



**Association of Accounting Technicians of Sri Lanka**

**January 2016 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 - January 2016  
(11) Financial Accounting Basics

SUGGESTED ANSWERS

Section A

Objective Test Questions (OTQs)

All questions of this section to be answered.

(Total 40 marks)

Suggested Answers to Question One:

1.1	(2)
1.2	(4)
1.3	(1)
1.4	(1)
1.5	(1)
1.6	(3)
1.7	(1)

1.8

Transaction	Assets =	Equity +	Liability
(a)	Increase		Increase
(b)	Decrease Increase	(Increase - Decrease)	

It can be shown as follows;

Transaction	Assets	=	Equity	+	Liability
(a)	Inventory (Increase)	=		+	Creditors (Increase)
(b)	Inventory (Decrease) Debtors (Increase)	=	Profit (Increase)		

1.9	(a)	Motor vehicle A/C	Dr	3,500,000	
		Motor Vehicle Purchaser Account (Payable)			3,500,000
	(b)	Cash book	Dr	8,000	
		Discount allowed	Dr	2,000	
		Trade Receivables/Debtors A/C			10,000

(c)	Cash book	Dr	100,000
	Capital A/C		100,000

1.10 There are ledger A/Cs under the traditional classification.

- i. Real Accounts - Ex : Land A/C, Buildings A/C, Motor Vehicle A/C
- ii. Personal Accounts - Ex : Creditor's A/C, Debtor's A/C (Trade Receivables, Trade Payables)
- iii. Nominal Accounts - Ex : Salary, Electricity, Water

- 1.11 i. Complete
- ii. Neutral
- iii. Free from errors

1.12 Asset - An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

- 1.13 • Entity has to incur massive investment cost
- Due to the new system replacement requirements are very high
- Highly technical oriented
- Issues with the technical assistants
- Due to the human errors, some failures can be happend
- Due to new ERP's reduce the labour requirements and it affect to the employability.

1.14	Profit / Loss	=	Closing Net	-	Opening Net Assets	+	Drawings	-	Additional Capital
	75,000	=	350,000	-	175,000	+	50,000	-	x
	x	=	350,000	-	175,000	+	50,000	-	75,000
	x	=	150,000						

OR

01.01.2015	175,000
(+) Profit	<u>75,000</u>
(-) Drawings	<u>(50,000)</u>
(+) Additional Capital	<u>150,000</u>
31.12.2015	<u><u>350,000</u></u>

Additional capital would be Rs. 150,000

- 1.15 (a) True
- (b) False
- (c) True

**End of Section A**

All four (04) questions of this section to be answered.

(Total 40 marks)

***Suggested Answers to Question Two:***

(a) **Going Concern Concept**

It is assumed that the organization will continue for a long term, unless and until it has entered into the state of liquidation.

**Accrual Concept**

Under the cash system of accounting, the revenues and expenses are recorded only if they are actually received or paid in cash, irrespective of the accounting period to which they belong.

Ex : Electricity expenses not paid yet but relevant for the period is occurred in the Financial Statements.

(b)

**Petty Cash Book**

Cash in	Date	Description	J.N. No.	Cash Out	Analysis of expenditure / Payments				
					Statutory	Transportation	Postage	Cleaning Exp.	Other Exp.
1500	1.1.16	Balance B/F							
3500	1.1.16	Cash reimbursement							
	1.1.16	Imprest							
5000	2.1.16	Celebration exp.	1	1400					1400
	3.1.16	Stationery items	2	560	560				
	6.1.16	Stamps & Env. Exp.	3	250			250		
	7.1.16	Donation to a charity	4	150					150
	9.1.16	Cleaning exp.	5	600				600	
	11.1.16	Bus fare	6	50		50			
				3010	560	50	250	600	150
	14.1.16	Balance C/F		1990					
5000				5000					
1990		B/B/F							
3010	12.1.16	Cash (reimbursment)							

