



Association of Accounting Technicians of Sri Lanka

Level II Examination - July 2025

Suggested Answers

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING (AFC)

Association of Accounting Technicians of Sri Lanka
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Level II Examination - July 2025

(201) ADVANCED FINANCIAL ACCOUNTING & COSTING

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (2)

| | Rs.'000 |
|--|---------------|
| Cost | 65,000 |
| Less: Accumulated Depreciation for the period (1/4/2023-31/3/2025) (65,000-5,000)/4X2 | (30,000) |
| Carrying Amount | 35,000 |

(02 marks)

1.2 (4)

(02 marks)

1.3 (1)

(02 marks)

1.4 (1)

$$\text{Overhead Absorption Rate} = \frac{\text{Budgeted Overhead Cost}}{\text{Budgeted Direct Labour Hours}} = \frac{800,000}{25,000} = \text{Rs.32/= per labour hour}$$

$$\text{Absorbed Overhead} = 28,000 \text{ hours} \times \text{Rs.32} = \text{Rs.896,000}$$

$$\text{Less: Actual Overhead} = (\text{Rs.840,000})$$

$$\text{Over absorbed Overhead} = \text{Rs.56,000}$$

(02 marks)

1.5 (3)

(02 marks)

1.6 There are five key elements of financial statements

- Assets
- Liabilities
- Equity
- Income
- Expenses

(03 marks)

1.7

| In respect of | Financial Accounting | Cost Accounting |
|----------------------------|---|--|
| Time span | Transactions are recorded and statements are prepared for a definite period. | Transactions are identified with cost unit / cost object. |
| Coverage of transactions | It covers transactions of the whole business. | It covers only a part of the transactions. Viz: manufacturing |
| Purpose | It is prepared to present operational results and financial position of the business. | It aims to help the management for proper planning, control and decision making. |
| Analysis of expenditure | It analyses the expenditure according to the function. | It analyses expenditure on different bases. Eg: Direct and indirect variable and fixed. Etc. |
| Efficiency | The overall results and financial position of the business is revealed by financial statements. | It analyses the profitability of each department, cost unit, job or process. |
| Material control | It does not say anything about the efficiency / inefficiency of material handling. (because figures are in total) | It provides a system of good inventory control by prescribing procedures for purchases, storage, issues etc. |
| Independence of the system | It is independent of cost accounting. i.e: it can work even in the absence of cost accounting system. | It depends upon financial accounting data. |
| Reconciliation of results | It does not need any reconciliation | It needs reconciliation of its profit with that of financial records. |
| Wastages | There are no such categories. | Wastages or losses are identified and categorized into normal and abnormal. |
| Transactions | It deals with actual facts and figures. | It deals partly with actual facts and figures, and partly with estimates. |
| Stock valuation | Stocks are valued at "Cost price" or "Net realizable value" whichever is less. | Stocks are valued at cost. |
| Legal requirements | Should adhere to various legislations. Eg: companies act, income tax act, accounting standards... etc. | These records are generally kept to meet the requirements of the management. |

(Expect only three differences)

(03 marks)

1.8 Cost and Profit Analysis – Job No.5000

| | Rs. |
|--|----------------|
| Direct Raw Materials (1,200KgXRs.150) | 180,000 |
| Direct Labour (400 hours X Rs.500) | 200,000 |
| Production Overheads (200,000 X 75%) | 150,000 |
| Total cost of the Job | 530,000 |
| Add: Profit on Selling Price (530,000/85X15) | 93,529 |
| Selling Price | 623,529 |

(03 marks)**1.9**

| | Rs. |
|-------------------------|------------------|
| Basic Salary | 9,420,000 |
| Overtime | 1,100,000 |
| Gross Salary | 10,520,000 |
| Less: Deductions | |
| Staff Welfare | (15,000) |
| APIT | (520,000) |
| EPF (8%) | (753,600) |
| Net Salary | 9,231,400 |

(03 marks)**1.10**

| | A | B |
|--------------------------|----------|----------|
| Old Profit-Sharing ratio | 2/3 | 1/3 |
| New Profit-Sharing ratio | 1/3 | 1/3 |
| Sacrificing ratio | 1/3 | 0 |

