



Association of Accounting Technicians of Sri Lanka

Level II Examination- July 2021

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

Association of Accounting Technicians of Sri Lanka

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Level II Examination - July 2021

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 Answer (2)

(02 marks)

1.2 Answer (2)

(02 marks)

1.3 Answer (4)

Sales	1,400,000	100%
<u>Cost of Sales</u>		
Opening Inventory	170,000	
Purchases	910,000	
Closing Inventory	(240,000)	
	(840,000)	60%
	560,000	40%

$$\frac{840,000}{60} \times \frac{100}{100} = \underline{1,400,000}$$

(02 marks)

1.4 Answer (1)

01.04.2018 Cost		3,600,000
Year 01 – Dep. 31.03.19	= 3,600,000 – 100,000/5	(700,000)
Year 02 – Dep. 31.03.20		(700,000)
Year 03 – Dep. 31.03.21		(700,000)
Carrying Value as at 31.03.2021		<u>1,500,000</u>

(02 marks)

1.5 Answer (3)

$$\begin{aligned} \text{EOQ} &= \sqrt{\frac{2DC0}{Ch}} \\ &= \sqrt{\frac{2 \times 20,000 \times 200}{0.50}} \\ &= \underline{4,000} \end{aligned}$$

(02 marks)

1.6

- 1 1890 Partnership Ordinance
- 2 Prevention of Fraud Ordinance
- 3 Registration of Business Name Act
- 4 Income tax provisions applicable for the partnership
- 5 Companies Act
- 6 Business Registration Act
- 7 Laws relating to protection of environment

(02 marks)

1.7

- 1 Clerical cost can be minimized and avoid the duplication of work
- 2 Accounting information is readily available
- 3 Provides a real time view of all transactions.
- 4 Helps in calculating accurate job costing.
- 5 Increase the reliability of data entry.
- 6 Increase productivity at work.
- 7 Speedup decision making.
- 8 Accounting functions are controlled more efficiently and effectively.
- 9 Reconciliation of profit is not required.

(02 marks)

1.8

- 1 The minimum number of shareholders – As Per Companies Act minimum is one
- 2 There is no maximum limit of directors. It's unlimited.

(03 marks)

1.9

$$\text{Basic Salary} = 20 \text{ days} \times 8 \text{ hrs} \times \text{Rs. } 300 = 48,000$$

$$\text{Bonus} = 10 \text{ hrs} \times 300 \times 75\% = 2,250$$

50,250

Bonus Calculation

$$\text{Actual hrs.} = \frac{2,040 \text{ units} \times 5 \text{ min}}{60 \text{ min}} = 170 \text{ hrs}$$

$$\text{Standard hrs.} = 8 \text{ hrs} \times 20 \text{ days} = 160 \text{ hrs}$$

$$\text{Time Saved} = \underline{\underline{10 \text{ hrs}}}$$

(04 marks)

1.10

VAT Control Account			
Raw material	172,800	B/B/F	48,000
(2,160,000 × 8%)		Sales	432,000
		(5,400,000 × 8%)	
Other Purchases	25,920		
(324,000 × 8%)			
B/C/F	281,280		
	<u>480,000</u>		<u>480,000</u>

(04 marks)

(Total 25 marks)



End of Section A

W2

Debtors Control A/C			
B/B/F	6,300	Cash	5,625
Sales	5,400	B/C/F	6,075
	<u>11,700</u>		<u>11,700</u>

W3

Creditors Control A/C			
Cash	3,375	B/B/F	3,600
B/C/F	3,040	Purchases	2,815
	<u>6,415</u>		<u>6,415</u>

W4

Acc. Electricity Exp			
Cash	562.5	B/B/F	495
B/C/F	380	e/city	447.5
	<u>942.5</u>		<u>942.5</u>

W5 – Capital

Capital	= Assets as at 1 st April 2020	- Liabilities as at 1 st April 2020
	= (11,250 + 15,750 + 5,625 + 6,300 + 2,925)	- (3,600 + 495)
	= 41,850	- 4,095
	= <u>37,755</u>	

W6 - Loan Interest

$$1000 \times 9\% \times 1/12 = \underline{7.5}$$

(10 marks)

Suggested Answers to Question Three:

Chapter 03 - Financial Statements for a Partnership

(a)