***Suggested Answers to Question Three:***

**Workings**

<b>Delivery Van / Motor vehicle A/C</b>			
B/B/F	500,000	B/C/F	500,000
	<u>500,000</u>		<u>500,000</u>
<b>Trade Debtors / Receivables A/C</b>			
B/B/F	800,000	Cash	1,250,000
Sales	1,050,000	B/C/F	600,000
	<u>1,850,000</u>		<u>1,850,000</u>
<b>Trade Creditors / Payables A/C</b>			
Cash	865,000	B/B/F	575,000
B/C/F	660,000	Purchase	950,000
	<u>1,525,000</u>		<u>1,525,000</u>

**Mahesh Traders**

**Trial Balance as at 31st December 2015**

Account Title	Dr.	Cr.
Delivery Van	500,000	--
Depreciation	50,000	
Accumulated Depreciation		50,000
Rent Expenses	150,000	
Rent Payable		12,500
Electricity Expenses	29,200	
Electricity Payable		2,200
Trade Debtors / Trade Receivables	600,000	
Trade Creditors / Trade Payables		660,000
Cash	468,500	
Drawings	250,000	
Fuel Expenses	12,000	
Salaries	240,000	
Capital		1,475,000
Sales		1,050,000
Purchases	950,000	
	<b>3,249,700</b>	<b>3,249,700</b>

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

**(a) Journal Entries**

	General Journal	Dr.	Cr.
1	Motor vehicle repair A/C Motor Vehicle A/C (Being correcting the error occurred by motor vehicle repair.)	Dr. 51,000	51,000
2	Interest Income A/C Debtors A/C (Being adjusting the Direct bank deposit recorded as interest income)	Dr. 123,000	123,000
3	Suspense A/C Sales A/C (Being correcting the sales day book balance which was undercasted)	Dr. 525,000	525,000
4	Discount Allowed A/C Discount receivable A/C Suspense A/C (Being correcting the Discount allowed which has recorded as discount received)	Dr. 64,000	46,000 18,000
5	Miscellaneous Expenses A/C Suspense A/C (Being correcting the other expenses A/C which has recorded in Trial Balance)	Dr. 1,012,500	1,012,500

**(b)**

**Suspense A/C**

B/B/F	505,000	Discount Allowed	18,000
3) Sales	525,000	Miscellaneous Expenses	1,012,500
	<u>1,030,500</u>		<u>1,030,500</u>

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(C)

**Everest Trading Company**  
**Statement of Revised Profit**

Recorded Profit		12,657,300
<b>Add</b>		
(3) Undercasted sales	525,000	
(4) Discount Received	46,000	571,000
		13,228,300
<b>Less</b>		
(1) Motor vehicle repair expenses	51,000	
(2) Ommiting the Interest Received	123,000	
(4) Discount Allowed	64,000	(238,000)
<b>Corrected Net Profit</b>		<b>12,990,300</b>

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***Suggested Answers to Question Five:***

**Safety First Traders**

**For the first quarter ended 30th June 2015**

**Manufacturing Account**

	Rs. '000	Rs. '000
RM - Fabric	2,715	
Purchases - RM - Fabric	3,549	
Closing - RN - Fabric	(1,025)	5,239
RM - Accessories	1,252	
RM - Accessories	2,125	
RM - Accessories	(875)	2,502
		7,741
DM		
DL - M/Op (125 x 12,500)	1,562.5	
Helpers (25 x 12,500)	312.5	
P/Staff (25 x 12,500)	312.5	2,187.50
Other Direct Expenses		1,025
Prime Cost		10,953.50
Add - Opening WIP		325
Less - Closing WIP		(790)
		10,488.50
Production		
Indirect labour - Exp.	225	
Non-ex.	325	
Product Expenses	1,350	
Annual Dep. - Machine (2,400/12 x 3)	600	
Building	562.50	3,062.50
		13,551
Profit Margin		2,710.20
		<b>16,261.20</b>

