



Association of Accounting Technicians of Sri Lanka

July 2020 Examination - Level I

Suggested Answers (101)

(101) FINANCIAL ACCOUNTING

Association of Accounting Technicians of Sri Lanka
No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level I Examination-July 2020

(101) FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

(Total 40 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (3) Income

1.2 (1) Relevance is a fundamental qualitative characteristic of financial information

1.3 (1) Entity Concept

1.4 (4) All of the above

1.5 (4) Debit staff loan account and credit cash account

1.6 (1) Profit = Assets – Liabilities – Capital + Drawings
Profit = 1,550,000-750,000-280,000+150,000
= 670,000

1.7 (4) increase in assets and increase in equity

1.8 (3) Goods Received Note (GRN)

1.9 (2) Environmental Factor

1.10 (3) Additional cash of Rs. 200,000/- was introduced by the owner to the business

1.11 True

1.12 False

1.13 True

1.14 True

1.15 False

1.16 Cost as at 1st April 2018 = Rs. 400,000/-
Depreciation as at 31st March 2019 (400,000*25) = (Rs. 100,000/-)
Carrying Value as at 31st March 2019 = **Rs. 300,000/-**
Depreciation charge for the year ended 31st March 2020
(300,000*25%) = Rs. 75,000/-

1.17 **Consistency Concept** - The bases , methods or principles used in preparing and presenting financial statements should not be changed frequently

1.18 **Transactions recorded in the General Journal**

1. Recording the opening journal entries
2. Purchase and sale of Property Plant and Equipment on credit terms

3. Correction of errors(Correction entries)
4. Matching entries
5. Transferring entries
6. Closing entries

1.19 Current Assets - Cash in hand , Cash at bank, Trade Receivables , Inventories , Other receivables , Pre-payments

1.20

Creditors' Control A/c			
Returns	575,000	B/B/F	875,000
Cash	1,450,000	Purchases	2,350,000
Balance C/F	1,200,000		
	<u>3,225,000</u>		<u>3,225,000</u>

(02 marks each)
(Total 40 marks)

End of Section A



Suggested Answers to Question Two:***Chapter 3 – Prime Entry Books, Control Accounts & Trial Balance*****(a) Journal Entries**

(1)	Computer A/c	Dr	85,500	
	Suspense A/c	Cr		85,500
	(Being correcting the purchase of a computer at a cost of Rs. 95,000/- recorded as 9,500/-)			
(2)	Purchase A/c	Dr	76,000	
	Suspense A/c	Cr		76,000
	(Being recording the cash purchases not recorded in the relevant A/c)			
(3)	Office Maintenance A/c	Dr	66,000	
	Office Equipment A/c	Cr		66,000
	(Being correcting the office maintenance expenses recorded in the office equipment A/c)			
(4)	Suspense A/c	Dr	112,000	
	Depreciation of Motor Vehicle A/c	Cr		112,000
	(Being correcting the depreciation expenses duplicated in the expense A/c)			
(5)	Trade Debtors Control A/c	Dr	225,000	
	Sales A/c	Cr		225,000
	(Being correcting the understating the sales A/c)			

(05 marks)**(b) Suspense A/c**

Suspense Account			
Balance	49,500	Computer Equipment	85,500
Depreciation	112,000	Purchases	76,000
	<u>161,500</u>		<u>161,500</u>

(02 marks)

(c) Statement of Adjusted Profit

Net Profit as per draft Financial Statements		1,350,000
Add		
Sales	225,000	
Depreciation	<u>112,000</u>	<u>337,000</u>
		1,687,000
Less		
Purchases	76,000	
Office Maintenance	<u>66,000</u>	<u>(142,000)</u>
Adjusted Profit		<u>1,545,000</u>

(03 marks)
(Total 10 marks)

Suggested Answers to Question Three:

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

Nanayakkara Business
Trail Balance
As at 31st March 2020

	Dr	Cr
Motor Lorry	1,740,000	
Capital (1,740,000+1500,000)		3,240,000
Cash	2,036,000	
Accrued Expenses		15,000
Depreciation on Motor Lorry @ 20% (W 1)	348,000	
Accumulated Depreciation (W1)		348,000
Electricity & Water (258,000 + 15,000)	273,000	
Salaries & Wages	1,810,000	
Prepayments (W2)	144,000	
Rent Expenses (W2)	720,000	
Sales (W3)		8,293,000
Purchases (W4)	5,090,000	
Trade Debtors	975,000	
Trade Creditors		1,240,000
	<u>13,136,000</u>	<u>13,136,000</u>

W 1 - Depreciation of motor lorry

1,740,000 @ 20% = 348,000

W 2 - Prepayments

Rent Expenses – 864,000/12 * 10 = 720,000

Prepaid Rent = 864,000-720,000 = 144,000

W3 - Sales

Credit Sales (3,200,000+975,000) =4,175,000

Cash Sales =4,118,000

Total Sales =8,293,000

W4 -Purchases

Credit Purchases (3,850,000+1,240,000) = 5,090,000

Or

Trade Debtors(Rs'000)

Sales	4,175	Cash	3,200
		B/C/F	975
	<u>4,175</u>		<u>4,175</u>

Trade Creditors(Rs'000)

Cash	3,850	Purchases	5,090
B/C/F	1,240		
	<u>5,090</u>		<u>5,090</u>

(10 marks)

