



Association of Accounting Technicians of Sri Lanka

July 2017 Examination - AA2 Level

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

**ADVANCED FINANCIAL ACCOUNTING
(AFA)**

Association of Accounting Technicians of Sri Lanka
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION

AA2 Examination - July 2017
(AA21) Advanced Financial Accounting

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Suggested Answers to Question One:

1.1 (3)

1.2 (1)

1.3 (2)

1.4 (2)

- 1.5 - It expects to realize the asset or intends to sell or consume it in its normal operating cycle.
- It holds the assets primarily for the purpose of trading.
- It expects to realize the assets within twelve months after the reporting.

1.6 Profit for the = Closing Capital - Opening Capital + Drawings - Additional Capital
year ended = 1,244,400 - 1,156,600 + 2,160,000 - 650,000
31.12.2016 = **1,597,800**

1.7

	A	B	C
PSR among ABC	= 3/10	5/10	2/10
PSR without A	=	5/7	2/7
B	= 5/10 + (3/10 x 5/7)		
	= 5/7		
C	= 2/10 + (3/10 x 2/7)		
	= 2/7		

* Assume A's share of profit is distributed among B and C based on OPSR.

1.8		VAT Control a/c	
Cash - purchases	12,000	Sales - cash	15,000
Purchases - credit	30,000	Sales - Creditor	45,000
B/c/d	18,000		
	<u>60,000</u>		<u>60,000</u>

(Total 20 marks)



End of Section A

SECTION –B

Five (05) compulsory questions.

(Total 25 marks)

Suggested Answers to Question Two:

General Journal			Dr.	Cr.
(1)	Land Account	Dr.	500	
	Building Account	Dr.	400	
	Machinery Account	Dr.	300	
	Revaluation Account	Cr.		1,200
(Being accounted of increase in Assets Account)				
(2)	Revaluation Account	Dr.	1,200	
	Capital Account - Perera	Cr.		600
	Silva	Cr.		360
	Ivon	Cr.		240
(Being accounted of Revaluation Surplus Account)				

Alternative Answer

General Journal			Dr.	Cr.
(1)	Revaluation Account	Dr.	4,500	
	Land			1,000
	Building			2,000
	Machinery			800
	Office Equipment			700
(Being transfer of cost of assets of Revaluation Account)				
(2)	Accumulated Depreciation - Building	Dr.	600	
	Machinery	Dr.	500	
	Office Equipment	Dr.	200	
	Revaluation Account			1,300
(Being transfer accumulated depreciation of assets to revaluation account)				
(3)	Land	Dr.	1,500	
	Building	Dr.	1,800	
	Machinery	Dr.	600	
	Office Equipment	Dr.	500	
	Revaluation Account			4,400
(Being recording revalued amounts)				
(4)	Revaluation Account	Dr.	1,200	
	Capital Account - Perera			600
	Silva			360
	Ivon			240
(Being recording revaluation surplus.)				

(Total 05 marks)

Suggested Answers to Question Three:

Silva Co. Pvt Ltd

Adjusted Cash book as at 31st March 2017

B/B/F	107,000	Bank charges	3,000
		B/C/F	104,000
	<u>107,000</u>		<u>107,000</u>
B/B/F	104,000		

(01 mark)

Bank Reconciliation Statement

For the month of March 2017

Description	Rs.	Rs.
Balance as per amended Cash book (adjusted)		104,000
(+) Unpresented cheques		
2451433	4,500	
251439	12,890	
251372	13,200	30,590
		<u>134,590</u>
(-) Unrealized cheques		
452316	(12,200)	(12,200)
Balance as per Bank Statement		<u><u>122,390</u></u>

(04 marks)

(Total 05 marks)

Suggested Answers to Question Four:

Journal Entries		Dr.	Cr.
Salaries Account	Dr.	725,000	
Overtime Pay Account	Dr.	91,000	
EPF Payable / Control Account	Cr.		58,000
Cash / Bank Account	Cr.		758,000
(Being staff remuneration for the month of May 2017)			
EPF Account	Dr.	87,000	
ETF Account	Dr.	21,750	
EPF Payable / Control Account	Cr.		87,000
ETF Payable / Control Account	Cr.		21,750
(Being EPF & ETF for the month of May 2017)			
EPF Payable / Control Account	Dr.	145,000	
ETF Payable / Control Account	Dr.	21,750	
Cash / Bank Account	Cr.		166,750
(Being settlement of EPF and ETF due)			

(05 marks)

Suggested Answers to Question Five:

(a) **Cost appeared in machine account as at 01.04.2016**

	Rs.
List Price	1,325,000
Import duty	35,600
Installation	43,900
Total as at 01.04.2014	1,404,500
Upgrade package cost on 01.04.2016	260,400
Total Cost as at 01.04.2016	1,664,900

