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

# SUGGESTED SOLUTIONS

## **01104 – Financial Accounting**

Certificate in Accounting and Business I Examination  
March 2014

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

**PAPER 'A'**

**ANSWERS FOR MULTIPLE CHOICE QUESTIONS**

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**Paper B****Answer No. 01**

(a) Manufacturing Account for the year ended 31 March 2013

|   | Rs. '000     | Rs. '000      |
|---|--------------|---------------|
| <b>Prime cost:</b>                          |              |               |
| Opening raw material                        | 280          |               |
| <b>Add:</b>                                 |              |               |
| Purchase of raw material                    | 5,600        |               |
| Carriage inwards - raw material             | 1,050        |               |
| <b>Less:</b>                                |              |               |
| Closing raw material                        | <u>(600)</u> |               |
| Raw Material Usage                          | 6,330        |               |
| <b>Add:</b>                                 |              |               |
| Direct wages and Direct Expenses            | <u>280</u>   |               |
| <b>Prime Cost</b>                           |              | 6,610         |
| <b>Factory overheads:</b>                   |              |               |
| Factory overtime                            | 600          |               |
| Maintenance - factory and plant & machinery | 625          |               |
| General factory expenses                    | 350          |               |
| Depreciation on buildings                   | 36           |               |
| Depreciation on plant & machinery           | 227          |               |
| Electricity                                 | 480          |               |
| Salaries and wages (including EPF & ETF)    | 1,350        |               |
| Insurance                                   | 40           |               |
| <b>Add: WIP Opening</b>                     | 120          |               |
| <b>Less: Closing WIP</b>                    | <u>(310)</u> |               |
| <b>Factory overheads</b>                    |              | <u>3,518</u>  |
| <b>Manufacturing Cost</b>                   |              | <b>10,128</b> |

(b) Comprehensive Income Statement for the year ended 31 March 2013

|                                     | Rs. '000      | Rs. '000               |
|-------------------------------------|---------------|------------------------|
| <b>Sales (Turnover)</b>             |               | <b>19,740</b>          |
| <i>Less: Cost of sales</i>          |               |                        |
| Opening Finished Goods              | 500           |                        |
| Manufacturing Cost                  | <u>10,128</u> |                        |
| Purchased presented for sales       | 10,628        |                        |
| <i>Less: Closing finished goods</i> | <u>(240)</u>  |                        |
| Stock Loss                          | (15)          |                        |
| <b>Cost of Sales</b>                |               | <b><u>(10,373)</u></b> |

|   |            |                |
|---|------------|----------------|
| <b>Gross Profit</b>   |            | <b>9,367</b>   |
| <i>Add: Other Income</i>  |            |                |
| Other income  | 1,274      |                |
| Discount received   | 64         |                |
| Profit on sale of plant & machinery                                       | <u>79</u>  | <u>1,417</u>   |
|   |            | 10,784         |
| <i>Less: Expenses</i>   |            |                |
| <b><u>Administration Expenses</u></b>                                     |            |                |
| Depreciation on buildings   | 72         |                |
| Electricity   | 240        |                |
| Salaries and wages (including EPF & ETF)                                  | 810        |                |
| Insurance   | 80         |                |
| Water   | 500        |                |
| Telephone   | 400        |                |
| Impairment loss on stocks   | 15         |                |
| Other administration expenses   | 2,600      |                |
| <b><u>Selling and Distribution Expenses</u></b>                           |            |                |
| Depreciation on buildings   | 72         |                |
| Electricity   | 80         |                |
| Salaries and wages (including EPF & ETF)                                  | 540        |                |
| Insurance   | 80         |                |
| Advertising expense   | 900        |                |
| Depreciation - motor vehicle  | 480        |                |
| Other selling and distribution expenses                                   | 616        |                |
| <b><u>Finance Cost</u></b>  |            |                |
| Finance cost  | 75         |                |
| Bad debts   | 30         |                |
| Under provision for doubtful debts  | 110        |                |
| Building rent   | 480        |                |
| Discount allowed  | 16         |                |
| Loan interest   | 300        |                |
| Bank charges  | 5          |                |
| OD Interest   | 2          |                |
| <b><u>Other Items</u></b>   |            |                |
| Reversal of previously recognised revaluation loss<br>- plant & machinery | (200)      |                |
| Revaluation loss - motor vehicle  | <u>100</u> |                |
|   |            | <u>(8,403)</u> |
| <b>Net Profit</b>   |            | <b>2,381</b>   |

