



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2017

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

28-01-2017  
Morning  
[8.45 – 12.00]

No. of Pages : 09  
No. of Questions : 06

- (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.**

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**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 1.8. 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 is a benefit to the creditors of using financial information of an entity?
- (1) To know the return on investment.
  - (2) To know the financial soundness before granting credits.
  - (3) To know the earnings for the purpose of taxation.
  - (4) To expect wage increases, bonus and better working conditions.

(02 marks)

**1.2** Select from the following the correct impact on accounting elements due to cash receipt from a trade debtor:

- (1) Increase in assets and increase in liabilities.
- (2) Decrease in assets and decrease in liabilities.
- (3) Decrease in assets and decrease in capital.
- (4) There is no change in assets. (02 marks)

**1.3** Purchase Order (PO) is:

- (1) A document used to record goods received by an entity at the point of receipt.
- (2) A document used to inform the required material by the stores department.
- (3) A document issued by a buyer to a seller, indicating the type, quantity and the agreed price for products or services.
- (4) A document used by the supplier demanding the payment for which orders were placed. (02 marks)

**1.4** Which one of the following is **not** recorded in the General Journal?

- (1) Correction of errors.
- (2) Year-end adjustments.
- (3) Recording of opening balances.
- (4) Sale of goods on credit. (02 marks)

**1.5** The following information were extracted from the books of **ABC Enterprise** which is a sole proprietorship:

Description	Rs.
Capital as at 01 <sup>st</sup> April 2015	200,000
Drawings during the year	120,000
Profit for the year ended 31 <sup>st</sup> March 2016	145,000
Liabilities as at 31 <sup>st</sup> March 2016	80,000

Based on the above information, total assets as at 31<sup>st</sup> March 2016 would be:

- (1) Rs.305,000/-
- (2) Rs.545,000/-
- (3) Rs.345,000/-
- (4) Rs. 225,000/- (02 marks)

**1.6** Which one of the following is **not** generated through the financial statements of an entity?

- (1) Information on entity's financial position.
- (2) Information on entity's financial performance.
- (3) Information on changes in financial position.
- (4) Information on changes in organizational structure. (02 marks)

- 1.7** The following information on petty cash transactions were extracted from the books of **Amal Traders** for the first week of the month of January 2017:

Date	Description	Rs.
01 <sup>st</sup> January	Petty Cash float	5,000
03 <sup>rd</sup> January	Purchase of stationery	575
05 <sup>th</sup> January	Purchase of stamps	250
06 <sup>th</sup> January	Travelling expenses	450

The petty cash reimbursement received by the petty cashier on 07<sup>th</sup> January 2017 is:

- (1) Rs.3,725/-      (2) Rs.5,000/-      (3) Rs.1,275/-      (4) Rs.6,275/-.  
(02 marks)

- 1.8** The following information was extracted from the books of **XYZ Traders**:

	Rs.
Net assets as at 01 <sup>st</sup> April 2015	150,000
Additional Capital	25,000
Net Assets as at 31 <sup>st</sup> March 2016	135,000
Drawings by the owner during the year	12,000

The Net Profit / (Loss) of **XYZ Traders** for the year ended 31<sup>st</sup> March 2016 by using the profit equation is:

- (1) (Rs.22,000/-).      (2) Rs.28,000/-      (3) Rs.52,000/-      (4) (Rs. 28,000/-).  
(02 marks)

*Write answers for question No. 1.9 to 1.15 in your answer booklet, with the number assigned to the question.*

- 1.9** List two(02) examples for master files used in a computerized accounting system. (02 marks)
- 1.10** State three(03) reasons for moving in to computerized accounting systems by most of the companies. (03 marks)
- 1.11** Briefly explain “Capital Expenditure” and “Revenue Expenditure” and state one(01) example for each. (03 marks)
- 1.12** List three(03) important information that should be included in a Journal Voucher. (03 marks)
- 1.13** 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) There are regulatory frameworks for both Financial Accounting and Management Accounting.
- (b) The objective of Management Accounting is to provide information about efficiency and effectiveness of a business.
- (c) Main objective of Financial Accounting is to satisfy the information needs of stakeholders.
- (d) Realization Concept is the accounting concept which suggests to value inventories at the lower of cost or net realizable value. (04 marks)

