



**Association of Accounting Technicians of Sri Lanka**

**January 2016 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 - January 2016  
(21) Advanced Financial Accounting**

**SUGGESTED ANSWERS**

**SECTION – A**

**Objective Test Questions (OTQs)**

All questions of this section to be answered.

(Total 20 marks)

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

1.1

Subscription A/C			
B/B/F	81,000	B/B/F	45,000
		Receipts of payments	
Income & expenditure	540,000	- 2014 (cash 08)	72,000
		- 2015 (cash (50))	450,000
		- 2016 (cash 07)	63,000
B/C/F	63,000	B/C/F	54,000
	<u>684,000</u>		<u>684,000</u>

1.2

Output VAT	18,463,000 x 12%	=	2,215,560
Input VAT	6,382,000 x 12%	=	765,840
VAT on other Expenses	1,312,000 x 12%	=	157,440

VAT Control A/C			
VAT on Purchases / Creditors	765,840	Sales / Debtor (VAT on Sales)	2,215,560
VAT on other services (Expenses / Cash)	157,440		
B/C/F (VAT Payable)	1,292,280		
	<u>2,215,560</u>		<u>2,215,560</u>

1.3

- (a) According to Companies Act No. 07 of 2007, Section 201, a public company which should have minimum of two (02) directors.
- (b) A Public Limited Company can issue ordinary shares publically.

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1.4

- (a) No interest on capital to be paid.
- (b) No partner shall be entitled to remuneration for acting in the partnership business.

1.5 **Major differences between an equity instrument and a debt instrument.**

	<b>Equity Instrument</b>	<b>Debt Instrument</b>
1	Right to attend the company's general meetings	No such rights for debt holders
2	Pre-emptive right for new issue of shares	No such rights for debt holders
3	Equity instrument holders will receive the annual reports and financial statements	No such requirement regarding debt holders
4	Voting rights	No voting rights for debt holders
5	Right to receive equal share of dividends paid by the company	Right to receive interest at a pre-determined rate
6	Right to receive an equal share of surplus at the point of liquidation	Debt holders should be settled before equity holders and entitled only to the amount due

1.6

- First In First Out (FIFO) method - Assumes that the items of inventory that were purchased or produced first sold first.
- Weighted Average Cost (WAC) method. - The cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period.

***End of Section A***

All five (05) questions of this section to be answered.  
(Total 25 marks)

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

a. **Revised Payable Ledger Control A/C**

Purchases	20,000	B/B/F	118,300
Receivable/Debtors Control A/C	2,700		
B/C/F	95,600		
	<u>118,300</u>		<u>118,300</u>

b. **Reconciliation Statement**

Description	+ / -	Balance Rs.
Balance as per control a/c (Received balance of Payable Ledger Control A/C)		95,600
(+) Discount received - commission	11,700	
Overcast in list balance	7,000	
Cash payment to a supplier - omission	4,500	23,200
Total of individual Payable Ledger balance		<u>118,800</u>

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

a) **Hi-Fi (Pvt) Ltd**  
**Adjusted / Advanced Cash Book**  
**as at 30.09.2015**

Date	Description	Dr (Rs.)	Cr (Rs.)	Balance (Rs.)
30.09.2015	Balance as per Cash Book			(7,800)
	Debtor direct settlement	93,000		85,200
	Loan settlement		57,000	28,200
	Overdraft interest & charges		2,500	25,700
<b>30.09.2015</b>	<b>Adjusted Cash Book Balance</b>			<b>25,700</b>

b)

**Hi-Fi (Pvt) Ltd**  
**Bank Reconciliation Statement**  
**as at 30th September 2015**

Description	RS.	Rs.
Balance as per cash book (Adjusted 30.09.2015)		25,700
+ Unpresented cheques		
- 750120	127,500	
- 750136	83,000	210,500
(-) Unrealized cheques		
- 123156		(50,000)
Balance as per Bank Statement 30.09.2015		186,200

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

**Journal Entries**

Salary expenses a/c	Dr.	7,570,000	
Salary control a/c			7,570,000
(Being the entry for, salary expense)			
EPF expense a/c	Dr.	908,400	
EPF payable a/c			908,400
(Being the entry for, recording employer's EPF contribution - 12%)			
ETF expenses a/c	Dr.	227,100	
ETF payable a/c			227,100
(Being the entry for, recording ETF contribution)			
Salary control a/c	Dr.	605,600	
EPF payable a/c			605,600
(Being the entry for, recording employee's EPF (8%) contribution)			
EPF payable a/c	Dr.	1,514,000	
ETF payable a/c	Dr.	227,100	
Salary control a/c	Dr.	6,964,400	
Cash / bank a/c			8,705,500
(Being the entry for, recording cash payments.)			

