



**Association of Accounting Technicians of Sri Lanka**

**AA2 Examination - July 2019**

**Suggested Answers**

**Subject No : AA21**

**ADVANCED FINANCIAL ACCOUNTING  
(AFA)**

**Association of Accounting Technicians of Sri Lanka**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**AA2 Examination-July 2019**

**(AA21) Advanced Financial Accounting**

**SUGGESTED ANSWERS**

**Eight (08) Compulsory Objective Test Questions**  
(Total 20 marks)

**SECTION - A**

*Suggested Answers to Question 01:*

- 1.1 Answer 3, 2,560,000 (02 marks)
- 1.2 Answer 4, Selling Cost (02 marks)
- 1.3 Answer 1 (02 marks)
- 1.4 Answer 4,  $2,000,000 - (((2,000,000 - 200,000)5)*2) = 1,280,000$  (02 marks)
- 1.5
1. An entity has a present obligation due to a past event
  2. Probable that an outflow of resources will be required to settle the obligation
  3. Reliable estimate can be made of the amount of the obligation
- (02 marks)
- 1.6 Cost of Sales =  $(250,000 + 850,000 - 375,000) = 725,000.00$ , therefore  $(725,000/80) * 100$

Sales

(03 marks)

1.7

	<b>Amith</b>	<b>Damith</b>	<b>Ramith</b>
<b>Old Profit Sharing Ratio among Amith and Damith</b>	3/5	2/5	
<b>New Profit Sharing Ratio among Amith, Damith and Ramith</b>	3/10	3/10	4/10

<b>Sacrificing Ratio</b>	$(30-15)/50$	$(20-15)/50$	
	15	5	
	3	1	

So = 15: 5 or 3:1 among A& D

(03 marks)

1.8

Opening Payable Balance	=	Rs.	1,220
Output VAT = $367,000.00 * 15\%$	=	Rs.	55,050
<b>Less</b>			
Input VAT = $(196,000 * 15\%) + (3450/115 * 15)$	=	Rs.	(29,850)
<b>Net payable</b>	=	<b><u>Rs.</u></b>	<b><u>26,420</u></b>

*(04marks)*  
*(Total 20 marks)*

**End of Section A**

*Suggested Answers to Question 02:*

(a)

**Chapter No 01 - Performing of Financial Accounting Control – Control Accounts**

**Fine record (Pvt) Ltd  
Creditors' Control Account**

Purchases (Revised)	200,000	B/B/F	1,300,540
Inter-ledger Set- off / Debtors	12,700		
B/C/F	1,087,840		
	<b>1,300,540</b>		<b>1,300,540</b>

(02 marks)

(b)

**Creditors' Reconciliation**

<b>Balance as per total of creditors individual ledger</b>		<b>1,167,640</b>
Add – Error( Debit Balance)	87,000	87,000
Less – Discount Received	(112,300)	
Cash Payment	(54,500)	(166,800)
<b>Balance as per revised individual ledger</b>		<b>1,087,840</b>

(03 marks)

(05 marks)

(Total 20 marks)

***Suggested Answers to Question 03:***

**Chapter No 03 -Matter Related to Partnership – Appropriation Accounts**

**Asanka, Thisanka, Isanka Partnership  
Profit or Loss Appropriation Account  
For the year ended 31<sup>st</sup> March 2019**

		(Rs)	
Net Profit before Appropriation			1,596,000
<b>Interest on Capital</b>	Asanka	(384,000)	
	Thisanka	(252,000)	
	Isanka	(108,000)	(744,000)
<b>Salaries</b>	Asanka	(144,000)	
	Thisanka	(216,000)	(360,000)
			<b>492,000</b>
<b>Share of Profit</b>	Asanka	(196,800)	
	Thisanka	(196,800)	
	Isanka	(98,400)	(492,000)
			-

*(05 marks)*

***Suggested Answers to Question 04:***

**Chapter No 02-Preparation of Financial Statement – LKAS 16 “PPE”**

Description	Amount (Rs.)
Purchase Price	1,250,000
Transportation Cost	10,000
Installation cost	8,500
Testing /Cost of Sample	10,000
<b>Total</b>	<b>1,278,500</b>

*(05 marks)*

***Suggested Answers to Question 05:***

**Chapter No 01 - Performing of Financial Accounting Control – Bank Reconciliation**

(a)

