



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2018

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

27-01-2018
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 only Non-programmable calculators is 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 1.8. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 The main objective of preparing financial statements is:

- (1) to decide the selling price of a product.
- (2) to provide the financial information of an entity that is useful to users in making economic decisions.
- (3) to prevent fraud and error.
- (4) to protect employees of the organization. (02 marks)

1.2 Expenditure incurred in a particular accounting period should be taken into account during that particular accounting period irrespective of the actual payment. The accounting concept relating to this treatment is:

- (1) Accrual Concept. (2) Consistency Concept.
- (3) Entity Concept. (4) Historical Cost Concept. (02 marks)

1.3 The source document that is issued by a buyer to a seller indicating types, quantities and agreed prices for products or services is:

- (1) Purchase Order (PO). (2) Goods Received Note (GRN).
 (3) Material Requisition Note (MRN). (4) Purchase Invoice (PI). (02 marks)

1.4 Which one of the following transactions affects decrease in liabilities?

- (1) Purchase of raw material of Rs.150,000/- from **ABC textiles** on credit.
 (2) Sale of garments for Rs.850,000/ on three-months credit to **MKK Fashions**.
 (3) Settlement of a short-term loan of Rs.755,000/- to **UE Bank**.
 (4) Payment of Rs.500,000/- in advance for next year's building rent. (02 marks)

1.5 The following information was extracted from the books of **Saman Traders** for the year ended 31st March 2017:

Description	Rs.
Capital as at 01 st April 2016	550,000
Profit for the year ended 31 st March 2017	155,000
Drawings during the year	350,000
Additional capital introduced during the year	200,000
Liabilities as at 31 st March 2017	300,000

Based on the above information, the value of total assets as at 31st March 2017 of **Saman Traders** is:

- (1) Rs.1,155,000/-. (2) Rs.705,000/-. (3) Rs.1,555,000/-. (4) Rs.855,000/-. (02 marks)

1.6 **ABC Company Ltd.** incurred the following expenditure during the month of June 2017:

Description	Rs.
Construction of an office building	765,000
Purchase of a new machinery to the production unit	1,000,000
Salary paid to factory workers	550,000
Installation cost of the new machinery	50,000

Based on the above information, total "revenue expenditure" incurred by **ABC Company Ltd.** during the month of June 2017 is:

- (1) Rs.600,000/-. (2) Rs.550,000/-. (3) Rs.1,600,000/-. (4) Rs.765,000/-. (02 marks)

1.7 Which one of the following is an accounting input of the accounting process?

- (1) Cash flow statement. (2) Statement of Financial Position.
 (3) Transactions. (4) All of the above. (02 marks)

1.8 Which one of the following is an example for “a general accounting software package”?

- (1) Cash book. (2) Quick Book.
(3) Stock control system. (4) Debtors module. (02 marks)

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

1.9 Briefly explain, the “Concept of Going Concern” . (02 marks)

1.10 State two(02) elements directly related to the financial position of a sole proprietorship. (02 marks)

1.11 Briefly explain, what is meant by transaction files in a computerized accounting system. (02 marks)

1.12 List three(03) important matters that should be included in a Sales Invoice. (03 marks)

1.13 The following information was extracted from the books of **Piyal Opticals** for the year ended 31st December 2017:

	Rs.
Net assets as at 01 st January 2017	525,000
Net assets as at 31 st December 2017	850,000
Drawings by the owner during the year	150,000
Additional capital introduced during the year	250,000

Calculate the Net Profit of **Piyal Opticals** for the year ended 31st December 2017, using the “Profit Equation”. (03 marks)

1.14 The following information was extracted from the books of **XYZ Traders** for the month of December 2017:

	Rs.
Sales	500,000
Purchases	350,000
Stocks as at 01 st December 2017	150,000
Gross Profit	80,000

Based on the above information, calculate the value of stocks as at 31st December 2017. (03 marks)

1.15 **Silva** is the sole proprietor of **Kamal Electricals**. State the correct double entry for each of the following transactions of **Kamal Electricals**:

- (a) **Silva** commenced a business by investing Rs.1,000,000/- in cash and Rs.250,000/- worth of office equipment.
(b) Purchase of electrical equipment of Rs.800,000/- from **Ajith** on credit basis for resale.
(c) **Silva** made a drawing of Rs.5,600/- in cash for his personal use. (06 marks)

1.16 State whether each of the following statements is **True** or **False**. Write **True** or **False** in your answer booklet with the letter assigned to the question:

- (a) General ledger is a component of the set of financial statements.
- (b) All the accounting errors could be detected by preparing a trial balance.
- (c) Cash book is a prime entry book.

(03 marks)

(Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

Senaka started a sole proprietorship, **Senaka Tailors** by investing Rs.1,000,000/- on 01st April 2016. Summary of the cashbook for the year ended 31st March 2017 was as follows:

Cash Book for the year ended 31st March 2017

	Rs.		Rs.
Initial investment by Senaka	1,000,000	Payment of shop rent	900,000
Receipts from trade debtors	2,400,000	Payments to trade creditors	1,100,000
		Purchase of air conditioners	800,000
		Payment of electricity bills	400,000
		Balance c/f	200,000
	3,400,000		3,400,000

The following additional information is also provided:

- (1) Air conditioners were purchased on 01st January 2017 and the rate of depreciation for air conditioners is 20% on the straight-line basis at cost.
- (2) Receivables and payables as at 31st March 2017 were as follows:

Receivables / Payables	Rs.
Trade creditors	800,000
Trade debtors	600,000
Prepaid shop rent	75,000
Accrued electricity	50,000

- (3) All sales and purchases are made on credit basis and there were no stocks as at 31st March 2017.