Suggested Answers to Question Four:

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

**BMI Company
Manufacturing Cost Statement
For the year ended 31st March 2020**

Direct Material Cost		
Opening RM Stock	810,000	
Add : Purchases	2,850,000	
Less : Closing Raw Material stock	<u>(900,000)</u>	
Cost of Raw Material consumed		2,760,000
Direct Labour Costs(Direct Wages)		1,270,000
(+) Work in progress (Opening)		445,000
(-) Work in progress (Closing)		<u>(690,000)</u>
Prime Cost		3,785,000
Overheads		
Fuel for machinery	130,000	
Factory manager's salary	860,000	
Electricity (275,000*80%)	220,000	
Water (200,000* 75%)	150,000	
Insurance (300,000* 90%)	270,000	
Rent on factory	225,000	
Depreciation	<u>270,000</u>	2,125,000
Total Manufacturing Cost		5,910,000
Profit Margin @ 20%		<u>1,182,000</u>
Value of Goods transferred to Trading Account		<u>7,092,000</u>

(10 marks)

Suggested Answers to Question Five:

(A)

Chapter 2 – Accounting Equation, Double Entry System and Accounting Concepts

Date	Inventories	Debtors	Fixed Deposit	Cash	=	Equity	Liabilities
02.03.2020	+ 450,000				=		+450,000
05.03.2020	-390,000	+445,000			=	55,000	
10.03.2020	-38,500				=	-38,500	
15.03.2020				-25,000	=	-25,000	
15.03.2020			+200,000	-200,000	=		

(5 Marks)

(B)

Chapter 5 – Bank Reconciliation Statements

(a)

Adjusted Cash Book

B/B/F	155,000	Standing order	75,000
Direct Deposit	30,000	Bank Charges	1,500
		Balance C/F	108,500
	185,000		185,000

(3 Marks)

(b)

Bank Reconciliation Statement as at 31st March 2020

Balance as per Adjusted Cash Book	108,500
+ Unpresented Cheques	195,000
- Unrealized Cheques	(65,000)
Balance as per Bank Statement as at 31st March 2020	238,500

(2 Marks)

(Total 10 Marks)

End of Section B

Suggested Answers to Question Six:

(a)

Chapter 4-Part I – Preparation of Income Statement and Statement of Financial Position

Golden Tech
Statement of Comprehensive Income
For the year ended 31st March 2020

		(Rs. '000)
Turnover		33,900
Cost of Sales		
Opening Inventory	6,200	
Purchases	<u>18,250</u>	
	24,450	
(-) Closing Inventory	<u>(3,800)</u>	
Cost of Sales		<u>(20,650)</u>
Gross Profit		13,250
Distribution Expenses		
Bad Debt	850	
Provision for Bad Debt (W-2)	100	
Advertising	100	
Motor Vehicle Depreciation(W1)	<u>540</u>	(1,590)
Administration Expenses		
Travelling	290	
Electricity (3,200+350)	3,550	
Water (450+80)	530	
Salaries & Wages	5,550	
Insurance	1,200	
Depreciation (Building & furniture) (175+75)(W1)	<u>250</u>	(11,370)
Finance Expenses		
Loan Interest	<u>25</u>	<u>(25)</u>
Net Profit		<u>265</u>

(11 Marks)

(b)

Chapter 4-Part I – Preparation of Income Statement and Statement of Financial Position

Golden Tech
Statement of Financial Position
As at 31st March 2020

(Rs. '000)

	Cost	Acc. Dep	Carrying Value
Non-Current Assets			
Property Plant and Equipment			
Land	3,000		3,000
Buildings	3,500	795	2,705
Motor Vehicles	2,700	980	1,720
Furniture	600	75	525
	9,800	1,850	7,950
Current Assets			
Inventory		3,800	
Trade Receivables	3,000		
(-) Provision for Bad and doubtful debts	(300)	2,700	
Cash in hand and Bank Balance		1,100	7,600
Total Assets			15,550
Equity and Liabilities			
Equity			
Capital as at 1 st April 2019		9,450	
+ Profit for the year		265	
(-) Drawings		(320)	9,395
Non-Current Liabilities			
Bank Loan			2,500
Current Liabilities			
Trade Payables		2,600	
Other Payables (PPE)		600	
Accrued Expenses (350+80)		430	
Interest Payable		25	3,655
Total Equity and Liabilities			15,550

(09 Marks)
(Total 20 Marks)

Workings

W 1- Depreciation

Building & Motor Vehicles

	Dep. Rate	Cost	Depreciation	Acc.Dep 01.04.2019	Acc. Dep 31.03.2020
Building	5%	3,500	175	620	795
Motor Vehicle	20%	2,700	540	440	980
Furniture (6 months) (600*25%*6/12)	25%	600	75	-	75
			790		<u>1,850</u>

W2 - Provision for Doubtful debts

Debtors	=	3,850
(-) Write off	=	<u>(850)</u>
Balance	=	3,000
Provision @10%	=	<u>300</u>

Under Provision

Balance as at 1 st April 2019	=	200
Provision Required as at 31 st March 2020	=	<u>300</u>
Under Provision	=	<u>100</u>

W3 -Bank Loan Interest

$$2,500 * 12\% * 1/12 = \underline{\underline{25}}$$

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.



© 2020 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka). All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)