Sacrificing Ratio = A : B = 1 : 0

(03 marks)
(Total 25 marks)**End of Section A**

Suggested Answers to Question Two:***Chapter 04: Financial Statements Using Incomplete Records***

(a)

Janath Care
Statement of Profit and Loss
For the year ended 31st December 2024 **Rs.**

| | | |
|--|---------|---------------|
| Sales (W1) | | 37,600 |
| Cost of Sales (W2) | | |
| Opening Stocks | 2,678 | |
| Purchases | 23,370 | |
| Closing Stocks | (3,488) | (22,560) |
| Gross Profit | | 15,040 |
| Other Income | | |
| Less: Expenses | | |
| Office Building Rent (60X12) | 720 | |
| Motor Vehicles Depreciation | 2,500 | |
| Depreciation of Furniture and Fittings | 500 | |
| Salaries for Admin Officer | 600 | |
| Salaries for Sales executives (145X12X5) | 8,700 | |
| Sales Commission (37,600X2%) | 752 | |
| Electricity and Water | 672 | (14,444) |
| Net Profit | | 596 |

Working 01: Sales

| | |
|------------------------------|---------------|
| Sales on Credit | 28,200 |
| Sales on Cash (28,200/75X25) | 9,400 |
| Total Sales | 37,600 |

Working 02: Gross Profit

| | |
|------------------------------------|--------|
| GP Ratio | |
| If Sale is 37,600, GP = 37,600X40% | 15,040 |

(07 marks)

(b)

Capital (Equity) as at 01st January 2024 = 22,500+2,800+2,678+3,457+12,858-54**= 44,257**Capital (Equity) as at 01st December 2024= 44,257+596**= 44,853**

2nd Method

(a) Profit for the year = 44,853 - 44,257

= 596

(b) Capital (Equity) as at 01st December 2024

= 13,872 + 360 + 20,000 + 2,300 + 3,488 + 4,895 - 62

= 44,853

Workings

W1

| Cash Account | | | |
|---------------|---------------|---------------------------|---------------|
| B/B/F | 12,858 | Rent (60*12) | 780 |
| | | Rent Advance (60*6) | 360 |
| Sales - Cash | 9,400 | Purchase | 23,370 |
| Debtors (W-2) | 26,780 | Salary (W-5) | 9,300 |
| | | Electricity & Water (W-3) | 664 |
| | | Sales Commission | 752 |
| | | B/C/F | 13,872 |
| | <u>49,038</u> | | <u>49,038</u> |

W2 Prepayment (Rent Advance) = 1,080 - 720 = 360

W3

| Trade Debtors Account | | | |
|-----------------------|---------------|-------|---------------|
| B/B/F | 3,475 | Cash | 26,780 |
| Sales | 28,200 | B/C/F | 4,895 |
| | <u>31,675</u> | | <u>31,675</u> |

W4

| Accrued Account | | | |
|-----------------|------------|-------|------------|
| Cash | 664 | B/B/F | 54 |
| B/C/F | 62 | P & L | 672 |
| | <u>726</u> | | <u>726</u> |

W5

| Salary Account | |
|--------------------------------|--------------|
| Sales Executive (145*5*12) | 8,700 |
| Administrative Officer (50*12) | 600 |
| | <u>9,300</u> |

(03 Marks)
(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03: Financial Statements for a Partnership

(a)

| Partners' Current A/C | | | | Rs.'000 | | | |
|-----------------------|--------|--------|--------|---------------------|--------|--------|--------|
| | Lasith | Nisith | Sumith | | Lasith | Nisith | Sumith |
| Capital A/C | | | 4,177 | Rent | - | - | 300 |
| Drawings | 300 | 200 | | Partners' Salary | 240 | 240 | 240 |
| | | | | Interest on Capital | 75 | 75 | 90 |
| B/C/F | 3,562 | 3,662 | | Profit Share | 3,547 | 3,547 | 3,547 |
| | 3,862 | 3,862 | 4,177 | | 3,862 | 3,862 | 4,177 |
| | | | | BBF | 3,562 | 3,662 | 4,177 |

(06 marks)