You are required to:

Prepare the Trial Balance of **Senaka Tailors** as at 31st March 2017.

(10 marks)

Question 03

The Trial Balance prepared by the Assistant Accountant of **H&M Traders** as at 31st March 2017 did not agree and the difference of Rs.700,000/- was debited to a suspense account.

The following errors were identified subsequently:

- (1) Cash sales of Rs.175,000/- were recorded as Rs.715,000/- in the sales account and this has been correctly recorded in the cash book.
- (2) Purchase of office equipment for Rs.100,000/- has been debited to office equipment maintenance account. This was correctly recorded in the cash book.
- (3) Purchases worth Rs.200,000/- from a trade creditor has been recorded twice in the trade creditors account. However, this was correctly recorded in the purchases account.
- (4) Interest income of Rs.15,000/- has been erroneously debited as Rs.25,000/- in the interest expense account. However, this was correctly recorded in the cash book.
- (5) Credit sale of Rs.324,000/- has been recorded both in the trade receivables and the sales accounts as Rs.342,000/-.
- (6) Capital repayment of Rs.30,000/- of a bank loan, has been erroneously debited to the loan interest expense account, though it has been 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 04

The following information relates to **Vishwa & Sons**, a wooden dining table manufacturer for the year ended 31st March 2017:

	Rs.
Purchase of raw material - teak wood	55,000,000
Carriage inwards – teak wood	2,000,000
Purchase of other direct raw material	24,000,000
Direct wages – production workers	15,000,000
Building rent	2,000,000
Manager's salary	2,500,000
Depreciation on wood cutting machinery	400,000

The following additional information is also provided:

- (1) Inventories are valued as follows: (Rs.)

	As at 01 st April 2016	As at 31 st March 2017
Raw material:		
Teak wood	15,500,000	18,000,000
Other direct raw material	7,500,000	8,000,000
Work-in-progress (valued at prime cost)	1,000,000	1,500,000

- (2) Building rent should be apportioned as follows:

Factory : 70%

Office : 30%

- (3) Manager of **Vishwa & Sons** is responsible for both factory related work and office administrative work. 80% of his salary is applicable to factory related work.
- (4) An incentive of Rs.6,000/- is paid for each wooden dining table produced. During the year, 250 dining tables were completed at the factory.

You are required to:

Prepare the manufacturing account of **Vishwa & Sons** for the year ended 31st March 2017. (10 marks)

Question 05

- (A) The following transactions were extracted for the month of November 2017 from the books of **Tikiri Traders**, a sole proprietorship:

Date	Transaction
01.11.2017	Purchased goods worth Rs.650,000/- on credit for resale.
05.11.2017	Obtained a short-term loan of Rs.750,000/- from ABC Bank .
20.11.2017	The owner of Tikiri Traders has taken goods costing of Rs.30,000/- for his personal use.
25.11.2017	Telephone bill for the month of November 2017 was Rs.5,000/-, however only Rs.4,000/- was paid during the month.
28.11.2017	Sold goods costing of Rs.200,000/- for Rs.220,000/- on credit basis.
30.11.2017	Paid Rs.300,000/- to a creditor for goods purchased on credit.

You are required to:

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

$$(Inventories + Debtors + Cash = Equity + Liabilities) \quad (06 \text{ marks})$$

- (B) **Asanka Traders** is a sole proprietorship which manufactures and sells concrete blocks. Credit sales of **Asanka Traders** for the month of December 2017 are as follows:

Date	Invoice	Customer's Name	Item details			Trade Discount %
			Description	Quantity (units)	Price per block (Rs.)	
01.12.2017	45	AA Hardware	Small blocks	5,000	40	
20.12.2017	46	AA Hardware	Large blocks	8,000	50	5%
22.12.2017	47	Namal Stores	Medium blocks	5,000	45	

You are required to:

Prepare the Sales Day Book of **Asanka Traders** for the month of December 2017. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

Rahal Motors is a sole proprietorship which sells motor cycles. The Trial Balance of **Rahal Motors** as at 31st March 2017 is as follows:

Rahal Motors
Trial Balance as at 31st March 2017 (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment (at cost):		
Land	4,000	
Buildings	2,500	
Computers	800	
Delivery lorry	1,250	
Accumulated Depreciation as at 01 st April 2016:		
Buildings		500
Computers		250
Delivery lorry		520
Sales		27,000
Purchases	18,000	
Stocks as at 01 st April 2016	6,400	
Trade Receivables	2,000	
Trade Payables		3,000
Provision for doubtful debts as at 01 st April 2016		150
Bank overdraft Interest	100	
Electricity	450	
Insurance	900	
Cash in hand	250	
Bank overdraft		300
Salaries to staff	1,100	
Sales commission	250	
Capital as at 01 st April 2016		6,280
	38,000	38,000

The following additional information is also provided:

- (1) Closing stock as at 31st March 2017 was valued at Rs.5,750,000/-.
- (2) Insurance of Rs.900,000/- has been paid for the period from 01st July 2016 to 30th June 2017.
- (3) Depreciation on Property, Plant and Equipment is provided based on the straight-line basis at cost as follows:

Buildings	:	5%
Computers	:	25%
Delivery lorry	:	10 %
- (4) Owner of **Rahal Motors** decided to write-off Rs.50,000/- from **Arun**, a trade receivable as bad debts, and to make a general provision of 10% for doubtful debts on the balance remaining trade receivable balance as at 31st March 2017.
- (5) Unpaid electricity bill for the month of March 2017 was Rs.50,000/-.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2017. (11 marks)
 - (b) Statement of Financial Position as at 31st March 2017. (09 marks)
- (Total 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.