



**Association of Accounting Technicians of Sri Lanka**

**July 2015 Examination - AA2 Level**

**Questions and Suggested Answers  
Subject No : 21**

**ADVANCED FINANCIAL ACCOUNTING  
(AFA)**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

EDUCATION AND TRAINING DIVISION

**AA2 Examination - July 2015**  
**(21) Advanced Financial Accounting**

**SUGGESTED ANSWERS**

**SECTION – A**

**Objective Test Questions (OTQs)**

Answers to ALL questions are expected.

***Suggested Answers to Question One:***

- 1.1 In terms of the prevention of Fraud Ordinance, any agreement for establishing a partnership should be in writing if the capital of the partnership exceeds Rs. 1,000.
- 1.2 Reconstitution of a partnership is needed in any of the following circumstances : Any three (03) of the following.
1. Change in the profit or loss sharing ratio among the existing partners.
  2. Admission of a new partner.
  3. Retirement of an existing partner.
  4. Death of an existing partner.
  5. Amalgamation of partnership firms.
- 1.3 Criteria to recognize provisions as per LKAS 37:-
- 1 An entity has a present obligation, as a result of a past event.
  - 2 It is probable that an outflow of resources embodying economic benefits will be required for settlement of the obligation.
  - 3 A reliable estimate can be made of the obligation.
- 1.4
- |    |                         |                          |        |
|----|-------------------------|--------------------------|--------|
| Dr | Receipts & Payments a/c | 22,222                   |        |
|    | Cr                      | Income & Expenditure a/c | 22,222 |
- (Recording, the general purpose donations received)
- 
- |    |                         |                      |        |
|----|-------------------------|----------------------|--------|
| Dr | Receipts & Payments a/c | 44,450               |        |
|    | Cr                      | Scholarship Fund a/c | 44,450 |
- (Recording, specific donation to S.F. received)

1.5	<b>Gamunu Sports Club :</b>	<b>Rs.</b>
	Buildings as at 01.01.2014 (net book value)	110,000
	Furniture & fittings as at 01.01.2014 (net book value)	30,500
	Sports items as at 01.01.2014 (net book value)	19,000
	Less : Depreciation for the year	<u>(5,400)</u>
	Total non-current assets	154,100
	Bank balance	<u>9,000</u>
	Total assets	163,100
	Less : Accrued Expenses	<u>(1,000)</u>
	<b>Accumulated Fund Balance as at 31.12.2014</b>	<b><u><u>162,100</u></u></b>

1.6	<b>Vatco (Pvt) Ltd</b>	<b>Rs.</b>
	Output VAT [(1,118,880 / 1.12) x .12]	119,880
	Less : Input VAT	
	On Purchases [(671,328 / 1.12) x .12]	(71,928)
	VAT paid on purchase of services	0
	Overpaid VAT B/F from last period	0
	<b>Balance VAT payable for the Quarter</b>	<b><u><u>47,952</u></u></b>

1.7		<b>Rs.</b>
	(2) Sales revenue for the year	<b><u>1,400,000</u></b>
	<b>(-) Cost of Sales</b>	
	Opening inventory	170,000
	Purchases	910,000
	(-) Closing inventory	<u>(240,000)</u>
	G/Profit 40%	<u>(860,000)</u>
		540,000

1.8	(2) Closing inventory	<b><u>Rs. 962,500</u></b>
	Normal stocks	700,000
	Damaged stocks - NRV (300,000 / 0.8 x 70)	<u>262,500</u>
		<u>962,500</u>

*End of Section A*

**Short Scenario Questions (SSQs)**

Answers to ALL questions are expected.

***Suggested Answers to Question Two:***

Amended cash book		Rs.	
Balance b/f	156,400	B/charges	3,000
Direct deposit	10,000		
	<u>          </u>	B/c/f	<u>163,400</u>
	<u>166,400</u>		<u>166,400</u>
B/b/f	163,400 *		

**Bank Reconciliation Statement for the month of March 2015**

Description	+ / -	Balance Rs.
Balance as per amended cash book		163,400
Add : Unpresented cheques - 500201	65,000	
- 500300	27,000	92,000
		255,400
Less : Unrealized cheques - 750121	(25,000)	
- 141510	(110,000)	(135,000)
Less : Erroneous charge by bank for cheque book		(750)
Balance as per bank statement		<u>119,650</u>

