



**Association of Accounting Technicians of Sri Lanka**

**Level II Examination - July 2024**

**Suggested Answers**

**(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)**

**Association of Accounting Technicians of Sri Lanka**  
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**Level II Examination - July 2024**

**(201) ADVANCED FINANCIAL ACCOUNTING & COSTING**

**SUGGESTED ANSWERS**

Objective Test Questions (OTQs)  
(Total 25 Marks)

**SECTION - A**

*Suggested Answers to Question One:*

1.1 (4)

(02 marks)

1.2 (3)

Year	Bal. At the beginning of the year	Annual Dep.	Acc. Dep	WDV
2021/22	1,200,000	120,000	120,000	1,080,000
2022/23	1,080,000	108,000	228,000	972,000
2023/24	972,000	<b>97,200</b>	325,200	874,800

(02 marks)

1.3 (1)

(02 marks)

1.4 (2)

(02 marks)

1.5 (4)

**Sun Ltd**

**Profit Reconciliation Statement**

<b>Profit as per Cost Account</b>		<b>352,000</b>
<b>Add:</b> Under Valuation of Closing R/M in Costing	10,000	
Over Valuation of Opening F/G stocks in Costing	15,000	25,000
<b>Less:</b> Under Valuation of Opening R/M stocks in Costing	7,000	
Over Valuation of Closing F/G stocks in Costing	8,000	(15,000)
<b>Profit As per Financial Accounts</b>		<b>362,000</b>

(02 marks)

**1.6** ABC costing stands for Activity-Based Costing. It is a method of accounting that identifies and assigns costs to specific activities within an organization and then allocates those costs to products or services based on their usage of those activities.

**(02 marks)**

**1.7 (i) Remuneration to Partners:** Partners are not entitled for remuneration

**(ii) Introduction of capital to partnership:** Partners are entitled to introduce capital equally

**(iii) An admission of a new partner:** can be done only with the consent of all the existing partners.

**(03 marks)**

**1.8**

In Respect of	Financial Accounting	Cost Accounting
Purpose	It is prepared to present operational results and the financial position of the business.	It aims to help the management with proper planning, control and decision-making.
Coverage of Transactions	It covers transactions of the whole business.	It covers only a part of the transactions. Ex: manufacturing
Stock Valuation	Stocks are valued at "Cost Price" or "Net Realizable Value" whichever is less.	Stocks are valued at cost.

**(03 marks)**

**1.9 Full marks can be awarded for any three of the below. (Page. 120 of the study text)**

1. Debentures are debt instruments, and debenture holders are creditors of the company.
2. The date of redemption and the specific value paid upon the redemption are indicated in the debenture.
3. Debentures have a specific fixed interest rate, mainly paid annually or semi-annually.
4. Debenture holders do not have the right to vote.
5. The interest paid for the debentures is charged against the profit, and therefore, even when the company incurs a loss, the interest on debentures is debited to the profit and loss account.

**(03 marks)**

**1.10**

**VAT Control Account**

VAT paid on purchase	64,800	Balance B/F	125,000
VAT on Sale Return	8,100	VAT payable on Sales	178,200
<b>Balance B/D</b>	<b>230,300</b>		
	<b>303,200</b>		<b>303,200</b>
		<b>Balance B/F</b>	<b>230,300</b>

**Workings**

		Rs.
VAT on Sales	990,000X18%	178,200
VAT on Purchase	360,000X18%	64,800
VAT on Sale Return	45,000X18%	8,100

**(04 marks)**  
**(Total 25 marks)**



**End of Section A**

**Suggested Answers to Question Two:**

**Chapter 04: Financial Statements Using Incomplete Records and Financial Statements for Not for Profit Organizations**

(a)

**Sakthi Bathik Designs  
Statement of Profit and Loss  
For the Month Ended 31st March 2024**

		Rs.
Sales (W1)		687,000
<b>Cost of Sales</b>		
Purchases (W2)	771,300	
Closing Stocks	(244,100)	(527,200)
<b>Gross Profit</b>		<b>159,800</b>
Other Income		-
<b>Less: Expenses</b>		
Office Building Rent	12,500	
Electricity	8,000	
Depreciation of Design Equipment (W3)	2,500	
Office Expenses	26,200	
Business Registration Expense	5,300	
Bank Charges	2,500	
Showroom Expenses	8,200	(65,200)
<b>Net Profit</b>		<b>94,600</b>

**Workings**

**W1: Sales**

<b>Sale Account</b>			
Profit and Loss	687,000	2024/3/11 Cash	320,000
		2024/3/18 Cash	225,000
		2024/3/25 Cash	118,500
		Credit Sale	23,500
	<u>687,000</u>		<u>687,000</u>

