



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2017

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

22-07-2017
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 1.8. 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 qualitative characteristic of financial information according to the Conceptual Framework for Financial Reporting?

- (1) Accrual basis. (2) Relevance. (3) Going concern. (4) Historical cost.
(02 marks)

- 1.2** The following information were extracted from the books of **Kapila Motors** for the year ended 31st March 2017:

Description	Rs.
Net assets as at 01.04.2016	325,000
Net assets as at 31.03.2017	385,000
Drawings during the year	35,000
Additional capital introduced during the year	10,000

Based on the above information, the net profit / (loss) for the year ended 31st March 2017 would be:

- (1) (Rs.105,000) (2) (Rs.35,000) (3) Rs.85,000/- (4) Rs.15,000/-
(02 marks)

1.3 Which one of the following is a component of a complete set of financial statements?

- (1) Statement of financial position.
- (2) Statement of cash flows.
- (3) Statement of changes in equity.
- (4) All of the above. (02 marks)

1.4 **Silva** purchased goods on credit basis from **Anne** and returned part of those goods to **Anne** subsequently due to damages. Which one of the following document is issued by **Silva** to record the return of goods?

- (1) Debit Note.
- (2) Credit Note.
- (3) Journal Voucher.
- (4) Purchase Invoice. (02 marks)

1.5 The accounting concept which assumes that a business will continue in operation for the foreseeable future is:

- (1) Accounting Period Concept.
- (2) Consistency Concept.
- (3) Going Concern Concept.
- (4) Realization Concept. (02 marks)

1.6 The opening inventory balance of a business was understated by Rs.25,000/- while the closing inventory balance was overstated by Rs.30,000/-. The impact of this is:

- (1) Overstating of gross profit by Rs.55,000/-.
- (2) Understating of gross profit by Rs.55,000/-.
- (3) Overstating of gross profit by Rs.5,000/-.
- (4) Understating of gross profit by Rs.5,000/-. (02 marks)

1.7 Which one of the following is **not** an example for a "General Accounting software" package?

- (1) Payroll system.
- (2) MYOB.
- (3) ACCPAC.
- (4) Tally. (02 marks)

1.8 Which one of the following statements indicates the correct effect to the business of settling a short-term loan obtained from the bank?

- (1) Increase in assets and increase in capital.
- (2) Decrease in assets and increase in liabilities.
- (3) Increase in assets and increase in liabilities.
- (4) Decrease in assets and decrease in liabilities. (02 marks)

Write answers for question No. 1.9 to 1.16 in your answer booklet, with the number assigned to the question.

- 1.9** State two(02) users of financial information. (02 marks)
- 1.10** State two(02) important matters included in a Goods Received Note (GRN). (02 marks)
- 1.11** List two(02) disadvantages (drawbacks) of a Computerized Accounting System. (02 marks)
- 1.12** State the Accounting Concept applicable for each of the following statements:
- (a) Recording cash withdrawn by the owner amounting to Rs.5,000/- as drawings.
 - (b) Depreciate machinery on the basis of expected useful life.
 - (c) Deciding to make a provision of Rs.5,000/- for doubtful debts from its debtors. (03 marks)
- 1.13** The following transactions are related to **Sarath Traders**. Identify the relevant prime entry book to record each of the following transactions:
- (a) Sold sugar worth of Rs.8,000/- to **HH Retailers** on credit basis.
 - (b) Purchased furniture amounting to Rs.175,000/- for office use.
 - (c) Sugar worth of Rs.1,700/- was returned by the **HH Retailers**. (03 marks)
- 1.14** **Samantha Bookshop** acquired a photocopy machine for Rs.600,000/- on 01st April 2016. Estimated useful life of this machine is 5 years and estimated residual value at the end of the useful life is Rs.100,000/-. The policy of the business is to provide depreciation on the straight-line basis at cost.
- Compute the depreciation for the year ended 31st March 2017. (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) Expenses and income are the elements directly related to the statement of financial position.
 - (b) Equity is the residual interest in the assets of an entity after deducting all its liabilities.
 - (c) In a Computerized Accounting System, transaction files summarize data available in source documents. (03 marks)
- 1.16** State the correct double entry for each of the following transactions of **SS Trading** which is a sole proprietorship:
- (a) The owner has invested Rs.800,000/- in cash to the business as additional capital.
 - (b) An amount of Rs.45,000/- was received in cash for the full settlement of a trade debtor amounting to Rs.50,000/-.
 - (c) Interest income of Rs.10,000/- was received to the bank account. (06 marks)