(b)

| Partners' Capital A/C | | | | Rs.'000 | | | |
|-----------------------|--------|--------|--------|-------------|--------|--------|--------|
| | Lasith | Nisith | Sumith | | Lasith | Nisith | Sumith |
| Goodwill | 1,600 | 800 | - | B/B/F | 1,500 | 1,500 | 1,800 |
| Loan | | | 6,777 | Current A/C | | | 4,177 |
| B/C/F | 700 | 1,500 | | Goodwill | 800 | 800 | 800 |
| | 2,300 | 2,300 | 6,777 | | 2,300 | 2,300 | 6,777 |

(04 marks)

(Total 10 marks)

Working 01

LNS Associates

Profit and Loss Appropriation A/C

For the Year Ended 31st December 2024 Rs.'000

| | | |
|----------------------------|-------|---------------|
| Net Profit | | 11,901 |
| Less: Rent | | (300) |
| | | 11,601 |
| Partners' Salary | | |
| Lasith | 240 | |
| Nisith | 240 | |
| Sumith | 240 | (720) |
| Interest on Capital | | |
| Lasith (1,500X5%) | 75 | |
| Nisith (1,500X5%) | 75 | |
| Sumith (1,800X5%) | 90 | (240) |
| Profit Share | | |
| Lasith | 3,547 | |
| Nisith | 3,547 | |
| Sumith | 3,547 | (10,641) |

Suggested Answers to Question Four:

Chapter 04: Financial Statements for Not-for-Profit Organizations

(a)

Members' Subscription Account

| | | | |
|-----------------------------|------------------|---------------------|------------------|
| B/B/F (W1) | 75,000 | Balance B/F (W2) | 120,000 |
| Income and Expenditure (W3) | 1,650,000 | Receipt and Payment | 1,485,000 |
| | | Balance B/D (W4) | 120,000 |
| | 1,725,000 | | 1,725,000 |
| Balance B/F | 120,000 | | |

| | |
|---|------------|
| Workings 01 | Rs. |
| Opening Receivables (5members X Rs.15,000) | 75,000 |

| | |
|--|------------|
| Workings 02 | Rs. |
| Opening Received in Advance (8 members X Rs.15,000) | 120,000 |

| | |
|---|------------|
| Working 03 | Rs. |
| Annual Membership Fees (105+5 members X Rs.15,000) | 1,650,000 |

| | |
|---|------------|
| Workings 04 | Rs. |
| Closing Receivables (8members X Rs.15,000) | 120,000 |

(03 marks)

(b)

| Professional Beauticians | | | |
|---------------------------------------|------------------|-------------------------------|------------------|
| Income and Expenditure A/C | | | |
| For the Year Ended 31st December 2024 | | | |
| Training Cost | 1,500,000 | Subscriptions from Members | 1,650,000 |
| Secretary Fees (Rs.30,000X6) | 180,000 | Donations for Training | 1,500,000 |
| Depreciation Laptop | 30,000 | Profit From Get together (W1) | 780,000 |
| (300,000/5)X1/2 | | | |
| Stationary | 55,000 | | |
| Telephone and Internet | 55,000 | | |
| (60,000-5,000) | | | |
| Travelling | 45,000 | | |
| Rent | 360,000 | | |
| Surplus | 1,705,000 | | |
| | 3,930,000 | | 3,930,000 |

| Working 1: Profit from Get Together | | |
|--|---------|----------------|
| Admission fees | | 1,620,000 |
| (90 members X Rs.18,000) | | |
| Less: Expenses | | |
| Stationary | 25,000 | |
| Travelling | 15,000 | |
| Rent | 240,000 | |
| Music Band and Announcing | 60,000 | |
| Gifts to Members | 500,000 | (840,000) |
| Surplus | | 780,000 |

(07 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 06: Accounting for Materials and Labour

(A)

| | | Rs. |
|-----------------------|-----------------------------|---------------|
| Basic Salary | (8 Hours X 5 Days X Rs.450) | 18,000 |
| Bonus (W1) | | 11,250 |
| Total Earnings | | 29,250 |

| Working 1: Bonus | | Hours |
|-------------------------|-----------------------------|--------------|
| Standard time in hours | (10 minutes X 360 units)/60 | 60 |
| Actual Hours Spent | (8 hours X 5 Days) | (40) |
| Time Save | | 20 |

| | | |
|--------------------|--------------------------|------------|
| Bonus Amount (Rs.) | 20 hours X 125% X Rs.450 | Rs. 11,250 |
|--------------------|--------------------------|------------|

