



Association of Accounting Technicians of Sri Lanka

Level I Examination – July 2023

Suggested Answers

(101) FINANCIAL ACCOUNTING (FAC)

Association of Accounting Technicians of Sri Lanka

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ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level I Examination - July 2023

(104) FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

Twenty (20) Compulsory Questions
(Total 40 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (2)

1.2 (2)

1.3 (3)

1.4 (4)

1.5 (2)

1.6 (4)

1.7 (2)

1.8 (2)

1.9 (1)

1.10 (4)

1.11 True

1.12 False

1.13 True

1.14 True

1.15 False



1.16.

1. To Keeping proper records of the business transactions.
2. To give an understanding on results of business operations
3. To give an understanding on financial position of the business
4. To give an understanding on liquidity level of the business
5. To protect properties
6. To make logical decisions
7. To comply with legal requirements

1.17.

Cash discount

Cash discount means the amount deducted from the amounts receivable from a debtor or amounts payable to a creditor when a payment is made within the due period. The objective of cash discounts is to collect money within due period. Cash discounts are recorded in the books of accounts.

There are 2 types of cash discounts.

1. Discount Allowed
2. Discount Received

Trade discounts

Trade discount means the amount deducted from the listed price of a product at the time of purchase or sale and the main purpose of trade discounts is sales promotions. Trade discounts are not recorded in the books of accounts.

1.18.

Substance over form is the concept that the financial statements and accompanying disclosures of a business should reflect the underlying realities of accounting transactions. So the transactions are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

1.19. Professional competence

Members shall maintain expertise, technical knowledge and skills at the level required to perform their duties and responsibilities.

1.20.

1. Speed of the system is very high.
2. Reliability of the generated reports is very high.
3. Accuracy of the information which is generated was very high.
5. Unnecessary staff can be reduced.
6. Analyzing capabilities are very high.
7. Mass Capacity of storage.
8. Easy to manage the entity and generate reports.
9. Entity can generate up-to-date reports.

(Total 40 marks)



End of Section A

Suggested Answers to Question Two:***Chapter 3 - Prime Entry Books, Control Accounts and Trial Balance***

(a)

General Journal

| | Description | | Debit | Credit |
|-----------|--|----------------|----------------|---------|
| 01 | Suspense Account Electricity Expense Account (Correcting the error of recording electricity expense of 35,000 which is recorded as Rs 53,000) | Dr Cr | 18,000 | 18,000 |
| 02 | Rent Payable Account Rent Expenses Account (Correcting the error of recording rent provision of Rs 135000 twice) | Dr Cr | 135,000 | 135,000 |
| 03 | Debtors Control Account Sales Account (Correcting the error of Under casting of sales day book by 180,000) | Dr Cr | 180,000 | 180,000 |
| 04 | Bank Overdraft Interest Account Interest Income Account Suspense Account (Correcting the error of recording bank OD interest of Rs 2500 to the interest income Account) | Dr Dr Cr | 2,500 2,500 | 5,000 |
| 05 | Computer Account Repair and Maintenance Account (Correcting the purchase of computer which was recorded in the repair and maintenance expense Account) | Dr Cr | 150,000 | 150,000 |
| 06 | Depreciation Account Accumulated Depreciation Account (Recording the Depreciation charge for the 3 months period) | Dr Cr | 7,500 | 7,500 |

(06 marks)

(b)

Akmal Traders

Calculation of Adjusted profit for the year ended 31st of March 2023

| | | |
|----------------------------------|---------|------------------|
| Net Profit as per draft accounts | | 1,875,000 |
| Add : Electricity | 18,000 | |
| Rent | 135,000 | |
| Sales | 180,000 | |
| Repair and Maintenance | 150,000 | 483,000 |
| | | 2,358,000 |
| Less : Bank O/D Interest | 2,500 | |
| Interest Income | 2,500 | |
| Computer Depreciation | 7,500 | (12,500) |
| | | |
| Adjusted Net Profit | | 2,345,500 |

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 4 - Part II - Manufacturing Cost Statements