**Bank Reconciliation Statement**

Bank balance as per cash control account	1,493,490
Cheques not presented	(18,000)
Add: Bank Charges	6,570
<b>Bank balance as per cash control account before adjustment</b>	<b>1,482,060</b>

(02 marks)

(b)

**Adjusted Cash Control Account as at December 2018**

B/B/F	1,482,060	Bank Charges	6,570
Deposits – Direct	190,000	B/C/F	1,665,490
	<b>1,672,060</b>		<b>1,672,060</b>

(03 marks)

(Total 05 marks)

***Suggested Answers to Question 06:***

**Chapter No 05 - Accounting for Non-Profit Organizations (Subscription Account)**

(a)

**Membership Subscription Account**

**(Rs. "000")**

B/b/f(Arrears)	15,000	B/b/f(Advance)	5,000
Income	125,000	Cash	112,500
B/C/F	10,000	Bad Debt	7,500
		B/c/f	25,000
	<b>150,000</b>		<b>150,000</b>

(05 marks)

**End of Section B**

*Suggested Answers to Question 07:*

**Chapter No 02 -Preparation of Financial Statement**

**Risky Electricals**  
**Statement of Financial Position**  
**As at 31 March 2019**

	Cost	Accumulated Depreciation	Carrying Value
<b>Non - Current Assets</b>			
Land & Buildings	3,500,000	875,000	2,625,000
Motor Vehicles (W1)	4,300,000	1,450,000	2,850,000
	<b>7,800,000</b>	<b>2,325,000</b>	<b>5,475,000</b>
<b>Current Assets</b>			
Inventories		1,575,000	
Trade Receivables(W2)	500,000		
<b>Less: Allowance for Debtors(W2)</b>	<b>(10,000)</b>	490,000	
Cash		63,500	2,128,500
<b>Total Assets</b>			<b>7,603,500</b>
<b>Equity &amp; Liabilities</b>			
Equity Capital (4,100+1,400)		5,500,000	
Net Profit (W3)		1,698,000	
<b>Less-Drawings</b>		<b>(470,500)</b>	
<b>Total Equity</b>			6,727,500
<b>Current Liabilities</b>			
Trade Payable			876,000
<b>Total Equity &amp; Liabilities</b>			<b>7,603,500</b>

**W1-Motor Vehicle**

Balance as at 31 <sup>st</sup> March	2,900
Transferred	<u>1,400</u>
<b>Balance as at 31<sup>st</sup> March</b>	<b><u>4,300</u></b>

## W2-Trade Receivables

Balance as at 31 <sup>st</sup> March	575
Write-off	<u>(75)</u>
	<u><b>500</b></u>
Bad debt provision- $500 \times 2\%$	<u><u><b>10</b></u></u>

## W3 -Net Profit

Net Profit as per accounts	1,783
Bad Debt write-off	(75)
Provision for bad debt	<u>(10)</u>
	<u><b>1,698</b></u>

(10 marks)

## Suggested Answers to Question 08:

### Chapter No 05– Accounting For Non-Profit Organization

**Echo Dancing Club**  
**Statement of Income and Expenditure Statement**  
**For the Year Ended 31<sup>st</sup> December 2019**

“Rs 000”

<b>Income</b>		
Membership Fee(W-1)		540
Rent Income		15
Profit from dinner dance (W-2)		180
Fees from Dancing Class		1,050
Donation		180
		<b>1,965</b>
<b>Expenses</b>		
Coordinator Salary (20 *12 )	(240)	
Depreciation (2700*5%)	(135)	
Dancing Teacher Fee	(600)	
Electricity & Water (648+12)	(660)	(1,635)
<b>Excess Income over Expenses</b>		<b>330</b>



(W-1)

**Subscription Account**

B/B/F	50	Cash	525
Income	540	B/c/f	65
	<b>590</b>		<b>590</b>

(W-2)

**Dinner Dance Account**

Ticket sale	525	Dinner Dance Expense	300
		Advertising	45
		Profit	180
	<b>525</b>		<b>525</b>

(10 marks)

**Suggested Answers to Question 09:**

**Chapter No 03 – Matters Related to Partnerships**

(a)

**Suvira Motors  
Partners' Capital Accounts**

“Rs’ 000”

