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THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

01104 – Financial Accounting

Certificate in Accounting and Business I Examination
September 2013

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

PAPER 'A'

ANSWERS FOR MULTIPLE CHOICE QUESTIONS

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Answer No. 01

(a)

Sole Proprietor Business (Mr. Silva's)
Manufacturing account for the year ended 31 March 2013

Raw Material Inventories as at 01.04.2012		1,120
Add:		
Purchase of Raw material	22,500	
Carriage inwards - Raw Material	<u>4,220</u>	<u>26,720</u>
		27,840
Raw Material Inventories as at 31.03.2013		<u>1,020</u>
Raw Material Consumption		26,820
Direct Cost		
Direct wages and Direct Expenses		<u>1,114</u>
Prime Cost		27,934
Overhead Cost		
Factory Overtime	2,406	
Maintenance - Factory & Plant and Machinery	2,500	
General Factory Expenses	1,420	
Salaries and wages (including EPF & ETF)- Factory	7,600	
Electricity Charges	5,880	
Depreciation -Factory Building	360	
Depreciation -Plant & Machinery	1,330	
Depreciation - Motor Vehicle	185	
Depreciation - Factory Equipment	2,900	
Insurance - Plant & Machinery	268	
Insurance – Buildings	80	
Insurance - Motor Vehicle	100	
Vehicle Fuel Bill (vehicle running expense)	<u>660</u>	<u>25,689</u>
		53,623
<u>Adjustment</u>		
Opening WIP	480	
Closing WIP	<u>(310)</u>	<u>170</u>
Total Manufacturing Cost transferred to Trading Section		53,793

(6 marks)

(b) Income statement for the year ended 31 March 2013

Sales (Turnover)		79,120
Less Cost of Sales		
Inventories as at 01.04.2012 -Finished Goods	2,000	
Manufacturing Cost	<u>53,793</u>	
	55,793	
Inventories as at 31.03.2013- Finished Goods	<u>1,030</u>	
Cost of Sales		54,763
Gross Profit		24,357
Add: Other Income		
Other Income	4,500	
Discount allowed / received	256	
Profit on sale of MV	<u>260</u>	<u>5,016</u>
		29,373
Administration expenses		
Salaries and wages (including EPF & ETF) - Office	2,200	
Administration expenses	4,230	
Electricity Charges	1,680	
Water Charges	625	
Telephone Expenses	4,166	
Insurance – Buildings	120	
Depreciation – Office building	420	
Depreciation – motor vehicle	185	
Insurance - Motor Vehicle	100	
Vehicle Fuel Bill (vehicle running expense)	<u>660</u>	14,386
Selling and distribution cost		
Salaries and wages(including EPF & ETF)-Showrooms	1,100	
Electricity Charges	840	
Depreciation - Motor Vehicle	185	
Discount allowed	64	
Advertising	1,235	
Vehicle Fuel Bill (vehicle running expense)	660	
Selling and distribution expenses	2,936	
Insurance - Motor Vehicle	100	
Building Rent	<u>480</u>	7,
Finance cost		
Loan Interest	1,200	
Finance cost	300	
Bad Debts	157	
Bank Charges - OD Interest	251	
under Provision for doubtful debts	<u>224</u>	<u>2,132</u>
		<u>5,255</u>

(11 marks)

(c) **Statement of Financial Position as at 31 March 2013**

Non-Current Assets			
Property, Plant & Equipment		45,000	workings 01
Accumulated Depreciation		(11,565)	workings 02
		33,435	
Current Assets			
Inventories as at 31.03.2013			
- Raw Material	1,020		
- Work in Progress	310		
- Finished Goods	<u>1,030</u>	2,360	
Rent Advance		220	
Trade Debtors	18,200		
Provision for doubtful debts	(364)	17,836	
<u>Prepaid</u>			
-Electricity Charges	31		
-Vehicle Fuel Bill (vehicle running expense)	<u>22</u>	53	
Cash in Hand		180	
Cash at Bank		<u>5,669</u>	
		<u>59,753</u>	
Capital - as at 01 April 2012			
	30,140		
Add: Profit for the year	5,255		
Add: Additional Capital	<u>1,200</u>	36,595	
Non-Current Liabilities			
Long Term Bank Loan (12%)		6,100	
Current Liabilities			
Long Term Bank Loan (12%)		3,600	
Trade Creditors		11,505	
VAT Control Account		1,811	
Payables			
Water Charges		45	
Telephone Expenses		16	
Advertising		31	
Rent		<u>50</u>	
		<u>59,753</u>	

(13 marks)
(Total 30 marks)

