



**Association of Accounting Technicians of Sri Lanka**

**January 2017 Examination - AA2 Level**

**Questions and Suggested Answers  
(AA 21)**

**ADVANCED FINANCIAL ACCOUNTING  
(AFA)**

**Association of Accounting Technicians of Sri Lanka**  
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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA  
EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2017**  
**(AA21) Advanced Financial Accounting**

**SUGGESTED ANSWERS**

**SECTION – A**

**Objective Test Questions (OTQs)**

Seven (07) compulsory questions

(Total 20 marks)

*Suggested Answers to Question One:*

- 1.1 Depreciation =  $(500,000 - 50,000) / 5$   
= (4)
- 1.2 Only C (3)
- 1.3 All of the above (4)
- 1.4 - Less cost of capital  
- Interest payment is tax deductible  
- Those who desire to invest in safe securities with a fixed income have no attraction for equity shares  
- Non-voting rights
- 1.5 - There is no obligation of repaying for equity shares during the lifetime of the company  
- Equity shareholders get the opportunity of voting for and against the decisions of the company. Ultimately, they exercise the controlling power.  
- Equity shares do not create any obligation to pay a fixed rate of dividends. If the company earns profit, equity shareholders are eligible to get dividend, otherwise they cannot claim any dividend from the company.  
- Equity shareholders are paid dividends at higher rates, when the company earns higher profits.

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1.6	Cash / bank (270,000 x 25)	Dr	6,750,000	
	Application allotment a/c	Cr		6,750,000

(Being accounting for receipt of money for 270,000 shares)

	Application allotment a/c	Dr	500,000	
	Cash / bank a/c	Cr		500,000

(Being accounting for returning the money received for excess shares)

	Application allotment a/c	Dr	6,250,000	
	Stated capital	Cr		6,250,000

(Being accounting for returning the money received for excess shares)

- 1.7
1. No person may introduced as a partner without the consent of an existing partner.
  2. Partner is entitled to 5% per annum interest for stated loan.
  3. Books are to be kept at the place of business of the partnership.

***(Total 20 marks)***

***End of Section A***

Five (05) compulsory questions.

(Total 25 marks)

**Suggested Answers to Question Two:**

(a)

Trade payables control a/c			
Returns	16,000	B/B/F	305,400
Payments	103,000	Purchases	135,900
Discount received	1,200		
C/F	321,100		
	<u>441,300</u>		<u>441,300</u>

*(03 marks)*

(b)

**Trade payables reconciliation statement**

Description	+ / -	Balance
		<b>Rs.</b>
Creditors control a/c		321,100
Credit purchases omitted	(20,000)	
Cash payments omitted	8,500	(11,500)
		<u><b>309,600</b></u>

*(02 marks)*  
*(Total 05 marks)*

**Suggested Answers to Question Three:**

**Profit or loss appropriation a/c**

**For the year ended 31.03.2016**

Net Profit			3,500,000
<b><u>Appropriation</u></b>			
Interest on drawings	Ashan	120,000	
	Roshan	30,000	150,000
Salary	Hashan	(125,000)	(125,000)
Share of profits	Ashan - 4	(1,410,000)	
	Hashan - 3	(1,057,500)	
	Roshan - 3	(1,057,500)	(3,525,000)
			<u>0</u>

*(05 marks)*

**Suggested Answers to Question Four:**

(a)

Adjusted cash book			
B/B/F	15,274	B/C	2,500
Error	1,800	B/C/F	14,574
	17,074		17,074
			(02 marks)

(b)

**Bank Reconciliation Statement**

As at 31.12.2016

Description	+ / -	Balance
		<b>Rs.</b>
Amended cash book balance		14,574
(+) Unpresented cheques	628734 3,274	
	628742	118,522
(-) Unrealized cheques	321154 (156,200)	
	265471 (24,675)	(180,875)
		(47,779)
Bank error *		5,250
		(42,529)

(03 marks)

(Total 05 marks)

