

CA



THE INSTITUTE OF  
**CHARTERED** ACCOUNTANTS  
OF SRI LANKA

# SUGGESTED SOLUTIONS

## **01104 – Financial Accounting**

Certificate in Accounting and Business I Examination  
September 2014

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

## PAPER A

### ANSWERS FOR MULTIPLE CHOICE QUESTIONS

- |     |   |     |   |
|-----|---|-----|---|
| 1.  | 4 | 11. | 3 |
| 2.  | 2 | 12. | 2 |
| 3.  | 3 | 13. | 2 |
| 4.  | 2 | 14. | 3 |
| 5.  | 4 | 15. | 3 |
| 6.  | 2 | 16. | 2 |
| 7.  | 1 | 17. | 2 |
| 8.  | 3 | 18. | 4 |
| 9.  | 2 | 19. | 3 |
| 10. | 1 | 20. | 2 |

#### Examiners' comments

##### Part A

Answers were satisfactory. Majority of the candidates had scored 24 marks out of 40.

Most of the candidates did not have good knowledge of the conceptual framework. Knowledge of the accounting standards was also not up to standard.

All the questions were in accordance with the syllabus and candidates should carefully go through the standards.

**Answer No. 01**

(a) Manufacturing account for the year ended 31 March 2014.

	Rs. '000	Rs. '000
Raw material purchases		3,600
Raw material stock as at 1 April 2013	530	
Carriage inwards	50	
Raw material stock at 31 March 2014	(320)	
Returns outward	(40)	<u>220</u>
<b>Cost of raw material consumed</b>		3,820
Direct wages		<u>280</u>
<b>Prime cost</b>		4,100
<b>Factory overheads cost</b>		
Machine depreciation	80	
Overtime for factory workers	763	
Factory rent	165	$(240 + 60 - 80) \times 0.75$
Indirect salaries	2,200	$(2,610 + 50 + 75 + 15) \times 0.80$
Packing materials	120	140 - 20
Electricity	<u>72</u>	80 x 0.9
		<u>3,400</u>
<b>Manufacturing cost</b>		<b>7,500</b>

(b) Statement of comprehensive income for the year ended 31 March 2014.

	Rs. '000	Rs. '000	Workings
Sales revenue		11,650	
Cost of sales		<u>(7,620)</u>	700 + 7,500 - 540 - 40
Gross profit		4,030	
Profit on sale of motor vehicle		<u>40</u>	300 - (800 - (420+120))
		4,070	
<b>Administrative expenses</b>			
Depreciation - office equipment	350		
Depreciation - motor vehicle	120		$(800 - 200) \times 20\%$
Office maintenance	625		
Office rent	55		240 + 60 - 80 - 165
Office salaries	550		2,610 + 125 + 15 - 2,200
Electricity	8		80 - 72
Telephone charges	28		
MV insurance	<u>34</u>	<u>(1,770)</u>	

<b>Distribution costs</b>			
Distribution charges	1,200		680 + 520
Provision for doubtful debts	12		600 x 2%
Cost of samples distributed	<u>40</u>	(1,252)	
<b>Finance cost</b>			
Loan interest	<u>48</u>	<u>(48)</u>	
<b>Profit for the year</b>		<b>1,000</b>	

(c) Statement of financial position as at 31 March 2014

	<b>Rs. 000</b>
<b>Non current assets</b>	
Property, plant and equipment	840
Building deposit	250
<b>Current assets</b>	
Inventories (320 + 540 + 20)	880
Accounts receivable (600 – 12)	588
Payments in advance (20 x 4)	80
Cash	578
<b>Total assets</b>	<b>3,216</b>
<b>Equity and liabilities</b>	
Capital	1,000
Retained earnings	1,020
<b>Non current liabilities</b>	
Bank loan	200
<b>Current liabilities</b>	
Accounts payable	120
Bank loan	100
Accrued distribution cost	520
Other accrued expenses	68
Accrued EPF (50 + 75)	125
Accrued ETF	15
Interest payable	48
<b>Total equity and liabilities</b>	<b>3,216</b>

### Examiners' comments

This question tested the practical knowledge on how to prepare a manufacturing account, a statement of comprehensive income for the year ended, and a statement of financial position as at the balance sheet date.