|   |            |                     |
|---|------------|---------------------|
| <b>Other Comprehensive Income</b>             |            |                     |
| <i>Add:</i> Revaluation gain - buildings      | 360        |                     |
| Revaluation gain - plant & machinery          | <u>300</u> | 660                 |
| <i>Less:</i> Revaluation loss - motor vehicle |            | (300)               |
| <b>Total Comprehensive Income</b>             |            | <b><u>2,741</u></b> |

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

|   | <b>Rs. '000</b> | <b>Rs. '000</b> |
|---|-----------------|-----------------|
| <b>Non Current Assets</b>                                     |                 |                 |
| Property, Plant & Equipment (revalued)                        |                 | 9,072           |
| Rent Advance  |                 | 120             |
| <b>Current Assets</b>   |                 |                 |
| Inventories as at 31 March 2013:                              |                 |                 |
| Raw material  | 600             |                 |
| Work in Progress  | 310             |                 |
| Finished Goods  | <u>240</u>      |                 |
|   | 1,150           |                 |
| Trade debtors   | 7,000           |                 |
| <i>Less:</i> Provision for doubtful debts as at 31 March 2013 | (140)           |                 |
| Cash in hand  | 146             |                 |
| Cash at bank  | 148             |                 |
| Rent advance  | 240             |                 |
| Prepayments as at 31 March 2013                               | <u>18</u>       | <u>8,562</u>    |
|   |                 | <u>17,754</u>   |
| <b>Equity</b>   |                 |                 |
| Capital as at 1 April 2012                                    | 4,200           |                 |
| <i>Add:</i> Net profit  | 2,381           |                 |
| Revaluation Reserve (1,400+360)                               | <u>1,760</u>    | 8,341           |
| <b>Non Current Liabilities</b>                                |                 |                 |
| Long term bank loan (12%)                                     |                 | 2,500           |
| <b>Current Liabilities</b>                                    |                 |                 |
| Trade creditors   | 6,400           |                 |
| VAT control account   | 440             |                 |
| Accruals as at 31 March 2013                                  | 28              |                 |
| Accrued loan interest   | 25              |                 |
| Accrued rent payable  | <u>20</u>       | <u>6,913</u>    |
|   |                 | <u>17,754</u>   |

Statement of Changes in Equity (Rs. '000)

|                             | <b>Capital</b> | <b>Revaluation Reserve</b> | <b>Profit &amp; Loss</b> | <b>Total</b> |
|-----------------------------|----------------|----------------------------|--------------------------|--------------|
| Balance as at 31 March 2012 | 4,200          | 1,400                      | -                        | 5,600        |
| Profit for the year         | -              | -                          | 2,381                    | 2,381        |
| Revaluation gain            | -              | 660                        | -                        | 660          |
| Revaluation loss            | -              | (300)                      | -                        | (300)        |
| Balance as at 31 March 2013 | 4,200          | 1,760                      | 2,381                    | 8,341        |