(03 marks)

(b) **Depreciation for the year ended 31.03.2017**

	Rs.
Cost as at 31.03.2019	1,404,500
Accumulated Depreciation for first 2 years $(1,404,500 - 200,000) / 10 \times 2$	(240,900)
Cost of Upgrade	260,400
Carrying amount as at 01st April 2016	1,424,000
Depreciation for the year ended 31.03.2017 $(1,424,000 - 200,000) / 12$	102,000

(02 marks)

(Total 05 marks)

Suggested Answers to Question Six:

(a)

Debtor's control a/c		(Rs. '000)	
B/B/F	2,560	Cash	3,200
Sales	6,200		
		B/C/D	5,560
	8,760		8,760
B/B/F	5,560		

(02 marks)

(b)

Creditor's control a/c		(Rs. '000)	
Purchase returns	750	B/B/F	3,200
Discount received	350	Purchases	5,200
Cash	4,500		
B/C/F	2,800		
	8,400		8,400
		B/B/F	2,800

(03 marks)

(Total 05 marks)

End of Section B

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

Suggested Answers to Question Seven:

Amali Trades		('000)
Trial balance		
as at 31.03.2017		
	Dr.	Cr.
Land and building	4,800	
Depreciation - Land and building	200	
Motor vehicle	7,400	
Depreciation - Motor vehicle	600	
Closing inventory	2,400	
Cost of sales	2,600	
Trade receivables (W1)	2,700	
Cash at Bank (W3)	2,540	
Sales		6,200
Trade payables		1,350
Electricity	230	
Accrued electricity (W4)		170
Bank Loan		1,000
Wages	1,400	
Drawings	300	
Sundry expenses	330	
Interest expense	112.50	
Interest payable		112.50
Capital (W5)		16,780
	25,612.50	25,612.50
		<i>(10 marks)</i>

Workings:**W1****Trade Receivable Account**

B/B/F	2,800	Bank	2,500
Sales	2,400	B/C/F	2,700
	5,200		5,200

W2**Trade Payable Account**

Bank	1,500	B/B/F	1,600
B/C/F	1,350	Purchases	1,250
	2,850		2,850

W3**Bank Account**

B/B/F	1,300	Purchases	1,250
Bank Loan	1,000	Trade payable	1,500
Cash sales	3,800	Motor vehicle	1,000
Trade receivable	2,500	Drawings	300
		Electricity	280
		Wages	1,400
		Sundry expenses	330
		B/C/F	2,540
	8,600		8,600

W4**Electricity Account**

Bank	280	B/B/F	220
B/C/F	170	P/L	230
	450		450

W5**Capital as at 01st April 2016**

Land and Building	5,000
Motor vehicle	7,000
Inventory	2,500
Trade receivables	2,800
Bank	1,300
Trade payables	(1,600)
Accrued electricity	(220)
	16,780

Suggested Answers to Question Eight:

(a)

Sha Sha Partnership's

Profit or Loss Appropriation a/c

For the year ended 31.12.2016

(Rs. '000)

	Rs.	Rs.
Net profit (Profit for the year)		20,000
<u>Interest on capital</u>		
- Gayesha	(2,000)	
- Nimesha	(1,000)	
- Adhesha	(180)	(3,180)
<u>Salaries</u>		
- Gayesha	(360)	
- Nimesha	(120)	
- Adhesha	(800)	(1,280)
		15,540
<u>Profit share</u>		
- Gayesha	(5,180)	
- Nimesha	(5,180)	
- Adhesha	(5,180)	(15,540)

(04 marks)

Sha Sha Partners

Partner's Capital a/c

(‘000)

	Gayesha	Nimesha	Adhesha
B/b/f	40,000	20,000	
Capital introduced			3,600
Goodwill	1,440	960	---
Goodwill	(800)	(800)	(800)
B/C/F	40,640	20,160	2,800

(03 marks)

Sha Sha Partners
Partner's Current a/c

	Gayesha	Nimesha	Adhesha
			('000)
B/b/f	10,000	(6,000)	---
Salaries	360	120	800
Interest on capital	2,000	1,000	180
Drawings	(1,500)	(1,000)	(600)
Profit share	5,180	5,180	5,180
B/C/F	16,040	(700)	5,560

(03 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

Rainbow Swimming Club

Income and Expenditure Statement

For the year ended 31.12.2016

(Rs. '000)