## Suggested Answers to Question Five:

### Capital Accounts

	Viraj	Ranga	Indika		Viraj	Ranga	Indika
Goodwill	360,000	240,000	-	Balance	2,000,000	2,000,000	2,000,000
Current A/C	-	-	30,000	Revaluation Reserve	306,000	306,000	306,000
Cash	-	-	2,476,000	Goodwill	200,000	200,000	200,000
Balance C/d	2,146,000	2,266,000	-				
	<b>2,506,000</b>	<b>2,506,000</b>	<b>2,506,000</b>	Balance B/F			<b>2,506,000</b>

### Current Accounts

	Viraj	Ranga	Indika		Viraj	Ranga	Indika
Balance	50,000	25,000	30,000	Capital A/C	-	-	30,000
				Balance C/d	50,000	25,000	-
	<b>50,000</b>	<b>25,000</b>	<b>30,000</b>		<b>50,000</b>	<b>25,000</b>	<b>30,000</b>
Balance B/F	50,000	25,000			-	-	-

Statement value to **Indika** Rs. 2,476,000/-

### workings

#### 1. Revaluation

	NBV	Revalued Amount	Revaluation Reserve		
Land	2,300,000	2,950,000	650,000	Viraj	306,000
Buildings	1,182,000	1,700,000	518,000	Ranga	306,000
Motor Vehicles	1,500,000	1,250,000	(250,000)	Indika	306,000
			<b>918,000</b>		<b>918,000</b>

#### 2. Goodwill

##### Recording the goodwill

Viraj	(600,000 * 2/6)	200,000
Ranga	(600,000 * 2/6)	200,000
Indika	(600,000 * 2/6)	200,000

#### 3. Write-off goodwill

##### Recording the goodwill

Viraj	(600,000 * 3/5)	200,000
Ranga	(600,000 * 2/5)	200,000

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

**IBM's Partnership appropriation a/c**

**for the year ended 31.03.2015**

			<b>Rs.</b>
Net Profit			695,000
Appropriation			
Interest on Drawings	Imraz (48000 x 5% x 10/12)	2,000	
	Buddhika (24000 x 5% x 11/12)	1,100	
	Mahee (60000 x 5% x 3.5/12)	875	(3,975)
Salaries	Buddhika (2000 x 12)	24,000	
	Mahee (2000 x 12)	24,000	(48,000)
Share of profits		650,975	
	Imraz- 2	(260,390)	
	Buddhika - 2	(260,390)	
	Mahee - 1	(130,195)	(650,975)
			<u>0</u>



***End of Section B***

All three (03) questions of this section to be answered.  
(Total 30 marks)

*Suggested Answers to Question Seven:*

a) **Ranmal Partnership**  
**Statement of Income**

for the year ended 31st March 2015

Rs.

Sales		580,000
(-) Sales return		(15,000)
		565,000
<b>Cost of sales</b>		
Opening Stocks	67,000	
Purchases	367,000	
	434,000	
Closing Stocks	(119,500)	(314,500)
<b>Gross Profit</b>		<b>250,500</b>
<b>Other Income</b>		
<b>Administrative Expenses</b>		
Building depreciation (W2)	22,500	
Office equipment depreciation (W2)	60,000	
Admin Exp.	115,000	(197,500)
<b>Selling and Distribution Expenses</b>		
Bad debts	4,000	
Allowance for receivable (W1)	3,000	
Distribution Exp.	45,000	(52,000)
<b>Finance Expenses</b>		
Finance Exp.	11,000	(11,000)
<b>Net Profit</b>		<b>(10,000)</b>