Statement of Property, Plant & Equipment (Rs. '000)

|                                     | <b>Land</b> | <b>Buildings</b> | <b>Plant and Machinery</b> | <b>Motor Vehicle</b> | <b>Total</b> |
|-------------------------------------|-------------|------------------|----------------------------|----------------------|--------------|
| Balance as at 31 March 2011         | 1,500       | 3,000            | 2,400                      | 2,100                | 9,000        |
| Revaluation gain                    | 500         | 600              | -                          | 300                  | 1,400        |
| Revaluation loss                    | -           | -                | (200)                      | -                    | (200)        |
| Balance as at 1 April 2011          | 2,000       | 3,600            | 2,200                      | 2,400                | 10,200       |
| Balance as at 1 April 2012          | 2,000       | 3,600            | 2,200                      | 2,400                | 10,200       |
| Additions                           | -           | -                | 400                        | -                    | 400          |
| Disposal                            | -           | -                | (260)                      | -                    | (260)        |
| Transfer from Acc Dep account       | -           | (360)            | (408)                      | (960)                | (1,728)      |
| Carrying amount as at 31 March 2013 | 2,000       | 3,240            | 1,932                      | 1,440                | 8,612        |
| Revaluation gain                    | -           | 360              | 500                        | -                    | 860          |
| Revaluation loss                    | -           | -                | -                          | 400                  | 400          |
| Balance as at 1 April 2013          | 2,000       | 3,600            | 2,432                      | 1,040                | 9,072        |

Accumulated depreciation (Rs. '000)

|                             |   |       |       |       |         |
|-----------------------------|---|-------|-------|-------|---------|
| Balance as at 1 April 2012  | - | 180   | 220   | 480   | 880     |
| Charges for the year        | - | 180   | 227   | 480   | 887     |
| Disposal                    | - | -     | (39)  | -     | (39)    |
| Balance as at 31 March 2013 | - | 360   | 408   | 960   | 1,728   |
| Transfer to asset account   | - | (360) | (408) | (960) | (1,728) |
| Balance as at 31 March 2013 | - | -     | -     | -     | -       |

**Answer No. 02**

(a) Capital Accounts (Rs.'000)

|                          | <b>Basil</b> | <b>Wimal</b> | <b>Kamal</b> |
|--------------------------|--------------|--------------|--------------|
| Balance at 1 April 2012  | 425          | 400          | 125          |
| Capital (GW)             | (50)         | 0            | 50           |
| Cash                     | 125          | 100          |              |
| Loan                     |              |              | (175)        |
| Balance at 31 March 2013 | 500          | 500          | 0            |

(b) Current Accounts (Rs.'000)

|                          | <b>Basil</b> | <b>Wimal</b> | <b>Kamal</b> |
|--------------------------|--------------|--------------|--------------|
| Balance at 1 April 2012  | 35           | (40)         | 25           |
| Salaries                 |              | 120          |              |
| Drawings                 | (30)         | (90)         |              |
| Interest on Capital      | 50           | 50           |              |
| Profit                   | 130          | 65           |              |
| Loan                     |              |              | (25)         |
| Balance at 31 March 2013 | 185          | 105          | 0            |

(c) Income Statement (Rs.'000)

|                                |                        |            |
|--------------------------------|------------------------|------------|
| Revenue                        |                        | 2,000      |
| Cost of Sales                  | (1,200 - 30)           | (1,170)    |
| <b>Gross Profit</b>            |                        | 830        |
| Other Administrative Expenses  | (165 - 15 + 30)        | (180)      |
| Depreciation                   |                        | (120)      |
| Other Selling and Distribution | (80 + 10 - 15)         | (75)       |
| Write off of inventory         |                        | (15)       |
| Finance Cost                   | (100 x 20% + 100 x 5%) | (25)       |
| <b>Profit for the year</b>     |                        | <b>415</b> |

| <b>Appropriation of profits</b> |     |     |
|---------------------------------|-----|-----|
| Interest on capital - Basil     | 50  |     |
| Interest on capital - Wimal     | 50  | 100 |
| Salaries - Wimal                |     | 120 |
| Profit share - Basil            | 130 |     |
| Profit share - Wimal            | 65  | 195 |

