



**Association of Accounting Technicians of Sri Lanka**

**Level I Examination - July 2021**

**Suggested Answers**

**(101) FINANCIAL ACCOUNTING (FAC)**

**Association of Accounting Technicians of Sri Lanka**

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level I Examination - July 2021

(101) FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

Twenty (20) Compulsory Questions  
(Total 40 Marks)

SECTION - A

*Suggested Answers to Question One:*

- 1.1 (3) To understand the financial position of the business  
1.2 (2) Accrual Concept  
1.3 (3) A cheque of Rs.23,000/- issued to a supplier was not presented to the bank for payment.  
1.4 (2) Rs.3,115,000/-.

Capital account as at 01st April 2020		1,800,000
+ Personal motor vehicle transferred to the business by the owner during the year	1,000,000	
Profit for the year ended 31st March 2021	<u>490,000</u>	<u>1,490,000</u>
		3,290,000
- Drawings made during the year	<u>(175,000)</u>	<u>(175,000)</u>
The equity (capital) as at 31st March 2021		<u><u>3,115,000</u></u>

- 1.5 (4) Paid an amount of Rs.250,000/- to a creditor  
1.6 (1) Income statement  
1.7 (4) Debit Note  
1.8 (2) Stock Control System  
1.9 (3) Historical Cost Concept  
1.10 (2) Rs.180,000/-

Sales Proceed		500,000
<b>Written Down Value</b>		
Cost	1,600,000	
<b>Less : Accumulated Depreciation</b>		
31.12.2017 1,600,000 * 20%	(320,000)	
31.12.2018 1,600,000 * 20%	(320,000)	
31.12.2019 1,600,000 * 20%	(320,000)	
31.12.2020 1,600,000 * 20%	<u>(320,000)</u>	<u>(320,000)</u>
Profit on Disposal		<u><u>180,000</u></u>

(02 marks each, Total 20 marks)

- 1.11 True
- 1.12 True
- 1.13 True
- 1.14 False
- 1.15 True

*(02 marks each, Total 10 marks)*

**1.16 Stakeholders of a business**

- Owners & Shareholders
- Customers
- Suppliers
- Employees & Managers
- Banks & Financial institutions
- Government
- Tax authorities
- Regulatory institutions

*(02 marks)*

**1.17 Reasons for moving into Computerized Accounting Systems**

- Accuracy of the information is high
- Speed of the system is very high and it save the time
- Reliability of the generated reports is very high
- Automatic document production
- 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 generate reports
- Entity can generated up-to-date reports
- Efficiency is high
- Staff motivation
- Availability of information

*(02 marks)*

**1.18 Examples for current liabilities**

- Trade Payables
- Accrued Expenses
- Income Tax Payable
- Banks loan installments to be paid within 12 months
- Bills payable

- Income received in advance
- Bank overdrafts

(02 marks)

1.19

**Adjusted Cash Book**

B/B/F	435,000	Bank Charges	5,000
Deposit	25,000	B/C/F	455,000
	<b><u>460,000</u></b>		<b><u>460,000</u></b>

Balance as per cash book	=	455,000
Unpresented cheques	=	75,000
<b>Balance as per bank statement</b>	=	<b><u>530,000</u></b>

Or

**Bank Reconciliation Statement for the month of March 2021**

Balance as per Cash Control A/c		435,000
Add;		
Direct Deposit	25,000	
Cheques not presented for payment	75,000	<u>100,000</u>
		535,000
Less:		
Bank Charges		<u>(5,000)</u>
<b>Balance as per Bank Statement</b>		<b><u>530,000</u></b>

(02 marks)

1.20

**Trade Receivable's Control Account**

1.1.2021	B/B/F	500,000	31.1.2021	Sales Returns	25,000
31.1.2021	Sales	400,000	31.1.2021	Cash	200,000
			31.1.2021	B/C/F	675,000
		<u>900,000</u>			<u>900,000</u>

(02 marks)

(Total 40 marks)

**End of Section A**

***Suggested Answers to Question Two:******Chapter 2 – Accounting Equation, Double Entry System and Accounting Concepts*****(A)**

Rs. ('000)

Date	Inventories	Trade Debtors	Cash	=	Equity	Liabilities
01.03.2021			+ 1,000	=	+ 1,000	
02.03.2021	+800					+800
05.03.2021			-50	=	-50	
10.03.2021	-500		+750	=	+250	
15.03.2021			-150	=	-150	
31.03.2021			+500	=		+500