Majority of the candidates had understood the question, but some students were unable to understand some of adjustments.

Most of the candidates did not know how to calculate the profit on sale of motor vehicles, and the loan repayment and interest calculation. Some candidates did not know the content of manufacturing accounts and some have not understood the salary adjustment.

Generally most of the answers are satisfactory. On average, majority had taken over 50% of the marks allocated for the question.

### Answer No. 02

- (a) Statement showing how the profit for the year was corrected

	Rs. '000	Workings
Profit for the year	1,560	
Depreciation on building	(20)	
Write off of inventory	(35)	275 - 240
Drawings of goods	40	
Telephone charges	(5)	
<b>Corrected profit</b>	<b>1,540</b>	

- (b) Partners' capital accounts for the year ended 31 March 2014

Capital accounts (Rs. '000)	Kamani	Lalani	Ramani
Balance b/f	800	900	
Cash			600
Equipment			400
Goodwill	50	50	(100)
Balance c/f	850	950	900

(c) Partners' current accounts for the year ended 31 March 2014

Current accounts (Rs. '000)	Kamani	Lalani
Balance b/f	90	50
Salaries	300	-
Interest on capital	80	90
Drawings - Goods		(40)
Drawings - Cash	(200)	(100)
Reimbursements	5	
Final profit share	535	535
Balance c/f	810	535

(d) Statement of financial position as at 31 March 2014

	Rs.'000	Workings
<b>Non current assets</b>		
Land and building	2,000	
Building	1,380	1,400 - 20
Equipment	400	
	3,780	
<b>Current assets</b>		
Inventory	240	Lower of 275 and 240
Cash	825	
	1,065	
<b>Total assets</b>	<b>4,845</b>	
<b>Equity</b>		
Capital Accounts - Kamani	850	
Capital Accounts - Lalani	950	
Capital Accounts - Ramani	900	
Revaluation reserve	800	
Current Accounts - Kamani	810	
Current Accounts- Lalani	535	
<b>Total equity</b>	<b>4,845</b>	

**Notes:**

<b>1. Revaluation reserve entitlement</b>	<b>Rs. '000</b>
Kamani	400
Lalani	400

**Examiners' comments**

This question tested on partnership accounts. Most of the candidates had understood the question and performed well. According to the answers given by the candidates they possess a comprehensive knowledge of this area. Most of the candidates' answers were built in a systematic and methodical manner.

A few candidates did not appear to have understood the question properly. They had included capital account transactions in the current account and current account transactions in the capital account. Therefore the quality of the answers were not up to standard.

Some candidates' answers included mistakes (i.e. inclusion of interest on capital on all three partners, distribution of share of profit for all three partners, revaluation surplus credited to all three partners).

Many of the candidates had done the following mistakes:

- When calculating corrected net profit appropriation has been deducted
- Debiting of revaluation surplus to capital account
- Inclusion of revaluation surplus to the current account
- Calculation of interest on capital for new partners
- Mixing of transactions pertaining to current account and capital account
- Distributing of shares of profit to all three partners consistent with previous year

**Answer No. 03**

(a) Income statement for the Medical Centre of Sevana Association for the year ended 31 March 2014

	Rs. '000	Rs. '000
Income from Medical Centre		1,800
Less: Cost of sales		
Opening inventory balance of drugs and injections	1,050	
Add - Purchases	3,840	
Less - Closing inventory balance of drugs and injections	<u>(990)</u>	<u>(3,900)</u>
<b>Gross loss</b>		<b>2,100</b>
Less: Donation received by Medical Centre		<u>5,000</u>
		2,900
Less: Expenses		
Medical Centre expenses	4,400	
Salaries (including EPF and ETF)	1,100	
Depreciation - medical equipment	<u>3,000</u>	<u>8,500</u>
<b>Net loss from Medical Centre</b>		<b>5,600</b>