**W2: Purchases**

Purchase Account			
2024/3/4 Cash	325,000	Profit and Loss	771,300
Other Materials	68,300		
2024/3/17 Cash	333,000		
Credit Purchase	45,000		
	<u>771,300</u>		<u>771,300</u>

**W3: Depreciation****Depreciation for Design Equipment**

Cost of The Equipment	120,000
Useful Life	4 years
Monthly Depreciation	(120,000/4)X1/12
	<u>2,500</u>

*(08 marks)*

(b) Closing Capital = Opening Capital + Additional Capital – Drawings + Profit/(Loss) for the year

$$\text{Capital as at 31}^{\text{st}} \text{ March 2024} = 575,000 - 65,000 + 94,600$$

$$= \underline{\underline{\text{Rs. 604,600}}}$$

*(02 marks)*  
*(Total 10 marks)*

***Suggested Answers to Question Three:***
**Chapter 03: Financial Statements for a Partnership**

(a)

**CSN Leasure****Profit and Loss Appropriation A/C****For the Year Ended 31st March 2024****Rs.'000**

Net Profit		4,330
Interest On loan (2,400 X 12%)		(288)
Rent (6,000 X 10%)		(600)
Net Profit before appropriation		3,442
<b>Partners' Salary</b>		
Nisith (100 X12)	1,200	(1,200)

<b>Interest on Capital</b>		
Charith (960 X10%)	96	
Surith (840 X 10%)	84	
Nisith (1,500 X 10%)	150	(330)
<b>Profit Share</b>		
Charith (1,912 X 2/5)	765	
Surith (1,912 X 1/5)	382	
Nisith (1,912 X 2/5)	765	(1,912)

(05 marks)

(b)

<b>Partners' Current A/C</b>				<b>Rs.'000</b>			
	<b>Charith</b>	<b>Surith</b>	<b>Nisith</b>		<b>Charith</b>	<b>Surith</b>	<b>Nisith</b>
Drawings	600	466	750	Partners' Salary	-	-	1,200
				Interest on loan	-	-	288
				Interest On Capital	96	84	150
				Rent paid	600	-	-
B/C/D	<b>861</b>	<b>466</b>	<b>1653</b>	Profit Share	765	382	765
	<b>1,461</b>	<b>466</b>	<b>2,403</b>		<b>1,461</b>	<b>466</b>	<b>2,403</b>
				B/B/F	<b>861</b>	<b>466</b>	<b>1653</b>

(05 marks)

(Total 10 marks)

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

***Chapter 04 Chapter 04: Financial Statements Using Incomplete Records and Financial Statements for Not for Profit Organizations***

(a)

<b>Members' Subscription Account</b>			
Subscription for the year (W4) (Income and Expenditure)	975,000	Balance B/F (W1)	225,000
		<b>Receipt and Payment</b>	<b>855,000</b>
Balance C/F (W2)	150,000	Balance C/F (W3)	45,000
	<u>1,125,000</u>		<u>1,125,000</u>
Balance B/F	45,000	Balance B/F	150,000

**Workings****W1**

Opening Received in Advance  
(5 members X Rs.15,000X 3 Years)

**LKR**  
225,000

**W2**

Closing Received in Advance  
(5 members X Rs.15,000 X 2 Years)

150,000

**W3**

Closing Membership Fee in  
Arrears  
(3 members X Rs.15,000)

45,000

**W4**

Annual Membership Fees  
(53+12 members X Rs.15,000)

975,000



**(04 marks)**

**(b)**

**Wild Life Lovers**

**Income and Expenditure Account**

**For the year ended 31st March 2024**

**(Rs.'000)**

<b>Income:</b>		
Profit on Exhibition ( <b>Note 01</b> )	215	
Membership Subscription Fee	975	
		1,190
<b>Expenses:</b>		
Rent (30 x 12)	360	
Salary	360	
Electricity & Water	8	
Printing and Stationary (50 x 90%)	45	
Depreciation on Laptops (500 x 20%)	100	(873)
<b>Surplus</b>		<b>317</b>

**Note 01:**

Exhibition Income (1,500 x 90%)	1350	
Donation	50	1400



<b>Expenses:</b>		
Rent (1,300 - 360)	940	
Promotional Expenses	240	
Printing & Stationary (50 x 10%)	5	(1,185)
<b>Profit</b>		<b>215</b>

(06 marks)  
(Total 10 marks)

**Suggested Answers to Question Five:**

**Chapter 08: Integrated and Non-Integrated Accounting Systems**

(A)

(a)