**(06 marks)****(B)****Purchase Day Book**

Date	Inv. No.	Suppliers Name	Description	Qty	Unit Value	Gross Value	Total
01.03.2021	465	Nimal & Co	Rice Bags	50	500	25,000	25,000
10.03.2021	950	Samantha Grocery	Sugar Bags	100	2,000	200,000	200,000
15.03.2021	495	Nimal & Co	Rice Bags	100	500	50,000	
		5% Discount				(2,500)	47,500
31.03.2021	Balance transferred to purchase account						<b>272,500</b>

**(04 marks)****(Total 10 marks)**

**Suggested Answers to Question Three:**

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

**KDI Traders  
Manufacturing Account for the year ended 31<sup>st</sup> March 2021**

	Rs.	Rs.
<b>Direct Material Cost</b>		
Opening RM Stock	600,000	
Add : Purchases	2,300,000	
Less : Closing Raw Material stock	<u>(1,250,000)</u>	
<b>Cost of Raw Material consumed</b>		<b>1,650,000</b>
<b>Direct Expenses</b>		
Direct Labour Costs (Direct Wages)	890,000	
Incentive ( 600*100)	<u>60,000</u>	<u>950,000</u>
		<b>2,600,000</b>
(+) Work in progress (Opening)		350,000
(-) Work in progress ( Closing)		<u>(290,000)</u>
<b>Prime Cost</b>		<b>2,660,000</b>
<b>Overheads</b>		
Electricity (360,000*90%)	324,000	
Water (180,000*60%)	108,000	
Factory Manager's Salary	625,000	
Depreciation on Plant & Machinery	110,000	
Depreciation on building (135,000* 90%)	<u>121,500</u>	<u>1,288,500</u>
<b>Total Manufacturing Cost</b>		<b>3,948,500</b>

**(10 marks)**

## Suggested Answers to Question Four:

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

Ruberu Traders		(Rs. '000)
Trial Balance as at 31 <sup>st</sup> March 2021		
	Dr	Cr
Motor Vehicle	1,500	
Capital (2500+1500)		4,000
Cash in hand	3,120	
Depreciation on Motor Vehicle @ 20% (W 1)	300	
Accumulated Depreciation (W1)		300
Electricity ( 69+11)	80	
Accrued Electricity		11
Prepayments	2	
Water ( 18-2)	16	
Salaries & Wages	93	
Sales (W2)		2,950
Purchases (W3)	2,290	
Trade Debtors	250	
Trade Creditors		390
	<u>7,651</u>	<u>7,651</u>

#### W 1 - Depreciation of motor vehicle

1,500,000 @ 20% = 300,000

#### W2 Sales

Cash Sales	900
Credit Sales (W 2.1)	2,050
Total Sales	<u>2,950</u>

#### W3 Purchases

Cash Purchases	600
Credit Purchases ( W 3.1)	1,690
Total Purchases	<u>2,290</u>

#### W2.1 Credit Sales

Trade Debtors		(Rs'000)	
Sales	2,050	Cash	1,800
		B/C/F	250
	<u>2,050</u>		<u>2,050</u>

**W3.1 Credit Purchases**

Trade Creditors		(Rs'000)	
Cash	1,300	Purchases	1,690
B/C/F	390		
	<u>1,690</u>		<u>1,690</u>

**(10 marks)*****Suggested Answers to Question Five:*****Chapter 3 - Prime Entry Books, Control Accounts & Trial Balance****(a) Journal Entries**

	Description		Dr	Cr
(1)	Office Equipment A/c	Dr	150,000	
	Office Equipment Maintenance A/c	Cr		150,000
	(Being correcting the office equipment purchases recorded in the office maintenance A/c)			
	Office Equipment Depreciation A/c	Dr	2,500	
	Accumulated Depreciation A/c	Cr		2,500
	(Being accounting for the depreciation charge for the year)			
(2)	Rent expenses A/c	Dr	150,000	
	Suspense A/c	Cr		150,000
	(Being recording the rent paid not accounted in the relevant A/c)			
(3)	Suspense A/c	Dr	190,000	
	Purchase A/c	Cr		190,000
	(Being reversing the duplicate entry)			
(4)	Drawings A/c	Dr	9,000	
	Suspense A/c	Cr		9,000
	(Being correcting the drawing of Rs. 98,000/- recorded as 89,000/-)			
(5)	Trade Payable Controls A/c	Dr	50,000	
	Purchase A/c	Cr		50,000
	(Being reversing the overstatement of purchase day book )			
(6)	Cash Book Account	Dr	2,500	
	Interest Income A/c	Cr		2,500
	(Being recording the income earned on Fixed Deposit)			

