

**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 01<sup>st</sup> 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 16<sup>th</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> May 2011 were Rs.10,000/-.

The balance (favourable) as per bank statement as at 31<sup>st</sup> 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 31<sup>st</sup> March 2011:

|   | Dr.<br>Rs.'000 | Cr.<br>Rs.'000 |
|---|----------------|----------------|
| Freehold Land - at cost   | 1,500          |                |
| Buildings - at cost   | 500            |                |
| Motor Vehicles - at cost  | 2,000          |                |
| Furniture and Fittings - at cost                                    | 100            |                |
| <b>Accumulated Depreciation</b> - as at 01 <sup>st</sup> April 2010 |                |                |
| Buildings   |                | 25             |
| Motor Vehicles  |                | 400            |
| Furniture & Fittings  |                | 10             |
| Inventory as at 01 <sup>st</sup> 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 - <b>Nisan</b>                                      |                | 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             |                |
|   | <b>7,015</b>   | <b>7,015</b>   |

The following additional information is provided:

- (1) The cost of inventory as at 31<sup>st</sup> 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 31<sup>st</sup> 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 01<sup>st</sup> 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 31<sup>st</sup> March 2011. (15 marks)
  - (b) Balance Sheet as at 31<sup>st</sup> March 2011. (10 marks)
- (Total 25 marks)

03. The following information was extracted for the year ended 31<sup>st</sup> 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 <sup>st</sup> April 2010)                      | 500,000   |
| Inventories – Work in progress - at factory cost (01 <sup>st</sup> April 2010) | 800,000   |
| Inventories – Finished Goods (01 <sup>st</sup> 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 31<sup>st</sup> 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.

3. **Quality manufacturing** has obtained a right to manufacture its furniture under a licensing agreement for which a fixed royalty payment of Rs.500,000/- has to be paid for the year ending 31<sup>st</sup> March 2011. This has not been recorded in the books of accounts.
4. 25% of the labour cost relates to general factory labour and the balance to workers who are directly involved in the production of the factory.

**You are required to prepare**, a manufacturing account for **Quality manufacturing** for the year ended 31<sup>st</sup> March 2011. (10 Marks)

04. (A) You are given the following transactions of the business of **Roshan**, a sole trader, during the month of January 2011:

|     | Date       |   |
|-----|------------|---|
| (1) | 01.01.2011 | Invested Rs.200,000/- cash by <b>Roshan</b> to the business.                              |
| (2) | 03.01.2011 | Purchased goods costing Rs.350,000/- on credit basis.                                     |
| (3) | 05.01.2011 | Sale of goods for cash Rs.80,000/- and cost of goods sold is Rs.67,500/-.                 |
| (4) | 09.01.2011 | <b>Roshan</b> has taken goods costing Rs.15,000/- from the business for his personal use. |
| (5) | 13.01.2011 | Paid for electricity Rs.5,000/-.  |
| (6) | 15.01.2011 | Received interest income of Rs.5,000/- to the bank account.                               |

**You are required to**, illustrate the effects of these transactions to the accounting equation. (Cash + Bank + Inventories = Capital + Liabilities)

$$\left( \begin{array}{l} \text{Example: Accrued rent for the month is Rs.6,000/-} \\ \text{Cash + Bank + Inventories = Capital + Liability} \\ \qquad \qquad \qquad \qquad \qquad \qquad = - 6,000 + 6,000 \end{array} \right)$$

(07 marks)

- (B) The following information was extracted from the books of **Somaweera & Sons**: Debtor's outstanding balance as at 01<sup>st</sup> June 2011:

| Name of the Debtor | Amount (Rs.) |
|--------------------|--------------|
| <b>Anil</b>        | 10,000       |
| <b>Sunil</b>       | 15,000       |
| <b>Gagul</b>       | 17,500       |

Credit sales and sales returns during the month of June 2011 were as follows:

| Name of the Debtor | Credit sales (Rs.) | Sales Returns (Rs.) |
|--------------------|--------------------|---------------------|
| <b>Anil</b>        | 40,000             | -                   |
| <b>Sunil</b>       | 30,000             | 5,000               |

Monies received during the month of June 2011 and discounts allowed are as follows:

| Debtor       | Amount Received (Rs.) | Discount Allowed (Rs.) |
|--------------|-----------------------|------------------------|
| <b>Anil</b>  | 18,000                | 2,000                  |
| <b>Sunil</b> | 32,000                | 3,000                  |

Court declared **Gagul** as bankrupt on 29<sup>th</sup> June 2011, thus the amount due from him is to be written off.

**You are required to Prepare**, Debtors Control Account and Individual Debtors Ledger Accounts as at 30<sup>th</sup> June 2011. (08 marks)

(Total 15 marks)

### 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)<br>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)<br>03 USB Drives (8GB)<br>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 31<sup>st</sup> 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 01<sup>st</sup> June 2010 for Rs.250,000/-. The cost of this motor vehicle is Rs.750,000/- and was purchased on 01<sup>st</sup> 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        |
|            |               | <b>87,700</b> |            |                           | <b>87,700</b> |

**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)