(d) Statement of Financial Position (Rs.'000)

|   |            |                     |
|---|------------|---------------------|
| <b>Non Current Assets</b>                 |            |                     |
| Property, Plant & Equipment (1,100 – 250) |            | 850                 |
| <b>Current Assets</b>                     |            |                     |
| Inventory (145 – 15)                      | 130        |                     |
| Debtors                                   | 225        |                     |
| Prepaid expenses                          | 15         |                     |
| Cash                                      | <u>375</u> | <u>745</u>          |
|   |            | <b><u>1,595</u></b> |
| <b>Equity:</b>                            |            |                     |
| Capital accounts - Basil                  | 500        |                     |
| Capital accounts - Wimal                  | <u>500</u> | 1,000               |
|   |            |                     |
|   | 185        |                     |
| Current Accounts - Basil                  |            |                     |
| Current Accounts - Wimal                  | <u>105</u> | 290                 |
| <b>Long Term Liabilities:</b>             |            |                     |
| Loan - Basil                              | 100        |                     |
| Loan - Kamal                              | <u>100</u> | 200                 |
| <b>Current Liabilities:</b>               |            |                     |
| Trade payables                            | 65         |                     |
| Accrued administrative expenses           | 30         |                     |
| Accrued interest (5 + 5)                  | <u>10</u>  | <u>105</u>          |
|   |            | <b><u>1,595</u></b> |



**Answer No. 03**

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

|  | Rs.           | Rs.              |
|--|---------------|------------------|
|  |               | .                |
| Sales (1800 + 25 + 10 + 35 + 50 + 130 - 500)             |               | 1,550,000        |
| Cost of sales (450 + 95 + 35 - 45 - 15)                  |               | <u>(520,000)</u> |
| <b>Gross Profit</b>                                      |               | <b>1,030,000</b> |
| Depreciation - equipment (400 x 10%) + (200 x 10% x 1/2) | 50,000        |                  |
| Depreciation – motor vehicles (700 x 20%)                | 140,000       |                  |
|  |               |                  |
| Expenses paid  | 300,000       |                  |
| Expenses payable   | 75,000        |                  |
| Donations  | 10,000        |                  |
| Bank charges   | 2,500         |                  |
| Petty cash expenses (50 - 2.5)                           | <u>47,500</u> | <u>(625,000)</u> |
| <b>Profit for the year</b>                               |               | <b>405,000</b>   |

(b) Statement of Financial Position as at 31 March 2013

|                             | Rs.             | Rs.                     |
|-----------------------------|-----------------|-------------------------|
| <b>Non Current Assets</b>   |                 |                         |
| Equipment                   | 550,000         |                         |
| Motor vehicles              | <u>560,000</u>  | 1,110,000               |
| <b>Current Assets:</b>      |                 |                         |
| Inventory                   | 60,000          |                         |
| Debtors                     | 130,000         |                         |
| Cash                        | <u>450,000</u>  | <u>640,000</u>          |
|                             |                 | <b><u>1,750,000</u></b> |
| <b>Equity:</b>              |                 |                         |
| Capital                     | 1,200,000       |                         |
| Profit                      | 405,000         |                         |
| Drawings                    | <u>(25,000)</u> | 1,580,000               |
| <b>Current Liabilities:</b> |                 |                         |
| Creditors                   | 95,000          |                         |
| Accruals                    | <u>75,000</u>   | <u>170,000</u>          |
|                             |                 | <b><u>1,750,000</u></b> |

- (c) (i) Transfer of significant risks and rewards of ownership of the goods to the buyer
- (ii) Seller doesn't retain either managerial involvement associated with ownership or effective control over the goods sold
- (iii) The amount of revenue can be measured reliably
- (iv) Probable that the economic benefits associated with the transaction will flow to the entity
- (v) The cost of the transaction can be measured reliably