(b) Income &amp; expenditure account of Sevana Association for the year ended 31 March 2014

	Rs. '000	Rs. '000	Workings
Members subscriptions	11,500		(Refer workings)
Profit from greeting cards	520		950 - 430
New Year Pola	<u>2,800</u>		2,300 + 500
		14,820	
Less: Expenses			
Salaries (including EPF and ETF)	1,100		
Maintenance	1,850		
Electricity	1,700		1,800 - 180 + 80
Water	1,000		980 + 160 - 140
Rates & taxes	820		
Subscriptions written off during the year	750		
Depreciation on buildings	1,500		
Net loss from Medical Centre	<u>5,600</u>		
		14,320	
<b>Excess over expenses</b>		<b>500</b>	



(c) Statement of financial position as at 31 March 2014 for Sevana Association

	Rs. '000	Rs. '000
<b>Non current assets (written down value)</b>		
Building and furniture	83,500	
Medical equipment at Medical Centre	36,000	
Construction - Work In Progress (WIP)	<u>13,000</u>	132,500
<b>Current assets</b>		
Inventory balance of drugs and injections	990	
Receivables from suppliers	500	
Members subscriptions in arrears	250	
Cash balance	<u>2,970</u>	<u>4,710</u>
<b>Total assets</b>		<b>137,210</b>
Accumulated fund	111,900	
Add: Excess over expenses	500	
Hospital fund	<u>22,000</u>	134,400
Members subscriptions received in advance	1,700	
Payable to contractors	500	
Payable for drugs and injections	<u>40</u>	2,240
<b>Accrued expenses</b>		
Salaries (including EPF and ETF)	330	
Electricity	80	
Water	<u>160</u>	<u>570</u>
		<b>137,210</b>

**Workings**

Opening statement of affairs 1 April 2013	Rs. '000
<b>Non current assets (written down value)</b>	
Building and furniture	85,000
Medical equipment at Medical Centre	33,000
Members subscription in arrears	1,950

Inventory balance of drugs and injections	1,050
Construction - Work In Progress	5,000
Cash balance	<u>1,600</u>
	127,600
Less:	
Members subscription received in advance	3,250
Accrued expenses;	
Salaries EPF and ETF	130
Electricity	180
Water	140
Hospital fund	12,000
Accumulated fund	<u>111,900</u>
	127,600
<b>Members subscriptions A/c</b>	
Members subscription in arrears - Beginning	1,950
Add;	
Members subscription received in advance - At the end	<u>1,700</u>
	<u>3,650</u>
Less;	
Members subscription received in advance - Beginning	3,250
Subscription received during the year	10,900
Written off during the year	750
Members subscription in arrears - At the end	<u>250</u>
	<u>15,150</u>
Income statement	11,500

#### **Examiners' comments**

This question tested the income and expenditure account. Most of the candidates had understood the question properly. Most of the answers to parts (a) and (b) of the question were up to the required standard. Most of the answers for part (c) were not satisfactory. Majority of the candidates did not properly identify the current assets and current liabilities.

Some candidates did not correctly identify the expenses related to the Medical Centre. Medical Centre expenses have been debited to club account. E.g. depreciation of the medical equipment - this was debited to the income and expenditure account instead of being debited to Medical Centre expenses

**Answer No. 04**

(a) Head office current account maintained in the branch for the year ended 31 March 2014

	Rs.		Rs.
Goods returned to the HO	23,000	1 April 2013 b/f	103,400
Cash book	505,000	Goods received from the HO	490,000
Amount received by the HO from debtors	430,000	Expenses met by the HO	80,000
Cash	308,000	Amount paid to creditors by the HO	205,000
		Management fees charged by the HO	120,000
		31 March 2014 c/f	267,600
	<b>1,266,000</b>		<b>1,266,000</b>

