



Association of Accounting Technicians of Sri Lanka

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

1.8 Information must be relevant to the decision making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events.

1.9 Shareholder Owners Competitors
Employees Management
Lenders Government

1.10 Equity is the residual interest in the assets of an enterprise after deducting the liabilities.

1.11 An item should be regarded as material if there is a sufficient reason to believe that knowledge of that would influence the decision of stakeholders. The accounts and financial statements should give importance to all material information.

1.12	ACCPAC Quickbooks SAGE	MYOB Tally		
1.13	Purchase day-book Cashbook Outward or purchase return day book			
1.14	i. Capital expenses ii. Revenue expenses iii. Revenue expenses			
1.15	i. False ii. True iii. True			
1.16	i. Trade payable a/c (Udana) Cash / bank Discount received	Dr Cr Cr	50,000 46,250 3,750	
	ii. Drawings a/c Cash a/c	Dr Cr	3,000 3,000	
	iii. Motor vehicle a/c Bank a/c Motor vehicle payable a/c (Creditors)	Dr Cr Cr	1,500,000 750,000 750,000	

End of Section A

Four (04) compulsory questions.

(Total 40 marks)

Suggested Answers to Question Two:

(a) **M & M Traders**

Cash book

Capital	2,500,000	Part payment for purchases	900,000
Sales	623,000	Advance rent	210,000
		Rent - May	35,000
		Petty cash float	25,000
		Fixed deposit	600,000
		B/C/F	1,353,000
	3,123,000		3,123,000
B/c/f	1,353,000		

M & M Traders

Trial balance as at 31st May 2016

	Dr.	Cr.
Capital		3,220,000
Motor vehicles	720,000	
Depreciation	12,000	
Accumulated depreciation		12,000
Purchases	1,200,000	
Creditors		300,000
Prepaid rent	210,000	
Rent expenses	35,000	
Sales		623,000
Petty cash	25,000	
Fixed deposit	600,000	
Cash	1,353,000	
	4,155,000	4,155,000

Working

1. Depreciation

$$720,000 \times 20\% \times 1/12 = 12,000$$

(10 marks)

Suggested Answers to Question Three:

(a) Journal Entries

		Dr.	Cr.
1.	Drawings a/c Purchases / Trading a/c (Being the entry for rectifying the goods drawings omitted from the books of account)	Dr Cr	62,500 62,500
2.	Suspense a/c Rent Income a/c Rent expenses a/c (Being the entry for rectifying, the rent income debited to rent expenses)	Dr Cr Cr	224,800 112,400 112,400
3.	Printer asset a/c Repair & maintenance a/c (Being the entry for rectifying, error of principle)	Dr Cr	32,500 32,500
4.	Purchases a/c Trade payable a/c (Being the entry for rectifying, credit purchases 298,000 recorded as 289,000)	Dr Cr	9,000 9,000
5.	Staff welfare a/c Advertising a/c (Being the entry for rectifying, 1800 staff welfare recorded as advertising expenses)	Dr Cr	1,800 1,800

(b) Adjusted Profit Statement

	+ / (-)	
Profit as per accounts		250,000
<u>Add -</u>		
Rent Income	112,400	
Purchase	62,500	
Rent expenses	112,400	
Repair & Maintenance	32,500	569,800
<u>Less -</u>		
Purchases		(9,000)
Profit after adjustment		560,800

(10 marks)

Suggested Answers to Question Four:

Fines Tapes Ltd

Manufacturing Account for the year ended 31.03.2016

<u>Cost of Raw material</u>		
Op. R/material		2,560,000
Purchases - R/material	5,950,000	
Cl. Inwards	330,000	6,280,000
Cl. R/material		(1,750,000)
Cost of R/material consumed		7,090,000
<u>Direct Labour</u>		
Wages (4,278,000 + 15,000)	4,293,000	4,293,000
Prime Cost		11,383,000
<u>Production Overhead</u>		
Dep. Building (650,000 x 9/10)	585,000	
Dep. Factory machine	1,875,000	
Salary - Production	815,000	
Electricity (1,380,000 x 9/10)	1,242,000	
Telephone (120,000 x 40%)	48,000	
		4,565,000
Total Cost		15,948,000
<u>Adjustment for</u>		
Op. WIP	1,225,000	
Cl. WIP	(850,000)	375,000
Total manufacturing cost → Trading A/C		16,323,000

Working

Depreciation on building

$$650,000 \times 9/10 = 585,000$$

(10 marks)

Suggested Answers to Question Five:

(a)