**b) Ranmal Partnership**  
**Profit or Loss Appropriation Account**  
**for the year ended 31st March 2015**

**Rs.**

Net Profit			(10,000)
Partner's salary - Anura (Note 1)			(50,000)
<b>Appropriation</b>			
Interest on capital 5%	- Ranil	(60,000)	
	- Anura	(20,000)	
	- Namal	(40,000)	(120,000)
Share of losses	Ranil - 3	90,000	
	Anura - 1	30,000	
	Namal - 2	60,000	
			180,000
			--

**Workings**

(W 1)

**Allowance for receivables**

Debtor	304,000
(-) Bad debts	(4,000)
	<u>300,000</u>

Allowance =  $300,000 \times 1\% = 3,000$

(W 2)

**Depreciation**

Building	= $900,000 \times 2.5\% = 22,500$
Office equipment	= $300,000 \times 20\% = 60,000$

**Note 01**

Since Aruna is working as a manager, his salary is added to net profit.

***Suggested Answers to Question Eight:***

**Northern Traders**

**The Statement of Financial Position**

**as at 31.03.2015**

**Rs.**

<u>Assets</u>	<b>Cost</b>	<b>Acc. Dep.</b>	<b>NBV</b>
Property, Plant & Equipment			
Office equipment	550,000	(275,000)	275,000
Motor vehicles	2,900,000	(1,450,000)	1,450,000
	<b>3,450,000</b>	<b>(1,725,000)</b>	<b>1,725,000</b>
<b><u>Current Assets</u></b>			
Inventories (165,000 - 6,500)		158,500	
Trade Receivable		860,000	
Vehicle Sale Proceeds receivable		1,300,000	
Prepayments		12,000	
Cash & Bank		320,000	2,650,500
<b>Total Assets</b>			<b>4,375,500</b>
<b><u>Capital &amp; Reserves:</u></b>			
Proprietor's Capital A/C (01.04.2013)		4,209,000	
Profit for the year (300000 + 25000 - 6500)		318,500	
(-) Drawings		(860,000)	
Total equity			3,667,500
<b><u>Current Liabilities</u></b>			
Trade Payable		695,000	
Accrued expenses		13,000	708,000
			<b>4,375,500</b>

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**Workings****(W 1)****Disposal of Motor Vehicle A/C**

M/V	2,000,000	Acc. Dep. (2,000,000 x 25% x 2)	1,000,000
Profit	300,000	Proceed receivable	1,300,000
	<u>2,300,000</u>		<u>2,300,000</u>

**(W 2)**

Profit for the year	
Profit before adjustment	25,000
Disposal of Motor Vehicle - profit	300,000
(-) Falling value of Inventory (10,000 - 3,500)	(6,500)
Adjusted Profit	<u>318,500</u>

**(W 3) Inventories**

At cost	165,000
(-) Provision for fall in value	(6,500)
	<u>158,500</u>

**Suggested Answers to Question Nine:****(W 1)****Subscription A/C**

B/B/F	0	B/B/F	480,000
		Receipts & Payment	2,360,000
Income & Expenditure	2,770,000		
B/C/F	350,000	B/C/F	280,000
	<u>3,120,000</u>		<u>3,120,000</u>

**(W 2)**

Depreciation of tennis equipment  
 $4,400,000 / 10 = 440,000$

**(W 3)****Tennis consumable payable**

B/B/F	930,000	P/L	2,270,000
B/C/F	1,960,000	B/C/F	620,000
	<u>2,890,000</u>		<u>2,890,000</u>

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Cost of tennis consumable

Op. Inventory	950,000
Purchases	620,000
(-) Cl. Inventory	(835,000)
	<hr/>
	735,000

(a)

**Royal Tennis Club,**

**Income & Expenditure Account**

**for the year ended 31.12.2015**

**Rs.**

		Rs.
<b><u>Income</u></b>		
Subscription (W 1)		2,770,000
Donation		3,400,000
Tournament fee		1,880,000
		<hr/>
		8,050,000
<b><u>Expenses</u></b>		
Cleaners wages	430,000	
Tour expenses	2,120,000	
Court maintenance	200,000	
Ground person's wages	950,000	
Tennis consumables (W 3)	735,000	
Building depreciation	500,000	
Tennis equipment depreciation	440,000	5,375,000
		<hr/>
Surplus		2,675,000

