



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2016

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

23-07-2016  
Morning  
[8.45 – 12.00]

- (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 OTQ's. 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 : 09  
No. of Questions : 06

**SECTION A**

**Objective Test Questions (OTQs)**

Sixteen (16) 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** Which one of the following groups contains the elements of financial position?

- (1) Assets, Equity and Income. (2) Assets, Liabilities and Expenses.  
(3) Assets, Liabilities and Income. (4) Assets, Liabilities and Equity. (02 marks)

**1.2** Which one of the following is **not** an advantage of a Computerized Accounting System?

- (1) Speed of the system is high.  
(2) Accuracy of the information generated is very high.  
(3) It can generate up-to-date reports.  
(4) It can generate accurate output even if the input is inaccurate. (02 marks)

**1.3** A Credit Note is:

- (1) a document issued by the buyer to the seller reducing the amount of goods returned.
- (2) a document issued by the seller of goods to the buyer reducing the amount payable by the buyer, under the terms of an earlier invoice.
- (3) a document raised when receiving cash from a buyer.
- (4) a document raised when making a payment to a seller. (02 marks)

**1.4** The accounting concept that facilitates comparison of financial statements of an entity of one accounting period with another is:

- (1) Materiality Concept.
- (2) Consistency Concept.
- (3) Money Measurement Concept.
- (4) Accrual Concept. (02 marks)

**1.5** Which one of the following is **not** a prime entry book?

- (1) General Ledger.
- (2) Cash Book.
- (3) General Journal.
- (4) Purchase Day Book. (02 marks)

**1.6** Which one of the following errors would be detected by preparing the trial balance?

- (1) A sales invoice of Rs.45,000/- has been recorded twice both in the sales account and the trade receivable account.
- (2) Goods withdrawn by the owner for his personal use amounting to Rs.12,500/- was completely omitted from the books of accounts.
- (3) Discount received amounting to Rs.20,000/- has been debited to discount allowed account.
- (4) Loan interest of Rs.30,000/- was recorded in the overdraft interest account. (02 marks)

**1.7** The following information relating to Trade Payables were extracted from the books of a company for the month of April 2016:

Description	Rs.
Balance as at 01 <sup>st</sup> April 2016	825,000
Cash paid during the month	462,200
Purchase Returns	75,000
Balance as at 30 <sup>th</sup> April 2016	955,300

The total of credit purchases made during the month of April 2016 is:

- (1) Rs.517,500/-.
  - (2) Rs.667,500/-.
  - (3) Rs.676,500/-.
  - (4) Rs.256,900/-.
- (02 marks)

Write answers for question No. **1.8** to **1.16** in your answer booklet, with the number assigned to the question.

- 1.8** State the meaning of "Relevance", which is considered as a fundamental qualitative characteristic in relation to General Purpose Financial Statements. (02 marks)
- 1.9** State two(02) stakeholders of a business. (02 marks)
- 1.10** Define the term "Equity". (02 marks)
- 1.11** Briefly explain the "Materiality Concept". (02 marks)
- 1.12** State three(03) examples for general accounting software packages. (03 marks)
- 1.13** **Anil** runs a business of selling stationery items. The following transactions relate to his business:
- (i) Purchase of stationery of Rs.10,000/- from **Miami Books (Pvt) Ltd.** on credit.
  - (ii) A cheque of Rs.2,500/- was received from a customer for books sold.
  - (iii) **Anil** returned stationery of Rs.1,000/- purchased from **Miami Books (Pvt) Ltd.**
- Identify the relevant prime entry book to record each of the above transactions. (03 marks)
- 1.14** Classify each of the following expenses as "Capital Expenses" or "Revenue Expenses":
- (i) Installation cost of Rs.100,000/- incurred on new machinery purchased.
  - (ii) Payments made to security staff of Rs.10,000/-.
  - (iii) Payment of electricity bill of Rs.8,000/-. (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.
- (i) Cash sales made by a company is recorded in the Sales Day Book.
  - (ii) The cash book serves as a Book of Prime Entry as well as a Ledger Account in recording transactions.
  - (iii) Bad debts written off during the year are recorded in the General Journal. (03 marks)
- 1.16** State the correct double entry for each of the following transactions:
- (i) **Company X** settled Rs.50,000/- payable to **Udana**, a trade creditor after deducting a discount of Rs.3,750/-.
  - (ii) The owner of the business has taken Rs.3,000/- in cash from the business for his personal use.
  - (iii) **Company Y** purchased a motor vehicle worth Rs.1,500,000/- by issuing a cheque for Rs.750,000/-. The balance amount is to be paid within 30 days. (06 marks)

