



Association of Accounting Technicians of Sri Lanka

July 2018 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 - July 2018
(AA11) 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 (3)
1.3 (1)
1.4 (3)
1.5 (4)
1.6 (2)

Cost	=	1,200,000
Depreciation 2016/17 @ 20%	=	240,000
NBV 1.4.2017	=	1,200,000 - 240,000
	=	960,000
Depreciation 2017/18	=	960,000 x 20%
	=	<u>192,000</u>

- 1.7 (2)
1.8 (4)

1.9 Liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity's resources embodying economic benefits.

- 1.10 - To keep Systematic Records
- To Estimate the results of the operation
- To ascertain the financial position of the business

Four (04) compulsory questions.
(Total 40 marks)

Suggested Answers to Question Two:

Royal Traders

Manufacturing Account

For the year ended 31 March 2018

(Rs. 000)

Direct Material			
Opening Raw materials		5,600	
Purchases		10,500	
Add: Carriage inwards		1,500	
Less: Closing raw materials		(4,900)	12,700
Direct Wages			
Production workers		3,000	
Additional Allowance for factory workers 500x1000		500	3,500
Other Direct Expenses		5,000	5,000
Opening WIP		2,200	
Closing WIP		(3,100)	(900)
Prime Cost			20,300
Production Overheads			
Insurance on building	500,000 x 80%	400	
Insurance on factory machinery		350	
Building Electricity	1,500,000x80%	1,200	
Factory managers salary		1,100	
Depreciation on factory machinery		300	3,350
Total Manufacturing Cost			23,650

(10 marks)

Suggested Answers to Question Three:

Capital A/c		(Rs. '000)		Trade Debtor		(Rs. '000)	
Balance C/fd	2200	Cash	2,200	Sales	3,200	Cash	2,300
						Balance C/fd	900
	2,200		2,200		3,200		3,200

Electricity		(Rs. '000)		Salaries		(Rs. '000)	
Cash	150			cash	450		
Accrued Expenses	15			Accrued Expenses	50	Balance C/fd	500
		Balance C/fd	165				
	165		165		500		500

Trade Creditors		(Rs. '000)		Drawing		(Rs. '000)	
Cash	700	Purchases	1,500	cash	400		
Balance C/fd	800					Balance C/fd	400
	1500		1,500		400		400

Depreciation		(Rs. '000)		Acc. Depreciation		(Rs. '000)	
Acc. Dep	100			Balance C/fd	100	Depreciation	100
		Balance C/fd	100				
	100		100		100		100

Motor Vehicle		(Rs. '000)		Accrued Expenses		(Rs. '000)	
Cash	2,000			Balance C/fd	65	Wages	50
		Balance C/fd	2,000			Electricity	15
	2,000		2,000		65		65

Cash Book		(Rs. '000)	
Cash	2,200	Electricity	150
Debtors	2,300	Salaries	450
		Creditors	700
		Vehicle	2,000
		Drawings	400
		Balance C/fd	800
	4,500		4,500

Shehan Traders
Trial Balance
As at 31 March 2018

(Rs. 000)		
	Dr	Cr
Capital		2,200
Trade Debtors	900	
Electricity	165	
Wages	500	
Sales		3,200
Purchases	1,500	
Trade Creditors		800
Drawings	400	
Depreciation	100	
Accumulated Depreciation		100
Motor Vehicle	2,000	
Accrued Expenses		65
Cash	800	
	6,365	6,365

(10 marks)

Suggested Answers to Question Four:

(a)

General Journal

Description	Dr	Cr
1 Purchases A/c Trade Creditors A/c (Being recording the omitted purchases of Rs. 600,000)	600,000	600,000
2 Suspense A/c Stationery Expense A/c (Being correcting the stationery expenses of Rs. 25,000/- recorded as Rs. 52,000)	27,000	27,000
3 Suspense A/c Trade Creditors A/c (Being correcting the error occurred by recording Rs. 355,000/- payment to Trade Creditors as Rs. 553,000/-)	198,000	198,000
4 Office Equipment A/c Office Equipment Maintenance A/c (Being correcting the purchase of laptop recorded as an expense)	350,000	350,000

5	Suspense A/c	55,000	
	Rent income A/c		50,000
	Rent Expenses A/c		5,000
	(Being correcting the rent income of Rs. 50,000/- as Rs. 5,000/- in rent expense A/c)		
6	Sales A/c	33,000	
	Trade Debtors		33,000
	(Being correcting the error of duplicating credit sales transaction of Rs. 33,000/-)		

(06 marks)

(b)

Q & Q Company
Adjusted Profit computation

Profit as per Draft Accounts		748,000
Add:		
Stationery Expenses	27,000	
Office Equipment maintenance	350,000	
Rent income	50,000	
Rent Expenses	5,000	432,000
Less:		
Purchases	600,000	
Sales	33,000	(633,000)
Adjusted Profit		547,000

