



**Association of Accounting Technicians of Sri Lanka**

**July 2018 Examination - AA2 Level**

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

**ADVANCED FINANCIAL ACCOUNTING  
(AFA)**

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

**AA2 Examination - July 2018**  
**(AA21) 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 (2)  $240,000 / 600,000 = 40\%$  (02 marks)

1.2 (3) There is no obligation to pay fixed dividends for ordinary shareholders (02 marks)

1.3 (4) (02 marks)

1.4 (1)

Sales proceed	3,200,000	
(-) Accounting net book value		
Cost	5,000,000	
Acc. Dep. 31.03.18	(2,000,000)	(3,000,000)
<b>Disposal Profit</b>		<b><u>200,000</u></b>

(02 marks)

1.5  $A = \frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$

$C = \frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$

**Gaining ratio = 3 : 2** (02 marks)

1.6

Private Company	Partnership
Limited liability	Unlimited liability
Govern by Companies Act	Governs by Partnership Ordinance
There is a separate legal personality	There is no legal personality
Maximum shareholders are 50	Maximum partners are 20

(03 marks)

1.7

Date	Purchases	Issues	Balance	Value
01-Apr	-	-	500	@ Rs. 170
05-Apr	-	300	200	@ Rs. 170
10-Apr	150	-	350	200 @ Rs. 170 + 150 @ Rs. 150
27-Apr	-	250	100	@ Rs. 170

The 500 will be used to issue the first 300 sales. The balance 200 will be used to issue 250 and short fall will be issued from 150

$$\text{Therefore closing balance} \quad 100 \times 150 \quad = \quad \underline{\underline{15,000}}$$

(03 marks)

**Alternative Answer**

$$\text{Value of the inventory} = 100 \times 150 \\ \underline{\underline{15,000}}$$

- 1.8
1. Non-adjusting event
  2. Adjusting event
  3. Adjusting event
  4. Non-adjusting event

(04 marks)  
(Total 20 marks)

aat

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SRI LANKA

*End of Section A*

Five (05) compulsory questions.

(Total 25 marks)

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

(a)

<b>Recon Traders</b>			
<b>Adjusted Cash Book as at 31st May 2018</b>			
B/B/F	49,000	Cheque charge	3,500
		B/C/F	45,500
	<b>49,000</b>		<b>49,000</b>

(02 marks)

(b)

**Recon Traders**  
**Bank reconciliation statement as at 31st May 2018**

Description	+ / -	Balance Rs.
Balance as per cash book (Adjusted)		45,500
<b>(+) Unpresented cheques</b>		
265975	12,300	
266105	3,200	
266115	60,000	75,500
		121,000
<b>(-) Unrealized deposit</b>		
452122	(25,000)	(25,000)
		96,000
Bank error - debit		(13,200)
<b>Balance as per Bank Statement</b>		<b>82,800</b>

(03 marks)

(Total 05 marks)

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

<b>Sewana Hardware</b>			
<b>Creditors' Control Account</b>			
Cash	450,000	B/B/F	860,000
Discount	4,300	Purchases	350,000
		Cheque return	12,600
B/C/F	768,300		
	<u><b>1,222,600</b></u>		<u><b>1,222,600</b></u>
		B/B/F	768,300

*(03 marks)*

<b>Sewana Hardware</b>			
<b>Debtors' Control Account</b>			
B/B/F	1,565,000	Cash	725,200
Sale	750,000	Discount	14,800
		B/C/F	1,575,000
	<u><b>2,315,000</b></u>		<u><b>2,315,000</b></u>
B/B/F	1,575,000		

*(02 marks)*

*(Total 05 marks)*

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

<b>Salary Control Account</b>			
PAYE	180,000	Basic Salary	7,320,000
Loan	50,000		
EPF	585,600		
Cash	6,504,400		
	<u><b>7,320,000</b></u>		<u><b>7,320,000</b></u>

*(03 marks)*

<b>EPF Payable Account</b>			
B/C/F	1,464,000	Salary Control	585,600
		EPF Exp.	878,400
	<u><b>1,464,000</b></u>		<u><b>1,464,000</b></u>

*(02 marks)*

*(Total 05 marks)*

**Suggested Answers to Question Five:**

**A, K & N P/Shop**

**Profit or Loss Appropriation A/C**

**as at 31.03.18**

Net Profit				2,329,000
Interest on Capital	A	- 10%	(200,000)	
	K	- 10%	(200,000)	
	N	- 10%	(100,000)	(500,000)
				<b>1,829,000</b>
Salary	K	60,000	(720,000)	
	N	25,000	(300,000)	(1,020,000)
				<b>809,000</b>
Share Profit	A	2	(323,600)	
	K	2	(323,600)	
	N	1	(161,800)	<b>(809,000)</b>
				-