(04 marks)

(B)

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

$$EOQ = \sqrt{\frac{2DC_o}{C_h}}$$

Where:

D is the annual demand for the raw material (8,000 units),

C_o is the cost of placing an order (Rs. 300,000),

C_h is the holding cost per unit per year (Rs.30,000X25% = Rs.7,500).

$$\frac{\sqrt{2 \times 8,000 \times 300,000}}{7,500} = 800 \text{ units}$$

(02 marks)

(b) Re-order level = Maximum Usage X Maximum Lead Time

= 400 units X 3 months

= 1,200 units

(02 marks)

(c) Minimum Stock Level = Re-order level (Average usage X Average Lead time)

= 1,200 - (300 units X 2.5 months)

= 450 units

(02 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 07: Accounting for Overhead and Costing Methods

(a)

| Item | Basis | Total (Rs.) | Production | | Service C |
|---|----------------------------------|------------------|------------------|------------------|----------------|
| | | | A | B | |
| Indirect Materials | Allocation | 905,000 | 450,000 | 280,000 | 175,000 |
| Machinery Depreciation | Value of Machinery | 1,800,000 | 675,000 | 810,000 | 315,000 |
| | (15:18:7) | | | | |
| Factory Rent | Floor Area (Square Feet) | 720,000 | 320,000 | 280,000 | 120,000 |
| | (8:7:3) | | | | |
| Electricity | Usage of Electricity (Kilowatts) | 1,200,000 | 600,000 | 400,000 | 200,000 |
| | (3:2:1) | | | | |
| Quality Control Expenses | No. of quality inspections | 400,000 | 96,000 | 144,000 | 160,000 |
| | (6:9:10) | | | | |
| Total Overhead Costs | | 5,025,000 | 2,141,000 | 1,914,000 | 970,000 |
| Re-Appportionment | | | | | |
| Service Department C | (45%, 55%) | | 436,500 | 533,500 | (970,000) |
| Total Overhead Costs of Production Departments | | | 2,577,500 | 2,447,500 | - |

(06 marks)

(b) Estimated total production cost of Product Y

| | Rs. |
|---------------------------------------|-----------------|
| Direct Material | 300.00 |
| Direct Labour | 220.00 |
| Prime Cost | 520.00 |
| Production Overhead (W1) | 563.69 |
| Total Production Cost Per Unit | 1,083.69 |

Working 1: Production Overhead Absorption rate (Based on Direct Labour Hours)

Department A: $\frac{\text{Total Production Overhead}}{\text{Direct Labour Hours}} = \frac{2,577,500}{10,000} = \text{Rs. 257.75 per hour}$

Department B: $\frac{\text{Total Production Overhead}}{\text{Direct Labour Hours}} = \frac{2,447,500}{16,000} = \text{Rs. 152.97 per hour}$

Total Production Overhead (Per Unit) = OH Absorption Rate X No. of Hrs required per unit

Department A = Rs.257.75 X 1 hour = Rs.257.75

Department B = Rs.152.97 X 2 hour = Rs.305.94

Total Per Unit Cost = Rs.563.69

(04 marks)
(Total 10 marks)



End of Section B

Suggested Answers to Question Seven:

Chapter 02: Financial Statements for a Limited Liability Company

(a)