	Rs.	Rs.
<u>Income</u>		
Subscription (120,000 x 6)		720
Admission fee - pool		5,500
Donation		10,000
Donation - Sportmeet		215
Entrance fee		75
Swimming class fee		325
		16,835
<u>Expenditure</u>		
Depreciation - pool (13,200 / 10)	1,320	
Electricity (712 + 60)	772	
Water (535 + 30)	565	
Wages - Cleaners	648	
Sportmeet expenses	92	
Office rent	240	
Printing and Stationery	94	
Coaching fee	565	
Sundry expenses	265	(4,561)
Surplus income / expenditure		12,274

(Total 10 marks)

Workings:

Membership Subscription Account

Income expenses	720	Bank (1.30 x 6000)	780
B/C/D (10 x 6000)	60		
	<u>780</u>		<u>780</u>
		B/B/F	60

aat
SRI LANKA

End of Section C

A compulsory question.

(25 marks)

Suggested Answers to Question Ten:

(a) Silicon Valley (Pvt) Ltd

Income Statement

for the year ended 31st March 2017

(Rs. '000)

Description	Rs.	Rs.
Revenue		569,000
Cost of Sale (363,000 + 300) (W1)		(363,300)
Gross Profit for the Year		205,700
Other Income		---
Distribution Expenses:		
Depreciation on motor vehicle (W4)	44,000	
Bad debts	2,000	
Allowance for receivables (W2)	1,500	
Advertising	1,000	
Other distribution cost	60,000	(108,500)
Administrative expenses:		
Depreciation of Building (W3)	5,000	
Telephone	(500)	
Other Administrative expenses	38,000	(42,500)
		54,700
Finance Expenses:		
Debenture interest (W5)	5,600	
Interest on bank overdraft	300	(5,900)
Profit before tax		48,800
Income tax (W6)		(3,300)
Profit after tax		45,500
Other Comprehensive Income		---
Total Comprehensive Income for the year		45,500

(12 marks)

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

as at 31.03.2017

(Rs.'000)

	Cost	Acc. Dep^N	Carrying Value
<u>Non-current Assets</u>			
Land and Buildings	88,000	20,000	68,000
Motor vehicles	220,000	127,000	93,000
Total			161,000
<u>Current Assets</u>			
Inventory (W1)		62,700	
Trade receivables	76,000		
Allowance for receivables	(3,800)	72,200	
Prepaid telephone		500	135,400
Total Assets			296,400
<u>Equity and Liabilities</u>			
Equity			
Stated capital			80,000
Retained earnings (W7)			77,500
Total Equity			157,500
<u>Non-current Liabilities</u>			
8% Debentures			70,000
<u>Current Liabilities</u>			
Income tax payable (W6)		2,800	
Trade payables		61,300	
Debenture interest payable		2,800	
Accrued expenses - Advertising		1,000	
Bank overdraft		1,000	
Total Equity and Liabilities			68,900
Total			296,400

Workings**(W1)**

Inventory Cost	3,000
NRV	2,700
Stocks value to be reduced by	<u><u>300</u></u>

(W2) Depreciation

Allowance for receivables	
As at 1st April 2016	2,300
Charge for the year	1,500
Allowance for receivables	
as at 31st March 2017 (76,000 x 5%)	<u><u>3,800</u></u>

(W3)

Building Depreciation (50,000/10)	<u><u>5,000</u></u>
-----------------------------------	---------------------

(W4)

Motor Vehicle Depreciation (220,000/5)	<u><u>44,000</u></u>
--	----------------------

(W5)

Debenture Interest (70,000 x 8%)	<u><u>5,600</u></u>
----------------------------------	---------------------

(W6)**Income Tax Provision**

Tax paid	2,900	B/B/F	2,400
B/C/F	2,800	P/L (year's Tax)	3,300
	<u><u>5,700</u></u>		<u><u>5,700</u></u>

(W7)

Retained Earnings as at 31st March 2017	
Retained earnings at 01st April 2016	32,000
Profit for the period	45,500
Balance as at 31.03.2017	<u><u>77,500</u></u>

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

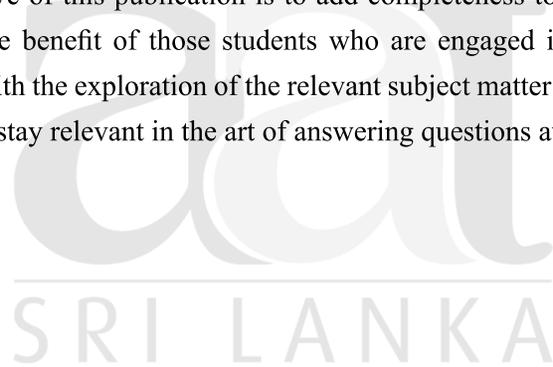
End of Section D

Notice :

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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”.

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.



© 2017 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)