



Association of Accounting Technicians of Sri Lanka

Level I Examination - January 2021

Suggested Answers

(101) FINANCIAL ACCOUNTING (FAC)

Association of Accounting Technicians of Sri Lanka
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A publication of the Education and Training Division

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(101) FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

(Total 40 Marks)

SECTION - A

Suggested Answers to Question One:

- 1.1 (3) Transactions
1.2 (4) All of the above
1.3 (1) Prudence Concept
1.4 (1) An asset
1.5 (3) Purchase a computer worth of Rs.100,000/- for office use on credit.
1.6 (2) Going Concern Concept
1.7 (1) Rs. 400,000/-

	Rs.
Increase in debtors balance	25,000
Sales returns	25,000
Cash received	350,000
	<u>400,000</u>

- 1.8 (2) Rs. 320,000/-
- | | | |
|---|---|-----------------------------|
| Cost as at 1 st April 2018 | = | Rs. 2,000,000/- |
| Depreciation as at 31 st March 2019 (2,000,000*20%) | = | <u>(Rs. 400,000/-)</u> |
| Carrying Value as at 31st March 2019 | = | Rs. 1,600,000/- |
| Depreciation charge for the year ended 31 st March 2020
(1,600,000*20%) | = | <u>Rs. 320,000/-</u> |

- 1.9 (2) Increase in assets and increase in liabilities
1.10 (3) Debit Motor Vehicles and Credit Cash Account
1.11 True
1.12 False
1.13 False
1.14 True
1.15 True

1.16 Reasons for preparing bank reconciliation statement

1. Time difference
2. Omissions
3. Cheques deposited but not realized
4. Cheques issued but not presented for payment
5. Errors made by bank and the organization

Alternative answer-

1. Ability to trace the reasons for differences in balances as at end of a given period of time
2. Ability to issue cheques without exceeding the correct bank balance
3. Ability to prevent dishonoring the cheques
4. Ability to trace the errors in the cash control account of the business
5. Ability to detect and minimize frauds, errors and manipulations
6. Ability to maintain a proper working capital management within the business

1.17 Objectives of Accounting

1. To keep proper records
2. To give an understanding on results of business operations
3. To give an understanding on financial position of the business
4. To give an understanding on liquidity level of the business
5. To protect properties
6. To make logical decisions
7. To comply with legal requirements

1.18 Total Assets = Rs.750,000

Capital	500,000
Profit for the year	200,000
Drawings	(100,000)
Liabilities	150,000
Total Assets	750,000

1.19 Limitations of Financial information

1. Information relates to historical transactions and events
2. Conditions such as inflation are not taken into consideration
3. It does not reflect the true market value of transactions and events
4. Inability to produce entire information on transactions and events
5. Submission of information considering the entire business as one entity
6. Non-submission of separate information for internal departments and units in the business
7. Submission of information only relating to a specific time period

1.20

Sales Day Book

Date	Inv. No.	Name of the Customer	Description	Qty	Unit Value	Gross Value	Total
05.01.2021	101	ABC Ltd	Shirts	10	800	8,000	8,000
25.01.2021	102	XYZ Traders	Frocks	08	1,200	9,600	
		10% Discount				(960)	8,640
31.01.2021	Balance transferred to sales account						16,640

(02 marks each)

(Total 40 marks)

End of Section A



Suggested Answers to Question Two:**Chapter 3 – Prime Entry Books, Control Accounts & Trial Balance**

(a)		Journal Entries		Rs.
	Description		Dr	Cr
(1)	Trade Creditors A/c	Dr	75,000	
	Purchase A/c	Cr		75,000
	(Being reversing the duplicate entry)			
(2)	Office Equipment A/c	Dr	125,000	
	Office Equipment Maintenance A/c	Cr		125,000
	(Being correcting the office equipment purchases recorded in the office maintenance A/c)			
(3)	Rent A/c	Dr	76,500	
	Suspense A/c	Cr		76,500
	(Being recording the rent A/c)			
(4)	Salary A/c	Dr	427,500	
	Suspense A/c	Cr		427,500
	(Being correcting salary of Rs. 475,000/ recorded as 47,500/- in the relevant A/c)			
(5)	Suspense A/c	Dr	100,000	
	Sales A/c	Cr		100,000
	(Being recording the cash sale of Rs.100,000/- not recorded in the sales A/c)			
(6)	Suspense A/c	Dr	70,000	
	Interest Income A/c	Cr		35,000
	Interest Expense A/c	Cr		35,000
	(Being correcting the interest income accounted as interest expenses A/c)			

(06 marks)

(b) Suspense A/c

Suspense Account		Rs.	
Balance	334,000	Rent	76,500
Sales	100,000	Salary	427,500
Interest	70,000		
	<u>504,000</u>		<u>504,000</u>

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 3 – Prime Entry Books, Control Accounts & Trial Balance

**Sam Traders
Trial Balance
As at 30th April 2020 (Rs.'000)**

	Dr	Cr
Motor Lorry	2,400	
Capital (580,000+1,200,000)		1,780
Cash in hand	985	
Accrued Expenses		25
Depreciation on Motor Lorry @ 20% (W 1)	40	
Accumulated Depreciation (W1)		40
Electricity	45	
Salaries (W2)	1,400	
Rent	125	
Sales (W3)		8,800
Purchases (W4)	6,350	
Trade Debtors	1,400	
Trade Creditors		2,100
	<u>12,745,000</u>	<u>12,745,000</u>