**Raw Material Control Account**

Balance B/F	950,750	WIP	1,550,000
Trade Cred. Control	2,300,000	<b>Balance C/D</b>	<b>1,700,750</b>
	<u>3,250,750</u>		<u>3,250,750</u>
<b>Balance B/F</b>	<b>1,700,750</b>		

(02 marks)

(b)

**WIP Control Account**

Balance B/F	275,600	Finished Goods	2,800,000
R/M Stock Control	1,550,000		
Wages Control	700,000		
Prod. O/H Control	350,000	B/C/D	75,600
	<u>2,875,600</u>		<u>2,875,600</u>

(03 marks)

(c)

**Finished Goods Control Account**

Balance B/F	1,850,300	Cost of Sales	2,450,000
Prod. O/H Control	2,800,000	<b>Balance C/D</b>	<b>2,200,300</b>
	<u>4,650,300</u>		<u>4,650,300</u>
<b>Balance B/F</b>	<b>2,200,300</b>		

(02 marks)

(B)

**Chapter 09: Costing Methods**

**Job Cost Sheet -A10000**

		Rs.
Direct Raw Materials	(7,500Kg X Rs.400)	3,000,000
Direct Labor: Department A	(250hrs X Rs.1,500)	375,000
Direct Labor: Department B	(500hrs X Rs.750)	375,000
<b>Prime Cost</b>		<b>3,750,000</b>
Production Cost	(750,000X80%)	600,000
<b>Total Cost</b>		<b>4,350,000</b>
Add: 25% on the selling price	(4,350,000/80*20)	1,087,500
<b>Selling Price</b>		<b>5,437,500</b>

**(03 marks)**  
**(Total 10 marks)**

**Suggested Answers to Question Six:**

**Chapter: 06 – Accounting for Material & Labor**

(A)

(a) To calculate the Economic Order Quantity (EOQ) and the optimum number of orders to be placed, below EOQ formula can be used:

$$EOQ = \sqrt{\frac{2 * D * C_o}{C_h}}$$

**Where:**

D is the annual demand for the raw material (6,400 units),

C<sub>o</sub> is the cost of placing an order (Rs. 100),

C<sub>h</sub> is the holding cost per unit per year (Storage cost of Rs.2).

$$EOQ = \sqrt{\frac{2 * 6400 * 100}{2}}$$
$$= \underline{\underline{800}}$$

The Economic Order Quantity (EOQ) is **800 units**.

**(03 marks)**

(c) To determine the optimum number of orders to be placed, below formula can be used:

$$\text{Optimum Number of Orders} = \frac{D}{\text{EOQ}} = 6,400/800 = \mathbf{8 \text{ orders.}}$$

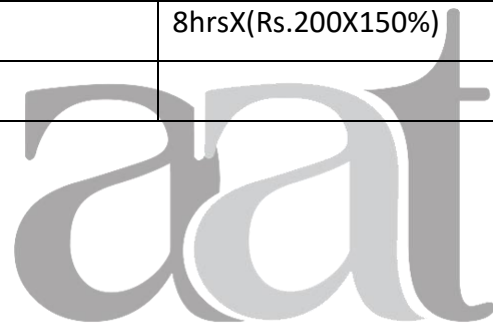
The optimum number of orders to be placed per year is 8.

**(02 marks)**

**(B)**

<u>No. of Hours saved</u>		<b>Hours</b>
Standard hours to produce 120 pieces	(120 piecesX24minuts)/60	48
Weekly Working Hours		(40)
<b>No. of hours saved</b>		<b>8</b>
<u>Earnings</u>		<b>Rs.</b>
Normal working hours	(40hours X Rs.200)	8,000
Premium bonus	8hrsX(Rs.200X150%)	2,400
<b>Total Earnings</b>		<b>10,400</b>

**(05 marks)**  
**(Total 10 marks)**

  
 SRI LANKA

**End of Section B**

*Suggested Answers to Question Seven:*

*Chapter 02 – Financial Statements for a Limited Liability Company*

(a)

**C-Lanka (Pvt) Ltd**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 31<sup>st</sup> March 2024**

		Rs.'000
Sales		32,865
Cost of Sales (W1)		(13,552)
<b>Gross Profit</b>		<b>19,313</b>
<b>Other Income</b>		
Profit on Disposal of Motor Vehicle (W4)		<u>1,525</u>
		20,838
Administration Expenses (W2)	10,915	
Distribution Expenses (W2)	4,987	
Other Expenses	-	
Finance Expenses	<u>689</u>	(16,591)
<b>Profit Before Tax</b>		<b>4,247</b>
Income tax for the year (W5)		(827)
<b>Profit for the year</b>		<b>3,420</b>

(13 marks)

(b)

