



**Association of Accounting Technicians of Sri Lanka**

**July 2019 Examination – AA1 Level**

**Suggested Answers  
Subject No : (AA11)**

**FINANCIAL ACCOUNTING BASICS (FAB)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 Examination-July 2019

(AA11) Financial Accounting Basics

SUGGESTED ANSWERS

Objective Test Questions  
Fifteen (15) Compulsory Questions  
(Total 40 Marks)

SECTION - A

*Suggested Answers to Question 01:*

- 1.1 (3) to ascertain the financial position of the business
- 1.2 (3) Debit Note
- 1.3 (2) Going Concern Concept
- 1.4 (2) Closing Net Assets-Opening Net Assets + Drawings – Additional Capital
- 1.5 (3) Increase in assets and increase in equity
- 1.6 (2) Rs. 617,000/-

	(Rs.)
Construction cost of showroom	525,000
Cost of air conditioner	92,000
	<u>617,000</u>

- 1.7 (1) It summarizes data available in source documents
- 1.8 (4) Sales Account
- 1.9 Transactions record in the General Journal

1. Opening Balances
2. Acquisition of Property , Plant and Equipment
3. Disposal of Property , Plant and Equipment
4. Correction of errors
5. Year- end adjustments

#### 1.10 Accounting concepts

- (a) Consistency Concept
- (b) Monetary measurement concept
- (c) Legal entity Concept

#### 1.11 Stakeholders of a business

Creditors, Customers, Government, Owners, Employers, Management , Customers , Investors

#### 1.12

Total Assets = Equity + Total Liabilities / Total Liabilities = Total Assets – Equity

Total Liabilities = Rs.950,000- 575,000 = **Rs. 375,000/-**

<b>Equity</b>	<b>Rs.</b>
Capital as at 1st April 2018	400,000
Additional Capital Introduced	100,000
Profit for the year	150,000
Drawings	(75,000)
	<b>575,000</b>

#### 1.13

Machinery Cost	-	750,000
Installation Cost	-	125,000
		<hr/>

Total Cost of the machine	-	<b>875,000</b>
		<hr/> <hr/>

Depreciation per annum = Rs. 875,000 x 20% = **175,000/-**

#### 1.14 General Accounting Software packages

Account Pro

MYOB

ACCPAC

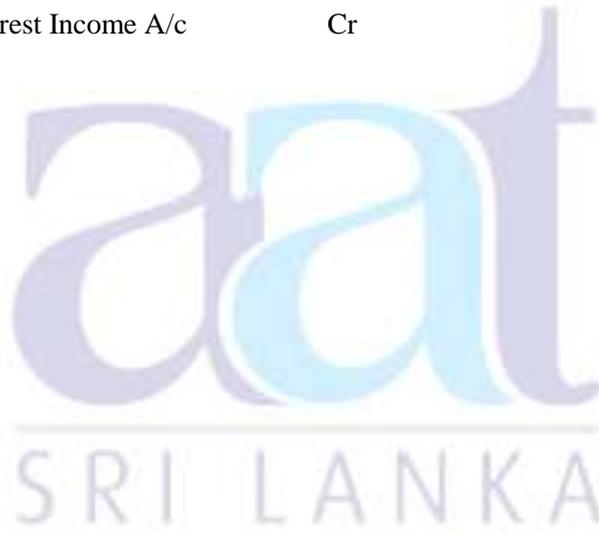
Sage / Peach Three

Tally

**1.15**

(a)	Electricity Expenses A/c	Dr	82,000	
	Accrued Electricity A/c	Cr		82,000
(b)	Purchases A/c	Dr	25,000	
	Trade Creditors A/c	Cr		25,000
(c)	Cash A/c	Dr	12,000	
	Interest Income A/c	Cr		12,000

*(Total 40 marks)*



**End of Section A**

**SECTION - B**

**Four (04) compulsory questions**  
(Total 40 Marks)

***Suggested Answers to Question 02:***

**Chapter 06 -Double Entry System**

**Wijaya Hardware**  
**Trial Balance as at 31st March 2019**

Description	Debit (Rs.)	Credit (Rs.)
Motor Lorry	750,000	
Cash (W-01)	792,000	
Sales (W-04)		4,075,000
Bank Loan		500,000
Salaries & Wages	600,000	
Electricity (W-05)	86,000	
Drawings	210,000	
Loan Interest (W-06)	7,500	
Accrued Interest		7,500
Accrued Electricity		18,000
Purchases (W-03)	3,505,000	
Capital		1,400,000
Trade Debtors	275,000	
Trade Creditors		225,000
Depreciation (W-07)	187,500	
Accumulated Depreciation (W-07)		187,500
	<b>6,413,000</b>	<b>6,413,000</b>

