



Association of Accounting Technicians of Sri Lanka

AA1 Examination - January 2020

**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 2020
(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 (4)
1.2 (2)
1.3 (4)
1.4 (1)
1.5 (2)

		Rs.
01-04-18	Net assets	975,000
	+ Additional capital	500,000
	+ Profit	225,000
	(-) Drawings	(350,000)
31-03-18	Net Assets	1,350,000

- 1.6 (4)
1.7 (3)
1.8 (1)

(02 marks each, Total 16 marks)

- 1.9 1. Income
2. Expenses

(02 marks)

- 1.10 The reports on the profitability of the business and the financial position are needed at regular intervals. Therefore the financial statements need to be prepared periodically to cater to the requirements of various parties who are interested in the business. This is known as periodic concept.

(03 marks)

- 1.11 (1) Credit Note
 (2) Journal Voucher
 (3) Receipt (03 marks)

1.12 Depreciation = $\frac{1,250,000 - 250,000}{5}$
 = Rs.200,000 (03 marks)

1.13 **Advantages of Computerized Accounting System**

1. Speed of the system is very high
2. Reliability of the generated reports is very high.
3. Accuracy of information which is generated was very high.
4. Unnecessary staff can be reduced and due to that cost will reduce.
5. Analyzing capabilities are very high.
6. More capacity of storage.
7. Easy to manage the entity and generate reports.
8. Entity can generate up-to-date reports.

(03 marks)

- 1.14 a. (a) False
 (b) False
 (c) True
 (d) False

(04 marks)

b.	(a) Cash /Bank Account	Dr.	500,000
	Bank Loan Account	Cr.	500,000
	(b) Bank Account	Dr.	25,000
	Interest Income Account	Cr.	25,000
	(C) Electricity Expense Account	Dr.	15,000
	Capital Account	Cr.	15,000

(06 marks)

(Total 40 marks)

End of Section A

Four (04) compulsory questions
(Total 40 marks)

Suggested Answers to Question Two:

Chapter 6 – Double Entry System

Praveen Traders

Trial Balance

As at 31st March 2019

(Rs.000)

	Dr.	Cr.
Capital		2,500
Sales (1,300 + 976)		2,276
Motor lorry	1,500	
Electricity	72	
Salaries & wages (290 + 38)	328	
Drawings	175	
Purchases (788 + 1,260)	2,048	
Depreciation-Motor Lorry	187.5	
Accumulated Depreciation		187.5
Accrued Salaries		38
Trade Debtors (W-01)	145	
Trade Creditors (W-02)		110
Cash (4631 – 3975)	656	
	5,111.5	5,111.5

(10 marks)

Workings:

W 01

Trade Debtors		(Rs.'000)	
Sales	976	Cash	831
	-	B/C/F	145
	976		976

W 02

Trade Creditors		(Rs.'000)	
Cash	1,150	Purchases	1,260
B/C/F	110		
	1,260		1,260

Suggested Answers to Question Three:

Chapter 9 - Manufacturing Accounts

(a)

Samanala Traders

Manufacturing Account

For the year ended 31st March 2019

Rs.'000

Opening Raw Material stock		3,400
Add: Purchases	3,200	
Carriage inwards	120	3,320
		6,720
Less: Closing Raw Material Stock		(2,100)
Cost of Raw Material consumed		4,620
Direct Expenses:		
Wages	1,200	
Incentive (20 × 25)	500	1,700
		6,320
WIP-Opening		825
Closing		(1,250)
Prime cost		5,895
Factory Overheads		
Factory Manager's Salary	675	
Electricity (600*70%)	420	
Security (400 × 60%)	240	
Depreciation	500	
Factory rent	1,100	
Maintenance expenses	110	3,045
Manufacturing Cost		8,940

(08 marks)

(b)

$$\begin{aligned}
 \text{Cost per unit} &= \frac{8,940,000}{2,500} \\
 &= \underline{\underline{3,576 \text{ units}}}
 \end{aligned}$$

(2 marks)

(Total 10 Marks)

Suggested Answers to Question Four:

Chapter 7 – Accounting Errors and Suspense Accounts

(a) Journal Entries

General Journal			Dr.	Cr.
(1)	Suspense Account Purchases Account <i>(Being correcting the Purchase Account)</i>	Dr. Cr.	18,000	18,000
(2)	Machinery Expenses Account Machinery Account <i>(Being correcting Machinery expenses recorded in Machinery Account)</i>	Dr. Cr.	33,600	33,600
(3)	Trade Creditors Account Capital Account <i>(Being correcting the Capital Account)</i>	Dr. Cr.	165,000	165,000
(4)	Cash Account Rent Income Account <i>(Being correcting the Rent Income Account)</i>	Dr. Cr.	21,000	21,000
(5)	Suspense Account Rent Expenses Account <i>(Being correcting the duplication of Errors Account)</i>	Dr. Cr.	98,000	98,000
(6)	Trade Creditors Account Suspense Account <i>(Being correcting the Trade Creditors Account)</i>	Dr. Cr.	109,000	109,000
(7)	Suspense Account Sales Account <i>(Being correcting the Sales Account)</i>	Dr. Cr.	36,000	36,000

(07 marks)

(b)

Suspense Account			
Sales	36,000	B/B/F	43,000
Purchases	18,000	Creditor	109,000
Rent	98,000		
	<u>152,000</u>		<u>152,000</u>

(3 marks)
(Total 10 Marks)

Suggested Answers to Question Five:

Chapter 6 – Double Entry System

(a)

Date	Non-Current Assets	+	Inventory	+	Cash	=	Equity	+	Liabilities
01.03.2019			+825,000			=			+825,000
05.03.2019			-420,000		+525,000	=	+105,000		
15.03.2019					-75,000	=	-75,000		
26.03.2019					-95,000	=			-95,000
30.03.2019					-100,000	=	-100,000		
31.03.2019	+1500,000					=			+1500,000

(06 marks)

(b)

General Journal			Dr.	Cr.
(1)	Motor Vehicle Account Capital Account (Investor motor vehicle to the business)	Dr. Cr.	750,000	750,000
(2)	Machinery Account XY Ltd Account (Purchased machinery from XY Ltd)	Dr. Cr.	250,000	250,000
(3)	Electricity Expense Account Telephone Expense Account (Being correcting of errors)	Dr. Cr.	25,000	25,000

(4 marks)

(Total 10 marks)

End of Section - B

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

Suggested Answers to Question Six:

Chapter 8 - The Objectives of financial statements and preparation of financial statements with adjustments

(a) **KPM Traders**
Income Statement
For the year ended 31st March 2019

Sales		25,200
Opening Stock	1,800	
Purchases	15,500	
	17,300	
Closing Stock	(1,850)	15,450
Gross Profit		9,750
Distribution Expenses		
Motor Vehicles-Depreciation	(440)	
Bad Debts	(100)	
Provision for bad debt	(100)	(640)
		9,110
Administration Expenses		
Depreciation - Building	(500)	
- Office Equipment	(275)	
Rates	(45)	
Electricity(1,200+143)	(1,343)	
Water	(350)	
Stationery	(150)	
Salaries	(1,250)	(3,913)
		5,197
Finance Expenses		
Loan Interest	(9)	
Bank Overdraft Interest	(110)	(119)
Net Profit		5,078

(11 marks)

(b)

KPM Traders
Statement of Financial Position
As at 31st March 2019

(Rs. '000)

Assets	Cost	Accumulated Depreciation	Carrying Value
<u>Non-Current Assets</u>			
<u>Property, Plant & Equipment</u>			
Land	3,000	-	3,000
Buildings	5,000	1,700	3,300
Motor Vehicles	2,200	840	1,360
Office Equipment	1,100	500	600
	11,300	3,040	8,260
<u>Current Assets</u>			
Inventory		1,850	
Trade Receivables (2,700-270)		2,430	
Prepayment - Rates		135	4,415
Total Assets			12,675
Equity & Liabilities			
Equity			
Stated Capital		3,295	
Retained Earnings		5,078	8,373
Current Liabilities			
Accrued Electricity		143	
Accrued Interest		9	
Trade Payables		1,900	
Bank Loan		900	
Bank Over Draft		1,350	4,302
Total Equity & Liabilities			12,675

(09 marks)

(20 marks)

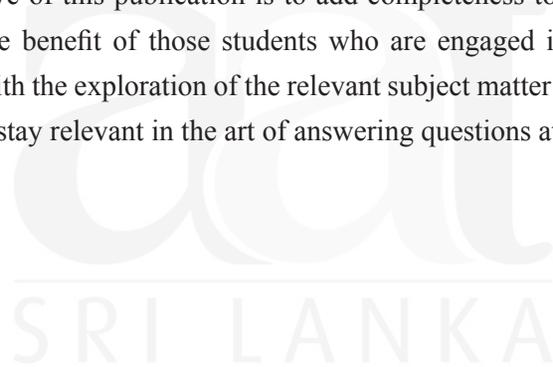
End of Section C

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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”.

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