



**Association of Accounting Technicians of Sri Lanka**

**AA1 Examination - January 2018**

**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 - January 2018**  
**(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 (1)  
1.3 (1)  
1.4 (3)  
1.5 (4)  
1.6 (2)  
1.7 (3)  
1.8 (2)

1.9 Going concern is where the entity will continue for fairly a longer period, it neither has the intention nor has a necessity to liquidate or curtail its operation materially. According to this it is assumed that the organization will continue for a foreseeable future unless it has entered into a state of liquidation. When preparing the Financial Statements this concept is used.

1.10 Assets, Liabilities, Equity

1.11 Transaction files are summarized data available in source documents. Normally, transaction files are used to update Master Files. Examples : Purchase Order, Return notes, Receipts and payment vouchers.

- 1.12
- Date of the sales
  - Name and address of the customer
  - Payment terms
  - Item, quantity and the value

- Details of the trade discount
- Name and address of the seller

1.13 Net Profit =  $C_1 - C_0 + D - AC$   
 =  $850,000 - 525,000 + 150,000 - 250,000$   
 = **Rs. 225,000**

1.14

Sales		500,000	
Cost of Sales			
Opening Stock	150,000		
Purchases	350,000		
<b>Closing Stock</b>	<b>(80,000)</b>	<b>420,000</b>	
Gross Profit		<u>80,000</u>	

**Answer = Rs. 80,000**

**Alternative Answer**

	Rs.
Sales	500,000
Gross profit	(80,000)
Cost of Sales	<u>420,000</u>

420,000 =  $150,000 + 350,000 - \text{Closing Stock}$   
 420,000 =  $500,000 - \text{Closing Stock}$   
 Stock as at 31.12.2017 = **Rs. 80,000**

1.15

a)	Cash A/c	Dr	1,000,000	
	Office equipment A/c	Dr	250,000	
	Capital	Cr		1,250,000
	(Being accounting of initial investment)			
b)	Purchases A/c	Dr	800,000	
	Trade Creditor (Ajith) A/c	Cr		800,000
	(Being recording of credit purchases)			
c)	Drawings A/c	Dr	5,600	
	Cash A/c	Cr		5,600
	(Being recording cash drawings)			

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

*(Total 40 marks)*

***End of Section A***

Four (04) compulsory questions  
(Total 40 marks)

***Suggested Answers to Question Two:***

**General Journal**

Description	Dr	Cr
Capital		1,000,000
Sales (W 01)		3,000,000
Debtors	600,000	
Purchases (W 02)	1,900,000	
Creditors		800,000
Rent expenses (900,000 - 75,000)	825,000	
Prepaid rent	75,000	
Electricity (400,000 + 50,000)	450,000	
Accrued electricity		50,000
Air conditioner	800,000	
Depreciation - Air conditioner	40,000	
Accumulated depreciation		40,000
Cash	200,000	
	<b>4,890,000</b>	<b>4,890,000</b>

*(10 marks)*

**Workings:**

**W 01**

**Trade Debtors**

Sales	3,000,000	Cash	2,400,000
		B/C/F	600,000
	<u>3,000,000</u>		<u>3,000,000</u>

**W 02**

**Trade Creditors**

Cash	1,100,000	Purchases	1,900,000
B/C/F	800,000		
	<u>1,900,000</u>		<u>1,900,000</u>

***Suggested Answers to Question Three:***

(a) **General Journal**

Description		Dr	Cr
Sales A/C	Dr	540,000	
Suspense A/C	Cr		540,000
(Being the entry for rectifying, cash sale of Rs. 175,000 recorded in Sales a/c as 715,000)			
Office equipment A/C	Dr	100,000	
Office equipment maintenance A/C	Cr		100,000
(Being the entry for rectifying purchases of office equipment recorded as office equipment maintenance)			
Trade Creditors A/C	Dr	200,000	
Suspense A/C	Cr		200,000
(Being the entry for rectifying, credit purchases of Rs. 200,000 recorded in Creditor's a/c twice)			
Suspense A/C	Dr	40,000	
Interest income A/C	Cr		15,000
Interest expenses A/C	Cr		25,000
(Being the entry for rectifying, Rs. 15,000 interest income recorded as Interest expense of Rs. 25,000)			
Sales A/C	Dr	18,000	
Trade Debtors A/C	Cr		18,000
(Being the entry for rectifying, Rs. 324,000 credit sales recorded as Rs. 342,000)			
Bank loan A/C	Dr	30,000	
Bank loan interest A/C	Cr		30,000
(Being the entry for rectifying, Capital repayment of Rs. 30,000 recorded as bank loan interest)			

***(07 marks)***

Suspense A/c			
B/B/F	700,000	Sales	540,000
Interest income	15,000	Creditors	200,000
Interest expense	25,000		
	<u>740,000</u>		<u>740,000</u>

***(03 marks)***

***(Total 10 marks)***

**Suggested Answers to Question Four:**

(a)

