



Association of Accounting Technicians of Sri Lanka

July 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 - July 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 3

1.2 1

Working

| | Rs. |
|--------------------------------|-----------------------|
| Gross salaries of employees | 575,000 |
| <i>Less -</i> | |
| Loan installments | (75,000) |
| Employees' contribution to EPF | (46,000) |
| PAYE | (20,000) |
| Net Salaries | <u>434,000</u> |

1.3 2

Working

| | Rs. |
|-----------------------------------------------------|-----------------------|
| Closing Capital (Capital as at 31st March 2016) | 400,000 |
| (-) Opening Capital (Capital as at 01st April 2015) | <u>250,000</u> |
| | 150,000 |
| (+) Drawings | 30,000 |
| (-) Add. Capital | <u>(50,000)</u> |
| Profit | <u>130,000</u> |

1.4 Admission of a partner

Sale of a partnership

Retirement of a partner

When partners decide to change their profit sharing ratio

| | | | | |
|-----|-----------------------------------------------------------------------------------|-----------------|---|--------------------------|
| 1.5 | Average Profit Method | | | |
| | Super Profit / Simple Average Method | | | |
| | Weighted Average Profit Method | | | |
| | Capitalization Method | | | |
| 1.6 | Profit or losses to be shared equally | | | |
| | No salaries for partner | | | |
| | No interest on Capital | | | |
| | Every general partner may take part in the management of the partnership business | | | |
| 1.7 | Seperate legal personality | | | |
| | Limited liability | | | |
| | Accounting and Auditing is compulsory | | | |
| | For companies Activities company is personal liable | | | |
| | The owners of a company are known as shareholders | | | |
| 1.8 | Sale Value | = 750 x 320,000 | = | 240,000,000 |
| | <u>Cost of Sales</u> | | | |
| | Op. Inventory | = 700 x 190,000 | = | 133,000,000 |
| | Purchase | = 400 x 225,000 | = | 90,000,000 |
| | (-) Cl. Inventory | = 350 x 225,000 | = | (78,750,000) |
| | Gross Profit | | | <u><u>95,750,000</u></u> |
| | | | | <i>(Total 20 marks)</i> |

End of Section A

Five (05) compulsory questions.

(Total 25 marks)

Suggested Answers to Question Two:

(a)

| Vindy's High Tea Adjusted Cash Book | | | |
|------------------------------------------------|---------|--------------|---------|
| B/B/F | 107,000 | Bank charges | 2,500 |
| | | B/C/F | 104,500 |
| | 107,000 | | 107,000 |
| | 107,000 | | 107,000 |

(b)

Bank Reconciliation Statement as at 31st March 2016

| Description | + / - | Balance Rs. |
|-------------------------------------------------------|----------|----------------|
| Adjusted Cash book balance as at 31.03.2016 | | 104,500 |
| (+) Unpresented cheques | | |
| 750298 | 5,500 | |
| 750307 | 70,000 | |
| 750136 | 83,000 | 158,500 |
| (-) Unrealized cheques | | |
| 345675 | (25,000) | (25,000) |
| Bank error | | (11,000) |
| Balance as per bank statement as at 31.03.2016 | | 227,000 |

(05 marks)

Suggested Answers to Question Three:

(a)

| Debtor's Control A/C | | | |
|-----------------------------|-----------|-----------|-----------|
| B/b/f | 1,780,000 | Cash | 4,200,000 |
| Sales | 4,800,000 | Bad debts | 80,000 |
| | | B/C/F | 2,300,000 |
| | 6,580,000 | | 6,580,000 |
| | 6,580,000 | | 6,580,000 |

| (b) Creditor's Control a/c | | | |
|-----------------------------------|------------------|-----------|------------------|
| Pur. Returns | 750,000 | B/B/F | 2,350,000 |
| Discount received | 300,000 | Purchases | 5,200,000 |
| Cash | 3,200,000 | | |
| B/C/F | 3,300,000 | | |
| | <u>7,550,000</u> | | <u>7,550,000</u> |

(05 marks)

Suggested Answers to Question Four:

| | | | | |
|------------------|-----|-------------|-----------|-----------|
| Capital a/c | Dr. | Aminda - 1 | 600,000 | |
| | | Daminda - 3 | 1,800,000 | |
| Goodwill Account | Cr. | | | 2,400,000 |
| Goodwill Account | Dr. | | 2,400,000 | |
| Capital a/c | Cr. | Aminda - 3 | | 1,440,000 |
| | | Daminda - 2 | | 960,000 |

(05 marks)