**Answer No. 04**

- (a) (i) Income and Expenditure account for Venus Sport Club (VSC) for the year ended 31 December 2013

|                                      | <b>Rs.</b>              |                                | <b>Rs.</b>              |
|--------------------------------------|-------------------------|--------------------------------|-------------------------|
| Salaries - club & stadium            | 120,000                 | Member subscriptions           | 96,000                  |
| Electricity                          | 48,000                  | Entrance fees                  | 14,000                  |
| Depreciation - club office equipment | 46,000                  | Life membership fees           | 41,600                  |
| Depreciation - indoor stadium        | 60,000                  | Income from indoor stadium     | 680,000                 |
| Rent for club building               | 240,000                 | Income from tournament tickets | 510,000                 |
| Cost of tournament prizes            | 50,000                  | Profit from the canteen        | <u>255,000</u>          |
| Cost of stationary                   | 22,000                  |                                |                         |
| Bad debts                            | 4,000                   |                                |                         |
| Income over expenses                 | <u>1,006,600</u>        |                                |                         |
|                                      | <b><u>1,596,600</u></b> |                                | <b><u>1,596,600</u></b> |

Income Statement for the canteen for the year ended 31 December 2013

|                             | <b>Rs.</b>       | <b>Rs.</b>            |
|-----------------------------|------------------|-----------------------|
| Sales                       |                  | 1,254,000             |
| <i>Less: Cost of Sales</i>  |                  |                       |
| Opening stock               | 159,000          |                       |
| Purchases                   | 844,000          |                       |
| <i>Less: closing stocks</i> | <u>(167,000)</u> |                       |
| Cost of sales               |                  | <u>(836,000)</u>      |
| <b>Gross Profit</b>         |                  | <b>418,000</b>        |
| Salaries                    | 95,000           |                       |
| Electricity                 | 32,000           |                       |
| Depreciation - furniture    | <u>36,000</u>    | <u>(163,000)</u>      |
| <b>Net Profit</b>           |                  | <b><u>255,000</u></b> |

## (ii) Statement of Financial Position as at 31 December 2013

|                                    | Rs.                     |                                 | Rs.                     |
|------------------------------------|-------------------------|---------------------------------|-------------------------|
| Accumulated fund                   | 2,119,600               | Land                            | 1,000,000               |
| <i>Add: Excess</i>                 | <u>1,006,600</u>        | Buildings                       | 2,340,000               |
|                                    | 3,126,200               | Office equipment (club)         | 135,000                 |
| Life membership fund               | <u>730,400</u>          | Furniture - canteen             | <u>116,000</u>          |
|                                    | 3,856,600               |                                 | 3,591,000               |
| Canteen payable                    | 280,000                 | Inventories                     | 167,000                 |
| Membership fee received in advance | 5,200                   | Debtors                         | 390,000                 |
| Accrued Expenses                   | 17,000                  | Member subscriptions receivable | 12,800                  |
| Rent Payable                       | <u>20,000</u>           | Cash                            | <u>18,000</u>           |
|                                    | <b><u>4,178,800</u></b> |                                 | <b><u>4,178,800</u></b> |

**Workings**

## Statement of affairs as at 1 January 2013

|                                    | Rs.                     |                                 | Rs.                     |
|------------------------------------|-------------------------|---------------------------------|-------------------------|
| Accumulated fund                   | 2,119,600               | Building                        | -                       |
| Life membership Fund               | <u>740,000</u>          | Office equipment (club)         | 181,000                 |
|                                    | 2,859,600               | Furniture - canteen             | 152,000                 |
|                                    |                         | Fixed deposit                   | 2,000,000               |
| Canteen payable                    | 300,000                 | Inventories                     | 159,000                 |
| Membership fee received in advance | 12,000                  | Debtors                         | 480,000                 |
| Accrued expenses                   | <u>16,000</u>           | Member subscriptions receivable | 16,000                  |
|                                    |                         | Cash                            | <u>199,600</u>          |
|                                    | <b><u>3,187,600</u></b> |                                 | <b><u>3,187,600</u></b> |