(b)

**Royal Tennis Club**

**Statement of Financial Position**

as at 31.12.2015

**Rs.**

<u>Non-current assets</u>	<b>Cost</b>	<b>Acc. Dep.</b>	<b>NBV</b>
Land	4,000,000	-	4,000,000
Buildings	6,500,000	500,000	6,000,000
Tennis equipment (W 2)			3,960,000
			13,960,000
Fixed deposit (Investment)			2,400,000
<b><u>Current Assets</u></b>			
Inventories - Tennis consumables		835,000	
Prepaid tournament expenses		130,000	
Sub in arrears		280,000	
Cash in hand		2,880,000	4,125,000
<b>Total Assets</b>			<b>20,485,000</b>
Capital as at 01.01.15		15,500,000	
Surplus for the year		2,675,000	18,175,000
<b><u>Current Liabilities</u></b>			
Payable - Tennis consumable		1,969,000	
Sub in advance		350,000	2,310,000
			20,485,000

*End of Section C*

One (01) compulsory question to be answered.

(25 marks)

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

(a)

Rumesh (Pvt) Ltd,

Statement of Comprehensive Income for the year ended 31st March 2015

Description	Rs.	Rs.
Sales		436,000,000
Cost of sales		(290,930,000)
Gross profit		145,070,000
Other income		
<b>Selling &amp; Distribution Expenses</b>		
Bad debts	1,500,000	
Allowance for receivable (W 1)	1,475,000	
Other distribution expenses	33,500,000	(36,475,000)
<b>Administrative Expenses</b>		
Depriciation - buildings (W 2)	3,500,000	
Depriciation - office equipment (W 2)	11,100,000	
Other administrative expenses	42,790,000	
Insurance expense	165,000	
Equipment maintenance	130,000	(57,685,000)
<b>Finance Expense</b>		
Interest expense	100,000	(100,000)
<b>Profit before taxation</b>		<b>50,810,000</b>
Current year Tax	9,300,000	
Under / (Over) provision	(250,000)	(9,050,000)
<b>Profit after taxation</b>		<b>41,760,000</b>
<b>Total Comprehensive Income</b>		

**Rumesh (Pvt) Lts**

**Statement of Financial Position**

**as at 31.03.2015**

	Cost	Acc. Dep.	Rs. NBV
<b><u>Non-current asset</u></b>			
Land	30,000,000	--	30,000,000
Building	70,000,000	(28,500,000)	41,500,000
Office equipment	55,500,000	(34,600,000)	20,900,000
	155,500,000	(63,100,000)	92,400,000
<b><u>Current assets</u></b>			
Inventories		60,000,000	
Trade receivables	61,500,000		
Allowance for receivables	(3,075,000)	58,425,000	
Prepaid equipment maintenance		20,000	
Cash		1,000,000	119,445,000
<b>Total Assets</b>			<b>211,845,000</b>
<b><u>Total equity and liabilities</u></b>			
Stated capital (W 3)		70,000,000	
Retained earnings (W 3)		85,310,000	155,310,000
<b><u>Non-current Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Trade payables		42,200,000	
Accrued insurance		35,000	
Tax payable		9,300,000	
Bank O/D		5,000,000	56,535,000
<b>Total Equity &amp; Liabilities</b>			<b>211,845,000</b>

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**Workings****(W 1) Allowance for receivables:**

Trade debtors after bad debts	61,500,000	
5% allowance	61,500,000 x 5%	3,075,000
(-) Provision already made		(1,600,000)
		<hr/> 1,475,000

**(W 2) Depreciation**

Buildings	70,000,000 / 20	3,500,000
Office equipment	55,500,000 / 5	11,100,000

**(W 3) Statement of changes in equity**

	<b>Stated Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance B/F	50,000,000	45,750,000	95,750,000
Right issue	20,000,000		20,000,000
Dividends		(2,200,000)	2,200,000
Profit for the year		41,760,000	41,760,000
	<hr/> 70,000,000	<hr/> 85,310,000	<hr/> 155,310,000

*End of Section D*

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***Notice :***

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