Suggested Answers to Question Five:

| Receipts and Payments | | | |
|------------------------------|--------------|----------|--------------|
| B/b/f | 2,500 | Salary | 90 |
| Subscription | 660 | Rent | 300 |
| Donation | 300 | Expenses | 120 |
| | | B/c/d | 2,950 |
| | <u>3,460</u> | | <u>3,460</u> |

| Subscription a/c | | | |
|-------------------------|--------------|-----------------------|--------------|
| B/B/F | 350 | B/B/F | 500 |
| Income and Expenditure | 720 | Receipts and Payments | 660 |
| B/C/F | 320 | B/C/F | 230 |
| | <u>1,390</u> | | <u>1,390</u> |

| Salaries Account | | | |
|-------------------------|------------|-------------|------------|
| Cash | 90 | Balance B/F | 70 |
| B/C/F | 120 | P & L | 140 |
| | <u>210</u> | | <u>210</u> |

(05 marks)

Suggested Answers to Question Six:

| | | Dr Rs. | Cr Rs. |
|------------|--------------------------------------------------------------------------|-------------------|-------------------|
| 01.03.2016 | Accumulated Depreciation on Motor Vehicles Dr. | 2,500,000 | |
| | Motor Vehicle disposal account Cr. | | 2,500,000 |
| | (Being transfer of the accumulated depreciation of the vehicle disposed) | | |
| 01.03.2016 | Disposal of Motor Vehicles Dr. | 2,500,000 | |
| | Motor Vehicles Account Cr. | | 2,500,000 |
| | (Being transfer cost of the vehicle to the disposal account) | | |
| 01.03.2016 | Bank Dr. | 700,000 | |
| | Motor Vehicle disposal account Cr. | | 700,000 |
| | (Being recording of the sale proceed of the vehicle sold) | | |
| 01.03.2016 | Motor Vehicle disposal account Dr. | 700,000 | |
| | Income Statement (profit on the vehicle disposal) Cr. | | 700,000 |
| | (Being transfer of the disposal profit to the Income Statement) | | |
| 15.03.2016 | Motor Vehicle Dr. | 3,600,000 | |
| | Creditors Cr. | | 3,600,000 |
| | (Being accounting for the payment made on the new vehicle) | | |
| 31.03.2016 | Motor Vehicle Depreciation Dr. | 75,000 | |
| | Accumulated Depreciation of Motor Vehicles Cr. | | 75,000 |

(05 marks)

End of Section B

Three (03) compulsory questions.
(Total 30 marks)

Suggested Answers to Question Seven:

(a) **Partner's Current a/c**

('000)

| | Anura | Binura | Vinura |
|----------------------|------------|------------|----------|
| B/b/f | 230 | 160 | (50) |
| Interest on capit. | 200 | 120 | 90 |
| Salaries | - | 75 | - |
| Share of profit | 6 | 6 | 3 |
| Transfer to loan a/c | - | - | (43) |
| | 436 | 361 | - |

(b) **Partner's Capital a/c**

('000)

| | Anura | Binura | Vinura |
|----------------------|--------------|--------------|----------|
| B/b/f | 4,000 | 2,400 | 1,800 |
| Goodwill | 400 | 400 | 200 |
| Goodwill | (500) | (500) | 43 |
| Revaluation (W1) | 280 | 280 | 140 |
| Transfer to loan a/c | - | - | (2,183) |
| | 4,180 | 2,580 | - |

Workings**(W1)****ABV's Partnership****Appropriation a/c****(‘000)**

| | | |
|-------------------------|-------|---------------|
| Net Profit for the year | | 500 |
| Interest on Capital | | |
| Anura | (200) | |
| Binura | (120) | |
| Vinura | (90) | (410) |
| Salary - Binura | (75) | (75) |
| Share of Profit | | |
| Anura | (6) | |
| B inura | (6) | |
| Vinura | (3) | (15) |
| | | <u> --</u> |

(W2)**Revaluation a/c**

| | | | |
|--------|------------|----------|------------|
| Plant | 250 | Land | 200 |
| Anura | 280 | Building | 750 |
| Binura | 280 | | |
| Vinura | 140 | | |
| | <u>950</u> | | <u>950</u> |

(10 marks)

Suggested Answers to Question Eight:

Sikura Sports Club

Income and Expenditure

For the year ended 31.12.2015

Rs. '000

| | | |
|------------------------|--------|---------------|
| Subscription | 50,200 | |
| Donation | 6,300 | |
| Sale of drama tickets | 6,800 | 63,300 |
| <u>Expenses</u> | | |
| Rent Exp. | 4,200 | |
| Drama Prod. cost | 4,800 | |
| Guest fee | 1,400 | |
| Printing | 2,100 | |
| Other Exp. | 7,100 | 19,600 |
| Surplus | | 43,700 |