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*End of Section A*

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## SECTION B

Four (04) compulsory questions

(Total 40 marks)

### Question 02

After retiring from the job, **Mangala** commenced a business named **M & M Traders** to sell electrical items on 01<sup>st</sup> May 2016 by investing Rs.2,500,000/- in cash. The details of the business transactions taken place during the month of May 2016 were as follows:

Date	Description
01.05.2016	He transferred his van worth Rs.720,000/- to the business for delivery of goods.
03.05.2016	Purchased electrical items worth Rs.1,200,000/- paying Rs.900,000/- in cash and balance to be payable within 60 days.
10.05.2016	Monthly rental of the office building is Rs.35,000/- and 6 months rental was paid as an advance for the usage of the building.
11.05.2016	Rental of Rs.35,000/- for the month of May 2016 on building was paid.
26.05.2016	Sold electrical items of Rs.623,000/- for cash.
30.05.2016	Rs.25,000/- was given to the petty cashier to establish the petty cash float.
31.05.2016	Opened a Fixed Deposit of Rs.600,000/- at the rate of 10% interest per annum.

Additional information:

Motor Vehicles are depreciated at the rate of 20% per annum at cost on the straight-line basis.

Based on the above information,

**You are required to,**

**Prepare** the Trail Balance of **M & M Traders** as at 31<sup>st</sup> May 2016.

(10 marks)

### Question 03

The Trial Balance of **PC Traders** as at 31<sup>st</sup> March 2016 prepared by the Accounts Assistant did not agree. The difference was transferred to a Suspense Account and the draft financial statements were prepared.

The profit as per the draft financial statements for the year ended 31<sup>st</sup> March 2016 was Rs.250,000/-.

The following errors were revealed later:

- (1) Cost of the goods taken by the owner of the business for his personal use was Rs.62,500/- and it was not recorded in the books of accounts.
- (2) Rent income of Rs.112,400/- has been debited to rent expense account. This was correctly recorded in the cash book.
- (3) Purchase of a printer for Rs.32,500/- has been debited to Repair and Maintenance Account. This was correctly recorded in the cash book.

- (4) Credit purchase of Rs.298,000/- has been recorded both in Trade Payables Account and Purchase Account as Rs.289,000/-.
- (5) Staff welfare expenses of Rs.1,800/- has been correctly recorded in the cash book. However it has been debited to Advertising Expenses Account.

**You are required to:**

**Prepare** the following:

- (a) Journal entries to rectify the above errors. (06 marks)
- (b) Statement showing the adjusted profit for the year ended 31<sup>st</sup> March 2016. (04 marks)
- (Total 10 marks)

#### Question 04

The following information relates to **Fine Tapes Ltd**, a company manufacturing tapes, for the year ended 31<sup>st</sup> March 2016.

Inventories as at 01<sup>st</sup> April 2015 and 31<sup>st</sup> March 2016 were as follows:

Type of inventory	01 <sup>st</sup> April 2015 (Rs.)	31 <sup>st</sup> March 2016 (Rs.)
Raw material-Tape Rolls	2,560,000	1,750,000
Work-in-progress (valued at total production cost)	1,225,000	850,000

Details of other expenditure incurred during the year were as follows:

Description	Rs.
Purchase of raw materials	5,950,000
Carriage inwards (Raw material)	330,000
Depreciation on building	650,000
Depreciation on factory machinery	1,875,000
Wages - machine operators	4,278,000
Salary - Production Manager	750,000
Salaries - Administration staff	450,000
Electricity expenses	1,380,000
Telephone expenses	120,000

