



Association of Accounting Technicians of Sri Lanka

AA1 Examination - January 2019

**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 2019
(AA11) Financial Accounting Basics

SUGGESTED ANSWERS

Section A

Objective Test Questions (OTQs)

Sixteen (16) compulsory questions

(Total 40 marks)

Suggested Answers to Question 01:

- 1.1 (4) **Chapter 01 - Introduction to Accounting**
- 1.2 (4) **Chapter 04 - Accounting Concepts**
- 1.3 (1) **Chapter 02 - Business Transactions and Source Documents**
- 1.4 (1) **Chapter 03 - Accounting Equation and Profit Equation**
- 1.5 (4) **Chapter 08 - The objectives of Financial Statements and preparation of Financial Statements with Adjustments**
- 1.6 (1) **Chapter 03 - Accounting Equation and Profit Equation**
- | | | |
|---------------------------|--------------------|-------------------------|
| Closing Net Assets | = 987,000 - 75,000 | = 912,000 |
| Opening Net Assets | | = 750,000 |
| | | <u>162,000</u> |
| Less : Additional capital | | = (50,000) |
| | | <u>= 112,000</u> |

- 1.7 (4) **Chapter 10 - Computerized Accounting**

- 1.8 (2) **Chapter 08 - The objectives of Financial Statements and preparation of Financial Statements with Adjustments**

Sales		750,000
Opening Stock	<u>387,500</u>	
Purchases	425,000	
Closing Stock	<u>(250,000)</u>	<u>(562,500)</u>
Gross Profit		<u>187,500</u>

- 1.9 **Chapter 01 - Introduction to Accounting**

Financial Accounting	Management Accounting
Accounts are prepared based on the historical information	Accounts are prepared based on the budgeted information
Time horizon is past.	Considers past as well as future of the business
Covers a specific area.	Covers the whole business.
Report recipients are both inside parties and outside parties	Focused only on internal recipient like top management

Four (04) compulsory questions
(Total 40 marks)

Suggested Answers to Question 02:

Chapter 06 - Double Entry System

Ranasinghe Traders

Trial Balance as at 31.03.2018

Description	Debit	Credit
Trade Debtors (W-01)	78,000	
Trade Creditors (W-02)		125,000
Accrued Electricity (W-03)		12,500
Sales (W-04)		1,903,000
Purchases (W-02)	1,700,000	
Electricity (W-03)	101,500	
Petty Cash	15,700	
Salaries & Wages (W-05)	230,800	
Travelling Expenses	3,500	
Cash (W-06)	463,000	
Capital		750,000
Furniture cost	75,000	
Water bill	23,000	
Drawings	100,000	
Depreciation (W-07)	7,500	
Accumulated Depreciation		7,500
	2,798,000	2,798,000

(10 marks)

Workings:

W-01

Trade Debtors

Sales	1,278,000	Cash	1,200,000
		B/C/F	78,000
	1,278,000		1,278,000

W-02

Trade Creditors

Cash	1,575,000	Purchase	1,700,000
B/C/F	125,000		
	1,700,000		1,700,000

W-03**Electricity**

Cash	89,000		
Accrued electricity	12,500	P & L	101,500
	101,500		101,500

W-04**Sales**

		Cash	625,000
P & L	1,903,000	Debtors	1,278,000
	1,903,000		1,903,000

W-05**Salaries and Wages**

Cash	225,000		
Petty cash (wages)	5,800	P & L	230,800
	230,800		230,800

W-06**Cash**

Receipts	2,575,000	Payments	2,112,000
		Balance C/d	463,000
	2,575,000		2,575,000

W-07**Depreciation**

$$(75,000 \times 20/100 \times 6/12) = 7,500$$

Dep.

Acc. Dep.	7,500	P & L	7,500
	7,500		7,500

Acc. Dep.

		Dep.	7,500
Balance C/d	7,500		
	7,500		7,500

Suggested Answers to Question 03:

Chapter 09 - Manufacturing Accounts

Coda Lanka Ltd.

Manufacturing Account

For the year ended 31st March 2018

(Rs. '000)

<u>Direct Material</u>		
Opening raw materials	3,400	
Purchases	2,100	
Add: Carriage inward	110	
	5,610	
Less: Closing raw materials	(2,000)	
Raw material		3,610
Direct wages		720
		4,330
<u>Other Direct Expenses</u>		
Opening WIP	1,600	
Closing WIP	(985)	615
Prime cost		4,945
<u>Production Overheads</u>		
Depreciation on factory machinery	250	
Building rent	450	
Fuel	90	
Electricity	150	
Factory Manager's salary	675	
Repairs and maintenance - Factory machinery	175	
Security expenses	135	
Total manufacturing cost		1,925
		6,870
Profit margin @ 10%		687
Manufacturing Cost Transferred to Trading Account		7,557

(07 marks)

Workings

1. Depreciation on machinery $1,000 \times 25\% = 250$

2.