***Suggested Answers to Question Three:***

Receivables Control A/C			
Balance b/f	225,200	Discounts allowed	1,200
Dishonoured cheque / bank	5,500		
Sale (Undercasting)	1,000		
	<u>          </u>	B/c/f	<u>230,500</u>
	<u>231,700</u>		<u>231,700</u>
B/b/f	230,500		

**Receivable ledger balance Reconciliation Statement**

Description	+ / -	Balance Rs.
Balance as per Adjusted control a/c		230,500
(+) Posting error (5,600 recorded as 6,500)	900	
(+) Cash received (8,000 cash received has been debited in the individual a/c)	16,000	16,900
Balance as per individual ledger a/c		<u>247,400</u>

***Suggested Answers to Question Four:***

(a)

Cost of machinery;	Rs.
Listed price	1,250,000
(-) Trade discount	<u>(250,000)</u> ← (1,250,000 x 25%)
	1,000,000
Transport cost	55,000
Electrical Installation	25,000
Pre-Testing	<u>20,000</u>
<b>Cost of the machinery</b>	<b><u>1,100,000</u></b>

$$\text{Dep}^N \text{ Per annum} = (1,100,000 - 20,000) / 8 = 135,000$$

$$\begin{aligned} \text{From 01.04.10 to 31.03.14} &= 4 \\ \text{Accumulated Dep}^N \text{ at 31.03.14} &= 4 \times 135,000 = 540,000 \\ \text{Carrying value as at 31.03.2014} &= 1,100,000 - 540,000 = \underline{\underline{560,000}} \end{aligned}$$

$$\begin{aligned} \text{Revised cost} &= 560,000 + 200,000 \\ &= 760,000 \end{aligned}$$

$$\text{Dep}^N \text{ for the year ended 31.03.2015} = (760,000 - 20,000) / 5 = \underline{\underline{148,000}}$$

\* Assumed residual value remains the same.

***Suggested Answers to Question Five:***

**ARC Partnerships' Profit & Loss Appropriation**

**Rs.**

Net Profit			594,000
<b><u>Appropriation</u></b>			
Interest on capital	A - 10%	(180,000)	
	R - 10%	(120,000)	
	C - 10%	(60,000)	(360,000)
Interest on Drawings	A - 6%	2,250	
	R - 6%	600	
	C - 6%	400	3,300
Salary	A	(48,000)	
	R	(72,000)	(120,000)
			117,300
Profit Share	A - 3	(58,650)	
	R - 2	(39,100)	
	C - 1	(19,550)	(117,300)
			-

**Partners Current Accounts for the year ended 31st March 2015**

**Rs.**

	<b>Andy</b>	<b>Randy</b>	<b>Candy</b>
Balance b/f	30,000	(50,000)	70,000
Drawings	(50,000)	(20,000)	(30,000)
Interest on drawings	(2,250)	(600)	(450)
Interest on capital	180,000	120,000	60,000
Salary	48,000	72,000	-
Profit share	58,650	39,100	19,550
	<b>264,400</b>	<b>160,500</b>	<b>119,100</b>

**Medium Sized Scenario Questions (MSQs).**

Answers to ALL questions are expected.

***Suggested Answers to Question Six:***

(a)		<u><b>B</b></u>		<u><b>D</b></u>		<u><b>R</b></u>		=	5
	PSR	2		3					
	New admission								
		$2.5 \times 2/5$		$2.5 \times 3/5$		50%			
		1		1.5		2.5			

Therefore, the New PSR is **2 : 3 : 5** among BDR (alternatively 1 : 1.5 : 2.5)

(b) Sacrificing ratio;

		<u><b>B</b></u>		<u><b>D</b></u>		<u><b>R</b></u>
	Old PSR	2		3		-
	(-) New PSR	<u>1</u>		<u>1.5</u>		<u>2.5</u>
	Sacrificing ratio	1		1.5		-

Therefore, sacrificing ratio is **2 : 3** among BDR or (alternatively 1 : 1.5)

(c) Total value of BD partnership

	<b>B</b>	<b>D</b>	<b>Rs.</b>
			<b>Total</b>
Capital a/c	500,000	75,000	575,000
Current a/c	212,000	318,000	530,000
Total equity	712,000	393,000	1,105,000
Total value of goodwill			<u>500,000</u>
Total			1,605,000