Partners Current Accounts				(Rs.'000)			
	Damith	Udith	Meena		Damith	Udith	Meena
B/B/F		800		B/B/F	1,500		
Drawings	900			Interest on Capital	1,200	800	800
B/C/F	3,080	1,440	1,760	Salaries		480	
				Profit share	1,280	960	960
	3,980	2,240	1,760		3,980	2,240	1,760

(05 marks)

(b)

Partners's Capital Accounts				(Rs.'000)			
	Damith	Udith	Meena		Damith	Udith	Meena
Goodwill	960	720	720	B/B/F	12,000	8,000	
				Cash	-	-	8,000
				Goodwill	1,600	800	-
				Revaluation	2,000	1,000	-
B/C/F	14,640	9,080	7,280				
	15,600	9,800	8,000		15,600	9,800	8,000

W1 – Share of Profit

	40%	30%	30%	
	Damith	Udith	Meena	Total
NP				6,480
Interest of Capital	(1,200)	(800)	(800)	(2,800)
Salaries		(480)		(480)
	<u>1,280</u>	<u>960</u>	<u>960</u>	<u>3,200</u>

(05 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 - Financial Statements using Incomplete Records and Financial Statements for Not for Profit Organizations

(a)

**Green Golf Club
Restaurant Trading Account
for the year ended 31.12.2020**

Sales		60,000
Cost of Sales		
Inventories 01.01.2020	7,500	
Purchases (W1)	44,700	
Inventories 31.12.2020	(10,500)	(41,700)
Gross Profit		18,300
Expenses		
Electricity	1,050	
Other admin	1,125	(2,175)
		16,125

W1 – Trade Payable

Trade Payable			
Cash	38,700	B/B/F	12,000
		Purchases	44,700
B/C/F	18,000		
	56,700		56,700

(03 marks)

(b)

Green Golf Club
Income and Expenditure Account
For the year ended 31.12.2020

<u>Income</u>			
Donation			1,575
Profit From Restaurant			16,125
Membership Subscription Fee (W2)			19,350
			37,050
<u>Expenses</u>			
Telephone Expenses	1,010		
Electricity	2,100		
Coaching Fee	4,725		
Other Expenses	1,125		
Building Depreciation (W3)	20,000		
Sport Equipment Depreciation (W3)	3,000		31,960
Surplus Income Over Expenses			5,090

W2 – Membership Subscription Fee

Membership Subscription Fee A/c			
B/B/F	1,350	B/B/F	450
		Receipt & Payment	20,025
Membership Fee	19,350		
B/C/F	675	B/C/F	900
	<u>21,375</u>		<u>21,375</u>

W3 – Depreciation

Depreciation – Sports Equipment = 24,000 + 5,250 - 26,250 = 3,000

Depreciation – Building = 120,000 – 100,000 = 20,000

(07 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 09 – Costing Methods

(A)

(a)

Description	Qty	Unit Price	Cost (Rs.)
Material	0.45	700	315
Labour	0.50	200	100
POH		50% of DL	50
Packing Cost		25/- per shirt	25
Total Cost			<u>490</u>

(03 marks)

(b)

	Rs.
Selling Price	750
Cost	490
Profit Per Unit	<u>260</u>
Number of units	1,000
Profit from the order	<u>260,000</u>

(02 marks)

(B)

(a)

Raw Material Control Account

B/B/F	42,000	Issues to WIP	275,000
Purchases	325,000	B/C/F	92,000
	<u>367,000</u>		<u>367,000</u>

(02 marks)

(b)

WIP Control Account

B/B/F	32,000		
Raw Material	275,000	Cost of Sales	545,000
Direct Wages	120,000	B/C/F	27,000
POH	145,000		
	<u>572,000</u>		<u>572,000</u>

(03 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter 07 – Accounting for Overhead & Costing Methods

(a)

(Rs.'000)

Cost Item	Basis	Amount	Ratio	Divisions			Total
				Manu.	Packing	Technical	
Machine Depreciation	Machine Hours	6,500	12:8:5	3,120	2,080	1,300	6,500
Factory Rent	Floor Space	4,800	2:1.5:1.5	1,920	1,440	1,440	4,800
Quality Cost	Inspections	1,500	8:4	1,000	500	-	1,500
Electricity	Electricity K.W	5,200	15:8:2	3,120	1,664	416	5,200
Total				9,160	5,684	3,156	18,000
Reapportionment							
Technical Reapportionment		3,156	65:35	2,051.4	1,104.6	(3,156)	-
Total				11,211.4	6,788.6	-	18,000