Power Hub (Pvt) Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31st March 2025

| | | Rs. |
|--|-----------|---------------------|
| Sales | | 63,352,500 |
| Less: Cost of Sales (34,843,875+255,300) | | (35,069,175) |
| Gross Profit | | 28,283,325 |
| Other Income | | |
| Profit on Disposal of Machinery W 3 | | 325,000 |
| | | 28,608,325 |
| Distribution Expenses | | |
| Motor Vehicle Dep W 2 | 2,375,000 | |
| Allowance for trade receivables | 430,975 | |
| Advertising Expenses | 3,600,000 | |
| Sales Commission | 1,800,000 | |
| Travelling and Transport | 1,074,700 | |
| | | (9,280,675) |
| Admin Expenses | | |
| Machine Depreciation W 2 | 485,000 | |
| Office Rent | 240,000 | |
| Audit Fee | 370,000 | |
| Salaries and Wages | 2,500,000 | |
| Printing and Stationery | 209,800 | |
| Electricity | 1,150,000 | |
| | | (4,954,800) |
| Finance Expenses | | |
| Bank charges | 80,200 | |
| | | (80,200) |
| Profit Before Tax | | 14,292,650 |
| Income Tax | | (2,465,000) |
| Profit For the Year | | 11,827,650 |

(13 marks)

(b)

Rs.

| | | |
|---|------------|-------------------|
| Assests | | |
| Non-Current Assets | | |
| Property, Plant and Equipment W 1 | | 5,815,000 |
| Current Assets | | |
| Inventory | 9,200,000 | |
| Trade Receivables W 6 | 20,443,525 | |
| Prepaid Rent | 60,000 | |
| Cash & Cash Equivalent | 7,593,825 | 37,297,350 |
| Total Assets | | 43,112,350 |
| Equity | | |
| Stated Capital (12,000,000+2,400,000) | 14,400,000 | |
| Retained earnings (12,550,000-3,000,000+11,827,650) | 21,377,650 | 35,777,650 |
| Non-Current Liabilities | - | |
| Current Liabilities | | |
| Trade payables | 6,899,700 | |
| Audit Fee Payable | 370,000 | |
| Income Tax Payable W 4 | 65,000 | 7,334,700 |
| Total Equity and Liabilities | | 43,112,350 |

(12 marks)

Workings**Working 01: Property, Plant and Equipment**

| Cost | Balance as per TB 31/3/2025 | Purchase / (Disposal) | Cost as at 31/3/2025 | |
|------------------------|--------------------------------|--------------------------|-------------------------|----------------------------|
| Machine | 8,000,000 | (3,300,000) | 4,700,000 | |
| Motor Vehicles | 9,500,000 | - | 9,500,000 | 14,200,000 |
| | | | | |
| Acc. Depreciation | Balance as at 1/4/2024 | Disposal | Dep. For the Year | Balance as at 31/3/2025 |
| Machine | 1,600,000 | (825,000) | 485,000 | 1,260,000 |
| Motor Vehicles | 4,750,000 | - | 2,375,000 | 7,125,000 |
| | 6,350,000 | (825,000) | 2,860,000 | 8,385,000 |
| Carrying Amount | | | | 5,815,000 |

Working 02

| Depreciation Calculation: Machinery | | |
|-------------------------------------|----------------|-----------|
| Disposed Machine for 6 months | 165,000 | |
| New Machine for 6 months | 150,000 | |
| Balance | <u>170,000</u> | 485,000 |
| Motor Vehicles Depreciation | | 2,375,000 |

Working 03

| | | |
|---------------------------|-----------|----------------|
| Machine Disposal | | |
| Sale proceeds | | 2,800,000 |
| Less: WDV | | |
| Cost | 3,300,000 | |
| Less: Acc. Dep. | (825,000) | 2,475,000 |
| (3,300/10X2.5) | | |
| Profit on disposal | - | 325,000 |

Working 04

| Income Tax Payable A/C | | | |
|-------------------------------|------------------|------------|------------------|
| Tax Paid | 2,400,000 | Income Tax | 2,465,000 |
| B/C/D | 65,000 | | |
| | 2,465,000 | | 2,465,000 |
| | | B/B/F | 65,000 |

Working 05

| Allowance for Trade Receivables | | | |
|--|------------------|-------|------------------|
| | | B/B/F | 645,000 |
| B/C /D | 1,075,975 | P&L | 430,975 |
| | 1,075,975 | | 1,075,975 |
| | | B/B/F | 1,075,975 |

Working06

| | |
|--------------------------------|-------------------|
| Allowance on trade receivables | 1,075,975 |
| (21,519,500X5%) | |
| Trade receivable balance | 21,519,500 |
| | (1,075,975) |
| | 20,443,525 |

(Total 25 marks)**End of Section C**

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.

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