(05 marks)

**Suggested Answers to Question Six:**

(a)

**Journal Entries**

**(Rs. '000)**

Goodwill account	Dr.	3,000	
Capital account - Sun	Cr.		2,000
Moon	Cr.		1,000
<i>(Being account of goodwill)</i>			
Capital Account - Sun	Dr.	1,000	
Moon	Dr.	2,000	
Goodwill account	Cr.		3,000
<i>(Being reversal of goodwill)</i>			
Motor Vehicle account	Dr.	2,000	
Capital account - Moon	Cr.		2,000
<i>(Being recording the additional capital)</i>			

**Alternative Answer for Goodwill adjustment**

Capital account - Sun	Dr.	1,000	
Moon	Dr.	2,000	
Capital account - Sun	Cr.		2,000
Moon	Cr.		1,000
<i>(Being account of goodwill)</i>			

(05 marks)

**End of Section B**

**SECTION –C**

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

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

a)

**Rose Club**

**Trading, Profit or Loss Account 31.12.2017**

(Rs.'000)

Sales		30,000
<b><u>Cost of Sales</u></b>		
Op. Inventory	7,000	
Purchases	18,000	
Closing Inventory	(5,000)	(20,000)
Gross Profit		10,000
<b><u>Expenses</u></b>		
Other expenses	(3,400)	
Electricity (1,500 x 1/3)	(500)	(3,900)
<b>Net Profit</b>		<b>6,100</b>
		<b>(03 marks)</b>

b)

**Rose Club**

**Income & Expenditure Account 31.12.2017**

(Rs.'000)

<b><u>Income</u></b>		
Donation		6,000
Net Profit (10,000 - 3,900)		6,100
Ticket Sales		25,000
Subscription (W-1)		3,900
		<b>41,000</b>
<b><u>Expenses</u></b>		
Fees on artist	5,000	
Advertising	1,500	
Drama	15,000	
Electricity (1,500 x 2/3)	1,000	
Depreciation - Building	2,000	
Depreciation - theatre equipment	5,000	(29,500)
<b>Surplus</b>		<b>11,500</b>

(W-1)

**Subscription A/C**

B/B/F	700	B/B/F	300
Income	3,900	Cash	4,000
C/F	200	C/F	500
	<b>4,800</b>		<b>4,800</b>

(07 marks)  
(Total 10 marks)

**Suggested Answers to Question Eight:**

**Fatty Collection Trial Balance  
as at 31st March 2018**

		(Rs.)	
		Dr.	Cr.
Capital	(W-1)		31,500
Land and Building		13,000	
Motor Vehicles		9,000	
Depreciation - Building		2,000	
Motor Vehicles		3,000	
Inventory as at 01.04.2017		5,000	
Trade receivables		7,000	
Trade payable			9,000
Accrued electricity			750
Repair and maintenance		500	
Electricity		1,750	
Salaries		5,000	
Purchases	(W-3)	47,000	
Drawings		1,000	
Sales	(W-4)		67,500
Bank	(W-2)	14,500	
		<b>108,750</b>	<b>108,750</b>

(10 marks)

**Workings**

(W-1)

$$\begin{aligned} \text{Capital} &= 15,000 + 7,000 + 5,000 + 6,000 + 6,000 - 7,000 - 500 \\ &= \underline{\underline{31,500}} \end{aligned}$$

(W-2)

**Cash at Bank Account**

B/B/F	6,000	Motor Vehicle	5,000
Trade receivable - (W-5)	66,500	Trade payable	45,000
		Repair and maintenance	500
		Electricity	1,500
		Salaries	5,000
		Drawing	1,000
		B/C/F	14,500
	<b>72,500</b>		<b>72,500</b>

(W-3)

**Trade payable Account**

Cash	45,000	B/B/F	7,000
B/C/F	9,000	Purchases	47,000
	<u>54,000</u>		<u>54,000</u>

(W-4)

<b>Sales:</b>	
Opening stock	5,000
Purchases (W-3)	47,000
	<u>52,000</u>
<b>Less:</b>	
Closing stock	(7,000)
Cost of sales	45,000
Gross Profit	22,500
<b>Sales</b>	<u>67,500</u>

(W-5)

