



Association of Accounting Technicians of Sri Lanka

January 2017 Examination - AA1 Level

**Questions and Suggested Answers
(AA11)**

**FINANCIAL ACCOUNTING BASICS
(FAB)**

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

AA1 Examination - January 2017
(AA11) Financial Accounting Basics

SUGGESTED ANSWERS

Section A

Objective Test Questions (OTQs)

Fifteen (15) compulsory questions.

(Total 40 marks)

Suggested Answers to Question One:

1.1 (2)

1.2 (4)

1.3 (3)

1.4 (4)

1.5 (1)

1.6 (4)

1.7 (3)

1.8 (4)

1.9 - Stock Master File - Payroll Master File
- Fixed Asset Register - Creditors Master File
- General Ledger - Debtors Master File

1.10 - Speed the data can be processed quickly
- Accuracy of the information which is generated was very high
- Reliability of the generated reports is very high
- Unnecessary staff can be reduced and due to that cost reduction
- Analyzing capabilities are very high
- Mass capacity of storage
- Easy to manage the entity and to generate reports
- Entity can generate up-to-date reports

- 1.11 - Capital expenditure includes cost incurred on acquisition of fixed assets and any subsequent expenditure that increase the earning capacity of an existing asset.
Ex : Replacement cost related to non-current assets, Upgrading cost
- Revenue expenditure - day to day expenses needed to operate a business and expenses incurred to maintain fixed assets are revenue expenditure
Ex : Salaries and wages, Building rent
- 1.12 - Journal voucher number
- Narration for the double entry
- Journal entry date
- Signature of preparer
- Amount
- 1.13 (a) False
(b) True
(c) True
(d) False
- 1.14 a) Purchase invoice
b) Sales invoice
c) Credit note
- 1.15
- | | | | | |
|----|---------------|----|--------|--------|
| a) | Furniture a/c | Dr | 30,000 | |
| | Ann Ltd a/c | Cr | | 30,000 |
- (Being the entry for, recording purchases of fixed assets on credit)
- | | | | | |
|----|---------------|----|--------|--------|
| b) | Drawings a/c | Dr | 15,000 | |
| | Purchases a/c | Cr | | 15,000 |
- (Being the entry for, recording 15,000 worth of goods drawn by the owner)
- | | | | | |
|----|-----------------------|----|--------|--------|
| c) | Creditors a/c | Dr | 32,000 | |
| | Cash a/c | Cr | | 30,000 |
| | Discount received a/c | Cr | | 2,000 |
- (Being the entry for, recording 32,000 bill of creditor after considering 2,000 discounts)

End of Section A

Four (04) compulsory questions.

(Total 40 marks)

Suggested Answers to Question Two:

(a)	Fixed assets	+	Inventories	+	Debtors	+	Cash	=	Capital	+	Liabilities
			- 40,000		+ 60,000				= + 20,000		
			+ 50,000						=		+ 50,000
							- 10,000	=			- 10,000
							- 45,000	=	- 45,000		
							+ 90,000	=	+ 90,000		
	+ 10,000							=			+ 10,000

(06 marks)

(b) i) Events and transaction are recorded to the period which they relate. Irrespective of cash received for the income and paid for the expenses.

Ex : Sales advance received are recorded as a liability and not as an income.

ii) Under this concept the organization is treated as a separate entity from the owners. The concept helps in keeping private affairs of the owners separately from the business affairs.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Lahiru Business

Trial Balance as at 31st March 2016

Description	Dr	Cr
Cash	760,000	
Loan interest	30,000	
Bank loan		300,000
Interest payable		15,000
Sales		1,650,000
Debtors	250,000	
Purchases	1,000,000	
Creditors		100,000
Electricity expenses	60,000	
Electricity payable		15,000
Equipment assets	180,000	
Capital		450,000
Drawings	250,000	
Total	2,530,000	2,530,000

(10 marks)

Suggested Answers to Question Four:

(a)

General Journal

Description		Dr	Cr
Electricity expense a/c	Dr	17,500	
Insurance expense a/c	Cr		17,500
(Being the entry for rectifying, electricity payment 17,500 pasted to insurance a/c rectified.)			
Drawings a/c	Dr	175,000	
Suspense a/c	Cr		175,000
(Being the entry for rectifying, cash withdrawal not posted to ledger a/c rectified.)			
Discount received a/c	Dr	44,350	
Creditors a/c	Cr		44,350
(Being the entry for rectifying, the error of duplication)			
Suspense a/c	Dr	110,000	
Rent income a/c	Cr		55,000
Rent expenses a/c	Cr		55,000
(Being the entry for rectifying, the rent income debited to rent expenses a/c rectified.)			
Discount received a/c	Dr	120,000	
Rates expenses a/c	Dr	12,000	
Suspense a/c	Cr		132,000
(Being the entry for rectifying, rates of 12,000 credited to discount received a/c as 120,000 rectified.)			