<b>Global Trading (Pvt) Ltd</b>		
<b>Statement of Financial Position</b>		
<b>As At 31st March 2024</b>		
		Rs.'000
<b>Non-Current Assets</b>		
Property, Plant and Equipment (W3)	2,270	2,270
<b>Current Assets</b>		
Inventory (W1)	2,030	
Trade Receivables (W6)	5,833	
Office Rent Prepayment (W7)	222	
Cash at Banks	4,937	13,022
<b>Total Assets</b>		<b>15,292</b>

<b>Equity &amp; Liabilities</b>		
Stated Capital	1,000	
General Reserves	1,000	
Retained Earnings (5,269+3,420-1,000)	<u>7,689</u>	9,689
<b>Non-Current Liabilities</b>		
Bank Loan	4,650	4,650
<b>Current Liabilities</b>		
Accrued Electricity	13	
Income Tax Payable (W5)	202	
Trade Payables	726	
EPF and ETF Payable	12	953
<b>Total Equity and Liabilities</b>		<b>15,292</b>

(12 marks)

**W1: Cost of Sale**

$$\begin{aligned} \text{Cost of Damaged Stocks} &= \text{Closing Inventory} \times 1/3 \\ &= 2,436,000 \times 1/3 = \text{Rs.}812,000 \end{aligned}$$

$$\begin{aligned} \text{NRV of Damaged Stocks} &= \text{Cost} \times 50\% \\ &= 812,000 \times 50\% = \text{Rs.}406,000 \end{aligned}$$

As per measurement criteria given in LKAS 2, inventories should be measured at a lower cost or NRV. Thus, the value of the damaged stock shall be measured at their NRV. Thus, inventories shall be written off to Rs.406,000

Relevant Journal entry is as follows.

Cost of Sales A/C Dr	406,000	
Inventories A/C Cr		406,000

$$\text{Adjusted cost of sales} = 13,146,000 + 406,000 = \text{Rs.}13,552,000$$

$$\text{Adjusted Inventory} = 2,436,000 - 406,000 = \text{Rs.}2,030,000$$

## W2: Expenses Classification

	Administration Expenses	Distribution Expenses	Finance Expenses
Office Rent (633-222)	411		
Motor Vehicle Depreciation		2,750	
Office Equipment Depreciation	510		
Water and Electricity (132+13)	145		
Allowance for Trade Receivables		99	
Fuel		431	
Advertising and Marketing		729	
Sales Commission		978	
Office Maintenance	357		
Salaries, EPF and ETF	9,395		
Bank Charges			15

## W3: Property Plant and Equipment

Rs.'000

<b>Costs</b>				
Type of the asset	Balance as at 01/04/2023	Additions/ Revaluation	Disposal	Balance as at 31/03/2024
Motor Vehicles	12,000	-	(4,000)	8,000
Office Equipment	2,550	-	-	2,550
<b>Total</b>	<b>14,550</b>		<b>(4,000)</b>	<b>10,550</b>
<b>Accumulated Depreciation</b>				
Type of the asset	Balance as at 01/04/2023	Charge for the year	Disposal	Balance as at 31/03/2024
Motor Vehicles	6,000	2,750	(2,000)	6,750
Office Equipment	1,020	510	-	1,530
<b>Total</b>	<b>7,020</b>	<b>3,260</b>	<b>(2,000)</b>	<b>8,280</b>
<b>Carrying Value as at 31<sup>st</sup> March 2024</b>				<b>2,270</b>

Bank Loan Interest			674
Other Administration	97		
<b>Total</b>	<b>10,915</b>	<b>4,987</b>	<b>689</b>

### Profit on Disposal

			Rs.'000
Sale Proceed			3,525
<u>Less: Written Down Value</u>			
Cost	4,000		
Less: Accumulated Depreciation (for 2 years) (4,000/4X2)	(2,000)	(2,000)	
<b>Profit on Disposal</b>			<b>1,525</b>

### W5: Income Tax Payable

Income Tax Payable A/C			
income tax paid	625	Income Tax Expense A/C	827
<b>BBC</b>	<b>202</b>		
	827		827
		<b>BBF</b>	<b>202</b>

### W6: Allowance for Trade Receivables

Allowance for Trade Receivables A/C			
		BBF 1/4/2023	208
BBD 31/03/2024	307	<b>Profit and Loss</b>	<b>99</b>
	307		307
		BBF 1/4/2024	307

Allowance for the year @ 5% = 6,140,000 X 5% = Rs.307,000

Trade Receivables Balance As At 31<sup>st</sup> March 2024 = 6,140,000 – 307,000 = Rs.5,833,000

### W7: Prepayment of Rent

37,000 x 6 = 222,000

(Total 25 marks)

**End of Section C**

**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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