Date	Des.	Fixed Assets +	Inventory +	Debtors +	Cash	=	Capital +	Liability
1.4.16	1. Capital contribution Cash - 750,000 Goods - 325,000		+ 325,000		+ 750,000	=	+ 1,075,000	
3.4.16	2. Cash sale		-75,000		+100,000	=	+25,000	
15.4.16	3. Credit sale		-200,000	+250,000		=	+50,000	
19.4.16	4. Credit purchase		+525,000			=		+525,000
25.4.16	5. Cash collection			-10,000	+10,000	=		
30.4.16	6. Purchase of Bicycle	+250,000			-100,000	=		+150,000
		250,000	575,000	240,000	760,000	=	1,150,000	675,000

**Harshana's
Statement of Financial Position
as at 30th April 2016**

<u>Fixed Assets</u>		
Bicycle		250,000
<u>Current Assets</u>		
Inventory	575,000	
Debtors	240,000	
Cash	760,000	1,575,000
Total		1,825,000
Capital	1,075,000	
Profit	75,000	1,150,000
<u>Current Liability</u>		
T/Payable	525,000	
Payable - Bike	150,000	675,000
		1,825,000

(10 marks)

End of Section - B

One (01) compulsory question.
(Total 20 marks)

Suggested Answers to Question Six:

(a) **Shantha Tyre Traders**
Statement of Comprehensive Income
For the year ended 31.03.16

Sale		54,500,000
<u>Cost of Sale</u>		
Op. Inventory	3,500,000	
Purchases	35,000,000	
Cl. Inwards	450,000	
Cl. Inventory	(1,320,000)	(37,630,000)
G/Profit		16,870,000
<u>Other Income</u>		
Dis. Received	35,000	35,000
		16,905,000
<u>Admin Exp.</u>		
Dep. of assets (W1)	(1,900,000)	
Electricity & Water	(1,045,000)	
Salaries and Wages	(1,947,000)	
Rates	(537,000)	(5,429,000)
<u>Distribution Exp.</u>		
Dep. of assets (W1)	(1,500,000)	
B/Debts	(33,000)	
Under Pro. of doubtful debt	(192,000)	
Sales commission	(1,090,000)	
Advertising	(2,590,000)	(5,405,000)
<u>Finance Exp.</u>		
Loan Int.	(45,000)	(45,000)
Profit for the year		6,026,000

(b)

Shantha Tyre Traders
Statement of Financial Position
as at 31.03.2016

(Rs. '000)

Assets	Cost	Accumulated Depreciation	W/D/V
<u>Non-Current Assets</u>			
Land	1,500,000	--	1,500,000
Building	10,500,000	1,563,000	8,937,000
Motor vehicles	7,500,000	4,780,000	2,720,000
Furniture & Fittings	5,500,000	3,575,000	1,925,000
	25,000,000	9,918,000	15,082,000
<u>Current Assets</u>			
Inventory		1,320,000	
Trade Debtors	4,300,000		
(-) provision for doubtful debts	(215,000)	4,085,000	
Bank		5,157,000	
Cash		8,219,000	18,781,000
Total Assets			33,863,000
<u>Financed By</u>			
Capital		20,660,000	
Net profit		6,026,000	
(-) Drawings		(190,000)	
Owner's Equity			26,496,000
<u>Current Liabilities</u>			
Trade Payable		2,662,000	
Commission payable		160,000	
Current portion of loan		4,500,000	
Accrued Int. payable		45,000	7,367,000
Total			33,863,000

Workings - 1

Building	= 10,500,000 x 5%	=	525,000	
Motor Vehicle	= 7,500,000 x 20%	=	1,500,000	
Furniture & Fittings	= 5,500,000 x 25%	=	1,375,000	
Adm Dep. (525,000 + 1,375,000)		=	1,900,000	
D+S Dep.		=	1,500,000	(20 marks)

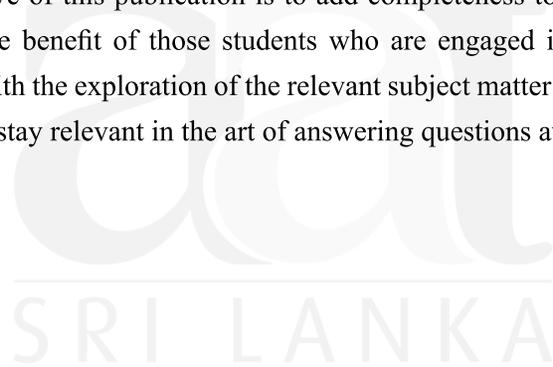
End of Section C

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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