**Workings:**

**W-01**

**Cash Account**

Capital	650,000	Salaries & Wages	600,000
Sales	2,500,000	Electricity	68,000
Trade Debtors	1,300,000	Creditors	3,280,000
Bank Loan	500,000	Drawings	210,000
		B/C/F	792,000
	<b>4,950,000</b>		<b>4,950,000</b>

W-02

**Debtors Control A/c**

Sales	1,575,000	Cash	1,300,000
		B/C/F	275,000
	<u>1,575,000</u>		<u>1,575,000</u>

W-03

**Creditors Control A/c**

Cash	3,280,000	Purchases	3,505,000
Balance C/Fd	225,000	B/C/F	275,000
	<u>3,505,000</u>		<u>3,505,000</u>

W-04

**Sales A/c**

P/L	4,075,000	Cash	2,500,000
		Debtors (W-02)	1,575,000
	<u>4,075,000</u>		<u>4,075,000</u>

W-05

**Electricity A/c**

Cash	68,000	P/L	86,000
Accrued Expenses	18,000		
	<u>86,000</u>		<u>86,000</u>

W-06

Loan Interest = Rs.500,000 x 18% x 1/12 = Rs. 7,500/-

W-07

Depreciation/ Accumulated Depreciation = Rs.750,000 x 25% = Rs. 187,500/-

(10 marks)

## Suggested Answers to Question 03

### Chapter 9 – Manufacturing Accounts

**KP Ltd**  
**Manufacturing Account**  
**For the year ended 31<sup>st</sup> March 2019**

(Rs.'000)

<b><u>Direct Materials</u></b>		
Opening Raw Materials	1,200	
Purchases	1,925	3,125
<b>Less : Closing Raw Materials</b>		(1,100)
Raw Material Consumed		2,025
<b>Direct Cost</b>		
Direct Wages		1,765
		3,790
<b><u>Other Direct Expenses</u></b>		
Opening WIP	885	
Closing WIP	(975)	(90)
<b>Prime Cost</b>		3,700
<b><u>Production Overhead</u></b>		
Maintenance on factory machinery	335	
Depreciation – Factory Machinery	1,100	
Depreciation – Building(W)	1,000	
Factory Manager's Salary	625	
Electricity(W)	600	
Water(W)	294	3,954
<b>Total Manufacturing Cost</b>		7,654
Profit Margin @ 10%		765
<b>Manufacturing Cost Transferred to Trading A/c</b>		8,419

(10 marks)

#### Workings

	Total Cost	Factory		Office	
Depreciation - Building	1,250	80%	1,000	20%	250
Electricity	750	80%	600	20%	150
Water	420	70%	294	30%	126

## *Suggested Answers to Question 04*

<b>Chapter 7 -Accounting Errors and Suspense Account</b>
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(a)

### Journal Entries

	Description		Dr	Cr
(1)	Computer Equipment A/c Computer Maintenance A/c (Being correcting the purchase of a computer debited to Computer Maintenance Account)	Dr Cr	85,000	85,000
(2)	Suspense A/c Sales A/c (Being correcting the error of recording Rs.65,000/- worth of sales as Rs. 6,500/-)	Dr Cr	58,500	58,500
(3)	Suspense A/c Interest Expense A/c Interest Income A/c (Being correcting the interest income of Rs. 28,200/- recorded as interest expenses)	Dr Cr Cr	56,400	28,200 28,200
(4)	Purchase A/c Trade Creditors A/c (Being correcting Rs. 275,000/- of credit purchases recorded as Rs.257,000/-)	Dr Cr	18,000	18,000
(5)	Depreciation A/c Accumulated Depreciation A/c (Being accounting the depreciation on office equipment amounting to Rs. 228,000/-)	Dr Cr	228,000	228,000

*(5 marks)*

(b)

### Suspense A/C

Sales	58,500	Balance B/Fd	114,900
Interest Expenses	28,200		
Interest Income	28,200		
	114,900		114,900

*(2 marks)*

(c)

### Adjusted Net Profit

		Rs.
Net Profit as per Draft Financial Statements		448,000
<b>Add</b>		
Computer Maintenance A/c	85,000	
Sales	58,500	
Interest Expenses	28,200	
Interest Income	28,200	199,900
<b>Less</b>		
Trade Creditors	18,000	
Depreciation	228,000	(246,000)
<b>Adjusted Net Profit</b>		<b>401,900</b>

(3 marks)  
(Total 10 marks)

### Suggested Answers to Question 05:

(A)