- 1.14** The following transactions are related to **Sunimal's Bakery**. Identify the relevant source document used to record each of the following transactions.
- (a) Purchased Rs.3,500/- worth stock of flour from **Silva & sons** on credit basis.
  - (b) Sold buns worth Rs.1,500/- to **Akila Traders** on credit basis.
  - (c) Rs.1,000/- worth of buns was returned by **Akila Traders** due to expiration. (03 marks)

- 1.15** State the double entry for each of the following transactions of a sole proprietorship:
- (a) Purchased furniture worth Rs.30,000/- from **Ann Ltd.** on credit basis for office use.
  - (b) Cost of goods taken by the owner during the year for his personal use was Rs.15,000/- .
  - (c) Paid Rs.30,000/- for a full settlement of a creditor's invoice of Rs.32,000/- . (06 marks)

End of Section A

## SECTION B

Four (04) compulsory questions

(Total 40 marks)

### Question 02

- (a) The following transactions were extracted from the books of **Mathews Traders** for the month of June 2016.

Date	Transaction
01.06.2016	Sold goods costing Rs.40,000/- for Rs.60,000/- on credit basis.
07.06.2016	Purchased goods for resale worth of Rs.50,000/- on credit.
08.06.2016	Paid Rs.10,000/- to a creditor for goods purchased on credit.
24.06.2016	Staff salary of Rs.45,000/- was paid for the month of June.
30.06.2016	<b>Mathew</b> invested additional capital of Rs.90,000/- in cash to the business.
30.06.2016	Purchased an office equipment for Rs.10,000/- from <b>Cooray Ltd.</b> on credit for office use.

**You are required to:**

**Record** the effect of each of the above transactions to the following accounting equation:

$$[\text{Fixed assets} + \text{Inventories} + \text{Debtors} + \text{Cash} = \text{Capital} + \text{Liabilities}] \quad (06 \text{ marks})$$

- (b) **Explain** the following concepts:

- (i) Accrual concept.
- (ii) Entity concept. (04 marks)

(Total 10 marks)

### Question 03

**Lahiru** started a shop on 01<sup>st</sup> April 2015 by investing Rs.450,000/- in cash. Summary of cash book for the year ended 31<sup>st</sup> March 2016 was as follows:

**Cash Book for the year ended 31<sup>st</sup> March 2016**

	Rs.		Rs.
Cash introduced by <b>Lahiru</b>	450,000	Drawings	250,000
Receipts from Trade Debtors	1,400,000	Payments to Trade Creditors	900,000
Bank loan received	600,000	Electricity bills	45,000
		Payment of 6 monthly installments of the bank loan (capital portion only)	300,000
		Interest on bank loan	15,000
		Office equipment acquired on 31 <sup>st</sup> March 2016	180,000
		Balance C/F	760,000
	<b>2,450,000</b>		<b>2,450,000</b>

The following additional information is also provided:

- (1) The bank loan of Rs.600,000/- was obtained on 30<sup>th</sup> September 2015 at 10% interest (fixed rate) per annum. The loan is re-payable in 12 equal monthly installments.
- (2) Receivables and payables as at 31<sup>st</sup> March 2016 were as follows:

	Rs.
Trade Debtors	250,000
Trade Creditors	100,000
Accrued Electricity	15,000

- (3) Rate of depreciation on office equipment is 10% per annum.
- (4) All sales and purchases are made on credit basis and there is no stock at the end of the year.

**You are required to:**

**Prepare** the Trial Balance of **Lahiru's** Business as at 31<sup>st</sup> March 2016.

(10 marks)

### Question 04

The Trial Balance of **Sharp Traders** as at 31<sup>st</sup> March 2016 prepared by the Accounts Executive did not agree and the difference of Rs.197,000/- was debited to the Suspense Account.

The following errors were revealed subsequently:

- (1) Electricity payment of Rs.17,500/- had been mistakenly debited to Insurance Expense account. However, this has been correctly recorded in the cash book.
- (2) Cash withdrawn by the owner of the business for his personal use was Rs.175,000/- and it was only recorded in the cash book.