**Suggested Answers to Question Five:**

(a) Site preparation cost	=	870,000
Building materials and labour	=	1,590,000
Carriage inwards	=	160,000
Professional fees	=	630,000
<b>Amount to be capitalized</b>	=	<b>3,250,000</b>

(03 marks)

(b) Carrying value of the building	=	3,250,000 - (3,250,000 / 50) x 3
as at 31.03.2016	=	<b>3,055,000</b>

(02 marks)

(Total 05 marks)

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

(a)

<b>Rural Cricket Club</b>			
<b>Statement of affairs</b>			<b>(Rs. '000)</b>
		Land	15,000
Accumulated fund	25,175	Cricket equipment	4,400
		Subscription	475
Subscription	200	Cash	5,500
	<b>25,375</b>		<b>25,375</b>

*(02 marks)*

(b)

<b>Subscription a/c</b>			<b>(Rs. '000)</b>
B/F	475	B/F	200
Income & expenditure	1,250	Receipts & payments	1,550
C/F	150	C/F	125
	<b>1,875</b>		<b>1,875</b>

*(03 marks)*

*(Total 05 marks)*

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***End of Section B***

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

*Suggested Answers to Question Seven:*

**United football club  
Income & expenditure account  
for the year ended 31.12.2016**

Subscription	7,400	
Donations	700	
Profit on ticket sale	1,010	9,110
Depreciation - Sports equipment	1,900	
Coaching fees	2,100	
Electricity (1,400 - 200 + 400)	1,600	
Telephone	450	
Rent	1,000	(7,050)
		<b>2,060</b>

**Subscription a/c**

B/F	600	B/F	200
Income & expenditure	7,400	Receipts & payments	7,700
C/F	300	C/F	400
	<u>8,300</u>		<u>8,300</u>

*(10 marks)*

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

**(a) Rasai foods**

**Statement of Income**

**For the year ended 31.12.2016**

**(Rs. '000)**

Sales		40,500
<b><u>Cost of sales</u></b>		
Opening inventory	3,000	
Purchases	28,000	
Closing inventory	(4,000)	(27,000)
		13,500
<b><u>Expenses</u></b>		
Labour charges	6,150	
Electricity & Insurance	3,800	
Depreciation - Catering equipment	1,000	
- Delivery van	2,000	
Interest	200	(13,150)
<b>Net Profit</b>		<b>350</b>

**(07 marks)**

(b)

**Rasai foods**

**Statement of Financial Position**

**as at 31.12.206**

**(Rs. '000)**

		<b>(Rs. '000)</b>
<b><u>Non-current Assets</u></b>		
Catering Equipment		14,000
Delivery van		13,000
		<u>27,000</u>
<b><u>Current Assets</u></b>		
Inventory	4,000	
Trade receivables	6,000	
Cash	10,250	20,250
<b>Total assets</b>		<b><u>47,250</u></b>
<b><u>Equity &amp; Liabilities</u></b>		
Capital	34,200	
Profit	350	
Drawings	(500)	34,050
<b><u>Non-current liabilities</u></b>		
8% loan	5,000	5,000
<b><u>Current Liabilities</u></b>		
Trade payables	8,000	
Interest payables	200	8,200
<b>Total equity and liabilities</b>		<b><u>47,250</u></b>

*(03 marks)*

*(Total 10 marks)*

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

**Ronil consultants**

**Appropriation a/c**

**For the year ended 31.03.2016**

		(Rs. '000)	
Net profit			25,400
Interest on loan			35
			25,435
Interest on capital	Roshantha	(525)	
	Nishantha	(300)	
	Lasantha	(450)	(1,275)
			(1,275)
Salary	Roshantha	(420)	(420)
			(420)
			23,740
Share of profit	Roshantha - 5	(11,870)	
	Nishantha - 2	(4,748)	
	Lasantha - 3	(7,122)	(23,740)
			(23,740)
			--

(a)

**Partner's current account**

				(Rs. '000)
Description	R	N	L	
B/B/F	(50)	(160)	(330)	
Interest on capital	525	300	450	
Salary	420	-	-	
Share of profits	11,870	4,748	7,122	
<b>B/C/F</b>	<b>12,765</b>	<b>4,888</b>	<b>7,242</b>	