(05 marks)

(b)

	Manufacturing	Packing
Overhead Absorption Rate	= $\frac{11,211.40}{10,000}$	= $\frac{6,788.60}{8,000}$
	= <u>1,121.14 per hour</u>	= <u>848.575 per hour</u>

(03 marks)

(c)

Cost of Device

Direct Material	1,500
Direct Labour	2,100
Prime Cost	3,600

POH

Manufacturing	1.50	1,121.14	1,681.71
Packing	2.00	848.58	1,697.15
Total Cost			6,978.86

(02 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:**Chapter 02 – Financial Statements for a Limited Liability Company**

(a)

Dream Zone (Pvt) Ltd		(Rs.'000)
Statement of Profit or Loss and Other Comprehensive Income		
for the year ended 31st March 2021		
Sales		31,520
Cost of sales (15,391 +100)		(15,491)
Gross Profit		16,029
Other Income		
Insurance claim on vehicle	2,400	2,400
		18,429
Distribution Expenses		
Motor vehicles depreciation	6,062.5	
Advertising (800-8)	792	
Provision for doubtful debt	287	
Sales commission	1,025	(8,166.5)
Administration Expenses		
Depreciation - Machinery	2,812.5	
Office Equipment	300	
Audit Fee	70	
Salaries and Wages	1,800	
Electricity	400	
Rent	600	
Telephone	900	
Office Maintenance	250	(7,132.5)
Finance Expenses		
Debenture Interest (W2)	700	
Finance Expenses	29	(729)
Profit Before Tax		2,401
Taxation		(330)
Profit for the year		2,071

(13 marks)

(b)

Dream Zone (Pvt) Ltd
Statement of Financial Position
As at 31st March 2021

(Rs.'000)

Non-Current Assets	Cost	Acc. Dep	WDV
Motor Vehicles	22,000	16,187.5	5,812.5
Machinery	22,500	5,812.5	16,687.5
Office Equipment	1,500	600	900
	46,000	22,600	23,400
Current Assets			
Inventories		950	
Trade Debtors	2,870		
Less - Allowance for Debtors (10%)	(287)	2,583	
Claim Receivable		2,400	
Prepaid Advertising		8	
Cash in Hand		1,057	6,998
Total Assets			30,398
Equity & Liabilities			
Stated Capital & Reserves			
Stated Capital		10,000	
General Reserve		3,200	
Retained Earnings (7,834 +2,071)		9,905	
Total Equity			23,105
Non-Current Liabilities			
Debentures 14%		5,000	5,000
Current Liabilities			
Trade Payable		1,873	
Accrued Interest Debenture (W2)		350	
Audit fees payable		70	2,293
			30,398

W1 – Cost and Depreciation of Fixed Assets

	Motor Vehicle	Machinery	Office Equipment	Total
Cost				
Balance as at 01.04.2020	25,000	22,500	1,500	49,000
Disposal	(3,000)	-	-	(3,000)
Balance as at 31.03.2021	22,000	22,500	1,500	46,000
Depreciation:				
Balance as at 01.04.2020	13,125	3,000	300	16,425
Disposal	(3,000)	-	-	(3,000)
Depreciation	6,062.50	2,812.50	300	9,175
Balance as at 31.03.2021	<u>16,187.50</u>	<u>5,812.50</u>	<u>600</u>	<u>22,600</u>
Net Book Value				23,400

Depreciation - Motor vehicle

Disposed Motor Vehicle	3,000	×	25%	×	9/12	=	562.5
Other Motor Vehicle	22,000	×	25%			=	<u>5,500</u>
							<u>6,062.5</u>
Depreciation - Machinery	22,500	×	12.5%			=	2,812.5
Depreciation – Office Equipment	1,500	×	20%			=	300

W2 – Accrued Debenture Interest

$$50 \times 100 \times 14\% = 700 - 350 = 350$$

W3 – Motor vehicle disposal – Insurance claim

Insurance Claim	3,000	×	80%	=	2,400
(-) WDV					
Cost	3,000				
Acc. Dep.	<u>(3,000)</u>				-
(1.1.2017 -1.1.2021 3 years)					
Profit on disposal					<u><u>2,400</u></u>

(12 marks)

(Total 25 marks)

End of Section C

Notice:

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