

**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**FOUNDATION EXAMINATION - JANUARY 2015**

**(50) BASIC ACCOUNTING**

**Time: 03 hours**

17-01-2015  
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

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**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) Which one of the following is **not** a component of the set of financial statements?

- (1) Statement of Financial Position.      (2) Income Statement.  
(3) Statement of Changes in Equity.      (4) General Ledger.

(B) Of the following, who are external users of financial accounting information?

- (1) Lenders.      (2) Investors.  
(3) Customers.      (4) All of the above.

(C) Which one of the following is an example for prudence concept?

- (1) Considering all expenditure incurred in a particular accounting period irrespective of actual payments on expenditure.  
(2) Valuation of inventories at lower of cost or net realizable value.  
(3) Showing a land in the statement of financial position at purchase price.  
(4) None of the above.

(D) Sole proprietors' telephone bill was paid by the business and it was considered as drawings of the business. The accounting concept relating to this treatment is:

- (1) Entity concept. (2) Going concern concept.  
(3) Matching concept. (4) Historical cost concept.

(E) The correct double entry to record the interest earned on a bank balance is:

- (1) Debit cash account and credit trade payable account.  
(2) Debit interest income account and credit bank account.  
(3) Debit bank account and credit cash account.  
(4) Debit bank account and credit interest income account.

(F) The following information was extracted from the books of **XY Traders**:

	<b>Rs.</b>
Capital as at 01 <sup>st</sup> April 2013	500,000
Drawings during the year	150,000
Profit for the year ended 31 <sup>st</sup> March 2014	450,000
Liabilities as at 31 <sup>st</sup> March 2014	200,000

Based on the above information, Total Assets as at 31<sup>st</sup> March 2014 is:

- (1) Rs.700,000/-. (2) Rs.1,000,000/-.  
(3) Rs.1,100,000/-. (4) Rs.1,300,000/-.

(G) Debit balance in the cash book of **Kasun Traders** as at 31<sup>st</sup> March 2014 was Rs.52,500/- and the bank statement for the month has shown a different balance at that date.

The following reasons were identified for the difference:

- Cheques deposited but not realized were Rs.15,000/-.
- Cheques issued and not presented for payments were Rs.22,000/-.
- Bank charges of Rs.2,500/- have not been recorded in the cash book.

Balance as per the bank statement as at 31<sup>st</sup> March 2014 is:

- (1) Rs.57,000/-. (2) Rs.45,500/-. (3) Rs.43,000/-. (4) Rs.59,500/-.

(H) A motor vehicle was sold for Rs.800,000/- on 31<sup>st</sup> March 2014 by **AB Company**. The cost of the vehicle was Rs.2,500,000/- and the accumulated depreciation as at 01<sup>st</sup> April 2013 was Rs.2,000,000/-. Motor vehicles are depreciated at the rate of 20% per annum at cost on the straight-line basis.

Based on the above information, the profit on disposal of the motor vehicle was:

- (1) Rs.800,000/-. (2) Rs.300,000/-. (3) Rs.1,300,000/-. (4) Rs.2,000,000/-.



(O) Select form the following the most correct statement in relation to overheads:

- (1) Overhead costs do not add any value to the end product.
- (2) Overhead cost is an element of prime cost.
- (3) Overhead costs comprise of cost of indirect material, indirect labour and indirect expenses.
- (4) Overhead costs vary with the level of production.

(02 marks each, Total 30 marks)

### SECTION - B

Compulsory Questions

Answer both(02) questions of this Section  
50 marks

**02. Cooray** is a sole proprietor running the business "**Cooray Enterprises**". The following Trial Balance was extracted from the books of **Cooray Enterprises** as at 31<sup>st</sup> March 2014:

Description	Dr. (Rs.)	Cr. (Rs.)
Capital as at 01 <sup>st</sup> April 2013		3,800,000
Bank balance	274,000	
Cash in Hand	36,000	
Trade Receivables	1,300,000	
Trade Payables		590,000
Inventories as at 01 <sup>st</sup> April 2013	400,000	
Sales		6,300,000
Purchases	3,200,000	
Land and Building (Land - Rs.1,800,000/-)	3,800,000	
Office Equipment	500,000	
Motor Vehicles	3,500,000	
Accumulated Depreciation as at 01 <sup>st</sup> April 2013		
Building		500,000
Office Equipment		250,000
Motor Vehicles		2,500,000
Bank Loan at 10%		1,000,000
Rent paid for the branch shop	1,100,000	
Administration Expenses	500,000	
Distribution Expenses	200,000	
Finance Expenses	130,000	
	<b>14,940,000</b>	<b>14,940,000</b>

The following additional information is also provided:

(1) Inventories as at 31<sup>st</sup> March 2014 were valued as follows:

	Rs.
At cost	900,000
At net realizable value	940,000

(2) A debtor amounting to Rs.150,000/- was decided to be written-off as bad debt at the end of the year.