| Canteen Payable           |                         |                            |                         |
|---------------------------|-------------------------|----------------------------|-------------------------|
|                           | Rs.                     |                            | Rs.                     |
| Receipt & Payment account | 864,000                 | Opening balance            | 300,000                 |
| Closing balance           | <u>280,000</u>          | Income Statement - Canteen | <u>844,000</u>          |
|                           | <b><u>1,144,000</u></b> |                            | <b><u>1,144,000</u></b> |

| <b>Canteen Receivable</b>  |                         |                           |                         |
|----------------------------|-------------------------|---------------------------|-------------------------|
|                            | <b>Rs.</b>              |                           | <b>Rs.</b>              |
| Opening balance            | 480,000                 | Receipt & Payment account | 1,344,000               |
| Income Statement - Canteen | <u>1,254,000</u>        | Closing balance           | <u>390,000</u>          |
|                            | <b><u>1,734,000</u></b> |                           | <b><u>1,734,000</u></b> |

| <b>Membership Subscription</b> |                       |                           |                       |
|--------------------------------|-----------------------|---------------------------|-----------------------|
|                                | <b>Rs.</b>            |                           | <b>Rs.</b>            |
| Opening balance                | 16,000                | Opening balance           | 12,000                |
| Income & Expenditure account   | 96,000                | Receipt & Payment account | 88,400                |
|                                |                       | Bad debts                 | 4,000                 |
| Closing balance                | <u>5,200</u>          | Closing balance           | <u>12,800</u>         |
|                                | <b><u>117,200</u></b> |                           | <b><u>117,200</u></b> |

| <b>Life Membership</b>       |                       |                           |                       |
|------------------------------|-----------------------|---------------------------|-----------------------|
|                              | <b>Rs.</b>            |                           | <b>Rs.</b>            |
| Income & Expenditure account | 41,600                | Opening balance           | 740,000               |
| Closing balance              | <u>730,400</u>        | Receipt & Payment account | <u>32,000</u>         |
|                              | <b><u>772,000</u></b> |                           | <b><u>772,000</u></b> |

| <b>Receipt &amp; Payment account</b>       |                         |   |                         |
|--|-------------------------|---|-------------------------|
|  | <b>Rs.</b>              |   | <b>Rs.</b>              |
| Opening balance                            | 199,600                 | Salaries - club & stadium                         | 120,000                 |
| Fixed deposit (maturity on 1 January 2013) | 2,000,000               | Salaries - canteen                                | 95,000                  |
| Entrance fees                              | 14,000                  | Indoor stadium purchased on 1 July 2013           |                         |
| Life membership fee                        | 32,000                  | - Land  | 1,000,000               |
| Membership subscriptions:                  |                         | - Building  | 2,400,000               |
| - For 2012                                 | 12,000                  | Electricity                                       | 79,000                  |
| - For 2013                                 | 71,200                  | Purchases at canteen                              | 864,000                 |
| - For 2014                                 | 5,200                   | Cost of tournament prizes                         | 50,000                  |
| Income from indoor stadium                 | 680,000                 | Rent for club building (from January to November) | 220,000                 |
| Income from tournament tickets             | 510,000                 | Cost of Stationary                                | 22,000                  |
| Receipts form canteen                      | <u>1,344,000</u>        | Closing Balance                                   | <u>18,000</u>           |
|  | <b><u>4,868,000</u></b> |   | <b><u>4,868,000</u></b> |

**No of Members**

|                              |            |
|------------------------------|------------|
| At the beginning of the year | 237        |
| Admission 14,000/2,000       | 7          |
| Less Life members            | <u>(4)</u> |
| During the year admitted     | <u>3</u>   |
| Total                        | <u>240</u> |

Total Membership fee income:  $240 \times 400 = \text{Rs. } 96,000$

**(b) Advantages of Committees**

- (i) Ability to obtain expert opinion
- (ii) Critically analysed solutions can be achieved
- (iii) Different views can be collected
- (iv) Compliance with good corporate governance
- (v) Managing the organization will be easy
- (vi) Increase the effectiveness and the efficiency of the organization

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