Workings 01

Property, Plant & Equipment	Cost As At 31.03.2012	Additions	Disposals	Balance as at 31.03.2013
Office Building	8,400	-	-	8,400
Factory Building	7,200	-	-	7,200
Plant & Machinery	13,300	-	-	13,300
Motor Vehicles	3,200	2,500	2,600	3,100
Factory Equipment	7,800	1,200	-	9,000
Land	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
	43,900	3,700	2,600	45,000

Workings 02

Property, Plant & Equipment	Accumulated Depreciation As At 01.04.2012	Additions	Disposals	Balance as at 31.03.2013
Office Building - (Sq. Feet 20,000)	840	420	-	1,260
Factory Building - (Sq. Feet 70,000)	720	360	-	1,080
Plant & Machinery	2,200	1,330	-	3,530
Motor Vehicles	800	555	360	995
Factory Equipment	<u>1,800</u>	<u>2,900</u>	<u>-</u>	<u>4,700</u>
	6,360	5,565	360	11,565

Answer No. 02

- (1) (a) *
- * The entity has transferred to the buyer the significant risks and rewards of ownership of goods.
 - * The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
 - * The amount of revenue can be measured reliably.
 - * It is probable that the economic benefits associated with the transaction will flow to the entity.
 - * The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(3 marks)

(b)

Aruna, Waruna & Sarana
Statement of comprehensive income of the partnership for the year ended 31.03.2012

	01.04.2011 to 31.12.2011	01.01.2012 to 31.03.2012	Year ended 31.03.2012
Revenue	36,300	12,100	48,400
Less: Cost of sales	<u>(12,450)</u>	<u>(4,150)</u>	<u>(16,600)</u>
Gross Profit	23,850	7,950	31,800
Expenses			
Finance cost	1,050	350	1,400
Depreciation - building	487.5	162.5	650
- M.V	1,350	450	1,800
Selling & distribution cost	6,412.5	2,137.5	8,550
Other administration cost	4,462.5	1,487.5	5,950
Provision for bad debts	1,825	-	1,825
Bad debts	862.5	287.5	1,150
Insurance	412.5	137.5	550
Salaries	2,460	820	3,280
Salaries - Sarana	-	150	150
Interest on Capital accounts	<u> </u>	<u>1,950</u>	<u>1,950</u>
Profit for the year	4,527.5	17.5	4,545
Profit sharing - A	3,395.625	10.5	
- W	1,131.875	3.5	
- S	-	3.5	

Aruna, Waruna & Sarana
Statement of financial position of the partnership as at 31.03.2012

		(Rs. '000)	
Non-current assets			
Land	50,000		
Building	11,150		
Motor vehicles	<u>11,600</u>	72,750	
Current assets			
Trade receivables	16,425		
Stocks	4,100		
Prepayment – insurance	250		
Cash equivalents	<u>4,350</u>	<u>25,125</u>	
		97,875	
Partners' capital accounts - A	55,500		
- W	18,500		
- S	<u>4,000</u>	78,000	W1
Partners' current accounts - A	8,595		
- W	3,797		
- S	<u>103</u>	12,495	W2
Long term liabilities			
Long term loan		5,000	
Current liabilities			
Trade payables	1,430		
Other administration	600		
Selling & distribution	<u>350</u>	<u>2,380</u>	
		97,875	

Working 1

Capital A/c							
	A	W	S		A	W	S
Goodwill	18,000	6,000	6,000	Balance B/F	30,000	10,000	10,000
				Revaluation gain	21,000	7,000	
Balance C/f	<u>55,500</u>	<u>18,500</u>	<u>4,000</u>	Goodwill	<u>22,500</u>	<u>7,500</u>	-
	<u>73,500</u>	<u>24,500</u>	<u>10,000</u>		<u>73,500</u>	<u>24,500</u>	<u>10,000</u>

Working 2

Current A/c							
	A	W	S		A	W	S
				Balance B/F	3,800	2,200	-
				Interest	1,388	462	100
Balance b/f	<u>8,595</u>	<u>3,797</u>	<u>103</u>	Profit	<u>3,407</u>	<u>1,135</u>	<u>3</u>
	<u>8,595</u>	<u>3,797</u>	<u>103</u>		<u>8,595</u>	<u>3,797</u>	<u>103</u>