(04 marks)

(Total 10 marks)

Suggested Answers to Question Five:

(A)

	Inventory	+	Debtors	+	Cash	=	Equity	+	Liability
5.1.2018	-150,000	+	170,000			=	+20,000		
20.1.2018			-100,000	+	100,000				
22.1.2018	+200,000				-200,000	=			
27.1.2018					+1,000,000	=	+1,000,000		
31.1.2018					-125,000	=	-125,000		

(05 marks)

(B)

Purchase Day Book

Date	Inv. No	Supplier's Name	Item Details			
			Description	Qty	Unit price	Amount
1.3.2018	109	AB Traders	White rice	1,500	70	105,000
10.3.2018	231	Anand Traders	Red rice	2,000	60	120,000
25.3.2018	352	Ravi and Sons	Basmathi	1,200	90	108,000
Transferred to purchase account						333,000

Return outward Journal

Date	Inv. No	Supplier's Name	Item Details			
			Description	Qty	Unit price	Amount
26.3.2018	231	Anand Traders	Red rice	200	60	12,000
Transferred to purchase returns A/c						12,000

(05 marks)

(Total 10 marks)

End of Section - B

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

Suggested Answers to Question Six:

(a) **Smart Dial**
Statement of Comprehensive Income
For the year ended 31 March 2018

	Rs.	Rs.
Sales		10,900,000
Cost of Sales		
Opening Inventory	1,500,000	
Purchases	8,500,000	
	10,000,000	
Closing inventory	(3,500,000)	(6,500,000)
Gross Profit		4,400,000
Other income		
Interest income		100,000
		4,500,000
Administration Expenses		
Electricity	1,200,000	
Rent	150,000	
Wages	1,800,000	
Depreciation (W 03)	470,000	(3,620,000)
Selling and Distribution Expenses		
Commission	600,000	
Debtors write off	30,000	
Provision for trade debtors	17,000	(647,000)
Finance Expenses		
Over Draft Interest	100,000	(100,000)
Other Expenses		-
Net Profit for the year		133,000

(11 marks)

(b)

Smart Dial
Statement of Financial Position
As at 31 March 2018

Assets	Cost	Accumulated Depreciation (W 03)	NBV
Non-current Assets			
Property , Plant & Equipment			
Land	4,000,000		4,000,000
Building	3,000,000	1,150,000	1,850,000
Computer	1,200,000	720,000	480,000
Office Equipment	800,000	400,000	400,000
	9,000,000	2,270,000	6,730,000
Current Assets			
Inventory			
Trade Receivables	2,170,000	3,500,000	
(-) Provision for doubtful debts (W 02)	(217,000)	1,953,000	
Prepayments (W 01)		450,000	
Short term investments (Fixed deposit)		1,500,000	
Cash at bank		1,000,000	8,403,000
Total Assets			15,133,000
Equity and Liabilities			
Equity			
Capital		8,900,000	
Profit for the year		133,000	9,033,000
Current liabilities			
Accrued Expenses		100,000	
Trade Payables		3,800,000	
Over Draft		2,200,000	6,100,000
Total Equity and Liabilities			15,133,000

(09 marks)

(Total 20 marks)

workings

(W 01) - Pre-paid rent (Prepayments)

$$\begin{aligned}
 600 \times 3 / 12 &= 150 \text{ (2017/18)} \\
 &= 600 - 150 \\
 &= \underline{\underline{450}}
 \end{aligned}$$

(W 02) - Provision for trade debtors

Balance as at 31.03.2018		2,200,000
write off		(30,000)
		<hr/>
		2,170,000
Provision	10%	217,000

(W 03) - Accumulated Depreciation

		1.4.2017	2017/18	31.3.2018
Building	5%	1,000,000	150,000	1,150,000
Computer	20%	480,000	240,000	720,000
Office Equipment	10%	320,000	80,000	400,000
		1,800,000	470,000	2,270,000



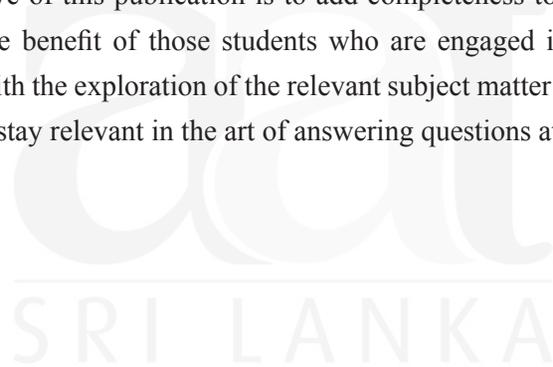
End of Section - C

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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