**Vishwa & Sons  
Manufacturing Account  
For the year ended 31.03.2017**

**(Rs. '000)**

<b><u>Cost of Raw material consumed</u></b>		
Opening raw materials - teak wood		15,500
Purchases of teak wood		55,000
Carriage inwards - teak wood		2,000
<b><u>Other Direct Material</u></b>		
Opening materials	7,500	
Purchases of other materials	24,000	
Closing material	(8,000)	23,500
Available raw material for consumption		96,000
Closing raw materials		(18,000)
Cost of raw material consumed		78,000
<b><u>Direct Wages</u></b>		
Direct wages		15,000
<b><u>Direct expenses</u></b>		
Incentive - 250 x 6,000		1,500
		94,500
<b><u>Adjustment for WIP</u></b>		
Opening WIP	1,000	
Closing WIP	(1,500)	(500)
<b>Prime Cost</b>		<b>94,000</b>
<b><u>Production Overheads</u></b>		
Building rent	1,400	
Manager's salary	2,000	
Wood cutting machine	400	3,800
<b>Total Manufacturing cost</b>		<b>97,800</b>

(10 marks)

***Suggested Answers to Question Five:***

(a)

Description	Inventory	+ Debtors	+ Cash	= Equity	+ Liabilities
1. Credit purchases	650,000	+	+	=	+ 650,000
2. Short term bank loan		+	+ 750,000	=	+ 750,000
3. Goods drawings	(30,000)	+	+	= (30,000)	+
4. Telephone bill		+	+ (4,000)	= (5,000)	+ 1,000
5. Credit Sales	(200,000)	+ 220,000	+	= 20,000	+
6. Payment to credits		+	+ (300,000)	=	+(300,000)

***(06 marks)***

(b)

**Sales Day Book**

Date	Invoice No.	Customer Name	Analysis				Amount
			Item	Qty.	Unit price	Amount	
01.12.17	45	AA Hardware	SB	5000	40	200,000	200,000
20.12.17	46	AA Hardware	LB	8000	50	400,000	
		Less - Discount	5%			(20,000)	380,000
22.12.17	47	Namal Stores	MB	5000	45	225,000	225,000
31.12.17		<b>Transferred to Sales A/c</b>					<b>805,000</b>

***(04 marks)***

***(Total 10 marks)***

***End of Section - B***

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

***Suggested Answers to Question Six:***

(a)

**Rahal Motors  
Statement of Comprehensive Income  
For the year ended 31.03.2017**

		<b>(Rs. '000)</b>
Sales		27,000
(-) Sales returns		
<b><u>Cost of Sales</u></b>		
Opening Inventory	6,400	
Purchases	18,000	
Closing Inventory	(5,750)	(18,650)
<b>Gross Profit</b>		<b>8,350</b>
<b><u>Other Income</u></b>		
<b><u>Distribution Expenses</u></b>		
Depreciation - Delivery Van (1,250 x 10%)	125	
Bad debts	50	
Provision for bad debts [(1,950 x 10%) - 150]	45	
Sales Commission	250	(470)
<b><u>Admin Expenses</u></b>		
Insurance (900 / 12 x 9)	675	
Building Depreciation (2,500 x 5%)	125	
Computer Depreciation (800 x 25%)	200	
Electricity (450 + 50)	500	
Salaries to staff	1,100	(2,600)
<b><u>Finance Expenses</u></b>		
Bank overdraft interest	100	(100)
<b>Net Profit for the year</b>		<b>5,180</b>
		<b>(11 marks)</b>

(b)

**Rahal Motors**  
**Statement of Financial Position**  
**as at 31.03.2017**

(Rs. '000)

Assets	Cost	Accumulated Depreciation	Carrying Value
<b><u>Non-Current Assets</u></b>			
<b><u>Property, Plant &amp; Equipment</u></b>			
Land	4,000	--	4,000
Buildings	2,500	(625)	1,875
Computer	800	(450)	350
Delivery Van	1,250	(645)	605
	<b>8,550</b>	<b>1,720</b>	<b>6,830</b>
<b><u>Current Assets</u></b>			
Inventories		5,750	
Trade debtors	1,950		
(-) Provision for bad debts	(195)	1,755	
Prepaid Insurance		225	
Cash in hand		250	7,980
<b>Total Assets</b>			<b>14,810</b>
<b><u>Capital and Liabilities</u></b>			
<b><u>Equity:</u></b>			
Capital		6,280	
Profit for the year		5,180	
Owners' Equity			11,460
<b><u>Current Liabilities</u></b>			
Trade Payable		3,000	
Accrued expenses		50	
Bank OD		300	3,350
<b>Total</b>			<b>14,810</b>

(20 marks)

*End of Section C*

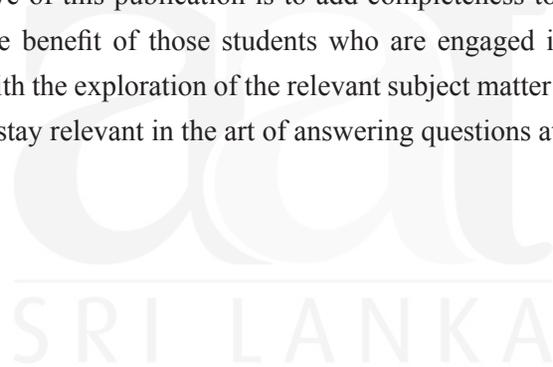
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***Notice :***

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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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