



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2016

(AA11) FINANCIAL ACCOUNTING BASICS

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

- (1) **Time allowed:** Reading - 15 minutes
Writing - 03 hours.

06-02-2016
Morning
[8.45 – 12.00]

- (2) **All questions should be answered.**

No. of Pages : 10
No. of Questions : 06

- (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 OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

- (7) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

Fifteen (15) compulsory questions

(Total 40 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.7. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Goods Received Note (GRN) is:

- (1) a supporting document used by the supplier demanding the payments for which orders were placed.
- (2) a supporting document used to record the goods received by an entity at the point of receipt.
- (3) a request made to the customers to settle the amount due in respect of the sold goods.
- (4) an internal document through which stores department informs the purchasing department to purchase the required material to have a smooth production function within the organization.

(02 marks)

1.2 Which one of the following correctly explains the difference between “Financial Accounting” and “Management Accounting”?

- (1) Financial Accounting information is more informative than the Management Accounting information.
- (2) Management Accounting considers the historical data and Financial Accounting considers historical as well as future data.
- (3) Management accounts are prepared in accordance with generally accepted accounting policies, standards and regulatory requirements. But financial accounts are prepared based on the requirements of the management.
- (4) Financial Accounting records the financial performance and the financial position of a business to satisfy information needs of stakeholders based on the regulatory framework for Financial Accounting, whereas Management Accounting provides more focused information about the efficiency and the effectiveness of the business to its management.

(02 marks)

1.3 Of the following, the correct accounting equation is:

- (1) $\text{Assets} = \text{Capital} + \text{Profit} + \text{Liabilities}$.
- (2) $\text{Profit} = \text{Income} + \text{Expenses}$
- (3) $\text{Assets} = \text{Capital} - \text{Profit} - \text{Liabilities}$.
- (4) $\text{Assets} = \text{Capital} = \text{Liabilities}$.

(02 marks)

1.4 Which one of the following transactions affects both assets and liabilities?

- (1) Settlement of a long outstanding payable of Rs.10,000/- of **Nimal**.
- (2) Purchase of a computer for Rs.65,000/- for cash to be used by the payroll assistant.
- (3) Sale of a motor vehicle for Rs.2.3 million.
- (4) Investment of Rs.100,000/- in debentures issued by **ABC Bank**.

(02 marks)

1.5 According to the Conceptual Framework for Financial Reporting, components of financial statements include:

- (1) Statement of Comprehensive Income, Statement of Financial Position, Statement of cash flows, Statement of Changes in Equity and Notes to the Financial Statements.
- (2) Assets, Liabilities, Equity, Income and Expenses.
- (3) Manufacturing Account, Trading Account, Profit and 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 Major categories of files of an accounting database comprise:

- (1) Permanent file, Current file and Personnel file.
- (2) Master file, Transaction files and Working files.
- (3) General Ledger Master file, Nominal Accounts file and Personal Accounts file.
- (4) Stock Master file, Debtors Master file, Creditors Master file and Payroll Master file.

(02 marks)

1.7 Which one of the following correctly interprets the term “liability” as per the Conceptual Framework for financial reporting?

- (1) Present obligation of the enterprise arising from the past event, the settlement of which is expected to result in an outflow from the enterprise’s resources
- (2) Probable cash outflow from the enterprise’s resources arising from the past events.
- (3) Future obligation of the enterprise arising from the past events, the settlement of which is expected to result in an outflow from the enterprise’s resources
- (4) Probable obligation of the enterprise arising from the past event, the settlement of which is expected to result in an outflow from the enterprise’s resources. (02 marks)

Write the correct answer for question No. 1.8 to 1.15 in your answer booklet, with the number assigned to the question.

1.8 State the impact (Increase / Decrease) of the transactions below to the accounting equation:

Transaction	Assets = Equity + Liabilities
(a) Buy inventory on credit	
(b) Sell goods on credit (at a profit)	

(02 marks)

1.9 State the double entry for each of the following transactions.

- (a) Purchase of a motor vehicle for Rs.3.5 million on credit basis.
- (b) Cash receipt from a customer for a credit sale of Rs.10,000/- after deducting a discount of Rs.2,000/-.
- (c) Capital introduced to the business by the owner is Rs.100,000/-. (06 marks)

1.10 Classify the ledger accounts based on the traditional classification and give one example for each. (03 marks)

1.11 Faithfully represented information possess certain characteristics. List three(03) such characteristics of faithfully represented information. (03 marks)

1.12 Define the term “Asset”. (03 marks)

1.13 List three(03) disadvantages (drawbacks) that an entity may have to face when the accounting system is computerised. (03 marks)

1.14 As at 01st January 2015, **Saman’s** business had opening net assets of Rs.175,000/- and as at 31st December 2015 he had closing net assets of Rs.350,000/-. The business earned a profit of Rs.75,000/- during that period and **Saman** had withdrawn Rs.50,000/- for his personal use.