**Shakthi Concrete Works
Manufacturing Cost Statement
For the year ended 31st March 2023**

| | Rs. | Rs. |
|--------------------------------------|-----------|------------------|
| Direct Material Cost | | |
| Raw Material - Opening Stock | | 650,000 |
| Add : Raw material - Purchases | 4,250,000 | |
| Carrying inwards | 25,000 | 4,275,000 |
| Cost of goods to be consumed | | 4,925,000 |
| Less : Closing Raw Material Stock | | (585,000) |
| Cost of raw material consumed | | 4,340,000 |
| Direct Labour Cost | | |
| Direct wages | | 1,200,000 |
| | | 5,540,000 |
| (+) Opening - Work in Progress | 150,000 | |
| (-) Closing - Work in Progress | (235,000) | (85,000) |
| Prime Cost | | 5,455,000 |
| Overheads | | |
| Rent (300,000 × 80%) | 240,000 | |
| Machine Repairs | 105,000 | |

| | | |
|---------------------------------------|---------|------------------|
| Factory Manager's salary | 625,000 | |
| Electricity (820,000 × 75%) | 615,000 | |
| Water (50,000 × 90%) | 45,000 | |
| Depreciation on Plant & Machinery | 120,000 | 1,750,000 |
| Total Manufacturing Cost | | 7,205,000 |
| Profit 18% | | 1,296,900 |
| Transferred to Trading Account | | 8,501,900 |

(10 marks)

Suggested Answers to Question Four:

Chapter 3 - Prime Entry Books, Control Accounts and Trial Balance

Lasantha Traders
Trial Balance as at 31st March 2023 (Rs.'000)

| | Rs. | Rs. |
|-------------------------------------|---------------|---------------|
| Capital | | 2,800 |
| Sales (3,250+4,200) (W1) | | 7,450 |
| Purchases (5,000+800) (W2) | 5,800 | |
| Electricity (185 + 19) | 204 | |
| Electricity Expenses | | 19 |
| Depreciation (500,000 × 20% × 3/12) | 25 | |
| Accumulated Depreciation | | 25 |
| Salaries & Wages | 1,800 | |
| Pretty Cash (W3) | 10 | |
| Cash in Hand | 1,595 | |
| Travelling Cost | 50 | |
| Staff Welfare | 25 | |
| Stationery | 35 | |
| Office Equipment | 500 | |
| Trade Debtors | 1,450 | |
| Trade Creditors | | 1,200 |
| | 11,494 | 11,494 |

W1

| Trade Debtors | | (Rs.'000) | |
|---------------|--------------|-----------|--------------|
| Sales | 3,250 | Cash | 1,800 |
| | | B/C/D | 1,450 |
| | <u>3,250</u> | | <u>3,250</u> |

W2

| Trade Creditors | | (Rs.'000) | |
|-----------------|--------------|-----------|--------------|
| Cash | 3,800 | Purchases | 5,000 |
| B/C/D | 1,200 | | |
| | <u>5,000</u> | | <u>5,000</u> |

W3

| Pretty Cash | | (Rs.'000) | |
|-------------|------------|-----------------|------------|
| Cash | 120 | Travelling Cost | 50 |
| | | Staff Welfare | 25 |
| | | Stationery | 35 |
| | | B/C/D | 10 |
| | <u>120</u> | | <u>120</u> |

(10 marks)

Suggested Answers to Question Five:

Chapter 5 - Bank Reconciliation Statements

(A).(a)

| Adjusted Cash Control A/c | | | |
|---------------------------|----------------|-------------------------|----------------|
| B/B/F | 336,000 | Loan installments | 25,000 |
| | | Bank charges | 1,500 |
| | | Bank overdraft interest | 12,100 |
| Fixed Deposit Interest | 25,000 | B/C/D | 322,400 |
| | <u>361,000</u> | | <u>361,000</u> |
| B/C/D | <u>322,400</u> | | |

(03 marks)

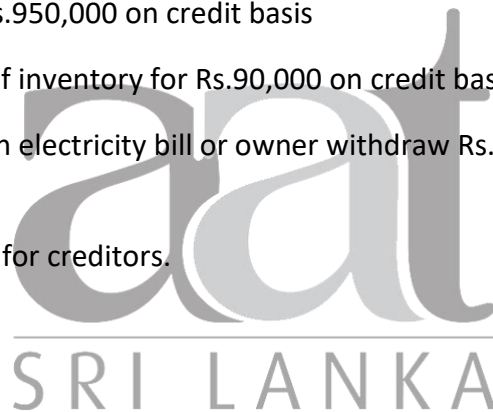
(b)