**(07 marks)**



(b)

**Suspense Account**

Purchase	190,000	B/B/F	31,000
		Rent	150,000
		Drawing	9,000
	<u>190,000</u>		<u>190,000</u>

*(03 marks)*

**(Total 10 marks)**



**End of Section B**

(Total 20 Marks)

**SECTION - C**

**Suggested Answers to Question Six:**

**Chapter 4(I) - Preparation of Income Statement and Statement of Financial Position**

(a)

**Milky Traders**  
**Statement of Comprehensive Income**  
**for the year ended 31<sup>st</sup> March 2021**

(Rs.'000)

Turnover		114,000
<b>Cost of Sales</b>		
Opening Inventory	8,200	
Purchases	<u>73,000</u>	
	81,200	
(-) Closing Inventory	<u>(10,200)</u>	
<b>Cost of Sales</b>		<u>(71,000)</u>
<b>Gross Profit</b>		<b>43,000</b>
<b>Other Income :</b>		
Rent Income ( 1000+200)		<u>1,200</u>
		<b>44,200</b>
<b>Distribution Expenses</b>		
Advertising	1,800	
Discounts given	390	
Bad Debt W/O	100	
Motor Vehicle Depreciation (W1)	<u>320</u>	(2,610)
<b>Administration Expenses</b>		
Electricity ( 9600+850)	10,450	
Insurance (W2)	390	
Telephone Charges	2,100	
Salaries & Wages ( 22,500+1,800)	24,300	
Depreciation (Building & Office Equipment) (220+500)(W1)	<u>720</u>	(37,960)
<b>Finance Expenses</b>		
Bank Charges	<u>(1,200)</u>	<u>(1,200)</u>
<b>Net Profit</b>		<b><u>2,430</u></b>

(12 marks)

(b)

**Milky Traders**  
**Statement of Financial Position**  
**as at 31<sup>st</sup> March 2021**

(Rs. '000)

	Cost	Acc. Dep	Carrying Value
<b>Non-Current Assets</b>			
<b>Property Plant and Equipment</b>			
Land	1,400	-	1,400
Building	2,200	720	1,480
Motor Vehicles	1,600	1,170	430
Office Equipment	<u>2,000</u>	<u>1,700</u>	<u>300</u>
	<b>7,200</b>	<b>3,590</b>	<b>3,610</b>
<b>Current Assets</b>			
Inventory		10,200	
Trade Receivables	7,600		
Less: Bad Debt W/O	<u>100</u>	7,500	
Insurance Prepayment (W2)		1,170	
Rent Receivable		200	
Cash in hand and Bank Balance		<u>7,800</u>	<u>26,870</u>
<b>Total Assets</b>			<b><u>30,480</u></b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Capital as at 01 <sup>st</sup> April 2020		20,000	
Profit for the year		<u>2,430</u>	22,430
<b>Current Liabilities</b>			
Trade Payables		5,400	
Accrued Expenses (W3)		<u>2,650</u>	8,050
<b>Total Equity and Liabilities</b>			<b>30,480</b>

**Workings**

**W 1- Depreciation**

(Rs. '000)

	Dep. Rate	Cost	Depreciation	Acc.Dep 01.04.2020	Acc. Dep 31.03.2021
Building	10%	2,200	220	500	720
Motor Lorry	20%	1,600	320	850	1,170
Office Equipment	25%	2,000	<u>500</u>	1,200	<u>1,700</u>
			<b>1,040</b>		<b><u>3,390</u></b>

**W2 –Prepaid Insurance**

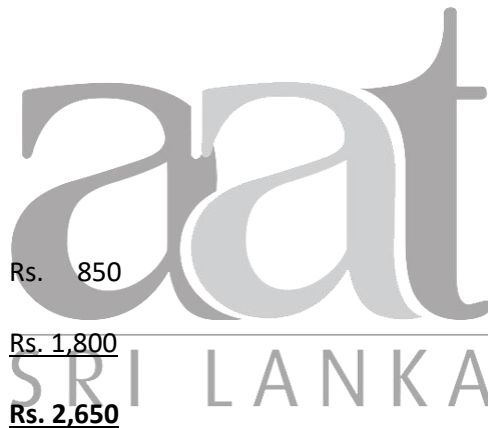
Rs. 1,560\*9/12 = **Rs. 1,170/-**

**W3 – Accrued Expenses**

Electricity Bill – Rs. 850

Salaries & Wages - Rs. 1,800

Rs. 2,650



(08 marks)

(Total 20 marks)

**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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