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

- (a) The following transactions are related to the credit purchases of **Nalaka Book Shop** for the 01st week of January 2017.

No.	Date	Invoice No.	Name of supplier	Item Details			Trade Discount
				Description	Quantity (Units)	Price per Unit (Rs.)	
1	01.01.2017	101	Sunimal	Exercise Books	100	90	2%
2	04.01.2017	303	Amal	Colour pencil boxes	25	180	-
3	06.01.2017	14	Namal	Pencils	75	15	-

You are required to:

Prepare the Purchases Day Book of **Nalaka Bookshop** for the 01st week of January 2017.

(04 marks)

- (b) The following transactions were extracted for the month of March 2017 from the books of the business of **Rose**, a sole proprietor:

Date	Transaction
01.03.2017	Rose commenced the business by investing Rs.500,000/- in cash.
05.03.2017	Purchased goods for resale for Rs.750,000/- on credit.
15.03.2017	Stocks costing of Rs.300,000/- were sold for cash with a profit margin of 10% on cost.
20.03.2017	Rs.200,000/- was paid to a supplier.
25.03.2017	Paid electricity bill of Rs.10,000/- for the month of March 2017.
31.03.2017	Purchased a computer for Rs.100,000/- on credit basis for office use.

You are required to:

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

[Non-Current Assets (Fixed Assets) + Inventories + Debtors + Cash = Equity + Liabilities]

(06 marks)

(Total 10 marks)

Question 03

Amali is the newly appointed bookkeeper of **NYK Traders** and the trial balance prepared by her as at 31st March 2017 did not agree. The difference has been transferred to the suspense account and prepared the draft financial statements. A profit of Rs.175,000/- was shown as per the draft financial statements for the year ended 31st March 2017.

The following errors were identified subsequently:

- (1) Credit purchase of Rs.60,000/- has been debited to purchase account as Rs.6,000/- while the credit entry has been recorded correctly.
- (2) Telephone expenses of Rs.1,200/- has been recorded as Rs.2,100/- in electricity expenses account. This was correctly recorded in the cash book.
- (3) Stationery expense of Rs.750/- recorded in the cash book has not been recorded in the stationery expense account.
- (4) A credit sale of Rs.25,000/- has been recorded twice both in trade debtors account and sales account.
- (5) Interest expense of Rs.5,000/- has been credited to interest income account. This was correctly recorded in the cash book.

You are required to:

- (a) **Prepare** Journal Entries to rectify the above errors. (06 marks)
- (b) **Calculate** adjusted Profit (Loss) for the year ended 31st March 2017 of **NYK Traders**. (04 marks)
(Total 10 marks)

Question 04

Pradeep is a sole proprietor running the business "**Pradeep Enterprises**". The Statement of Financial Position as at 31st March 2016 of **Pradeep Enterprises** is as follows:

Pradeep Enterprises
Statement of Financial Position as at 31st March 2016

	Rs.	Rs.
Non-Current Assets:		
Office Equipments		400,000
Current Assets:		
Trade Debtors	250,000	
Cash	50,000	300,000
		700,000
Capital		500,000
Current Liabilities:		
Trade Creditors		200,000
		700,000

The following additional information is also provided:

- (1) Office equipments for Rs.400,000/- were purchased on 31st March 2016, and those are depreciated at the rate of 10% per annum on the straight-line basis at cost.
- (2) Sales and purchases for the year ended 31st March 2017 were as follows:

	Rs.
Sales	900,000
Purchases	650,000

All purchases and sales were made on credit basis.