**Trade Receivable Account**

B/B/F	6,000	Cash	66,500
Sales	67,500	B/C/F	7,000
	<u>73,500</u>		<u>73,500</u>

(W-6)

**Electricity Account**

Cash	1,500	B/B/F	500
B/C/F	750	Cash	1,750
	<u>2,250</u>		<u>2,250</u>

### Suggested Answers to Question Nine:

a) **Partners' Current Accounts** (Rs. '000)

	Ashan	Hashan	Roshan		Ashan	Hashan	Roshan
B/B/F	-	-	200	B/B/F	500	300	-
Capital	-	-	264	Interest	250	150	100
				Salary	-	180	-
B/C/F	1,478	1,358	-	Profit Share	728	728	364
	<b>1,478</b>	<b>1,358</b>	<b>464</b>		<b>1,478</b>	<b>1,358</b>	<b>464</b>

(04 marks)

b) **Partners' Capital Accounts** (Rs. '000)

	Ashan	Hashan	Roshan		Ashan	Hashan	Roshan
Goodwill	1,080	720	-	B/B/F	5,000	3,000	2,000
Loan	-	-	2,804	Goodwill	720	720	360
				Revaluation	360	360	180
B/C/F	5,000	3,360	-	B/C/F	-	-	264
	<b>6,080</b>	<b>4,080</b>	<b>2,804</b>		<b>6,080</b>	<b>4,080</b>	<b>2,804</b>

#### Working:

Profit before appropriation		2,500
Insert on capital:		
Ashan	250	
Hashan	150	
Roshan	100	(500)
		2,000
		(180)
Salary		1,820
Profit share:		
Ashan	728	
Hashan	728	
Roshan	364	1,820
		-

#### Revaluation:

Revalued amount	2,400
Land & Building (1,800 - 300)	(1,500)
	<b>900</b>

**End of Section C**

One (01) compulsory question.

(25 marks)

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

**Jaya (Pvt) Ltd**

**Comprehensive Income Statement  
for the year ended 31st March 2018**

		(Rs. '000)
Sales		368,000
Cost of sales (235,000 + 800)		(235,800)
<b>Gross Profit</b>		<b>132,200</b>
<b>Expenses:</b>		
Distribution expenses (W-02)	(25,350)	
Administration expenses (W-03)	(34,400)	
Finance expenses (W-01)	(2,500)	(62,250)
Profit before tax		69,950
Income tax (W-04) (250 + 2,800)		(3,050)
<b>Profit after tax</b>		<b>66,900</b>

**Jaya (Pvt) Ltd****Statement of Financial Position**

as at 31st March 2018

(Rs.'000)

<b>Non-Current Assets</b>	<b>Cost</b>	<b>Acc. Dep.</b>	<b>Carrying Value</b>
Land	20,000	-	20,000
Building	50,000	16,000	34,000
Motor Vehicle	90,000	45,000	45,000
<b>Total</b>	<b>160,000</b>	<b>61,000</b>	<b>99,000</b>
<b>Current Assets</b>			
Inventory (55,000 - 800)		54,200	
Trade Receivables (45,500 - 500)	45,000		
Provision for bad debt	(2,250)	42,750	
Prepayment		150	
Cash in hand and bank		750	97,850
<b>Total Assets</b>			<b>196,850</b>
<b>Equity &amp; Liabilities</b>			
Stated Capital		45,000	
Retained Earnings (10,000 - 2,500 + 66,900)		74,400	
<b>Total Equity</b>			119,400
<b>Non-Current Liabilities</b>			
10% Debentures			25,000
<b>Current Liabilities</b>			
Interest Payable on debenture		1,250	
Accrued Maintenance		400	
Income tax payable		2,800	
Trade payables		48,000	52,450
<b>Total Equity and Liabilities</b>			<b>196,850</b>

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**Workings:****(W-01) - Finance Expenses**

Debenture interest	2,500
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**(W-02) - Distribution Expenses**

Depreciation - Motor Vehicle	9,000
Bad debt	500
Provision for bad debt	1,000
Advertising	(150)
TB	15,000
	<u>25,350</u>

**(W-03) - Administration Expenses**

TB (43,000 - 11,000)	32,000
Depreciation - Building	2,000
Building maintenance	400
	<u>34,400</u>

**(W-04) - Income Tax Liability**

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Cash	2,650	B/B/F	2,400
B/C/F	2,800	P & L	250
		P & L	2,800
	<u>5,450</u>		<u>5,450</u>

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*End of Section D*

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***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.

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