(07 marks)

(b)

Suspense a/c

B/B/F	197,000	Drawings	175,000
Rent income	55,000	Discount received	120,000
Rent expense	55,000	Rates	12,000
	<u>307,000</u>		<u>307,000</u>

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

(a)

**Handy Bags Traders
Manufacturing a/c
For the year ended 30.06.2016**

<u>Direct Materials</u>		
Opening raw materials	1,350,000	
Purchases	2,070,000	
Carriage inwards	250,000	
Closing raw materials	(1,245,000)	2,425,000
<u>Direct Wages</u>		
Direct wages (6,000 x 150)	900,000	900,000
<u>Direct expenses</u>		
Direct expenses	855,000	855,000
<u>Work in Progress</u>		
Opening WIP	725,000	
Closing WIP	(1,050,000)	(325,000)
Prime Cost		3,855,000
<u>Production Overheads</u>		
Electricity (280,000 x 75%)	210,000	
Water (80,000 x 75%)	60,000	
Depreciation on buildings (240,000 x 75%)	180,000	
Depreciation on machinery	765,000	
Factory manager's salary	1,230,000	2,445,000
Total production cost		6,300,000

(08 marks)

(b)

$$\begin{aligned} \text{Cost per unit} &= 6,300,000 / 6,000 \\ &= \underline{\underline{\text{Rs. 1,050/-}}} \end{aligned}$$

(02 marks)

(Total 10 marks)

End of Section - B

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

Suggested Answers to Question Six:

(a) **Rasika Trading**
Statement of Comprehensive Income
For the year ended 31.03.2016

Sales		35,500,000
<u>Cost of Sales</u>		
Opening Inventory	3,850,000	
Purchases	15,000,000	
Closing Inventory	(3,450,000)	(15,400,000)
Gross Profit		20,100,000
<u>Other Income</u>		
Over provision	493,000	493,000
		20,593,000
<u>Selling and Distribution Expenses</u>		
Bad Debts	150,000	
Delivery van depreciation	880,000	
Sales commission	2,150,000	(3,180,000)
<u>Admin Expenses</u>		
Electricity (3,800 + 355)	4,155,000	
Insurance (1,830 - 530)	1,300,000	
Building depreciation	1,000,000	
Office equipment depreciation	330,000	
Salaries and wages	6,500,000	(13,285,000)
<u>Finance Expenses</u>		
Interest expenses	1,330,000	(1,330,000)
Net Profit for the year		2,798,000

(12 marks)

(b)

Rasika Trading
Statement of Financial Position
as at 31.03.2016

(Rs. '000)

Assets	Cost	Accumulated Depreciation	W/D/V
<u>Non-Current Assets</u>			
Land	5,500,000	--	5,500,000
Buildings	20,000,000	(6,000,000)	14,000,000
Delivery van	4,400,000	(2,320,000)	2,080,000
Office equipment	2,750,000	(870,000)	1,880,000
			23,460,000
<u>Current Assets</u>			
Inventories		3,450,000	
Trade receivables (W1)		6,223,000	
Insurance pre-payment		530,000	
Cash in hand		2,620,000	12,823,000
Total Assets			36,283,000
<u>Equity and Liabilities</u>			
Capital		14,000,000	
(-) Drawings		(1,200,000)	
Net Profit		2,798,000	15,598,000
<u>Current Liabilities</u>			
Trade Payable		7,600,000	
Accrued electricity		355,000	
Accrued interest		1,330,000	
Current portion of Bank loan payable		9,500,000	
Bank overdraft		1,900,000	20,685,000
Total Equity and Liabilities			36,283,000

(08 marks)

(Total 20 marks)

Workings**(W1)**

Trial balance debtor	6,500,000
(-) Bad debts	(150,000)
	<hr/>
	6,350,000
Provision 2%	(127,000)
	<hr/>
	6,223,000

Over Provision

Reported in T/B	620,000
2% Provision	(127,000)
	<hr/>
Over Provision	493,000

(W2)**Depreciation**

Buildings 20,000,000 x 5%	1,000,000
Delivery van 4,400,000 x 20%	880,000
	<hr/>
Office equipment 2,750,000 x 12%	330,000

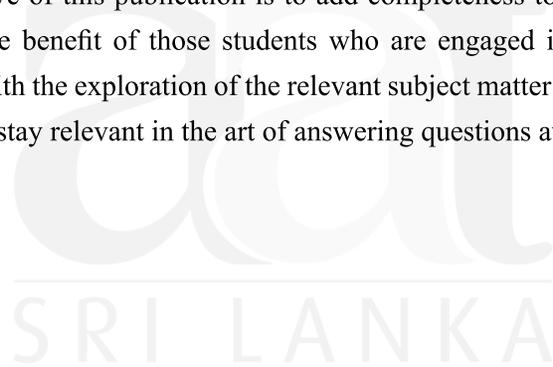
End of Section C

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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