Therefore, R's share of capital is (1,605,000 x 50%) **Rs. 802,500**

***Suggested Answers to Question Seven:***

**Anka partnership, Statement of income  
for the year ended 31.03.2015**

<b>Description</b>	<b>Rs.</b>	<b>Rs.</b>
Sales		922,000
Cost of Sales (W2)		(575,000)
Gross Profit		347,000
<b><u>Other Income</u></b>		
Administrative expenses		
Buildings dep (W1)	10,000	
Administrative exp (50,000 - 6,000)	44,000	(54,000)
<b><u>Selling expenses</u></b>		
Delivery vehicles dep (W1)	80,000	
Bad debts written off	4,000	
Selling & distribution expenses (14,000 + 5,000)	19,000	(103,000)
<b><u>Finance expenses</u></b>		
Finance exp	10,000	(10,000)
<b>Profit for the year</b>		<b>180,000</b>

**Profit and Loss appropriation a/c**

Profit for the year		180,000
<b><u>Appropriation</u></b>		
Salary	- Amal - 3,000	(36,000)
	- Kamal - 5,000	(60,000)
		84,000
Share of profit	- Amal - 2	(33,600)
	- Nimal - 2	(33,600)
	- Kamal - 1	(16,800)
		-

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**Workings****1. Dep<sup>N</sup> of PPE;**

Buildings	200,000 / 20	=	10,000
Delivery vehicles	400,000/5	=	80,000

2. **Cost of sales** = (570,000 + 5,000) = 575,000

When the closing stock value goes down the cost of sales goes up.

**Suggested Answers to Question Eight:****(a)**

**Silver Star Sports Club  
Ordinary Members Subscription Account**

	Rs.		Rs.
Bal. B/F as at 01.01.2014	6,250	Bal. B/F as at 01.01.2014	750
Trasferred to income Account	18,750	Cash (subs received)	22,500
Bal. C/F as at 31.12.2014	1,250	Bal. C/F as at 31.12.2014	3,000
	<u>26,250</u>		<u>26,250</u>

**(b)**

**Life Membership Fee Account**

	Rs.		Rs.
Tfrd income account	8,750	Bal. B/F as at 01.01.2014	87,500
Bal.C/F as at 31.12.2014	128,750	Rcd during the year 2014	50,000
	<u>137,500</u>		<u>137,500</u>
		Bal. B/F as at 01.01.2015	128,750

**Workings**

- (i) Ordinary Membership fee income for the year 2014 **Rs.**
- |   |               |
|---|---------------|
| For 2013 (20 x 250)                           | 5,000         |
| For 2014 (65 x 250)                           | 16,250        |
| For 2015 (5 x 250)                            | 1,250         |
| <b>Total Ordinary Membership fee received</b> | <u>22,500</u> |
| <b>Life Membership (10 x 5,000)</b>           | <u>50,000</u> |
- (ii) Ordinary Membership fee received during the year 2014
- |                                 |        |
|---------------------------------|--------|
| Ordinary : 75 members @ Rs. 250 | 18,750 |
| Life : (35 x 5,000) / 20        | 8,750  |
- (iii) Ordinary membership fee in arrears for 2013 and 2014 as at 31st December 2014
- Membership fees receivables as at 31.12.2014
- |                                |              |
|--------------------------------|--------------|
| For 2013 [(25 - 20) x 250]     | 1,250        |
| For 2014 [(75 - 65 - 3) x 250] | 1,750        |
| <b>Total</b>                   | <b>3,000</b> |
- (iv) **The amount of life membership fee to be recognized as an income of the year 2014.**
- Membership fees received in advance as at 31.12.2014 for 2015 (5 x 250) = Rs. 1,250

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***Suggested Answers to Question Nine:***

- (a) Criteria to be satisfied for a liability to become a current liability;
- 1 When it is expected to settle the liability in its normal operating cycle.
  - 2 When the liability is held primarily for the purpose of trading.
  - 3 Liabilities due to be settled within 12 months after the reporting period.
  - 4 The entity does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting period.

(b) **Statement of comprehensive income of Candy Stores for the year ended 31.03.2015**

Description	Rs.	Rs.
Revenue		275,000
<b>(-) cost of sales</b>		
Opening inventory	9,000	
Purchases	150,000	
(-) Closing inventory	(10,500)	(148,500)
<b>Gross Profit</b>		<b>126,500</b>
<b>Other Income</b>		
Discount received	3,000	3,000
<b>Expenses</b>		
Miscellaneous exp.	11,300	
Discount allowed	1,500	
Salaries	44,500	
EPF - 12%	5,340	
ETF - 3%	1,335	
Bad debts	2,000	
Allowance for receivables / under provision	1,900	(67,875)
<b>Net Profit</b>		<b>61,625</b>

***End of Section C***

One (01) compulsory question to be answered.

