



Association of Accounting Technicians of Sri Lanka

July 2015 Examination - AA1 Level

**Questions and Suggested Answers
Subject No : AA11**

**FINANCIAL ACCOUNTING BASICS
(FAB)**

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

AA1 Examination - July 2015
(11) Financial Accounting Basics

SUGGESTED ANSWERS

Section A

Answers to ALL questions are expected.

Suggested Answers to Question One:

1.1	(3)
1.2	(4)
1.3	(2)
1.4	(3)
1.5	(2)
1.6	(3)
1.7	(1)
1.8	(2)
1.9	(4)
1.10	True
1.11	True

1.12	Part -A Transaction	Part - B - Source Document	
	1	c	
	2	a	
	3	b	
	4	d	
1.13	1 - Renal Account	2 - Nominal Account	3 - Personal Account
1.14	1 - Prudence Concept	2 - Going Concern Concept	
1.15	1 - Cash Book	2 - General Journal	3 - Cash Book
1.16	1 - Capital Expense	2 - Capital Expense	3 - Revenue Expense
1.17	Rs. 14,000/-		
1.18	Understandability, Relevance, Reliability, Comparability		

End of Section A

Section B

Answers to ALL questions are expected.

(Total Marks = 32)

Suggested Answers to Question Two:

Inventory + Debtors + Cash = Capital + Liabilities + (Income - Expenses)

Rs.

01.01	-	+ 950,000	+ 950,000	-	-	-
	+250,000	- 250,000				
01.01	Above transaction can be recorded as follows.					
	+250,000	-	+700,000	+ 950,000	-	-
01.02	-	-	-12,000	-	-	-12,000
01.03	+350,000	-	-10,000*	-	+350,000	-10,000
01.07	If 25% profit is computed on cost,					
	-32,000	-	+40,000	-	-	+40,000 -32,000
	If 25% profit is computed on selling price,					
	-30,000	-	+40,000	-	-	+40,000 -30,000
01.10			-75,000			-75,000
	-90,000	+100,000	-	-	-	+100,000 -90,000
01.12	-	-	-50,000	-50,000	-	-

Suggested Answers to Question Three:

(a)

General Journal		Rs.	
	Description	Dr.	Cr.
(1)	Suspense Account Dr. Rent Expense Account <i>(Being correction of rent expenses recorded in excess)</i>	9,000	9,000
(2)	A.K. Silva's Account Dr. R.K. Silva's Account <i>(Being correction of credit sales recorded in incorrect debtor's account)</i>	55,000	55,000
(3)	Purchase Account Dr. Ruhunu Enterprises Account <i>(Being correction of omitted credit purchases transaction)</i>	47,500	47,500
(4)	Debtor's Control Account Dr. Suspense Account <i>(Being correction of understatement of credit sales)</i>	25,000	25,000
(5)	Suspense Account Dr. Other Expenses Account Other Income Account <i>(Being correction of recording of other income of Rs. 5,000/- to other expense account)</i>	10,000	5,000 5,000

(b)

Suspense Account		Rs.	
Balance B/F	6,000	Debtor's Control Account	25,000
Rent	9,000		
Other Expenses	5,000		
Other Income	5,000		
	25,000		25,000
	25,000		25,000

Suggested Answers to Question Four:**(a) General Ledger of the business**

Cash Book Account		Rs.	
02.01.2015 Bank	175,000	02.01.2015 Rent Deposit	150,000
05.01.2015 Bank	175,000	02.01.2015 Rent	25,000
06.01.2015 Sales	975,000	05.01.2015 Opening ceremony exp.	145,000
		05.01.2015 Petty Cash	30,000
		06.01.2015 Bank	975,000
	<u>1,325,000</u>		<u>1,325,000</u>

Bank Account		Rs.	
01.01.2015 Capital	2,000,000	02.01.2015 Cash	175,000
06.01.2015 Cash	975,000	04.01.2015 Purchase	2,175,000
		05.01.2015 Cash	175,000
		06.01.2015 Balance C/F	450,000
	<u>2,975,000</u>		<u>2,975,000</u>