W 1 - Depreciation of motor lorry

2,400 @ 20% x 1/12 = 40

W 2 - Salaries

1,375 + 25 = 1,400

W3 - Sales

Credit Sales (1,400 + 1,900) = 3,300

Cash Sales = 5,500

Total Sales = 8,800

W4 - Purchases

Credit Purchases 4,350

Cash 2,000

6,350

Or

Trade Debtors		(Rs.'000)	
Sales	3,300	Cash	1,900
		B/C/F	1,400
	<u>3,300</u>		<u>3,300</u>

Trade Creditors		(Rs.'000)	
Cash	2,250	Purchases	4,350
B/C/F	2,100		
	<u>4,350</u>		<u>4,350</u>

(10 marks)

Suggested Answers to Question Four:

Chapter 4 (II) – Preparation of Financial Statements (Manufacturing Cost Statements)

**Ramanayake Ceramic
Manufacturing Cost Statement
For the year ended 31st March 2020** Rs.

Direct Material Cost		
Opening RM Stock	650,000	
Add : RM Purchases	2,100,000	
Carriage inwards	<u>330,000</u>	
	3080,000	
Less : Closing Raw Material stock	<u>(700,000)</u>	
Cost of Raw Material consumed		2,380,000
Direct Labour Costs (Direct Wages)		<u>1,650,000</u>
		4030,000
(+) Work in progress (Opening)		910,000
(-) Work in progress (Closing)		<u>(440,000)</u>
Prime Cost		4,500,000
Overheads		
Fuel for generator	125,000	
Electricity (400,000*80%)	320,000	
Insurance for factory building	270,000	
Depreciation on motor lorry (250,000* 90%)	225,000	
Depreciation on building (160,000* 80%)	<u>128,000</u>	<u>1,068,000</u>
Total Manufacturing Cost		5,568,000
Profit Margin @ 10%		<u>556,800</u>
Value of Goods transferred to Trading Account		<u>6,124,800</u>

(10 marks)

Suggested Answers to Question Five:

(A)

Chapter 2 – Accounting Equation, Double Entry System and Accounting Concepts

(Rs.'000)

Date	Inventories	Trade Debtors	Cash	=	Equity	Liabilities
01.01.2021			+ 2,000	=	+ 2,000	
05.01.2021	+750					+750
10.01.2021	-500	+650		=	+150	
15.01.2021		-400	+400			
25.01.2021			-300	=	-300	
31.01.2021	-25			=	-25	

(06 Marks)

(B)

Chapter 5 – Bank Reconciliation Statements

(a)

Adjusted Cash Control A/c (Cash Book)

			Rs.
B/B/F	175,000	Bank Charges	5,000
Interest	98,000	B/C/F	268,000
	273,000		273,000

(02 Marks)

(b)

Bank Reconciliation Statement as at 31st January 2021

		Rs.
Balance as per Adjusted Cash Control A/c		268,000
+ Unpresented Cheques		125,000
- Unrealized Cheques		(150,000)
Balance as per Bank Statement as at 31st January 2021		243,000

(02 Marks)

(Total 10 Marks)

End of Section B

Suggested Answers to Question Six:

(a)

Chapter 4-Part I – Preparation of Income Statement and Statement of Financial Position

Sahana Traders
Statement of Comprehensive Income
For the year ended 31st March 2020

		(Rs.'000)
Sales		48,000
Cost of Sales		
Opening Inventory	2,900	
Purchases	<u>27,170</u>	
	30,070	
(-) Closing Inventory	<u>(3,500)</u>	
Cost of Sales		<u>(26,570)</u>
Gross Profit		21,430
Other Income		
Interest Income (W-2)		60
		21,490
Distribution Expenses		
Motor Vehicle Depreciation (W1)	<u>625</u>	(625)
Administration Expenses		
Rent Expenses (100*12)	1,200	
Transport Expenses	500	
Electricity (1,200+75)	1,275	
Water (190+21)	211	
Salaries & Wages	6,200	
Depreciation (Building & Office Equipment) (475+170)(W1)	<u>645</u>	(10,031)
Finance Expenses		
Bank Charges	<u>25</u>	<u>(25)</u>
Net Profit		<u>10,809</u>

(11 Marks)

(b)

Chapter 4-Part I – Preparation of Income Statement and Statement of Financial Position

**Sahana Traders
Statement of Financial Position**

As at 31st March 2020

(Rs. '000)

	Cost	Acc. Dep	Carrying Value
Non-Current Assets			
Property Plant and Equipment			
Land	2,000	-	2,000
Buildings	4,750	1,725	3,025
Motor Vehicles	2,500	1,145	1,355
Office Equipment	1,700	520	1,180
	10,950	3,390	7,560
Current Assets			
Inventory		3,500	
Trade Receivables		4,100	
Fixed Deposits		1,500	
Interest Receivable		10	
Cash in hand and Bank Balance		5,230	14,340
Total Assets			<u>21,900</u>
Equity and Liabilities			
Equity			
Capital as at 1 st April 2019		9,000	
+ Profit for the year		10,809	19,809
Current Liabilities			
Trade Payables		1,895	
Accrued Expenses (75+21+100)		196	2,091
Total Equity and Liabilities			<u>21,900</u>

(09 Marks)

(Total 20 Marks)

Workings

W1- Depreciation

Building & Motor Vehicles

	Dep. Rate	Cost	Depreciation	Acc. Dep 01.04.2019	Acc. Dep 31.03.2020
Building	10%	4,750	475	1250	1,725
Motor Vehicle	25%	2,500	625	520	1,145
Office Equipment	10%	1,700	<u>170</u>	350	<u>520</u>
			1,270		<u>3,390</u>

W2 –Interest income on Fixed Deposits

$$1,500 * 8\% * 6/12 = 60$$

$$\text{Interest receivable} = 60 - 50 = 10$$

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, designed 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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