Sikura Sports Club

Statement of Financial Position

(Rs. '000)

| | | |
|-----------------------------------|--------|---------------|
| <u>Non-current Assets</u> | | |
| Theatre Equipment | | 15,000 |
| <u>Current Assets</u> | | |
| Subscription arrears | 300 | |
| Rent advance | 2,200 | |
| Cash | 38,200 | 40,700 |
| Total | | 55,700 |
| | | |
| Accumulated Fund | | 8,400 |
| Surplus | | 43,700 |
| <u>Current Liabilities</u> | | |
| Drama payable | 2,200 | |
| Payable to Guest Artists | 1,400 | 3,600 |
| Total | | 55,700 |

(10 marks)

Suggested Answers to Question Nine:

Parakash Trader

Trial Balance

as at 31st December 2015

(Rs. '000)

| | Dr. | Cr. |
|------------------|---------------|---------------|
| Trade receivable | 1,570 | |
| Other expenses | 2,572 | |
| Trade payable | | 3,100 |
| Accrued expenses | | 26 |
| Cash | 7,743.9 | |
| Inventory | 550 | |
| Purchases | 26,690 | |
| Sales | | 34,100 |
| Bank charges | 3.1 | |
| Capital | | 1,903 |
| | 39,129 | 39,129 |

Workings

(W1)

| Cash a/c | | (‘000) | |
|-------------------------|---------------|----------------------|---------------|
| Opening bal. | 175 | Payment to suppliers | 24,810 |
| Collection from debtors | 34,780 | Expenses | 2,598 |
| Add. capital | 500 | Bank charges | 3.1 |
| | | Drawings | 300 |
| | | B/C/F | 7,743.9 |
| | 35,455 | | 35,455 |

(W2)

Capital $2,250 + 175 + 550 - 1,220 - 52$
1,703

Opening Capital 1,703
Additional Capital 500
Drawings (300)
1,903

(10 marks)

End of Section C

One (01) compulsory question.

(25 marks)

Suggested Answers to Question Ten:

(a) **Blue Co (Pvt) Ltd**

**Statement of Comprehensive Income
for the year ended 31st March 2016**

| | | (Rs. '000) |
|--------------------------------|-------|---------------|
| Sales | | 25,000 |
| (-) Sales Return | | - |
| Cost of sales | | (10,700) |
| Gross profit | | 14,300 |
| <u>Other income</u> | | |
| Distribution Expenses | | |
| Dep. m/vehicle W1 | 1,125 | |
| Bad debits | 50 | |
| Under provided doubtful debt | 280 | |
| Dis. exp. | 2,800 | (4,255) |
| Administrative Expenses | | |
| Depreciation - buildings (W 1) | 1,025 | |
| Administrative expenses (W2) | 3,903 | (4,928) |
| Other Exp. | | |
| Finance Exp. | | |
| Debenture Interest | (800) | (800) |
| Profit before taxation | | 4,317 |
| Tax (W3) | | (300) |
| Profit after taxation | | 4,017 |

(b) Blue Co. (Pvt) Ltd**Statement of Financial Position**

as at 31.03.2015

(Rs. '000)

| | Cost | Acc. Dep. | NBV |
|---------------------------------------|-------------|------------------|---------------|
| <u>Non-current asset</u> | | | |
| Land | 43,000 | - | 43,000 |
| Building | 20,500 | 4,775 | 15,725 |
| M/Vehicle | 4,500 | 3,125 | 1,375 |
| | 68,000 | 7,900 | 60,100 |
| <u>Current assets</u> | | | |
| Inventories | | 6,200 | |
| Trade receivables | 5,600 | | |
| (-) Allowance for receivables | (280) | 5,320 | |
| Prepaid rent | | 25 | |
| Cash at bank | | 950 | 12,495 |
| Total Assets | | | 72,595 |
| <u>equity and liabilities</u> | | | |
| Equity | | | |
| Stated capital | | 35,000 | |
| Retained earnings | | 19,617 | |
| Gen. Resource | | 7,500 | |
| Total Equity | | | 62,117 |
| <u>Non-current Liabilities</u> | | | |
| 10% Debenture | | 8,000 | 8,000 |
| <u>Current Liability</u> | | | |
| Trade payable | | 1,880 | |
| Acc. E/city | | 8 | |
| Income Tax payable | | 190 | |
| Int. payable | | 400 | 2,478 |
| | | | 72,595 |

Workings**(W 1) Working on Dep.**

| | | |
|-----------|-------------|-------|
| Buildings | 20,500 x 5% | 1,025 |
| M/vehicle | 4,500 x 25% | 1,125 |

(W 2) Admin. Exp.

| | |
|--------------|--------------|
| T/Balance | 3,920 |
| Prepaid rent | (25) |
| Acc. E/city | 8 |
| | <u>3,903</u> |

(W 3) Tax

| | |
|----------------|------------|
| Current year | 250 |
| Under provided | 50 |
| | <u>300</u> |

(W 4) Dividend payable

Directors has declared a dividend of 5/- per share as at 10th April 2016

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(25 marks)

End of Section D

Notice :

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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