- (3) A rent agreement was entered on 01<sup>st</sup> April 2013 for 2 years period for the branch shop. Monthly rent is Rs.100,000/-.
- (4) Insurance premium on office building of Rs.240,000/- which has been debited to administration expenses was paid for 12 months from 30<sup>th</sup> June 2013.
- (5) Cost of goods taken by **Cooray** during the year for his personnel use was Rs.200,000/-. This has not be recorded in the books of accounts.
- (6) The policy of the business is to provide depreciation on the straight-line basis at cost as follows:
- |                  |   |               |
|------------------|---|---------------|
| Building         | - | 5% per annum  |
| Office Equipment | - | 20% per annum |
| Motor Vehicles   | - | 20% per annum |
- (7) Unpaid telephone and electricity bills for the month of March 2014 were Rs.8,000/- and Rs.12,000/- respectively.
- (8) The bank loan should be settled in full during the next year and interest on bank loan for the year has been correctly recorded under finance expenses.

**You are required to prepare, for Cooray Enterprises,**

- (a) Income statement (Trading, Profit & Loss Account) for the year ended 31<sup>st</sup> March 2014. (13 marks)
- (b) Statement of Financial Position (Balance Sheet) as at 31<sup>st</sup> March 2014. (12 marks)  
(Total 25 marks)

- 03. (A) Amal** is the owner of a sole proprietorship. The following information was extracted from the books of the **Amal's** business:

- (1) A summary of the cash book for the year ended 31<sup>st</sup> March 2014 is as follows:

**Cash Book**

	<b>Dr (Rs.)</b>		<b>Cr (Rs.)</b>
Balance b/d	90,000	Drawings	642,000
Received from customers (debtors)	2,358,000	Payments to creditors	1,038,000
		Van running Expenses	246,000
		Salaries	306,000
		Administration expenses	15,000
		Other expenses	21,000
		Balance c/d	180,000
	<b>2,448,000</b>		<b>2,448,000</b>

- (2) Capital balance as at 01<sup>st</sup> April 2013 was Rs.669,000/- and other assets and liabilities as at 31<sup>st</sup> March 2014 and 31<sup>st</sup> March 2013 were as follows:

	<b>As at 31<sup>st</sup> March 2014 (Rs.)</b>	<b>As at 31<sup>st</sup> March 2013 (Rs.)</b>
<b>Assets:</b>		
Motor van at carrying value (at written down value)	300,000	450,000
Trade receivables (Debtors)	225,000	204,000
<b>Liabilities:</b>		
Trade payables (Creditors)	87,000	75,000

- (3) The motor van shown as an asset had been purchased on 01<sup>st</sup> April 2012 for Rs.600,000/- and depreciation is provided at 25% per annum on the straight-line basis at cost of the van.
- (4) All sales and purchases of the business are made on credit basis. There were no stocks as at 31<sup>st</sup> March 2013 and 31<sup>st</sup> March 2014.

Based on the above information, **you are required to prepare**, the trial balance as at 31<sup>st</sup> March 2014 of **Amal's** business. (14 marks)

- (B) In preparing the trial balance as at 31<sup>st</sup> March 2014, the book-keeper of **Nuwan Traders** has discovered a difference. The difference has been transferred to the suspense account and prepared the draft financial statements. A profit of Rs.141,280/- was shown as per the draft financial statements for the year ended 31<sup>st</sup> March 2014.