Compute the additional capital introduced to the business by **Saman** during the year ended 31st December 2015. (03 marks)

1.15 State whether each of the following statements is **TRUE** or **FALSE**. Write **True** or **False** in your answer booklet with the number assigned to the question.

- (a) A Credit Note is issued by the seller of goods to the buyer reducing the amount that the buyer owes to the seller under the terms of an earlier invoice. (01 mark)
- (b) Material Requisition Note (MRN) is the document used by the purchasing department to request items from suppliers. (01 mark)
- (c) In accounting perspective, payroll refers to the amount paid to employees for the services they provided during a certain period of time. (01 mark)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

- (a) **Kalum** is an Architect who got qualified recently and he intends to start his own business. He doesn't have any accounting background. Therefore, he seeks your advice to understand the "Going Concern Concept" and the "Accrual Concept".

You are required to:

Explain the meaning of each of the above concepts. (04 marks)

- (b) An extract of the petty cash transactions of **Shanthi Traders** during the first two weeks of January 2016 is given below. **Shanthi Traders** maintains a petty cash float of Rs.5,000/-.

January	Description
01 st	Received petty cash re-imbusement of Rs.3,500/- from the main cashier.
02 nd	Expenses for new year celebration - Voucher No. 1 - Rs.1,400/-.
03 rd	Purchased stationery items - Voucher No. 2 - Rs.560/-.
06 th	Payment for stamps and envelops - Voucher No. 3 - Rs.250/-.
07 th	Donation to a charity - Voucher No. 4 - Rs.150/-.
09 th	Payment to Somadasa for cleaning - Voucher No. 5 - Rs.600/-.
11 th	Payment of Bus fare - Voucher No. 6 - Rs.50/-.

On 15th January 2016 main cashier reimbursed the petty cash imprest.

You are required to,

Record the above transactions in the petty cash book of **Shanthi Traders**.

Note: Classify petty cash expenses under: stationery expenses, traveling expenses, postage, cleaning expenses and other expenses.

(06 marks)

(Total 10 marks)

Question 03

Mahesh started a sole proprietorship on 01st January 2014 to sell stationery items.

The Statement of Financial Position (Balance Sheet) of his business as at 31st December 2014 is as follows:

Statement of Financial Position as at 31st December 2014

	(Rs.)
Fixed Assets:	
Delivery Van	500,000
Current Assets:	
Trade Debtors	800,000
Cash in Hand	750,000
	2,050,000
Capital balance	1,475,000
Current Liabilities:	
Trade Creditors	575,000
	2,050,000

Summary of the Cash Book for the year ended 31st December 2015 is as follows:

Cash book for the year ended 31st December 2015

Balance b/f	750,000	Drawings	250,000
Receipts from debtors	1,250,000	Payments to creditors	865,000
		Rent	137,500
		Fuel expenses	12,000
		Electricity	27,000
		Salaries	240,000
		Balance c/f	468,500
	2,000,000		2,000,000

The following additional information is also provided:

- (1) Delivery van was purchased by **Mahesh** on 31st December 2014 and the rate of depreciation applicable to vehicles is 10%.
- (2) Stationery shop was started in a building owned by one of his best friends, and he agreed for a shop rent of Rs.12,500/- per month.
- (3) **Mahesh** does all transactions on credit basis and he was able to sell all the stock at the year-end therefore there were no stocks remaining as at the end of the year.
- (4) **Mahesh** paid electricity expenses for the month of December 2015 of Rs.2,200/- in January 2016.
- (5) As at 31st December 2015, following balances were appeared in the books of **Mahesh's** business:

Trade Debtors : Rs.600,000/-

Trade Creditors : Rs.660,000/-

You are required to:

Prepare the Trial Balance as at 31st December 2015 of **Mahesh's** business.

(10 marks)

Question 04

The Trial Balance of **Everest Trading Company** as at 31st March 2015 did not agree. The difference of Rs.505,500/- was debited to the Suspense Account. Then final accounts were prepared and net profit for the period was ascertained as Rs.12,657,300/-. After investigating, following errors were identified:

- (1) Motor vehicle repair cost of Rs.51,000/- had been capitalized by the company.
- (2) Direct bank deposit by a customer amounting to Rs.123,000/- has been treated as an interest income.
- (3) The sales day book is undercasted by Rs.525,000/-.
- (4) Discount allowed to a customer amounting to Rs.64,000/- has been correctly recorded in the Trade Receivables' account. However, it has been debited to discount received account as Rs.46,000/-.
- (5) The balance of Miscellaneous Expense account of Rs.1,125,000/- has been taken to trail balance as Rs.112,500/-.