Answer No. 03

(a) Calculate total corrected net profit for the year ended 31 March 2013

Income Statement			
Opening Stocks	1,300	Sales (w- 3)	25,000
Add; Purchases (w- 2)	18,000		
Less Drawings	(50)		
Less Closing Stocks	<u>(1,750)</u>		
Cost of Sales	17,500		
Gross Profit	<u>7,500</u>		
	<u>25,000</u>		<u>25,000</u>
Salaries	1,200	Gross Profit	7,500
Other Expenses	2,830	Discount Received	585
Depreciation – Building	585		
Depreciation – Furniture	798		
Discount Allowed	340		
Bad Debts	600		
Net Profit	<u>1,732</u>		
	<u>8,085</u>		<u>8,085</u>

(6 marks)

(b) Prepare the corrected summarised cash book for the period ended 31 March 2013

Cash Book			
Opening Balance	2,400	Settlement to Creditors	18,915
Sales	6,000	Other Expenses	2,800
Debtors Collection	16,660	Salaries	1200
Sale of Motor car	500	Furniture	350
		Drawings	290
		Life Insurance	10
		Motor Bicycle	250
		Balance carried Forward	<u>1,745</u>
	<u>25,560</u>		<u>25,560</u>

(6 marks)

(1) Prepare the Statement of Financial Position as at 31 March 2013

Statement of Financial Position as at 31.03.2013			
Capital (w-1)	12,350	Building	5,265
Add: Profit	<u>2,332</u>	Furniture	3,542
	14,682		
Creditors	7,600	Inventories	1,750
Accrued Expenses	380	Debtors	10,200
		Prepayments	160
		Cash	1,745
	22,662		22,662

$$\begin{aligned}
 \text{Profit} &= \text{Closing capital} - \text{opening capital} + \text{drawing} - \text{new capital} \\
 &= 14,682 - 12,450 + 600 - 500 \\
 &= 2,232 + 100 \\
 &= 2,332
 \end{aligned}$$

(3 marks)

Workings

W – 1

Capital Account			
Motor Bicycle	250	Opening Balance	12,450
Life Insurance	10	Sale of Motor Car	500
Cash Drawings	290		
Goods Drawings	50		
Closing Balance	<u>12,350</u>		
	<u>12,950</u>		<u>12,950</u>

W – 2

Creditors Payable			
Cash	18,915	Opening Balance	9,100
Discount Received	585	Purchases	18,000
Closing Balance	<u>7,600</u>		
	<u>27,100</u>		<u>27,100</u>

W – 3

Debtors			
Opening Balance	8,200	Cash	16,660
Sales	19,000	Discount Allowed	340
		Closing Balance	<u>10,200</u>
	<u>27,200</u>		<u>27,200</u>

Answer No. 04

(a) (i)

Udarata Sports Club
Income & Expenditure Account year ended 31 March 2013

	Rs. '000	Rs. '000
Income		
Subscription income	69,950	(W-1)
Sponsorship	18,000	
Net income – dinner dance	5,300	
Sale of souvenirs	800	
Gym income	<u>2,500</u>	96,550
Expenses		
Bad debts	1,100	
Depreciation	24,700	
Salaries	8,350	
Electricity	3,930	
Water	2,370	
Maintenance	1,600	
Rates & taxes	1,230	
Gym expenses	300	
Printing of souvenirs	<u>2,200</u>	45,780
Excess of income over expenditure		<u>50,770</u>

(ii)

Udarata Sports Club
Statement of Financial Position as at 31 March 2013

	Rs. '000
Non-Current Assets	
Fixed assets	142,600
Current Assets	
Subscription receivable	10,300
Dinner dance receivable	100
Cash at bank & in hand	<u>54,490</u>
	<u>207,490</u>
Accumulated Fund	
Accumulated fund	168,760
Centenary fund	<u>8,200</u>
	176,960
Current Liabilities	
Subscription received in advance	13,800
Accrued expenses	1,730
Gym equipment payable	<u>15,000</u>
	207,490
	=====

(10 marks)

W-1

Subscription Account			
Opening balance	7,250	Opening balance	9,400
Income and expenditure a/c	69,950	Cash	70,200
		Written off	1,100
		Closing balance	10,300
Closing balance	<u>13,800</u>		<u> </u>
	<u>91,000</u>		<u>91,000</u>

(b)

- (1) Cost of the package - purchase price of the package and installation cost, maintenance cost and training and development cost of the staff has to be compared with that of the total cost of in-house development cost, the total cost of the IT department involve to the project such as salaries and other related cost, cost on the expert knowledge.
- (2) Whether the package will satisfy the organization requirements and thereby other related cost to be incurred in order to convert the package to the organization requirements. For this a productive assessment has to be carried out.
- (3) Training cost / on the job training /availability of test packages
- (4) After sales services
- (5) Legal requirements/ No of Licenses required
- (6) Compatibility with the prevailing computer facilities
- (7) Cost of service agreements

(5 marks)



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