



Association of Accounting Technicians of Sri Lanka

July 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 - July 2017
(AA11) Financial Accounting Basics

SUGGESTED ANSWERS

Section A

Objective Test Questions (OTQs)

Sixteen (16) compulsory questions.

(Total 40 marks)

Suggested Answers to Question One:

- 1.1 (2)
1.2 (3)
1.3 (4)
1.4 (1)
1.5 (3)
1.6 (1)
1.7 (1)
1.8 (4)

- 1.9 - Owners - Creditors - Government
- Employees - Management - Debtors
- Customers - Investors - Research Scholars

- 1.10 - Description of goods ● Serial Number
● Stockkeeper's Signature
● Date of receipt
- Quantity
- Vendor's name

- 1.11 - Entity has to incur a massive investment cost.
- Due to the new system, replacement requirements are very high.
- Highly technical oriented.
- Issues with the technical assistance.
- Due to the human errors some failures can be happened.
- As new ERP reduces the labour requirements and it affect the employability.

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- 1.12 (a) Entity Concept
(b) Going Concern Concept
(c) Prudence Concept
- 1.13 (a) Sales day book
(b) General journal
(c) Sales return / Inward day book

1.14 Depreciation = $\frac{600,000 - 100,000}{5}$
 = Rs. 100,000

- 1.15 (a) False
(b) True
(c) True

1.16

(a)	Cash A/C	Dr	800,000	
	Capital A/C	Cr		800,000
(b)	Cash A/C	Dr	45,000	
	Discount allowed A/C	Cr	5,000	
	Debtor A/C	Cr		50,000
(c)	Bank A/C	Dr	10,000	
	Interest income A/C	Cr		10,000

(Total 40 marks)

End of Section A

Section B

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

Suggested Answers to Question Two:

(a)

Purchase Day Book

Date	Invoice No.	Name	Analysis				Amount
			Des.	Qty.	Uni. Price	Amount	
01.01.17	101	Sunimal	books	100	90	9,000	
		2% discount				(180)	8,820
04.01.17	303	Amal	Pencil Box	25	180	4,500	4,500
06.01.17	14	Namal	Pencil	75	15	1,125	1,125
				Transfer to purchase a/c			14,445

(04 marks)

(b)

Date	Fixed assets +	Inventories +	Debtor +	Cash	=	Equity +	Liabilities
01.03.2017				+500,000	=	+500,000	
05.03.2017		+750,000			=		+750,000
15.03.2017		-300,000		+330,000	=	+30,000	
20.03.2017				-200,000	=		-200,000
25.03.2017				-10,000	=	-10,000	
31.03.2017	+100,000				=		+100,000

*(06 marks)**(Total 10 marks)*

Suggested Answers to Question Three:

(a)

General Journal

Description		Dr	Cr
(1)	Purchases a/c Suspense a/c (Being the entry for rectifying, credit purchases of 60,000 as 6,000)	Dr 54,000	54,000
(2)	Telephone expense a/c Suspense a/c Electricity expense (Being the entry for rectifying, 1,200 telephone expense erroneously recorded in electricity expense a/c as 2,100)	Dr 1,200 Dr 900	2,100
(3)	Stationery expense a/c Suspense a/c (Being the entry for rectifying, Rs. 750 stationery expense not posted to stationery a/c)	Dr 750	750
(4)	Sales a/c Debtors a/c (Being the entry for rectifying, credit sales recorded twice (error of duplication))	Dr 25,000	25,000
(5)	Interest income a/c Interest expense a/c Suspense a/c (Being the entry for rectifying, 5,000 interest expense as interest income.)	Dr 5,000 Dr 5,000	10,000

(06 marks)

(b) **Adjusted Profit Computation**

Profit as per account		175,000
<i>Add</i> : Electricity expense	2,100	
		2,100
		177,100
<i>Less</i> :		
Purchases	54,000	
Telephone	1,200	
Stationary	750	
Sales	25,000	
Interest expense	5,000	
Interest Income	5,000	(90,950)
Adjusted Profit		86,150

(04 marks)
(Total 10 marks)

Suggested Answers to Question Four:

**Pradeep Enterprise
Trial Balance
as at 31.03.2017**

	Dr.	Cr.
Office equipment	400,000	
Accumulated Depreciation		40,000
Depreciation - office equipment	40,000	
Sales		900,000
Purchases	650,000	
Trade Debtors	100,000	
Trade Creditors		170,000
Bank loan - current portion		100,000
Bank loan - Non-current portion		100,000
Interest expense	20,000	
Interest payable		20,000
Capital		500,000
Cash	620,000	
	1,830,000	1,830,000

