

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FOUNDATION EXAMINATION - JANUARY 2012

(50) BASIC ACCOUNTING

Time: 03 hours

21-01-2012
Morning
9.00 – 12.00

• **Instructions to candidates**

- (1) *This paper consists of three (03) Sections A, B & C.*
- (2) *Six (06) questions should be answered as follows:*
- *Question No.01 of Section A*
 - *All 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 : 07

SECTION - A

Multiple Choice Questions

All questions of this Section should be answered.

30 marks

- 01.** Select from (1), (2), (3), (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 following accounting treatment is being followed by a company:
- “Telephone bill relevant to an accounting year, and not paid during that accounting year, is treated as a liability at the year end”
- This treatment is based on the accounting **concept** of:
- | | |
|----------------------|--------------------|
| (1) Prudence. | (2) Accrual. |
| (3) Historical cost. | (4) Going concern. |
- (B) When **Amal** introduces additional capital of Rs.100,000/- into his business, the capital account of the business is credited and cash account of the business is debited. The accounting **concept** relating to this treatment is:
- | | |
|--------------------|---------------|
| (1) Entity. | (2) Prudence. |
| (3) Going Concern. | (4) Matching. |
- (C) **Kamal's** business owns a land in Colombo and it is shown in the balance sheet of the business at purchased cost of Rs.1,250,000/- even though it has a market value of Rs.1,750,000/-. This is based on the accounting **concept** of:
- | | |
|----------------------|--------------------|
| (1) Consistency. | (2) Matching. |
| (3) Historical Cost. | (4) Going Concern. |
- (D) Which of the following is **not** considered as an accounting output?
- | | |
|--------------------------|---------------------|
| (1) Income statement. | (2) Balance sheet. |
| (3) Cash flow statement. | (4) Sales day book. |

- (E) If goods are sold on credit terms and returned by a buyer, the seller issues a:
- (1) Credit Note. (2) Debit Note. (3) Invoice. (4) Dispatch note.

- (F) Summary of petty cash transactions of **Ashi Enterprise** for the first two weeks of April 2011 is as follows:

Cash received from chief cashier on 01st April 2011 as petty cash imprest was Rs.2,500/-.

Date	Voucher No.	Description	Rs.
05.04.2011	001	Stationery purchases	400
10.04.2011	002	Stamp Charges	500
12.04.2011	003	Travelling expenses	650
15.04.2011	004	Newspaper expenses	800

On 16th April 2011, the petty cash imprest was reimbursed. The reimbursement would be:

- (1) Rs.2,500/-. (2) Rs.150/-. (3) Rs.2,350/-. (4) None of these.
- (G) The debit balance of the bank account of the cash book of **S & D Enterprise** was Rs.222,000/- as at 31st May 2011, and the bank statement balance as of that date was different from the cash book balance:

While checking the bank statement, the following were identified:

- The bank has debited bank charges of Rs.2,000/- and it was not recorded in the cash book.
- An interest income of Rs.5,000/- has been credited directly to the bank Account which was not recorded in the cash book.
- Cheques deposited but not realized up to 31st May 2011 were Rs.10,000/-.

The balance (favourable) as per bank statement as at 31st May 2011 is:

- (1) Rs.209,000/-. (2) Rs.215,000/-.
 (3) Rs.235,000/-. (4) Rs.205,000/-.
- (H) Which of the following errors in transactions would affect the agreement of the Trial Balance?
- (1) A sales invoice the value of which was Rs. 6,000/- has been recorded twice in the sales ledger as well as the debtors ledger.
- (2) An interest income of Rs.18,000/- for the month has been credited to the sales account
- (3) Opening balance of Rs.12,000/- relating to rent paid in advance has not been recorded in the account of rent paid in advance.
- (4) Payment of Rs.20,000/- made for electricity has been debited to the telephone expenses account.

- (O) A company pays a basic wage of Rs.60/- per hour to its workers during the normal working hours. Overtime is paid in the following manner:

After normal working hours - Basic rate + $\frac{1}{3}$ of the basic rate per hour.

Weekends - Double the basic rate per hour.

To complete Job No. x, the following number of labour hours were utilized.

Normal working hours 300, After normal working hours 30, Weekend hours 10.