Bank Reconciliation Statement as at 31st March 2023

| | |
|--------------------------------------|-------------------|
| Balance as per cash book | 322,400 |
| Add: | |
| Unpresented cheques | 225,000 |
| | 547,400 |
| Less: | |
| Unrealized cheques | (120,000) |
| Balance as per bank statement | 427,400 |
| | (02 marks) |

(B)

- (1). Owner introduced a motor lorry worth of Rs.750,000 and Rs.1,250,000 in cash as initial capital to the business.
- (2). Purchased goods for Rs.950,000 on credit basis
- (3). Sold Rs.60,000 worth of inventory for Rs.90,000 on credit basis
- (4). Paid Rs. 150,000/- to an electricity bill or owner withdraw Rs.150,000 in cash for his personal use.
- (5). Pay Rs.200,000 in cash for creditors.



(05 marks)
(Total 10 marks)

End of Section B

Suggested Answers to Question Six:***Chapter 4 - Preparation of Income Statement and Statement of Financial Position***

(a)

Imandi Beauty Centre
Statement of Comprehensive Income
For the year ended 31st March 2023

(Rs.'000)

| | | |
|---------------------------------|---------|---------------|
| Sales | | 74,100 |
| Cost of Sales: | | |
| Opening Stock | 1,750 | |
| Purchases (52,000 + 900) | 52,900 | |
| | 54,650 | |
| Closing Stock | (6,750) | (47,900) |
| Gross Profit | | 26,200 |
| Distribution Expenses : | | |
| Bad Debts | 155 | |
| Transport | 300 | (455) |
| Administration Expenses | | |
| Depreciation - Beauty Equipment | 875 | |
| - Furniture & Fittings | 1,040 | |
| Office Rent | 2,400 | |
| Water | 150 | |
| Electricity (1,650+78) | 1,728 | |
| Salaries and Wages | 7,000 | |
| Security Expenses | 350 | (13,543) |
| Finance Expenses | | |
| Bank Loan Interest | 200 | (200) |
| Profit for the year | | 12,002 |

(11 marks)

(b)

Imandi Beauty Centre
Statement of Financial Position
As at 31st March 2023

(Rs.'000)

| | Cost | Accumulated Dep. | Carrying Value |
|-------------------------------------|--------------|---------------------|----------------|
| Non-Current Assets | | | |
| Beauty Equipment (W1) | 3,500 | 1,500 | 2,000 |
| Furniture & Fittings (W1) | 5,700 | 1,440 | 4,260 |
| | 9,200 | 2,940 | 6,260 |
| Current Assets | | | |
| Inventory | | 6,750 | |
| Trade Receivables (3,500 – 155) | | 3,345 | |
| Pre-Payments | | 200 | |
| Cash in hand | | 75 | 10,370 |
| Total Assets | | | 16,630 |
| Equity & Liabilities | | | |
| Equity | | | |
| Capital as at 1st April 2022 | | 1,540 | |
| Additional Capital | | 900 | |
| Profit for the year | | 12,002 | 14,442 |
| Non-current Liabilities | | | |
| Bank loan | | | 560 |
| Current Liabilities | | | |
| Trade Payables | | 1,050 | |
| Other Payables | | 500 | |
| Accrued Expenses | | 78 | |
| Total Equity and Liabilities | | | 16,630 |

W1 - Depreciation

| | Acc. Depreciation 1.4.2022 | Charge for the year | Acc. Depreciation 31.03.2023 |
|----------------------|----------------------------------|------------------------|------------------------------------|
| Beauty Equipment | 625 | 875 | 1,500 |
| Furniture & Fittings | 400 | 1,040 | 1,440 |
| | 1,025 | 1,915 | 2,940 |

Depreciation Charge for the year

| | | |
|----------------------|---------------------|--------|
| Beauty Equipment | $3,500 \times 25\%$ | = 875 |
| Furniture & Fittings | $5,200 \times 20\%$ | = 1040 |



(09 marks)
(Total 20 marks)

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.



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