



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2015

(AA11) FINANCIAL ACCOUNTING BASICS

25-07-2015  
Morning  
[9.00 – 11.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 02 hours.
- (2) **All questions should be answered.**
- (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 Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQs. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

No. of Pages : 10  
No. of Questions : 07

**SECTION A**

**Objective Test Questions (OTQs)**

Eighteen (18) compulsory questions

(Total 40 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.9. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** The primary role of Accounting is:

- (1) To record transactions and events of an entity in the books of accounts.
- (2) To measure, record and summarize transactions and events of an entity.
- (3) To provide financial information of an entity to its stakeholders for decision making.
- (4) To provide and analyze information of an entity for the use of its managers for their decision making.

(02 marks)

## 1.2

- (a) Types of reports produced.
- (b) Frequency of reporting.
- (c) The format of reports.
- (d) The users of reports.

Which of the above aspects can be used to differentiate Financial Accounting from Management Accounting?

- (1) (a) and (b) Only.
- (2) (b) and (c) Only
- (3) (a), (b) and (c) Only.
- (4) All of the above. (02 marks)

**1.3 AD Ltd.** noticed some defects in the goods received from **BC Ltd.** under Purchase Invoice Number PO-89 and decided to return those to **BC Ltd.** The source document to be raised in this regard is:

- (1) Credit Note.
- (2) Debit Note.
- (3) Journal Voucher.
- (4) Material Requisition Note (MRN). (02 marks)

**1.4** The net assets of the business of **Lasantha** as at 31<sup>st</sup> March 2015 and 31<sup>st</sup> March 2014 were Rs.1,350,000/- and Rs.1,000,000/- respectively. During the year, **Lasantha** introduced an additional capital of Rs.500,000/-. Also he has made drawings of Rs.600,000/- from his business. Accordingly, the profit earned by **Lasantha** for the year ended 31<sup>st</sup> March 2015 is:

- (1) Rs.250,000/-.
- (2) Rs.350,000/-.
- (3) Rs.450,000/-.
- (4) Rs.950,000/-. (02 marks)

**1.5** The elements of Financial Accounting identified by the Conceptual Framework for Financial Reporting are:

- (1) Statement of Comprehensive Income, Statement of Financial Position, Cash flow Statement, Statement of Changes in Equity and Notes to the Financial Statements.
- (2) Assets, Liabilities, Equity, Income and Expenses.
- (3) Manufacturing Account, Trading Account, Profit & Loss Account, Statement of Financial Position and Statement of Changes in Equity.
- (4) Non-Current Assets, Current Assets, Non- Current Liabilities, Current Liabilities and Equity. (02 marks)

**1.6** Which one of the following serves as a Book of Prime Entry as well as a Ledger Account in an Accounting System?

- (1) Sales Day Book.
- (2) General Journal.
- (3) Cash Book.
- (4) Sales Return Day Book. (02 marks)

**1.7** "Statement of Financial Position" is prepared:

- (1) To represent the financial position of the entity as at a specified date.
- (2) To represent the financial performance of the entity for a particular period of time.
- (3) To represent the financial position forecasted for a future period of time.
- (4) To represent the movements of assets, liabilities and equity during a particular period of time. (02 marks)

**1.8** Credit purchases of Rs.10,000/- has been recorded in the Sales Day Book. The rectification of this error will:

- (1) Increase the gross profit.
- (2) Decrease the gross profit.
- (3) No impact to the gross profit.
- (4) None of the above. (02 marks)

**1.9** The impact of Information Technology has led business organizations to use Computerized Accounting Systems to facilitate requirements in Accounting. Benefits of this includes:

- (1) Improvement in accuracy.
- (2) Up to date reports.
- (3) Increased speed.
- (4) All of the above. (02 marks)

*State whether each of the following statements given in question No. 1.10 and 1.11 is TRUE or FALSE. Write the selected answer (True/False) in your answer booklet with the number assigned to the question.*

**1.10** Income is recognized in the income statement when an increase in future economic benefit related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. (02 marks)