***End of Section - B***

One question of this section to be answered.  
(Total 20 marks)

**Suggested Answers to Question Six:**

(a)

**Star Bath Enterprises**  
**Comprehensive Income Statement**  
**For the year ended 31st December 2015**

	(Rs. '000)
Sales (30,000 - 150)	29,850
Cost of Sales	(21,955)
Gross Profit	7,895
Other Income	--
Admin Expenses	(3,948)
Selling Expenses	(2,847.25)
Finance Expenses	--
Other Expenses	(185)
Profit for the year	914.75

**Trading Account** (Rs. '000)

Inv.	650
Purchase (22,000 - 80) + 325 + 180	22,425
Inv.	(1,120)
CoS.	21,955

**Admin Exp.** (Rs. '000)

Dep - Building	700
- F & F	875
Consultant	240
Electricity & Water (433 - 10)	423
Salaries	1,410
Rates	300
	3,948

<b>Selling Exp.</b>	<b>(Rs. '000)</b>
Dep - MV	980
Bad Debt	55
Doubtful Debt	150.25
S/Commission	535
Advertising	1,050
D/Allowed	77
	2,847.25

<b>Other Exp.</b>	<b>(Rs. '000)</b>
Dam Stock	185
	185



(b)

**Star Bath Enterprises**  
**Statement of Financial Position**  
**as at 31st December 2015**

(Rs. '000)

<b>Assets</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>NBT</b>
<b><u>Non-Current Assets</u></b>			
Property, plant & Equipment			
Land	3,000	--	3,000
Building	7,000	1,900	5,100
Motor vehicles	5,675	2,480	3,195
Furniture & Fittings	3,500	1,625	1,875
	19,175	6,005	13,170
<b><u>Current Assets</u></b>			
Closing Stock		1,120	
Trade Debtors / Receivable (3700 - 55)	3,645		
- 5% provision for doubtful debts	(182.25)	3,462.75	
Paid advance - Water		10	
Cash		2,500	7,092.75
<b>Total Assets</b>			<b>20,262.75</b>
<b><u>Equity &amp; Liabilities</u></b>			
Opening Capital	13,900		
Capital Introduced	175		
+ Net profit	914.75		
- Drawings	(150)		14,839.75
<b><u>Non-Current Liabilities</u></b>			
Bank Loan			3,100
<b><u>Current Liabilities</u></b>			
Trade Creditors		2,183	
Accrued consultancy fee		30	
Bank Overdraft		10	2,323
<b>Total Equity &amp; Liabilities</b>			<b>20,262.75</b>

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**Workings (Rs. '000)****Working No 1**

Cost	1,120	}	Lowest Value
Net realizable	1,450		
Value (NRV)			
			= <u>1,120</u>

**Working No 2****Depreciation for Buildings**

10,000	Land 3,000 - No depreciations for land	
	Building 7,000 x 10%	= <u>700</u>

**Depreciation for Motor vehicles**

5,675	Nimal's personal threewheeler on 31.12.2015	
	175 - Depreciation for the current year is not applicable	
	Motor vehicle purchased on 01.07.2015	
	1200 x 20% x 6/12	= 120
	Other motor vehicle	
	4300 x 20% x 12/12	= <u>860</u>
		= <u>980</u>

**Depreciation for Furniture and Fittings**

$$3500 \times 25\% = 875$$

**Working No 6**

Provision of Doubtful Debtors	3645 x 5%	= 182.25
		= <u>182</u>

**(c) Statement of Revised Profit :**

	<b>Dr.</b>	<b>Cr.</b>
Recorded Profit		12,657,300
Add - Undercasted Sales	525,000	
D/received	46,000	571,000
		13,228,300
Less - Repair cost of MV	51,000	
Interest Income	123,000	
D/allowed	64,000	(238,000)
		<u>12,990,000</u>

*End of Section C*

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***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.

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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