Workings :**Cash a/c**

B/B/F	50,000	Creditor	680,000
Debtor	1,050,000		
Loan	200,000		
	<u>1,300,000</u>	B/C/F	<u>620,000</u>
			<u>1,300,000</u>

Debtors

B/B/F	250,000	Cash	1,050,000
Sales	900,000	B/C/F	100,000
	<u>1,150,000</u>		<u>1,150,000</u>

Creditors

Cash	680,000	B/B/F	200,000
B/C/F	170,000	Purchases	650,000
	<u>850,000</u>		<u>850,000</u>

(10 marks)

Suggested Answers to Question Five:

(a)

**Glass Bottle Manufacturers
Manufacturing Account
For the year ended 31.03.2017**

	Rs.	Rs.
<u>Direct Material</u>		
Op. raw materials	2,300,000	
Purchases	1,750,000	
(+) Carrying inward	300,000	
(-) Closing raw materials	(1,800,000)	2,550,000
<u>Direct Wages</u>		
Production workers	950,000	950,000
<u>Direct Expenses</u>		
Incentive	80,000	80,000
Prime Cost		3,580,000
Production Overheads		
Building rent - 80%	200,000	
Security exp. - 75%	90,000	
Electricity exp. - 80%	220,000	
Salaries - Production Manager	250,000	
Depreciation on factory machinery	300,000	1,060,000
Total Production Cost		4,640,000
Opening WIP	1,050,000	
Closing WIP	(710,000)	340,000
Total Manufacturing Cost		4,980,000

(08 marks)

(b) Cost per bottle = $(4,980,000 / 8,000) = \underline{\underline{\text{Rs. 622.50}}}$

(02 marks)

(Total 10 marks)

End of Section - B

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

Suggested Answers to Question Six:

(a) **NN Traders**
Statement of Comprehensive Income
For the year ended 31.03.2017

	Rs.	Rs.
Sales		37,000,000
<u>Cost of Sales</u>		
Opening Inventory	2,800,000	
Purchases	20,000,000	
	22,800,000	
Closing Inventories	(5,400,000)	(17,400,000)
Gross Profit		19,600,000
<u>Other Income</u>		---
		19,600,000
<u>Admin Expenses</u>		
Office maintenance	1,650,000	
Salaries and wages	3,500,000	
Water	1,500,000	
Depreciation - Building	600,000	
- Office equipment	1,300,000	
- Furniture and fittings	1,250,000	
Electricity	2,550,000	(12,350,000)
<u>Selling and Distribution Expenses</u>		
Bad Debts	500,000	
Under provision - bad debts	150,000	
Showroom rent	1,800,000	
Advertising expense	1,100,000	(3,550,000)
<u>Finance Expenses</u>		
<u>Other Expenses</u>		---
Net Profit for the year		3,700,000

(b)

NN Traders
Statement of Financial Position
as at 31.03.2017

(Rs. '000)

Assets	Cost	Accumulated Depreciation	NBV
<u>Non-Current Assets</u>			
Property, Plant and Equipment:			
Land	4,000,000	--	4,000,000
Buildings	6,000,000	(3,200,000)	2,800,000
Office equipment	6,500,000	(2,800,000)	3,700,000
Furniture and Fittings	5,000,000	(3,750,000)	1,250,000
	21,500,000	(9,750,000)	11,750,000
<u>Current Assets</u>			
Inventory		5,400,000	
Trade receivable	18,000,000		
(-) Prov ^N doubtful debts	(900,000)	17,100,000	
Cash at bank		3,700,000	
Cash at hand		1,900,000	28,100,000
Total Assets			39,850,000
<u>Equity and Liabilities</u>			
<u>Equity</u>			
Capital		20,550,000	
Profit for the year		3,700,000	
(-) Drawings		(1,300,000)	22,550,000
<u>Non-current liabilities</u>			
<u>Current Liabilities</u>			
Trade Payable		16,600,000	
Accrued - showroom rent		300,000	16,900,000
Total			39,850,000

(09 marks)

(Total 20 marks)

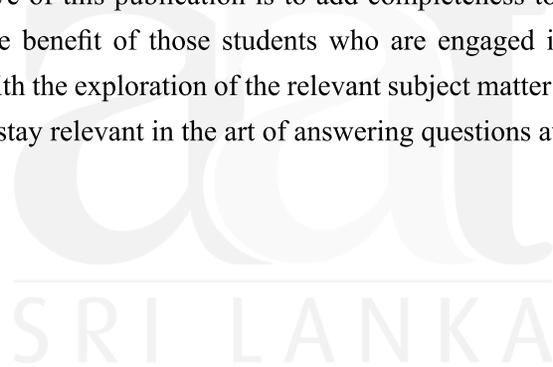
End of Section - C

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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