Based on the above details, the total labour cost of Job x is:

- (1) Rs.20,400/- (2) Rs.23,460/- (3) Rs.21,600/- (4) None of these.

(02 marks each, Total 30 marks)

SECTION - B

Compulsory Questions

Answer all questions of this Section

50 marks

02. **Nisan Fashion Store** is in the business of buying and selling garments. **Nisan** is the sole proprietor of the business. The following Trial balance was extracted from the books of accounts of his business as at 31st March 2011:

	Dr. Rs.'000	Cr. Rs.'000
Freehold Land - at cost	1,500	
Buildings - at cost	500	
Motor Vehicles - at cost	2,000	
Furniture and Fittings - at cost	100	
Accumulated Depreciation - as at 01 st April 2010		
Buildings		25
Motor Vehicles		400
Furniture & Fittings		10
Inventory as at 01 st April 2010	200	
Trade Receivables	600	
Cash in hand	50	
Bank overdraft		100
Other Receivables	120	
Trade Payables		900
Other Payables		20
Long term loan		800
Capital account - Nisan		1,750
Sales		3,000
Purchases	860	
Salaries and Wages	550	
Electricity Expenses	120	
Telephone Expenses	56	
Advertising Expenses	35	
Fixed Deposits	100	
Interest Income		10
Interest Expenses	75	
Drawings	25	
Insurance premium on buildings	100	
Distribution Expenses	14	
Discount Allowed	10	
	7,015	7,015

The following additional information is provided:

- (1) The cost of inventory as at 31st March 2011 was Rs.275,000/- and the Net Realizable Value of inventory was Rs.270,000/-.
- (2) Depreciation Policy of the business is to provide depreciation on the straight line basis as follows:

Buildings	5% per annum on cost
Motor Vehicles	20% per annum on cost
Furniture and Fittings	10% per annum on cost
- (3) Goods valued at Rs.8,000/- (cost) was taken by **Nisan** for his personal use. No entry has been made in the books of accounts in this regard.
- (4) **Kiran** is a trade debtor of the **Nisan Fashion Store**. He was declared bankrupt by the court and his account balance as at 31st March 2011 is Rs.5,000/-. It was decided to write-off dues from him.
- (5) Unpaid telephone and electricity bills for the month of March 2011 were Rs.5,000/- and Rs.8,000/- respectively.
- (6) Insurance premium on buildings has been paid for 12 months from 01st January 2011.
- (7) Interest on the fixed deposit for the month of March 2011 of Rs.1,600/- has been directly credited to the bank account. This has not been recorded in the books of accounts.

You are required to prepare, for Nisan Fashion Store:

- (a) Trading, Profit & Loss account for the year ended 31st March 2011. (15 marks)
 - (b) Balance Sheet as at 31st March 2011. (10 marks)
- (Total 25 marks)

03. The following information was extracted for the year ended 31st March 2011 from the books of **Quality Manufacturing**, which produces household furniture.

Description	Rs.
Labour Cost	1,000,000
Material Purchases	1,250,000
Inventories – Raw Materials (01 st April 2010)	500,000
Inventories – Work in progress - at factory cost (01 st April 2010)	800,000
Inventories – Finished Goods (01 st April 2010)	600,000
Depreciation – Factory machinery	300,000
Depreciation – Factory Building	175,000
Factory Insurance	100,000
Electricity Expenses	900,000
Telephone Expenses	120,000
Other Direct Manufacturing Expenses	100,000

The following additional information is also available:

1. Inventories as at 31st March 2011 valued at cost are given below:

Description	Rs.
Raw Materials	390,000
Work-In-Progress (at factory cost)	810,000
Finished Goods	900,000

2. Out of electricity and telephone expenses only 35% is relevant to the factory.

SECTION - C

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

05. (A) The following transactions were extracted from the books of **Stile Mart** Computer Accessories shop:

Source Document	Date	Quantity	Description	Price
Invoice No. 125	06.06.2011	100 CDs & 90 DVDs	Credit Sales to K&K Company.	Rs.45/- per CD and Rs.60/- per DVD
Invoice No. 126	07.06.2011	25 USB Drives (4GB) 30 USB Drives (8GB)	Credit Sales to Amal Ltd.	Rs.1,000/- for one 4 GB USB & Rs.2,000/- for one 8 GB USB
Invoice No. 127	08.06.2011	10 External Hard Drives (320GB)	Credit Sales to Amal Ltd.	Rs.12,000/- per external hard drive (320 GB)
Credit Note No.22	10.06.2011	05 USB Drives (4GB) 03 USB Drives (8GB) 02 External Hard Drives (320GB)	Returned by Amal Ltd. because of damages	-