	Sunil	Vinil	Ranil		Sunil	Vinil	Ranil
<b>Goodwill(Errors)</b>	2,000	1,000	-	<b>B/B/F</b>	1,500	1,000	500
<b>Current Account</b>	-	-	306.50	<b>Goodwill</b>	1,500	750	750
<b>B/C/F</b>	1,000	750					
<b>Loan Account</b>	-	-	943.50				
<b>B/F</b>	<b>3,000</b>	<b>1,750</b>	<b>1,250</b>		<b>3,000</b>	<b>1,750</b>	<b>1,250</b>

(04 marks)

(b)

**Suvira Motors  
Partners' Current Account**

	<b>Sunil</b>	<b>Vinil</b>	<b>Ranil</b>		<b>Sunil</b>	<b>Vinil</b>	<b>Ranil</b>
<b>B/B/F</b>	365	-	350	<b>Interest</b>	150	100	50
<b>Drawings</b>	-	80	60	<b>Salaries</b>	360	-	-
<b>B/C/F</b>	252	361.50		<b>Profit Share</b>	107	53.50	53.50
				<b>Capital Account</b>			306.50
<b>B/F</b>	<b>617</b>	<b>441.50</b>	<b>410</b>		<b>617</b>	<b>441.50</b>	<b>410</b>

*(06 marks)*

*(Total 10 marks)*

**End of Section C**

One (01) compulsory question  
(25 Marks)

**SECTION - D**

*Suggested Answers to Question 10:*

Chapter No 04 – Accounting for Limited Liability Companies

**Design Mart (Pvt) Ltd**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended 31<sup>st</sup> March 2019**

		“Rs.000”
Sales		46,000
Cost of Sales		(28,200)
<b>Gross Profit</b>		<b>17,800</b>
<b><u>Expenses</u></b>		
Distribution Expenses(W2)	2,600	
Administration Expenses (W2)	5,200	
Other Expenses (W2)	500	
Finance Expenses (W3)	875	9,175
Profit Before Tax		<b>8,625</b>
Income Tax(W4)		(90)
<b>Profit After Tax</b>		<b>8,535</b>

(11 marks)

**Design Mart (Pvt) Ltd**  
**Statement of Financial Position**  
**As at 31<sup>st</sup> March 2019**

**“Rs.000”**

<b>Non-Current Assets</b>	<b>Cost</b>	<b>Acc.Dep</b>	<b>NBV</b>
Machinery	6,000	(4,800)	1,200
Motor Vehicles	4,000	(3,000)	1,000
Office Equipment	2,000	(1,400)	600
	<b>12,000</b>	<b>9,200</b>	<b>2,800</b>
<b>Current Assets</b>			
Inventories		10,200	
Trade Receivable (17,150-430)		16,720	
Prepayment		70	
Cash in hand and Bank		12,690	<b>39,680</b>
<b>Total Assets</b>			<b>42,480</b>
<b>Equity &amp; Liabilities</b>			
Stated Capital		10,000	
Retained Earning(12,550-4,000+8,535)		17,085	<b>27,085</b>
<b>Non-Current Liabilities</b>			
15% Debentures		10,000	<b>10,000</b>
<b>Current Liabilities</b>			
Trade Payable		4,400	
Rent Payable		40	
Interest Payable		375	
Other Payable (Compensation Payable /Provision)		500	
Income Tax Payable(40+50-90)(W4)		80	<b>5,395</b>
<b>Total Equity &amp; Liabilities</b>			<b>42,480</b>

## Workings

### W 01- Depreciation

Machinery	=	6,000/5	=	1,200
M/Vehicles	=	4,000/4	=	1,000
O/Equipment	=	2,000/5	=	<u>400</u>
				<u><b>2,600</b></u>

### W 02- Expenses Analysis

	Admin	Distribution	Other
As per TB	3,630	1,600	
Rent Acc	40		
Insurance Prepayment	(70)		
Depreciation - Machinery	1,200		
Office Equipment	400		
Motor Vehicle		1,000	
Provision for Claim			500
<b>Total</b>	<b>5,200</b>	<b>2,600</b>	<b>500</b>

### W 03 -Finance Expenses

Finance Expenses as per TB	500
Interest on debentures	<u>375</u>
(100,000*100*15%*4/12)	
	<u><b>875</b></u>

### W 04- Income Tax Payable

Cash	50	B/B/F	40
B/C/F	80	P&L	90
	<b>130</b>		<b>130</b>

(14 marks)  
(Total 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”. 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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