You are required to:

Prepare the following:

- (a) Required journal entries to correct the above errors. (05 marks)
 - (b) Suspense Account. (02 marks)
 - (c) Statement showing revised net profit. (03 marks)
- (Total 10 marks)

Question 05

Following information relates to **Safety First Traders** which is a sole proprietorship and located in Moratuwa. It mainly produces safety jackets for construction industry.

- (1) Details of inventory held as at 01st April 2015 are as follows:

Type of inventory:	Rs.
Raw material - fabric	2,715,000
Raw material - accessories	1,252,000
Opening work-in-progress	325,000
Finished goods (1,200 safety jackets at factory cost)	1,260,000

- (2) Purchase of raw material for the first quarter ended 30th June 2015 is as follows:

Raw material	Rs.
Fabric	3,549,000
Accessories	2,125,000

(3) Salaries of indirect production staff for the first quarter are as follows:

Employee category:	Rs.
Production executives	225,000
Production non-executives	325,000
	550,000

(4) Direct wages are paid based on the number of safety jackets produced and the details are as follows:

Employee category:	Rs. per safety jacket produced
Machine Operators	125
Helpers	25
Packing staff	25

(5) Other Direct Expenses incurred for the first quarter – Rs.1,025,000/-.

(6) During the first quarter **Safety First Traders** produced a total of 12,500 jackets.

(7) Annual depreciation charge of capital assets was as follows:

	Rs.
Machinery	2,400,000
Factory Building	3,000,000

$\frac{1}{4}$ th of the floor area of the building is used for the stores.

(8) Other production related expenses for the first quarter is Rs.1,350,000/-.

The following additional information is also provided:

- Closing stock as of 30th June 2015 are as follows:

	Rs.
Raw material - fabric	1,025,000
Raw material - accessories	875,000
Closing work-in-progress (75% completed)	790,000

- **Safety First Traders** transfers its' safety jackets produced at the factory to its own sales division at a profit margin of 20% on cost.

You are required to:

Prepare, the Manufacturing Account of **Safety First Traders** for the first quarter ended 30th June 2015. (10 marks)

End of Section B

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

The Trial Balance of **Star Bath Enterprises** as at 31st December 2015 is given below. **Star Bath Enterprises** is a sole proprietorship owned by **Nimal**.

Description	Dr.	Cr.
Property, Plant and Equipment at cost:		
Land and Building (Land value Rs.3,000,000/-)	10,000	
Motor vehicles	5,500	
Furniture and fittings	3,500	
Accumulated Depreciation as at 01 st January 2015:		
Building		1,200
Motor vehicles		1,500
Furniture and fittings		750
Stock as at 01 st January 2015	650	
Provision for doubtful debts as at 01 st January 2015		32
Capital as at 01 st January 2015		13,900
Drawings	150	
Sales return	150	
Purchase returns		80
Trade Debtors / Trade Creditors	3,700	2,183
Cash in hand	2,500	
Bank overdraft		110
Consultancy Fee – Business Development Officer	210	
Bank loan		3,100
Damaged stocks	185	
Salaries and wages	1,410	
Sales commission	535	
Purchases / Sales	22,000	30,000
Import duty	325	
Carriage outwards	180	
Electricity and water	433	
Rates paid	300	
Advertising expenses	1,050	
Discount allowed	77	
	52,855	52,855

The following additional information is also provided:

(1) Closing stock as at 31st December 2015 is valued as follows:

Cost - Rs.1,120,000/-
Net Realizable Value (NRV) - Rs.1,450,000/-

(2) **Nimal** has transferred his personal three wheeler worth Rs.175,000/- to the **Star Bath Enterprises** on 31st December 2015, and this was not recorded in the books of accounts.

(3) A Motor vehicle was acquired for Rs.1,200,000/- on 01st July 2015 by **Nimal** to be used in the business.

(4) Policy of the business is to depreciate its assets based on the straight-line basis using the following rates, at cost:

Buildings - 10%
Motor vehicles - 20%
Furniture and fittings - 25%

(5) During the year, **Kamal**, a trade debtor informed that he is unable to pay the balance due of Rs.55,000/- and **Nimal** decided to write off this balance.

(6) It is the policy of the business to maintain a provision for doubtful debts at 5% on the outstanding trade debtors balance.

(7) **Nimal** wanted to expand the business and hired a Business Development Officer as a Consultant on contract basis. The contract commenced on 01st May 2015. Monthly consultancy fee is Rs.30,000/-.

(8) When paying the water bill for December 2015 on 28th December 2015, Rs.10,000/- has been paid in excess.

You are required to,

Prepare the following:

(a) Statement of Comprehensive Income for the year ended 31st December 2015.

(b) Statement of Financial Position as at 31st December 2015. (20 marks)

End of Section C

ACTION VERB CHECK LIST

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

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

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