The following errors were identified later:

- (1) The total of the return inward day book amounting to Rs.8,980/- for March 2014 had been credited both to the returns outwards account and debtors account.
- (2) Purchase of an office equipment for office use on 30<sup>th</sup> September 2013 for Rs.9,600/- had been debited to repairs account. The business depreciates its equipment at 20% per annum on the straight-line basis at cost.
- (3) A credit sale invoice of Rs.81,000/- has been recorded as Rs.18,000/- both in the sales account and debtors account.
- (4) A cheque of Rs.38,000/- received from **Silva** a debtor had been correctly entered in the cash book, but no entry was made in debtor **Silva's** account.
- (5) Telephone expenses of Rs.4,500/- had been debited to electricity expenses account.

**You are required to,**

- (a) Prepare Journal Entries to rectify the above errors.
  - (b) Calculate the adjusted profit / (loss) for the year ended 31<sup>st</sup> March 2014. (11 marks)
- (Total 25 marks)

### SECTION - C

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

04. (A) The following information relating to debtors was extracted from the books of **Suranga Traders**:

	Rs.
Debit balance as at 31 <sup>st</sup> March 2014 as per debtors' control account	<b>62,800</b>
<u>Debit balances as per individual debtors ledger accounts as at 31<sup>st</sup> March 2014:</u>	
<b>Kapila</b>	12,000
<b>Bharatha</b>	9,000
<b>Dilan</b>	11,000
<b>Malaka</b>	24,000
	<b>56,000</b>

The following errors were discovered for the difference between the debtors' control account balance and total of individual debtors' ledger account balances:

- (1) Goods sold on credit to **Dilan** for Rs.2,600/- were correctly recorded in the debtors' control account, but it was recorded as Rs.6,200/- in **Dilan's** account.
- (2) A cheque issued by **Bharatha** of Rs.6,000/- in settlement of his outstanding has been returned by the bank due to insufficient funds. No entry has been recorded in this regard both in the debtors' control account and **Bharatha's** account.
- (3) A credit sale of Rs.5,200/- to **Malaka** has been recorded in the wrong side of his account in the debtors ledger. It was correctly recorded in the debtors' control account.
- (4) **Kapila** has made a direct payment to the bank for a settlement of Rs.7,000/. This has not been recorded completely in the books of accounts of the business.

**You are required to,** correct the debtors' control account and individual debtors' ledger accounts as at 31<sup>st</sup> March 2014. (07½ marks)

- (B) List two(02) advantages for maintaining labour output records giving an example for labour output records (02½ marks)  
(Total 10 marks)

05. (A) The following transactions relate to a stock item K-001 at a store of a fabric manufacturer for the quarter ended 30<sup>th</sup> September 2014. As at 30<sup>th</sup> June 2014 there was a stock of 4,000 kilograms of K-001 at a cost of Rs.65/- per kilogram:

Date	Receipts (kilograms)	Issues (kilograms)	Purchase Price (per kilogram) (Rs.)
05.07.2014	3,000	-	62
16.08.2014	-	2,500	-
28.08.2014	4,000	-	61
15.09.2014	-	4,500	-
29.09.2014	3,500	-	65
30.09.2014	-	4,000	-

**You are required to prepare,** the stock ledger for K-001 as at 30<sup>th</sup> September 2014, using First-in-First-Out (FIFO) method and calculate the value of stocks as at 30<sup>th</sup> September 2014. (07½ marks)

- (B) State three(03) objectives of materials control. (02½ marks)  
(Total 10 marks)

06. (A) The following transactions during the month of March 2014 were extracted from the books of the business of **Namal**, a sole proprietor.

Date	Description
01.03.2014	<b>Namal</b> commenced a business by investing Rs.2,500,000/- in cash.
02.03.2014	Purchased goods for resale for Rs.1,000,000/- on credit.
10.03.2014	Stocks costing of Rs.250,000/- was sold on credit with a margin of 30% on cost.
18.03.2014	Collected Rs.200,000/- from customer.
25.03.2014	Staff salary of Rs.300,000/- was paid.
28.03.2014	Goods costing of Rs.125,000/- were drawn by <b>Namal</b> for his personal use.
30.03.2014	Purchased a delivery van for Rs.850,000/- in cash for office use.

**You are required to,** show the effects of the above transactions to the accounting equation: (Fixed Assets + Inventories + Debtors + Cash = Capital + Liabilities)

(07½ marks)

- (B) Briefly explain Direct Cost and Indirect Cost with an example for each. (02½ marks)  
(Total 10 marks)