Capital Account		Rs.	
06.01.2015 Balance B/F	4,550,000	01.01.2015 Registration Fee	50,000
		01.01.2015 Lorry	2,500,000
		01.01.2015 Bank	2,000,000
	<u>4,550,000</u>		<u>4,550,000</u>

Business Registration Fee Account		Rs.	
01.01.2015 Capital	50,000	06.01.2015 Balance C/F	50,000
	<u>50,000</u>		<u>50,000</u>

Deliver Lorry Account		Rs.	
01.01.2015 Capital	2,500,000	06.01.2015 Balance C/F	2,500,000
	<u>2,500,000</u>		<u>2,500,000</u>

Rent Deposit Account		Rs.	
02.01.2015 Cash	150,000	06.01.2015 Balance C/F	150,000
	<u>150,000</u>		<u>150,000</u>

Rent Expense Account		Rs.	
02.01.2015 Cash	25,000	06.01.2015 Balance C/F	25,000
	<u>25,000</u>		<u>25,000</u>

Purchases Account		Rs.	
04.01.2015 Bank	2,175,000	06.01.2015 Balance C/F	2,175,000
	<u>2,175,000</u>		<u>2,175,000</u>

Opening Ceremony Expense Account		Rs.	
05.01.2015 Cash	145,000	06.01.2015 Balance C/F	145,000
	<u>145,000</u>		<u>145,000</u>

Petty Cash		Rs.	
05.01.2015 Cash	30,000	06.01.2015 Balance C/F	30,000
	<u>30,000</u>		<u>30,000</u>

Sales Account		Rs.	
06.01.2015 Balance C/F	975,000	06.01.2015 Cash	975,000
	<u>975,000</u>		<u>975,000</u>

SP Traders

Trial Balance as at 07th January 2015

Rs.

	Dr.	Cr.
Bank Account	450,000	-
Capital Account	-	4,550,000
Business Registration Fee Account	50,000	-
Delivery Lorry Account	2,500,000	-
Rent Deposit Account	150,000	-
Rent Expenses Account	25,000	-
Purchases Account	2,175,000	-
Opening Ceremony Expenses Account	145,000	-
Petty Cash Account	30,000	-
Sales Account	-	975,000
	<u>5,525,000</u>	<u>5,525,000</u>

Suggested Answers to Question Five:

(a) **Calculation of the cost of the machinery to be capitalized**

Purchase price of the machinery	1,120,000	
(-) VAT (Note 1)	<u>(120,000)</u>	1,000,000
Transportation cost		125,000
Installation and Other Direct Expenses		125,000
		<u>1,250,000</u>

Note 1

(b) **Depreciable value of the machinery as at 01st April 2014**

Total cost of the machinery		1,250,000
(-) Scrap value		
Estimated selling price	275,000	
(-) Estimated selling expenses	<u>(25,000)</u>	(250,000)
		<u>1,000,000</u>

(c) **Annual Depreciation according to Straight Line basis.**

Method - I

$$\begin{aligned}\text{Annual Depreciation} &= \frac{\text{Cost - Scrap Value}}{\text{Useful life time}} \\ &= \frac{(1,250,000 - 250,000)}{10} \\ &= \underline{\underline{\text{Rs. } 100,000}}\end{aligned}$$

Method - II

$$\begin{aligned}\text{Annual Depreciation} &= \frac{\text{Depreciation Value}}{\text{Useful life time}} \\ &= \frac{1,000,000}{10} \\ &= \underline{\underline{\text{Rs. } 100,000}}\end{aligned}$$

(d) **Preparation of Ledger Accounts**

(i)

Machinery Account		Rs.	
01.04.2014 Balance C/F	1,250,000	31.03.2015 Balance B/F	1,250,000
	<u>1,250,000</u>		<u>1,250,000</u>

(ii)

Machinery Depreciation Account		Rs.	
31.03.2015 Provision for depreciation	100,000	31.03.2015 Depreciation Expense	100,000
	<u>100,000</u>		<u>100,000</u>

(iii)

