

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FOUNDATION EXAMINATION - JANUARY 2014

(50) BASIC ACCOUNTING

Time: 03 hours

18-01-2014
Morning
[9.00 – 12.00]

• **Instructions to candidates**

- (1) *This paper consists of three (03) Sections **A, B & C.***
- (2) **Five (05) questions should be answered as follows:**
 - **Question No.01 of Section A**
 - **Both(02) questions of Section B**
 - **Any two (02) questions from Section C**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) *Submit all workings and calculations. State clearly assumptions made by you, if any.*
- (5) *Use of calculators is permitted.*
- (6) *100 Marks.*

No. of Pages : 08
No. of Questions : 06

SECTION - A

Multiple Choice Questions

All questions of this Section should be answered.

30 marks

- 01.** Select from (1), (2), (3) and (4) the **most correct** answer to each of the following questions. Write the number of the selected answer in your answer booklet with the English letter assigned to the question.
- (A) The main objective of preparing financial statements is:
- (1) To decide selling price of the entity's products and services.
 - (2) To prevent fraud and error.
 - (3) To provide financial information of an entity that is useful to users in making economic decisions.
 - (4) To provide information only for the management.
- (B) For accounting purposes, a business entity should be considered as being separated from its owner/owners, if the business is formed as a:
- (1) Sole proprietorship.
 - (2) Limited liability company.
 - (3) Partnership.
 - (4) All of the above.
- (C) **E Ltd.** shows land on its Statement of Financial Position (balance sheet) at the amount paid for it, even though the current market value is greater than that value. The accounting concept relating to this treatment is:
- (1) Matching.
 - (2) Prudence.
 - (3) Historical cost.
 - (4) Consistency.

- (J) Which error out of the following errors would affect the agreement of the Trial Balance?
- (1) Repair cost of a vehicle of Rs.8,000/- has been debited to vehicle account.
 - (2) Interest income of Rs.5,000/- has been credited to the sales account.
 - (3) Opening balance of Rs.24,000/- relating to rent paid in advance, has not been taken into the relevant ledger account.
 - (4) Electricity payment of Rs.2,000/- has not been completely recorded in the books of accounts.
- (K) Select from the following, the group of expenses which consists of examples for non-production overheads:
- (1) Factory Rent and Rates.
 - (2) Depreciation on Plant & Machinery of factory.
 - (3) Rent and insurance of office premises.
 - (4) Salaries paid to factory Supervisors and Foremen.
- (L) A firm has contracted minimum payment for telephone charges of Rs.2,000/- per month and it can use 1,000 minutes without any further payment. Any additional minute is charged at Rs.5/- after 1,000 minutes. This is an example of:
- (1) Fixed cost.
 - (2) Semi variable cost.
 - (3) Variable cost.
 - (4) Marginal cost.
- (M) A company pays Rs.75/- per labour hour to a worker and expects 50 units of output per hour. Every additional unit is paid at Rs.10/- each. If the worker produced 420 units within 8 hours, the total earnings of the worker is:
- (1) Rs.600/-.
 - (2) Rs.800/-.
 - (3) Rs.525/-.
 - (4) Rs.630/-.
- (N) Royalty expense paid on the basis of number of units produced can be categorized as:
- (1) Indirect cost.
 - (2) Administration cost.
 - (3) Selling and Distribution cost.
 - (4) Direct cost.
- (O) The prime cost of a manufacturing company is:
- (1) The sum of all direct costs.
 - (2) The sum of direct labour and direct material costs.
 - (3) The sum of all direct costs and total overhead costs.
 - (4) The sum of direct costs, indirect labour and indirect material costs.