***Suggested Answers to Question Ten:***

(a) Advantages of issuing equity shares;

- 1 There is no obligation of repaying for equity shares during the life time of the company.
- 2 They are residual claimants on assets when a company is wound up. That is, they get paid after all liabilities have been paid.
- 3 Equity shares do not create any obligation to pay a fixed rate of dividends. If company earns profit, they are eligible to get dividend, otherwise they cannot claim any dividend on the company.

(b)

**Fair Deal (Pvt) Ltd**

**Statement of comprehensive income for the year ended 31.03.2015**

Description	Rs.	Rs.
Revenue		550,000,000
Cost of sales	403,900,000	
Plant dep <sup>N</sup> (W2) *	18,900,000	(422,800,000)
<b>G/P</b>		<b>127,200,000</b>
<b>Other Income</b>	--	--
<b>Administrative exp.</b>		
Insurance (300,000 - 100,000)	200,000	
Electricity (200,000 + 90,000)	290,000	
Administrative exp. (W4)	29,900,000	
Buildings dep <sup>N</sup> (W2)	5,000,000	(35,390,000)
<b>Selling &amp; Distribution exp.</b>		
Bad debts written off	200,000	
Under Prov <sup>N</sup> (W1)	1,100,000	
Distribution exp	21,500,000	(22,800,000)
<b>Other exp.</b>		
Compensation ** (500,000 + 250,000)	750,000	(750,000)
<b>Finance exp.</b>		
Finance exp.	700,000	(700,000)
Profit before tax		67,560,000
<b>Taxes</b>		
Current year tax	6,000,000	
Previous year tax (W3)	200,000	(6,200,000)
<b>Profit after tax</b>		<b>61,360,000</b>

**\*\* It was assumed Rs. 500,000 was provided as an administrative exp and 250,000 was under provided, such was reclassified from Admin expenses to other expenses.**

**Workings**

**(W1)**

Bad debts & provision for doubtful debts		
Trade receivables		42,200,000
Bad debts		<u>(200,000)</u>
Balance T/receivables		<u>42,000,000</u>
Provision for doubtful debts	42,000,000 x 5%	2,100,000
Provision from T/B		<u>(1,000,000)</u>
Under prov <sup>N</sup>		<u>1,100,000</u>

**(W2)**

**Depreciation;**

Building	50,000,000 / 10	=	5,000,000
Plant	94,500,000 / 5	=	18,900,000

**(W3)**

Tax provided 2013/14	=	7,400,000
Agreeded & paid	=	<u>(7,600,000)</u>
Tax under provision	=	<u>200,000</u>

**(W4)**

**Administrative Exp.**

Extracted from T/B		30,900,000
(-) Electricity & insurance		(500,000)
(-) Compensation reclassified to other exp.		<u>(500,000)</u>
Total to P & L		<u>29,900,000</u>

**(W5)**

**Retained earnings**

Brought forward		11,200,000
Profit for the year		61,360,000
Dividends		<u>(20,000,000)</u>
		<u>58,560,000</u>

**Fair Deal (Pvt) Ltd**  
**Statement of financial position as at 31.03.2015**

	Cost	Acc. Dep <sup>N</sup>	NBV
<b>Non-current assets</b>			
Land	10,000,000	-	10,000,000
Buildings	50,000,000	(25,000,000)	25,000,000
Plant	94,500,000	(43,400,000)	51,100,000
			86,100,000
<b>Current assets</b>			
Inventories		43,700,000	
Trade receivables	42,000,000		
(-) Allowance for receivables	(2,100,000)	39,900,000	
Prepaid insurance		100,000	
Cash		8,300,000	92,000,000
			<b>178,100,000</b>
<b>Equity</b>			
Standard capital		67,000,000	
Retained earnings (W5)		52,560,000	119,560,000
<b>Non-current liabilities</b>			
<b>Current liabilities</b>			
Trade payables		51,700,000	
Accrued electricity		90,000	
Income tax payable		6,000,000	
Compensation payable		750,000	58,540,000
			<b>178,100,000</b>

*End of Section D*