The following additional information is also provided:

- (1)  $\frac{1}{10}$  <sup>th</sup> of the floor area of the building is used for the office.
- (2) The following accrued expenses have to be accounted for the month of March 2016:

	Rs.
Production manager's salary	65,000
Bonus to machine operators	15,000

- (3) The following expenses should be allocated according to the given ratios:

Expenses	Factory	Office
Electricity expenses	90%	10%
Telephone expenses	40%	60%

**You are required to:**

**Prepare the Manufacturing Account for Fine Tapes Ltd. for the year ended 31<sup>st</sup> March 2016.**

(10 marks)

### Question 05

**Harshana**, started his own business on 01<sup>st</sup> April 2016 with the help of his father. The following transactions have been extracted from the books of his business for the month of April 2016:

Date	Transaction
01.04.2016	He introduced Rs.750,000/- in cash and Rs.325,000/- worth of goods for resale, to commence the business.
03.04.2016	Sold goods costing Rs.75,000/- for Rs.100,000/- on cash basis .
15.04.2016	Sold goods costing Rs.200,000/- for Rs.250,000/- on credit basis.
19.04.2016	Purchased goods for Rs.525,000/-, on credit basis.
25.04.2016	Collected Rs.10,000/- from a customer.
30.04.2016	Purchased a motor bicycle for Rs.250,000/- for office use by paying Rs.100,000/- in cash and the balance is to be settled within 2 months.

**You are required to:**

- (a) **Record** the effects of each of the above transactions to the accounting equation.

*(Fixed Assets + Inventories + Debtors + Cash = Capital + Liabilities)* (07 marks)

- (b) **Prepare** the Statement of Financial Position as at 30<sup>th</sup> April 2016.

(03 marks)  
(Total 10 marks)

End of Section B

## SECTION C

One (01) compulsory question

(Total 20 marks)

### Question 06

The Trial Balance of **Shantha Tyre Traders** as at 31<sup>st</sup> March 2016 is given below. **Shantha Tyre Traders** is a sole proprietorship owned by **Shantha**.

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Buildings ( Land value - Rs.1,500,000/-)	12,000	
Motor Vehicles	7,500	
Furniture and Fittings	5,500	
Accumulated Depreciation as at 01 <sup>st</sup> April 2015:		
Buildings		1,038
Motor Vehicles		3,280
Furniture and Fittings		2,200
Stock as at 01 <sup>st</sup> April 2015	3,500	
Drawings	190	
Provision for doubtful debts as at 01 <sup>st</sup> April 2015		23
Trade Receivables / Trade Payables	4,333	2,662
Purchases / Sales	35,000	54,500
Electricity and water charges	1,045	
Salaries and wages	1,947	
Sales commission	930	
Carriage Inwards	450	
Discount received		35
Rates	537	
Advertising expenses	2,590	
Capital as at 01 <sup>st</sup> April 2015		20,660
12% Bank loan		4,500
Cash in hand	8,219	
Cash at bank	5,157	
	<b>88,898</b>	<b>88,898</b>

The following additional information is also provided:

- (1) Closing stock as at 31<sup>st</sup> March 2016 was valued at Rs.1,320,000/-.
- (2) The policy of the business is to provide depreciation on the straight line basis at cost as follows:

Buildings	-	5% per annum
Motor vehicles	-	20% per annum
Furniture and Fittings	-	25% per annum
- (3) A trade receivable balance of Rs.33,000/- as at 31<sup>st</sup> March 2016 from **Leena** was decided to be written off as a bad debt and a general provision for doubtful debts of 5% should be provided on remaining trade receivable balance at the year end.
- (4) A sales commission of 2% on sales should be paid to salesmen.
- (5) The 12% bank loan was obtained on 01<sup>st</sup> March 2016 and it should be settled in 12 equal monthly installments with interest starting from 01<sup>st</sup> April 2016.

**You are required to,**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2016. (12 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2016. (08 marks)
- (Total 20 marks)

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*End of Section C*

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## 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.