**1.11** A business organization uses an accounting software which is developed to cater its unique requirements. The company has its own IT department to do the required developments and to maintain the system. This type of accounting software is called as "Tailor Made Accounting Software". (02 marks)

*Write answers for the question No. 1.12 to 1.18 in your answer booklet with the number assigned to the question.*

**1.12** Match each of the following transactions given in **Section A** with the source documents given in **Section B**:

Section A - Transaction	Section B - Source Document
(1) Purchase of a machinery on credit for Rs.500,000/-.	(a) Goods Received Note (GRN)
(2) The goods ordered by purchase order No.100, was received to the warehouse of the business.	(b) Receipt
(3) Rs.50,000/- was received from a customer.	(c) Journal Voucher
(4) Credit sale of Rs.250,000/- was made to <b>APL (Pvt) Ltd.</b>	(d) Sales Invoice

(04 marks)

**1.13** Indicate whether each of the following accounts is “Real Account” or “Personal Account” or “Nominal Account”:

- (1) Land and Buildings
- (2) Salaries and Wages
- (3) Debtors

(03 marks)

**1.14** State the appropriate Accounting Concept applicable to each of the following scenarios:

- (1) Valuation of inventories at the lower of Cost or Net Realizable Value (NRV).
- (2) Classifying items in the Statement of Financial Position as “Non-current” and “Current”.

(02 marks)

**1.15** State the relevant Prime Entry Book that should be used to record each of the following transactions:

- (1) Purchase of raw materials for Rs.7,500/- on cash.
- (2) Purchase of machinery for Rs.200,000/- on credit from **Melz (Pvt) Ltd.**
- (3) A cash payment of Rs.25,000/- for the rent of the head office for the month of June 2015.

(03 marks)

**1.16** Classify each of the following expenses as “Capital Expenses” or “Revenue Expenses”:

- (1) Rs.1,850,000/- incurred to construct a building.
- (2) An old machine was replaced with a new machine for Rs.400,000/-. This increased the production capacity by 5,000 units.
- (3) Rs.60,000/- incurred to replace the existing tyres of the delivery vehicle.

(03 marks)

**1.17** A company maintains a petty cash float of Rs.15,000/-. The reimbursement is made monthly. During the month of May 2015, following transactions relating to petty cash has taken place:

	Rs.
Refreshment Expenses	6,500
Stationery Expenses	2,500
Delivery Expenses	5,000

What is the cash reimbursement to be received by the petty cashier at the beginning of the month of June 2015?  
(01 mark)

**1.18** State two(02) qualitative characteristics of General Purpose Financial Statements. (02 marks)

---

*End of Section A*

---

## SECTION B

Four (04) compulsory questions

(Total 32 marks)

### Question 02

**Sanath** started a proprietorship on 01<sup>st</sup> January 2015 and the transactions that occurred during the first two weeks of his business are given below:

Date	Description
01.01.2015	<b>Sanath</b> commenced his business by depositing Rs.950,000/- in a bank current account and purchased goods worth Rs.250,000/- for cash.
02.01.2015	Business startup expenses of Rs.12,000/- were paid by cash.
03.01.2015	Purchased goods for resale on credit for Rs.350,000/- and incurred transportation cost of Rs.10,000/-.
07.01.2015	Cash sales of Rs.40,000/- including a profit margin of 25%.
10.01.2015	Staff salary of Rs.75,000/- was paid. Sold goods on credit for Rs.100,000/- including a profit of Rs.10,000/-.
12.01.2015	<b>Sanath</b> paid his personal rent expense of Rs.50,000/- from the business.