(02 marks each, Total 30 marks)

SECTION - B

Compulsory Questions
Answer both(02) questions of this Section
50 marks

02. **Damith** is a sole proprietor and the following Trial Balance was extracted from the books of **Damith Traders**, as at 31st March 2013:

	Dr. (Rs.'000)	Cr. (Rs.'000)
Capital Account as at 01 st April 2012		8,000
Sales		3,080
Purchases	1,100	
Carriage Inwards	108	
Return Inwards	20	
Return Outwards		65
Land & Building at cost (land - Rs.2,000,000/-)	6,000	
Office Equipment at cost	3,450	
Accumulated Depreciation as at 01 st April 2012:		
Building		600
Office Equipment		800
Trade Receivables	750	
Trade Payables		825
Distribution Expenses	165	
Inventories as at 01 st April 2012	650	
Electricity Charges	130	
Telephone Charges	150	
Salaries & Wages	220	
Discounts Allowed / Discounts Received	32	25
Cash in Hand	620	
	13,395	13,395

The following additional information is also provided:

- (1) **Damith** carried out a physical count of the trading stocks on 31st March 2013 and valued as follows:

	Rs.
At cost	830,000
At net realizable value	800,000

- (2) Electricity bills for 3 months ended 31st March 2013 of Rs.15,000/- and salaries of Rs.20,000/- for March 2013, were paid on 15th April 2013.
- (3) A debtor amounting to Rs.2,000/- was decided to be written off as bad debts.
- (4) Depreciation on Property Plant & Equipment is provided on the straight line basis at cost as follows:
- | | | |
|------------------|---|-----|
| Building | - | 10% |
| Office Equipment | - | 20% |
- (5) **Damith** has paid his life insurance premium amounting to Rs.25,000/- from the business on 20th March 2013 and this has not been recorded in the books of accounts.
- (6) On 31st March 2013 night after closing for business, **Damith** carried out a physical count of the cash in hand and ended up with a balance of Rs.560,000/-. His investigation into the reasons for the physical balance not being in agreement with the book balance, revealed that none of the cash drawings have been recorded in the books of accounts.

You are required to prepare, for Damith Traders,

- (a) Statement of Income (Trading, Profit & Loss Account) for the year ended 31st March 2013. (14 marks)
- (b) Statement of Financial Position (Balance Sheet) as at 31st March 2013.(11 marks)
(Total 25 marks)

03. (A) The following information was extracted for the year ended 31st March 2013, from the books of **Electro Shock (Pvt) Ltd.**, a company specialised in manufacturing of sophisticated electrical circuits.

Description	Rs.
Labour Cost	1,500,000
Raw Material Purchases	2,250,000
<u>Inventories as at 01st April 2012:</u>	
Raw Material	850,000
Work in Progress at prime cost	600,000
Finished Goods	910,000
Factory Salaries	1,000,000
Depreciation – Factory Machinery	400,000
Depreciation – Factory Building	185,000
Factory Insurance	190,000
Electricity Expenses	500,000
Telephone Expenses	70,000
Other Direct Manufacturing Expenses	600,000

The following additional information is also provided:

- (1) Inventories as at 31st March 2013 were valued as follows:

Description	Rs.
Raw Material	900,000
Work In Progress at prime cost	550,000
Finished Goods	870,000

- (2) 55% of the electricity and telephone expenses are relevant to the factory operations.
- (3) The company has obtained the rights to manufacture its electrical circuits under a licensing agreement for which the company has to pay Rs.3/- per each electricity circuit produced. The company has produced 185,000 circuits during the year ended 31st March 2013. The payment for this has not yet been settled or provided in the books of accounts.
- (4) 65% of the labour cost was incurred for direct production while the balance was for the general factory operations.

You are required to prepare, the Manufacturing Account for **Electro Shock (Pvt) Ltd.** for the year ended 31st March 2013. (14 marks)

- (B) The trial balance of **Perfect Jobs (Pvt) Ltd.** as at 31st March 2013 did not agree and the difference was transferred to a suspense account. The following reasons were revealed subsequently:

- (1) A receipt of cash from a debtor amounting to Rs.25,000/- has been erroneously credited to the sales account though it is recorded in the cash book correctly.
- (2) Purchase of office furniture of Rs.50,000/- for office use has been debited to purchase account and credited to cash book.
- (3) A payment for office maintenance of Rs.106,000/- has been debited to the Office Equipment account as Rs.160,000/- though it is recorded in the cash book correctly.
- (4) Debit side of the cash book has been overcast by Rs.1,000/-.

- (5) A repayment of bank loan instalment of Rs.35,000/- which includes an interest component of Rs.15,000/- has been totally debited to bank loan account.
- (6) A credit sale of Rs.32,000/- had been omitted from the books of accounts.
- (7) Interest expenses of Rs.12,000/- has been credited to interest income account however, this has been recorded correctly in the bank account.

