
Sales Commission	1,400	
Advertising	600	
Travelling and Transport Expenses	900	
Other Distribution Expenses	296	
Debenture Interest	150	
Other Finance Expenses	189	
Income Tax Paid	725	
	100,516	**100,516**

The following additional information is also provided:

(1) On 02nd April 2026, it was found that inventory value of Rs.150,000/- included in the inventory as at 31st March 2026 had fully damaged.

(2) On 01st March 2026, the company invited applications for 25,000 Ordinary Shares at Rs.100/- each and received applications for 30,000 shares. Shares were allotted on 31st March 2026 and cash on excess shares was returned on the following day. Total cash received was credited to the application and allotment account. Other than that no other entries were made on this regard.

(3) The interest applicable to the second half of the year on debentures had not been provided for or paid by 31st March 2026.

(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
Machinery	8 years
Furniture and Fittings	5 years

(5) The following accrued and prepaid expenses are to be accounted in the books as at 31st March 2026:

Insurance Prepaid : Rs.16,000/-

Audit Fees Payable : Rs.95,000/-

(6) It was decided by the board of directors to maintain the allowance for trade receivables at 10% on trade receivables as at 31st March 2026.

(7) Income tax liability for the year of assessment 2025/26 was estimated to be Rs.950,000/- and the company has paid Rs.725,000/- as quarterly income tax installments during the year.

(8) The Board of Directors has decided to transfer Rs.500,000/- to the General Reserves during the year.

(9) The financial statements were authorized for the issue by the Board of Directors on 30th May 2026.

You are required to:

Prepare the following of **Path (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 2026. (13 marks)

(b) Statement of Financial Position as at 31st March 2026. (12 marks)

(Total 25 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.