(b) Branch cash book for the year ended 31 March 2014

	Rs.		Rs.
1 April 2013 b/f	520,000	Purchases	350,000
Sales	780,000	Creditors	650,000
Debtors	1,885,000	HO current account	505,000
		Administrative expenses	380,000
		Selling & distribution expenses	290,000
		Other expenses	110,000
		HO current account	308,000
		31 March 2014 c/f	592,000
	<b>3,185,000</b>		<b>3,185,000</b>

(c) Income statement for the **branch** for the year ended 31 March 2014

	Rs. '000		Rs. '000
Opening stock	620	Sales	3,581
Add: Purchases	1,314		
Received from the HO	<u>467</u>		
	2,401		
Stock loss	<u>(8)</u>		
	2,393		
Closing stock	<u>(410)</u>		
Cost of sales	1,983		
Gross profit	<u>1,598</u>		
	<b>3,581</b>		<b>3,581</b>

Administrative expenses	380	Gross profit	1,598
Selling & distribution expenses	290	Discount received	30
Management fees	120		
Other expenses	190		
Stock loss	8		
Bad debts	42		
Depreciation expenses	<u>60</u>		
	1,090		
Net profit	<u>538</u>		
	<b>1,628</b>		<b>1,628</b>

Goods received from the HO

HO current account	490,000	HO current account	23,000
--------------------	---------	--------------------	--------

Sales account

		Cash	780,000
		Creditors	2,801,000

Discount received/allowed

		Cash	30,000
--	--	------	--------

Bad debtors

Debtors	42,000		
---------	--------	--	--

Other expenses

Cash	110,000		
HO current account	80,000		

Purchases account

Creditors	964,000		
cash	350,000		

Creditors account

Cash	650,000	Purchases	964,000
Discount received	30,000		
HO current account	205,000		

Debtors account

Sales	2,801,000	Cash	1,885,000
		Bad debtors	42,000
		HO current account	430,000

**Examiners' comments**

This question tested branch accounts. Most of the candidates did not attempt this question (only 5% attempted this question). Most of the candidates were unaware of branch accounts. A very few candidates answered, but they did not correctly answer part (a) of the question (head office current account maintained in the branch).

Some candidates had correctly understood the question and provided relevant answers. Those who had attempted this question provided answers in accordance with the expected level.

Some candidates' answers were unsatisfactory. They had prepared irrelevant accounts with erroneous double entries. Calculations were incorrect. Most of the candidates had prepared the HO account instead of preparing accounts in the books of the branch. Therefore their answers were totally irrelevant to the question.

Most of the candidates had not identified the difference between cash receipts and income, and also the difference between cash payments and expenditure. Hence entries to the cash book and income statement were not correct.

In the Financial Accounting paper, branch accounts were not tested for a considerable period of time. This may be the very reason as to why candidates had not studied this area. As a result, more than 90% of the students had not attempted this question.

### Notice of Disclaimer

The answers given are entirely by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and you accept the answers on an "as is" basis.

They are not intended as “Model answers”, but rather as suggested solutions.

The answers have two fundamental purposes, namely:

1. to provide a detailed example of a suggested solution to an examination question; and
2. to assist students with their research into the subject and to further their understanding and appreciation of the subject.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) makes no warranties with respect to the suggested solutions and as such there should be no reason for you to bring any grievance against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). However, if you do bring any action, claim, suit, threat or demand against the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and you do not substantially prevail, you shall pay the Institute of Chartered Accountants of Sri Lanka's (CA Sri Lanka's) entire legal fees and costs attached to such action. In the same token, if the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is forced to take legal action to enforce this right or any of its rights described herein or under the laws of Sri Lanka, you will pay the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) legal fees and costs.

© 2013 by the Institute of Chartered Accountants of Sri Lanka (CA 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 Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

---