#### Chapter 03 – Accounting Equation and Profit Equation

		FA	+	Inventory	+	Debtors	+	Cash	=	Equity	+	Liabilities
1.	02.01.2019		+	723,000					=		+	723,000
2.	05.01.2019		-	50,000					=	- 50,000		
3.	10.01.2019		-	575,000	+	600,000			=	+25,000		
4.	15.01.2019				-	550,000	+	550,000	=			
5.	28.01.2019						-	12,000	=	- 18,000	+	6,000
6.	30.01.2019	+500,000					-	500,000	=			

(6 marks)

(B)

#### Chapter 05-Books of Prime Entry

##### Amal Stores

##### Sales Day Book for the month of March 2019

Date	Inv.No.	Customer	Analysis				Amount (Rs.)
			Description	Qty	Unit Price(Rs.)	Amount	
02.03.19	217	ABC Ltd	CR Books	75	140	10,500	9,975
			Less – Discount 10%			(525)	
10.03.19	218	Kamal	Pencils	120	6	720	720
25.03.19	219	Perera	Pens	180	8	1,440	1,440
31.03.19		Transferred to Sales A/c					12,135

(4 marks)  
(Total 10 marks)

**End of Section B**

One (01) compulsory question  
(Total 20 marks)

**SECTION - B**

***Suggested Answers to Question 06:***

Chapter 08 – The objectives of Financial Statements and Preparation of Financial Statements with Adjustment

**MMK Traders**  
**Statements of Comprehensive Income**  
**For the year ended 31<sup>st</sup> March 2019**

		(Rs. "000")
<b>Sales</b>		16,300
<b>Cost of Sales</b>		
Opening Inventory	1,100	
Purchases	7,950	
	9,050	
Closing Inventory	(1,850)	(7,200)
<b>Gross Profit</b>		9,100
<b>Administrative Expenses</b>		
Electricity	2,078	
Salaries & Wages	1,800	
Office Maintenance	895	
Insurance Premium (W 3 )	75	
Depreciation – Building (W 2 )	320	(6,648)
Depreciation – Office Equipment (W 2 )	480	
		(1,342)
<b>Selling and Distribution Expenses</b>		
Advertising	430	
Depreciation – Motor Vehicle (W 2 )	700	
Provision for debtors (W 5)	212	(1,342)
		(375)
<b>Finance Expenses</b>		
Overdraft Interest	375	(375)
<b>Net Profit for the Year</b>		1,735

*(11 marks)*

**MMK Traders**  
**Statements of Financial Position**  
**As at 31<sup>st</sup> March 2019**

(Rs. "000")

Assets	Cost	Acc. Dep. (W1)	NBV
<b>Non-Current Assets</b>			
<b>Property, Plant &amp; Equipment</b>			
Land	1,100		1,100
Building	3,200	1,520	1,680
Office Equipment	2,400	1,675	725
Motor Vehicles (W1)	4,600	1,975	2,625
	<b>11,300</b>	<b>5,170</b>	<b>6,130</b>
<b>Current Assets</b>			
Inventory		1,850	
Trade Receivable	4,320		
(-) Provision for doubtful debts	(432)	3,888	
Prepaid Insurance (W 3)		225	5,963
<b>Total Assets</b>			<b>12,093</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Capital as at 1 <sup>st</sup> April 2018		5,600	
Additional Capital Introduced		1,800	
(-) Drawings		(2,200)	
Profit for the year		1,735	6,935
<b>Current Liabilities</b>			
Accrued Expenses		148	
Trade Payables		3,120	
Bank Overdraft		1,890	5,158
<b>Total Equity and Liabilities</b>			<b>12,093</b>

**W1 - Motor Vehicle**

Balance as at 31 <sup>st</sup> March 2019	2,800
Addition	1,800
Total as at 31 <sup>st</sup> March 2019	<u>4,600</u>

**W2 - Depreciation & Acc. Depreciation**

PPE	Cost	Rate	Depreciation	Acc. Dep	
				1.4.2018	31.3.2019
Land	1,100		-	-	-
Building	3,200	10%	320	1,200	1,520
Office Equipment	2,400	20%	480	1,195	1,675
Motor Vehicles	2,800	25%	700	1,275	1,975
			<b>1,500</b>		<b>5,170</b>

**W3 - Insurance Premium**

Insurance expense for the year =  $300,000/12*3$  = Rs. 75,000

Prepaid Amount =  $300,000 - 75,000$  = Rs. 225,000

**W4 - Electricity Expenses**

Electricity Expense for the year =  $1,930 + 148$  = Rs. 2,078

Accrued Expenses = Rs. 148

**W5 - Provision for doubtful debts**

Balance as at 1<sup>st</sup> April 2018 = 220

Provision as at 31<sup>st</sup> March 2019 =  $4,320*10\%$  = 432

Under Provision for the year(432-220) = 212

(9 marks)  
(Total 20 marks)

**End of Section C**

***Notice:***

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