Provision for Machinery Depreciation Account			
31.03.2015 Balance C/F	100,000	31.03.2015 Depreciation Expense	100,000
	<u>100,000</u>		<u>100,000</u>

(e) Depreciable value of the machinery as at 31.03.2015

= Cost - Scrap Value

= 1,250,000 - 250,000

= **Rs. 1,000,000**

End of Section - B

Answers to both questions are expected.
(Total Marks = 28)

Suggested Answers to Question Six:

(a) **Soft Toys Enterprises**
Comprehensive Income Statement
For the year ended 31.03.2015

			(Rs. '000)
Sales			174,630
(-) Return Inwards			(15,060)
Net Sales			159,570
(-) Cost of Sales			
Opening Stock		9,975	
(+) Purchases	105,625		
(-) Return outwards	(9,600)	96,025	
		106,000	
(-) Closing Stock		(20,000)	(86,000)
Gross Profit			73,570
(+) Other Income			
Interest on fixed deposit		1,000	
Other Income		120	1,120
			74,690
(-) Distribution Expenses			
Under provision of doubtful debts	400		
Discount allowed	200		
Selling and distribution expenses	14,514	(15,114)	
(-) Administration Expenses			
Administration Expenses	15,470	(15,470)	
(-) Other Expenses			
(-) Finance Expenses			
Finance Expenses	3,409	(3,409)	(33,993)
Net Profit			40,697

(b)

Soft Toys Enterprises
Statement of Financial Position as at 31.03.2015

(Rs. '000)

	Cost	Accumu. dep.	NBV
Assets - Non current assets			
Property, Plant & Equipment			
Property, Plant & Equipment	50,000	11,500	38,500
Investments & Intangible Assets			
10% Fixed Deposit		10,000	10,000
Current Assets			
Closing Inventory		20,000	
Debtors (Trade Receivables)	15,622		
(-) Provision for doubtful debts	(3,700)	11,922	
Interest on fixed deposit - Receivables		1,000	
Pre-paid rent		1,230	
Pre-paid expenses		1,000	
Cash in hand		1,035	36,187
Total Assets			84,687
Equity & Liabilities			
Capital		34,000	
(+) Net Profit		40,697	74,697
(-) Drawings			(540)
			74,157
Non-current Liabilities			
Current Liabilities			
Creditors (Trade payables)		4,200	
Accured Expenses		5,000	
Bank Overdraft		1,330	10,530
Total Equity & Liabilities			84,687

Workings (Rs. '000)

1. Inventory Cost 20,000 } Whichever is lower = 20,000 (at cost)
 NRV 26,000 }
2. Interest on fixed deposit = 10,000 x 10% = 1,000

Suggested Answers to Question Seven:

(a)

**Road Riders Manufacturing Co.
Manufacturing Account
For the Quaried ended 30th June 2014**

(Rs.)

Direct material		
Opening Stock	75,000	
(+ Purchases	1,256,000	1,331,000
(-) Return outward	-	
Raw material damages	(13,000)	(13,000)
(-) Closing stock	(35,000)	(35,000)
		1,283,000
Direct Labour		
Machinery Operator's Salary (1,250 x 95)	118,750	
Helpers' Salary (1,250 x 20)	25,000	143,750
Other Direct Expenses		
Direct Expenses	56,000	56,000
Prime Cost		1,482,750
(+ Opening work-in-progress (WIP)		12,600
(-) Closing work-in-progress (WIP)		(17,000)
		1,478,350
Manufacturing Overhead		
Factory Manager's Salary (65000 x 3)	195,000	
Production Staff Salary (44,000 x 3)	132,000	
Depreciation on Machinery	5,000	
Depreciation on factory building (8,000 x 75%)	6,000	
Factory Electricity (120,000 x 75%)	90,000	
Factory Maintenance (27,000 x 75%)	20,250	
Indirect materials	9,000	457,250
Manufacturing Cost		1,935,600

(b) **Manufacturing Cost + Profit = Selling Price**

$$75 + 25 = 100$$

$$\text{Value of the goods transferred to sales} = (1,935,600 / 75) \times 100 = \underline{\underline{\text{Rs. 2,580,800}}}$$

End of Section C