**You are required to:**

**Record** the effects of the above transactions to the following accounting equation.

$$\left( \text{Inventory} + \text{Debtors} + \text{Cash} = \text{Capital} + \text{Liabilities} + (\text{Income} - \text{Expenses}) \right) \quad (08 \text{ marks})$$

### Question 03

**Ruwan** is the newly appointed book keeper of **S & S Associates**. He has prepared the trial balance of **S & S Associates** as at 31<sup>st</sup> March 2015. The trial balance includes a suspense account with a debit balance of Rs.6,000/-. Following errors were revealed subsequently:

- (1) The rent payment of Rs.45,000/- for the month of January 2015 has been correctly recorded in the cash book and debited to rent expense account as Rs.54,000/-.
- (2) Credit sales of Rs.55,000/- to **A.K. Silva** had been erroneously debited to **R.K Silva's** account in the debtors' ledger. The transaction has been correctly recorded in the general ledger.
- (3) Credit purchase of Rs.47,500/- from **Ruhunu Enterprises** has not been recorded in the books of accounts.
- (4) The debtor's control account has been understated by Rs.25,000/-.
- (5) Sundry income of Rs.5,000/- has been erroneously recorded in the sundry expense account as an expense.

**You are required to prepare:**

- (a) Journal Entries to rectify the above errors.
- (b) Suspense Account.

(08 marks)

#### Question 04

**Sunil** commenced a business, **SP Trading** on 01<sup>st</sup> January 2015. The details of the business transactions for the first week of the business are as follows:

Date	Transaction
01.01.2015	The investments made by <b>Sunil</b> to establish his new business are as follows: <ul style="list-style-type: none"><li>Rs.50,000/- was paid for the business registration.</li><li>A lorry owned by <b>Sunil</b> valued at Rs.2,500,000/- was invested in the business for the delivery purposes.</li><li><b>Sunil</b> opened a bank account in the name of the business and deposited Rs.2,000,000/-.</li></ul>
02.01.2015	Rs.175,000/- was drawn from the bank account to pay 6 months refundable deposit of Rs.150,000/- and the monthly rent expense of Rs.25,000/- (cheque No. 345543).
04.01.2015	Purchased goods for resale for Rs.2,175,000/- (cheque No. 345544).
05.01.2015	A cash cheque (cheque No. 345545) was drawn for Rs.175,000/- out of which Rs.145,000/- was incurred as the expenses for the business opening ceremony. The balance cash was transferred to the petty cash account.
06.01.2015	Cash sales of Rs.975,000/- was made at the opening ceremony. The collection was deposited to the bank during the same day.

**You are required to prepare:**

- General Ledger of the business.
- Trail Balance as at 07<sup>th</sup> January 2015. (08 marks)

#### Question 05

**ZEE Zone (Pvt) Ltd.** is a chemical manufacturing company. The company decided to make an additional investment in a technologically advanced machinery which is expected to increase the production capacity and the quality of the output.

The details regarding the purchase of machinery are as follows:

Date	Description	Amount (Rs.)
30.03.2014	Purchase price of the machinery (This purchase price includes a recoverable VAT amount of Rs.120,000/-)	1,120,000
31.03.2014	Transport cost of the machinery	125,000
31.03.2014	Installation and other direct expenses	125,000

Following additional information is also provided:

- Machinery was available for production from 01<sup>st</sup> April 2014.
- Estimated useful life of the machinery is 10 years.
- Estimated selling price of the machinery at the end of the 10<sup>th</sup> year is Rs.275,000/- and it is expected to incur Rs.25,000/- as the cost of selling of the machinery.

**You are required to:**

- (a) **Calculate** the total cost of the machinery to be capitalized.
- (b) **Calculate** the depreciable value of the machinery as at 01<sup>st</sup> April 2014.
- (c) **Calculate** the annual depreciation charge of the machinery using the straight-line basis.
- (d) **Prepare** the following ledger accounts for the year ended 31<sup>st</sup> March 2015:
  - (i) Machinery account.
  - (ii) Depreciation expenses account.
  - (iii) Provision for depreciation account.
- (e) **Calculate** the depreciable value of the machinery as at 31<sup>st</sup> March 2015. (08 marks)

*End of Section B*

### **SECTION C**

Two (02) compulsory questions

(Total 28 marks)

#### Question 06

The Trial Balance of **Soft Toys Enterprise** as at 31<sup>st</sup> March 2015 is given below: **Soft Toys Enterprise** is a sole proprietorship owned by **Lasantha**:

**Trial Balance as at 31<sup>st</sup> March 2015**

*(Rs. '000)*

Description	Dr.	Cr.
Property, Plant and Equipment at cost	50,000	
Accumulated Depreciation		11,500
10% Fixed Deposit	10,000	
Trade Receivables	15,622	
Provision for Doubtful Debts as at 01 <sup>st</sup> April 2014		3,300
Trade Payables		4,200
Prepaid Expenses	1,000	
Accrued Expenses		5,000
Cash in Hand	1,035	
Cash at Bank		1,330
Capital as at 01 <sup>st</sup> April 2014		34,000
Drawings	540	
Sales Returns	15,060	
Purchases Returns		9,600
Discount Allowed	200	
Sales		174,630
Purchases	105,625	
Inventories as at 01 <sup>st</sup> April 2014	9,975	
Other Income		120
Selling & Distribution Expenses	14,514	
Administration Expenses	16,700	
Financial Expenses	3,409	
	<b>243,680</b>	<b>243,680</b>

The following additional information is also provided:

- (1) The cost of the inventories held as at 31<sup>st</sup> March 2015 was Rs.20,000,000/- and the net realizable value (NRV) of the same was Rs.26,000,000/-.
- (2) Interest on fixed deposit for the year has neither been received nor accounted for in the books of accounts as at 31<sup>st</sup> March 2015.
- (3) As at 31<sup>st</sup> March 2015, provision for doubtful debts was reassessed and it has to be increased to Rs.3,700,000/-.
- (4) Rent of Rs.1,230,000/- paid for the next year was recorded under Administration expenses.

**You are required to prepare:**

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2015.
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2015.

(14 marks)

### Question 07

The following information relates to a small scale shoes manufacturing company **Road Riders** for the 01<sup>st</sup> quarter ended 30<sup>th</sup> June 2014:

- (1) Details of Inventory held as at 01<sup>st</sup> April 2014 and 30<sup>th</sup> June 2014 are given below:

Type of Inventory	As at 01 <sup>st</sup> April 2014 (Rs.)	As at 30 <sup>th</sup> June 2014 (Rs.)
Raw Materials	75,000	35,000
Work in Progress	12,600	17,000
Finished goods held for Resale	74,000	50,000
<b>Total</b>	<b>161,600</b>	<b>102,000</b>

- (2) Purchase of Raw Materials for the 01<sup>st</sup> Quarter is Rs.1,256,000/-.



(3) Salaries, wages and related expenses are as follows:

- Factory Manager's salary is Rs.65,000/- per month.
- Other production staff's total salaries amounting to Rs.44,000/- per month.
- Direct wages are paid based on the pair of shoes produced. During the 01<sup>st</sup> quarter 1,250 pair of shoes were produced.
- The payment of direct wages varies based on the employee category and the details of employee categories and payment rates are as follows:

Employee Category	Rate per pair of shoes produced (Rs.)
Machine operators	95
Helpers	20

(4) Depreciation charge for machinery and factory building per quarter are Rs.5,000/- and Rs.8,000/- respectively.

(5) Details of other expenses incurred during the 01<sup>st</sup> quarter are given below:

	Rs.
Factory electricity	120,000
Direct expenses	56,000
Factory maintenance	27,000
Indirect materials	9,000

Following additional information is also provided:

- (1) Work in Progress (WIP) is valued at prime cost.
- (2) Raw materials amounting to Rs.13,000/- were damaged due to improper storage arrangements.
- (3) 25% of the factory building area is used for the **Road Riders** sales outlet.
- (4) Manufactured goods are transferred to the sales division with a markup of 25% on its selling price.

**You are required to:**

- (a) **Prepare** Manufacturing Account of **Road Riders** for the quarter ended 30<sup>th</sup> June 2014.
- (b) **Compute** the value at which the goods are transferred to the sales division.

(14 marks)

---

*End of Section C*

---

## ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
	<b>Record</b>	Enter relevant entries in detail.
<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.