- (3) There were no stocks as at 31st March 2017.
- (4) Trade debtors and trade creditors as at 31st March 2017 were as follows:

	Rs.
Trade debtors	100,000
Trade creditors	170,000

- (5) The bank loan of Rs.200,000/- was obtained on 01st April 2016 at fixed interest rate of 10% per annum. This is repayable in two equal annual installments. First annual installment with interest is due as at 31st March 2017 and it has been paid on 10th April 2017.

You are required to:

Prepare the Trial Balance of Pradeep Enterprises as at 31st March 2017.

(10 marks)

Question 05

The following information were extracted from the books of a Glass Bottles Manufacturer for the year ended 31st March 2017:

	Rs.
Raw material purchases	1,750,000
Salaries – production manager	250,000
Carriage inwards – raw material	300,000
Direct wages-production workers	950,000
Building rent	250,000
Depreciation on factory machinery	300,000
Security expenses	120,000
Electricity expenses	275,000

The following additional information is also provided:

- (1) Inventories are valued as follows:

	As at 01 st April 2016 (Rs.)	As at 31 st March 2017 (Rs.)
Raw material	2,300,000	1,800,000
Work-in-progress (valued at total production cost)	1,050,000	710,000

- (2) The following expenses should be apportioned as follows:

	Factory	Office
Building Rent	80%	20%
Security Expenses	75%	25%
Electricity Expenses	80%	20%

- (3) In addition to the direct wages, production workers are entitled to get an incentive of Rs.10/- for each bottle produced during the year. Total number of bottles produced during the year was 8,000.

You are required to:

- (a) **Prepare** the Manufacturing Account for the year ended 31st March 2017. (08 marks)
- (b) **Calculate** the manufacturing cost per glass bottle. (02 marks)
- (Total 10 marks)

————— *End of Section B* —————

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

NN Traders is a sole proprietorship owned by **Nishantha**. The trial balance of **NN Traders** as at 31st March 2017 is given below:

NN Traders
Trial Balance as at 31st March 2017 (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment (at cost):		
Land and Buildings	10,000	
Office Equipment	6,500	
Furniture and Fittings	5,000	
Accumulated Depreciation as at 01 st April 2016:		
Buildings		2,600
Office Equipment		1,500
Furniture and Fittings		2,500
Stocks as at 01 st April 2016	2,800	
Trade receivables / Trade payables	18,500	16,600
Drawings	1,300	
Provision for doubtful debts as at 01 st April 2016		750
Purchases / Sales	20,000	37,000
Showroom Rent	1,500	
Electricity	2,550	
Water	1,500	
Salaries and Wages	3,500	
Office maintenance expenses	1,650	
Cash at bank	3,700	
Cash in hand	1,900	
Advertising expenses	1,100	
Capital as at 01 st April 2016		20,550
	81,500	81,500

The following additional information is also provided:

- (1) The closing stock as at 31st March 2017 is valued as follows:

	Rs.
At Cost	5,400,000
At Net Realizable Value (NRV)	5,450,000

- (2) Value of the Land is Rs.4,000,000/- and the depreciation policy of the business is to depreciate the Property, Plant and Equipment on the straight-line basis at cost using the following rates:

Buildings	10% per annum
Office equipments	20% per annum
Furniture and fittings	25% per annum

- (3) **Nishantha** decided to write off the balance receivable from **Ruwan** amounting to Rs.500,000/- as bad debts and a general provision of 5% for doubtful debts should be made on remaining trade receivable balance as at 31st March 2017.
- (4) **Nishantha** opened a new showroom of **NN Traders** on 01st April 2016 and the rent for the new showroom is Rs.150,000/- per month.

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.