You are required to prepare:

- (a) Journal entries (including entries for cash transactions) to rectify the above errors.
- (b) Suspense account and find the difference that was present in the Trial Balance. (11 marks)
- (Total 25 marks)

SECTION - C

Answer any two (02) questions from this Section
20 marks

- 04.** (A) You are given the following cash book and bank statement of **Old Fashions** for the month of December 2013:

Cash Book

Date	Description	Rs.	Date	Description	Rs.
1	Balance B/F	100,000	5	Cheque No. 501 – Pasan Ltd.	20,000
6	Debtors	12,000	7	Cheque No. 502 – Sama Ltd.	35,000
10	Cash sales	27,000	11	Cheque No. 503 – Lanka Ltd.	2,100
15	Cash sales	82,000	13	Cheque No. 504 – Rent	5,000
19	Debtors	18,200	17	Cheque No. 505 – Cash	25,000
20	Cash sales	38,000	20	Cheque No. 506 – Insurance	4,275
24	Debtors	3,000	23	Cheque No. 507 – Saman Traders	30,000
				Balance C/D	158,825
		280,200			280,200
	Balance B/F	158,825			

Bank Statement

Date	Description	Dr. (Rs.)	Cr. (Rs.)	Balance (Rs.)
01	Balance B/F	-	-	100,000
08	Cheque Deposits	-	12,000	112,000
09	Cheque payment 501	20,000	-	92,000
10	Cheque payment 502	35,000	-	57,000
	Cash Deposits	-	27,000	84,000
15	Cash Deposits	-	82,000	166,000
	Cheque payment 504	5,000	-	161,000
16	Cheque payment 503	2,100	-	158,900
17	Cheque payment 505	25,000	-	133,900
20	Cash Deposits	-	38,000	171,900
28	Dividends	-	7,000	178,900
	Bank Charges	2,300	-	176,600

You are required to prepare,

- (a) Adjusted cash book.
- (b) Bank reconciliation statement after adjusting the cash book as at 31st December 2013. (07½ marks)
- (B) Briefly explain "Goods Received Note" (GRN) and state two(02) important matters included in GRN. (02½ marks)
- (Total 10 marks)

05. (A) You are given the following information relating to debtors of **Malith's** business for October 2013:

Debtor	Balance as at 01 st October 2013	Credit sales	Returns Inwards	Cash Receipts	Discounts Given
Nuwan	15,000	53,000	5,000	25,000	-
Lakmal	44,000	78,000	3,000	66,000	2,000
Lalith	-	82,000	4,500	36,000	1,750
Kumara	4,500	45,000	-	29,500	500

You are required to prepare, the debtors' control account and individual debtors ledger accounts as at 31st October 2013. (07½ marks)

- (B) The following transactions were extracted from the books of **Richware Garments**, a small scale garment factory during the month of December 2013:

- (1) Purchase of fabrics - Rs.1,750,000/-.
- (2) Salaries for machine operators - Rs.850,000/-.
- (3) Salaries for production quality controllers - Rs.200,000/-.
- (4) Factory insurance - Rs.55,000/-.
- (5) Purchase of buttons - Rs.30,000/-.

You are required to, classify the above cost items as direct or indirect costs. (02½ marks)
(Total 10 marks)

06. (A) **Vishva** has a computer accessories centre and sells USB (16GB) pen drives. As at 24th December 2013 he had in his store 35 pen drives each costing Rs.1,500/- and his sales and purchases during the last week of December 2013 were as follows:

Date	Description	No. of units Purchased / No. of units sold	Purchase cost per unit / Sales price per unit (Rs.)
25/12/2013	Purchases	15	1,525
26/12/2013	Sales	38	2,000
28/12/2013	Sales	10	2,000
29/12/2013	Purchases	25	1,530
30/12/2013	Sales	12	2,000

You are required to, prepare stock ledger using First In First Out (FIFO) method and calculate the value of inventory as at 31st December 2013. (07½ marks)

- (B) State three(03) advantages of a labour incentive payment scheme. (02½ marks)
(Total 10 marks)