*(05 marks)*

(b)

**Ronil consultants**

**Statement of Financial Position**

**as at 31.03.2016**

**(Rs. '000)**

	<b>Cost</b>	<b>Acc. Dep.</b>	<b>NBV</b>
<b><u>Non-current assets</u></b>			
Land	51,250	(3,000)	48,250
Motor vehicles	2,500	(1,250)	1,250
			<b>49,500</b>
<b><u>Current assets</u></b>			
Inventory		656	
Trade receivables		3,610	
Loan		700	
Interest receivable		35	
Bank balance		242	5,243
<b>Total assets</b>			<b>54,743</b>
<b><u>Equity and liabilities</u></b>			
Capital			
- Roshantha		10,500	
- Nishantha		6,000	
- Lasantha		9,000	25,500
Current			
- Roshantha		12,765	
- Nishantha		4,888	
- Lasantha		7,242	24,895
<b><u>Non-current liabilities</u></b>			
			---
<b><u>Current liabilities</u></b>			
Trade payables		4,288	
Accrued expenses		60	4,348
			<b>54,743</b>

*(05 marks)*

*(Total 10 marks)*

**End of Section C**

A compulsory question.

(25 marks)

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

(a) **Webfabs (Pvt) Ltd**

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

(Rs. '000)

Description	Rs.	Rs.
Sales		38,520
Cost of sales	15,646	
(-) inventory loss	(750)	(14,896)
<b>Gross profit</b>		<b>23,624</b>
<b><u>Other Income</u></b>		
<b>Administrative Expenses</b>		
Depreciation Machinery (6900 / 8)	(800)	
Furniture & Fittings (3000/5)	(600)	
Administrative expenses (3545 - 8 + 70)	(3,607)	(5,007)
<b>Selling &amp; Distribution Expenses</b>		
Depreciation - Motor vehicles (8500 / 4)	(2,125)	
Bad debts	(350)	
Selling & Distribution expenses	(2,066)	(4,541)
<b>Other Expenses</b>		
Inventory loss	(150)	(150)
<b>Finance Expenses</b>		
Debenture interest (5000 x 12% / 2)	(300)	
finance expenses	(331)	(631)
<b>Profit before taxation</b>		<b>13,295</b>
Taxation		(3,200)
<b>Profit after taxation</b>		<b>10,095</b>

(12 marks)

**(b) Webfabs (Pvt) Ltd****Statement of Financial Position**

as at 31.03.2016

(Rs.'000)

	<b>Cost</b>	<b>Acc. Dep.</b>	<b>NBV</b>
<b><u>Non-current Assets</u></b>			
Motor vehicles	8,500	(4,250)	4,250
Furniture & Fittings	3,000	(2,400)	600
Machinery	6,400	(3,200)	3,200
			<b>8,050</b>
<b><u>Current Assets</u></b>			
Inventories		2,460	
Trade receivables (3910 - 350)		3,560	
Insurance claim receivables		600	
Insurance pre payments		8	
Cash		250	6,878
<b>Total Assets</b>			<b>14,928</b>
<b><u>Equity and Liabilities</u></b>			
<b>Capital &amp; Reserves</b>			
Stated capital		2,000	
General reserve		500	
Retained earnings		4,985	7,485
<b>Total Equity</b>			
<b><u>Non-current Liabilities</u></b>			
12% Debentures		5,000	5,000
<b><u>Current Liabilities</u></b>			
Trade payables		1,873	
Debenture interest payable		300	
Audit fee payable		70	
Tax payable		200	2,443
			<b>14,928</b>

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**Workings****(W1)****Statement of changes in equity**

<b>Description</b>	<b>Stated Capital</b>	<b>General Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
B/B/F	2,000	500	(4,860)	(2,360)
Profit for the year			10,095	10,095
Dividends paid			(250)	(250)
	<b>2,000</b>	<b>500</b>	<b>4,985</b>	<b>7,485</b>

*(13 marks)**(Total 25 marks)*

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**End of Section D**

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***Notice :***

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The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.

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