You are required to Prepare, the relevant prime entry books and transfer the balances to the relevant ledger accounts. (07½ marks)

- (B) List three(03) Advantages and two(02) Disadvantages of a labour incentive payment scheme. (02½ marks)
(Total 10 marks)

06. (A) The following information is related to **Indu Traders**:

- (i) The trial balance prepared as at 31st August 2011 did not agree and the difference was transferred to a suspense account.

The following two reasons were identified for the difference:

- Opening balance of Rs.5,000/- of rent prepayment has not been taken into the rent prepaid account.
- Sales account has been undercast by Rs.8,000/-.

You are required to prepare, Journal Entries to correct the above errors.

(02 marks)

- (ii) The following transactions related to the month of August 2011. These transactions need to be recorded in the books of accounts.

- Depreciation on Property, Plant and Equipment for the month of August 2011 was Rs.185,000/-.
- Electricity expenses has been estimated as Rs.20,000/- and rent amounting to Rs.10,000/- has been paid in advance for the month of August 2011.

Prepare Journal Entries to record the above transactions. (03 marks)

- (B) (i) The following information is extracted from the books of **XYZ Company**:
 A motor vehicle that met with an accident was disposed on 01st June 2010 for Rs.250,000/-. The cost of this motor vehicle is Rs.750,000/- and was purchased on 01st April 2007. An insurance claim of Rs.150,000/- was received because of the accident.
 The company's depreciation policy is to provide depreciation on the straight line basis at the rate of 20% on cost per annum for motor vehicles.
You are required to calculate, the Profit / Loss on disposal of the motor vehicle. (02½ marks)
- (ii) Briefly explain what is Material Requisition Note (MRN) and give three(03) important matters which could be included in a MRN. (02½ marks)
 (Total 10 marks)

07. (A) Following are the extracts of the cash book and bank statement of **Saman Traders** for the month of December 2011.

Cash Book

Date	Description	Rs.	Date	Description	Rs.
01.12.2011	Balance b / f	7,500	05.12.2011	Sama 007152	6,500
01.12.2011	Sales	12,500	08.12.2011	Purchases 007153	20,000
03.12.2011	Sales	19,400	15.12.2011	Petty Cash 007155	5,000
16.12.2011	Perera	9,600	25.12.2011	Salary - Piyal 007156	7,500
26.12.2011	Sales	18,200	28.12.2011	Purchases - Perera 007157	25,600
28.12.2011	Amali	20,500	29.12.2011	Drawings 007158	9,500
			31.12.2011	b / c / f	13,600
		87,700			87,700

Saman Traders

Bank Statement for the month of December 2011

Date	Description	Dr. (Rs.)	Cr. (Rs.)	Balance (Rs.)
01.12.2011	Balance b / f	-	-	12,500
01.12.2011	Withdrawal 007151	5,000	-	7,500
02.12.2011	Deposits	-	12,500	20,000
05.12.2011	Deposits	-	19,400	39,400
08.12.2011	Withdrawal 007152	6,500	-	32,900
10.12.2011	Interest - Fixed Deposits	-	3,800	36,700
11.12.2011	Withdrawal 007153	20,000	-	16,700
18.12.2011	Deposits	-	9,600	26,300
22.12.2011	Cheque book charges	500	-	25,800
23.12.2011	Direct deposit	-	2,000	27,800
23.12.2011	Withdrawal 007155	5,000	-	22,800
25.12.2011	Withdrawal 014956	3,000	-	19,800
26.12.2011	Withdrawal 007156	7,500	-	12,300
30.12.2011	Bank charges	300	-	12,000

You are required to prepare:

- (a) Adjusted Cash Book, and
 (b) Bank Reconciliation Statement,
 for the month of December 2011. (07½ marks)
- (B) Briefly explain cost unit and cost centre with examples. (02½ marks)
 (Total 10 marks)