- (3) Discount received of Rs.44,350/- was recorded twice in the respective ledger accounts.
- (4) Rent income of Rs.55,000/- was debited to rent expense account. However, this was correctly recorded in the cash book.
- (5) Rates payment of Rs.12,000/- was incorrectly credited to the discount received account as Rs.120,000/-. However, this was correctly recorded in the cash book.

**You are required to:**

**Prepare** the following:

- (a) Journal Entries to rectify the above errors. (07 marks)
  - (b) Suspense Account. (03 marks)
- (Total 10 marks)

### Question 05

**Handy Bags Traders** is a sole proprietorship engaged in the business of manufacturing of hand bags. The following information relates to **Handy Bags Traders** for the quarter ended 30<sup>th</sup> June 2016.

	Rs.
Inventories as at 01 <sup>st</sup> April 2016:	
Raw materials	1,350,000
Work-in-progress – valued at prime cost	725,000
Purchase of raw materials	2,070,000
Carriage inwards – Raw materials	250,000
Factory Manager's salary	1,230,000
Electricity expenses	280,000
Water	80,000
Other direct expenses	855,000
Depreciation:	
Building	240,000
Machinery at factory	765,000
Inventories as at 30 <sup>th</sup> June 2016	
Raw materials	1,245,000
Work-in-progress – valued at prime cost	1,050,000

The following additional information is also provided:

- (1) Direct wages are paid based on the number of hand bags produced and Rs.150/- is paid per hand bag. 6,000 hand bags were produced during the quarter.
- (2) 25% of electricity, water and depreciation on building should be apportioned to the office.

**You are required to:**

- (a) **Prepare** the Manufacturing Account for **Handy Bags Traders**, for the quarter ended 30<sup>th</sup> June 2016. (08 marks)
  - (b) **Calculate** the manufacturing cost per hand bag. (02 marks)
- (Total 10 marks)

End of Section B

## SECTION C

One (01) compulsory question

(Total 20 marks)

### Question 06

**Rasika Trading** is a sole proprietorship owned by **Rasika**. The Trial Balance of **Rasika Trading** as at 31<sup>st</sup> March 2016 is as follows:

<b>Rasika Trading</b>		<i>(Rs. '000)</i>	
<b>Trial Balance as at 31<sup>st</sup> March 2016</b>			
Description	Dr.	Cr.	
Property, Plant and Equipment (at cost)			
Land and Buildings (Land is Rs.5,500,000/-)	25,500		
Delivery Vehicle	4,400		
Office Equipment	2,750		
Accumulated Depreciation as at 01 <sup>st</sup> April 2015			
Buildings		5,000	
Delivery Vehicle		1,440	
Office Equipment		540	
Stocks as at 01 <sup>st</sup> April 2015	3,850		
Trade receivables / Trade payables	6,500	7,600	
Provision for doubtful debts as at 01 <sup>st</sup> April 2015		620	
Purchases / Sales	15,000	35,500	
Drawings	1,200		
Salaries and wages	6,500		
Insurance	1,830		
Electricity	3,800		
Sales commission	2,150		
14% bank loan		9,500	
Cash in hand	2,620		
Bank overdraft		1,900	
Capital as at 01 <sup>st</sup> April 2015		14,000	
	<b>76,100</b>	<b>76,100</b>	

The following additional information is also provided:

- (1) Closing stock as at 31<sup>st</sup> March 2016 was valued at Rs.3,450,000/-.
- (2) Receivables from **Ganga distributors** amounting to Rs.150,000/- to be written off as a bad debt and a general provision of 2% for doubtful debts to be made for the remaining trade receivables balance at the year end.
- (3) The policy of the business is to provide depreciation on the straight-line basis on cost at following rates:

Buildings	5%
Delivery Vehicle	20%
Office Equipment	12%

- (4) The electricity bill of Rs.355,000/- for the month of March 2016 was not settled as at 31<sup>st</sup> March 2016.
- (5) The bank loan was obtained on 01<sup>st</sup> April 2015. It should be payable in two equal annual installments. First annual installment with interest is due as at 31<sup>st</sup> March 2016 and it has been paid on 10<sup>th</sup> April 2016.
- (6) Insurance expense of Rs.530,000/- is relevant for the next financial year of 2016/17.

**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.