	Total	Factory 75%	Office 25%
Building rent	600	450	150
Fuel	120	90	30
Electricity	200	150	50

(03 marks)

(Total 10 marks)

Suggested Answers to Question 04:

Chapter 07 - Accounting Errors and Suspense Account

(a)

Description		Dr	Cr
Security Expenses Suspense Account (Being correcting the payment of security expenses of Rs.78,000/- recorded as Rs. 7,800/-)	Dr Cr	70,200	70,200
Suspense Account Trade Debtors (Being the entry for rectifying the receipt of Rs. 225,000/- from a trade debtor which has been recorded as Rs.22,500/-)	Dr Cr	202,500	202,500
Machinery Maintenance Account Machinery Account (Being the entry for rectifying machinery expenses of Rs. 75,000/- recorded in the machinery account)	Dr Cr	75,000	75,000
Telephone Expenses Account Accrued Telephone Account (Being recording the accrued telephone expenses of Rs. 55,000/-)	Dr Cr	55,000	55,000
Sales A/c Suspense A/c (Being correction of error in recording Rs. 114,800/- worth of sales twice in the sales account)	Dr Cr	114,800	114,800
Rent Income Account Rent Expenses Account Suspense Account (Being correcting rent expenses of Rs.25,000/- recorded in rent income account)	Dr Dr Cr	25,000 25,000	50,000

(07 marks)

(b)

Suspense A/c			
B/B/F	32,500	Secutiy Expenses	70,200
Trade Debtors	202,500	Sales	114,800
		Rent income	25,000
		Rent Expesnes	25,000
	<u>235,000</u>		<u>235,000</u>

(03 marks)

(Total 10 marks)

Suggested Answers to Question 05:

Chapter 05 - Books of Prime Entry

(a)

Real Electricals

Sales Day Book for the month of March 2018

Date	Invoice No.	Customer Name	Analysis				Amount (Rs.)
			Description	Qty.	Unit price (Rs.)	Amount (Rs.)	
02.03.18	256	Green Traders	Switches	75	115	8,625	8,625
15.03.18	257	Mr. Nihal	Bulbs	100	230	23,000	
		Less - Discount	10%			-2,300	20,700
30.03.18	258	Chandana Stores	Switches	110	115	12,650	12,650
31.03.18		Transferred to Sales A/c					41,975

(04 marks)

(b)

Chapter 05 - Books of Prime Entry

		FA	+	Inventory	+	Cash	=	Equity	+	Liabilities
1.	01.09.2018	+1,500,000	+		+	800,000	=	+ 800,000		
								+ 1,500,000		
2.	05.09.2018		+	625,000			=		+	625,000
3.	18.09.2018		-	375,000	+	485,000	=	+ 110,000		
4.	26.09.2018				-	125,000	=	- 125,000		
5.	28.09.2018				-	35,000	=	- 35,000		
6.	30.09.2018				-	125,000	=		-	125,000

(06 marks)

(Total 10 marks)

End of Section - B

One (01) compulsory question
(Total 20 marks)

Suggested Answers to Question 06:

Chapter 08 - The Objectives of Financial Statements and Preparation of Financial Statements with Adjustments

(a)

Sampath Traders
Statement of Comprehensive Income
For the year ended 31.03.2018

		(Rs. '000)
Sales		19,500
<u>Cost of Sales</u>		
Opening Inventory	1,900	
Purchases	8,850	
	10,750	
Closing Inventory	(2,100)	(8,650)
Gross Profit		10,850
<u>Other Income</u>		
Interest Income		200
		11,050
<u>Administration Expenses</u>		
Electricity (W-02)	1,065	
Water	145	
Salaries & Wages	1,650	
Depreciation (W-02)	815	(3,675)
<u>Selling and Distribution Expenses</u>		
Rent - Show room (W-03)	2,268	
Sales commission	450	
Bad debt	40	
Provision for bad debts	21	(2,779)
<u>Finance Expenses</u>		
Overdraft interest	275	(275)
Net Profit for the year		4,321

(11 marks)

(b)

Sampath Traders
Statement of Financial Position
As at 31.03.2018

(Rs. '000)

Assets	Cost	Accumulated Depreciation	NBV
<u>Non-Current Assets</u>			
<u>Property, Plant & Equipment</u>			
Land	6,000	-	6,000
Buildings	4,500	2,850	1,650
Computer	500	265	235
Office equipment	1,200	630	570
	12,200	3,745	8,455
<u>Current Assets</u>			
Inventory		2,100	
Trade receivables (5,850 - 40) (W-05)	5,810		
(-) Provision for doubtful debts (W-05)	(581)	5,229	
Short term investments		6,000	13,329
Total Assets			21,784
<u>Capital and Liabilities</u>			
<u>Equity:</u>			
Capital		11,960	
Profit for the year		4,321	
Less: Drawings		(250)	16,031
<u>Current Liabilities</u>			
Accrued Expenses (W-04)		453	
Trade payables		3,200	
Bank Overdraft		2,100	5,753
Total Capital and Liabilities			21,784

(20 marks)

Workings**W-01**

Depreciation	- Building	450
	- Computers	125
	- Office equipment	240
		<u>815</u>

W-02

Electricity paid	990
Accrued Expenses	75
Total for the year	<u>1,065</u>

W-03

Rent per month		<u>189</u>
Rent per year	189 x 12	<u>2,268</u>
Rent paid		<u>1,890</u>
Accrued rent		<u>378</u>

W-04**Accrued Expenses**

Electricity	75
Rent	378
	<u>453</u>

W-05**Provision for Bad debts**

Trade debtors	5,850
Less: Bad debts written off	(40)
	<u>5,810</u>
Less: Bad debt provisions	5,810 x 10% (581)
Net debtors	<u>5,229</u>

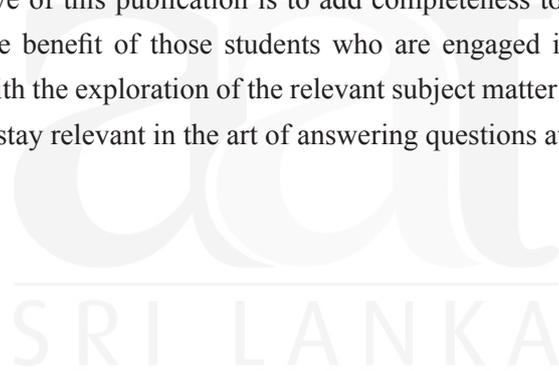
End of Section C

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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