



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2018

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

28-07-2018  
Morning  
[8.45 – 12.00]

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

No. of Pages : 09  
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 1.8. Write the number of the selected answer in your answer booklet with the number assigned to the question.

- 1.1 Of the following, a stakeholder of the business would be:

- (1) Owners. (2) Government. (3) Creditors. (4) All of the above.  
(02 marks)

- 1.2 Which one of the following source document is raised by the storekeeper to record the goods received from suppliers?

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

- 1.3 Perera, a sole proprietor has taken Rs.5,000/- in cash from his business for his private expenses and it was considered as drawings of the business. The accounting concept relating to this treatment is:

- (1) Entity concept. (2) Accrual concept.  
(3) Realization concept. (4) Consistency concept. (02 marks)

- 1.4 On 01<sup>st</sup> April 2018, **Sahan** purchased an office cupboard worth Rs.45,000/- for office use from **Danapala Furniture** on credit.

The effect of the above transaction to the Accounting Equation is:

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

- 1.5 Under the traditional classification of accounts, ledger accounts can be categorized as “Real Accounts, Personal Accounts, and Nominal Accounts”.

Which one of the following is an example for a real account?

- (1) Sales account.
- (2) Salaries and wages account.
- (3) Building maintenance account.
- (4) Machinery account. (02 marks)

- 1.6 The following information is related to machinery of **Nela Motors** as at 31<sup>st</sup> March 2018:

Cost of machinery	Rs.1,200,000/-
Date of purchase	01 <sup>st</sup> April 2016
Depreciation method	Diminishing (reducing) balance method
Annual depreciation rate	20%

Based on the above information, the correct depreciation charge for the year ended 31<sup>st</sup> March 2018 is:

- (1) Rs.240,000/-.
  - (2) Rs.192,000/-.
  - (3) Rs.153,000/-.
  - (4) Rs.768,000/-.
- (02 marks)

- 1.7 Select from the following, a reason for moving to a computerized accounting system:

- (1) Involvement of a massive investment cost.
- (2) Speed of the system is very high.
- (3) Possibility of occurring some failures due to human errors.
- (4) Highly technical oriented. (02 marks)

- 1.8 Which one of the following transactions affects increase in equity?

- (1) Obtaining a short-term loan amounting to Rs.300,000/- from a bank.
- (2) A receipt of Rs.150,000/- from a trade debtor.
- (3) A receipt of an advance of Rs.560,000/- for next year’s building rent.
- (4) Introducing Rs.150,000/- in cash to the business by the owner. (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 Define the term "Liability". (02 marks)

1.10 State two(02) objectives of Financial Accounting. (02 marks)

1.11 The following information was extracted from the books of **Rose Traders** for the year ended 31<sup>st</sup> March 2018:

Description	Rs.
Capital as at 01 <sup>st</sup> April 2017	500,000
Profit for the year ended 31 <sup>st</sup> March 2018	175,000
Liabilities as at 31 <sup>st</sup> March 2018	425,000
Drawings during the year	25,000

Based on the above information,

Calculate the value of total assets as at 31<sup>st</sup> March 2018 of **Rose Traders**. (03 marks)

1.12 State the Accounting Concept applicable for each of the following circumstances:

- It is assumed that the entity will continue for a long time, unless and until it has entered into a state of liquidation.
- Revenue is recognized in the particular accounting period irrespective of receipt of cash or not.
- The accounting policies followed by an entity should be consistently applied over the years. (03 marks)

1.13 State whether each of the following statements is **True** or **False**.

- Accounting equation can be stated as Assets + Liabilities = Capital.
- ACCPAC is an example for a general accounting software package.
- Statement of Financial Position is an input of accounting.
- Financial Accounting analyses historical data. (04 marks)

1.14 Identify the relevant "Source Document" used to record each of the following transactions related to **XYZ Traders**:

- Purchased stationery worth of Rs.15,000/- in cash.
- Stocks of Rs.400,000/- purchased on credit were returned to supplier due to poor quality.
- Sold Rs.20,000/- worth items to **ABC Ltd.** on credit basis.
- Purchased a photocopier for Rs.400,000/- from **PQRS Ltd.** for office use on credit basis. (04 marks)

1.15 **Janith** is the sole proprietor of **Janith Traders**. State the correct double entry for each of the following transactions of **Janith Traders**:

- Purchase of a motor vehicle for Rs.1,000,000/- on credit from **AM (Pvt) Ltd.** for office use.
- Cost of goods taken by the owner during the year for his personal use was Rs.12,000/-.
- Malik**, a trade debtor, returned the goods purchased from **Janith** amounting to Rs.40,000/- due to damages. (06 marks)

(Total 40 marks)

End of Section A

## SECTION B

Four (04) compulsory questions

(Total 40 marks)

### Question 02

The following information was extracted from the books of accounts for the year ended 31<sup>st</sup> March 2018 of **Royal Traders**, an Aluminum cupboard manufacturer:

	Rs.
Purchase of Raw materials	10,500,000
Carriage inwards – Raw materials	1,500,000
Direct wages – Production workers	3,000,000
Other direct expenses	5,000,000
Insurance on building	500,000
Insurance on factory machinery	350,000
Building Electricity	1,500,000
Factory manager's salary	1,100,000
Depreciation on factory machinery	300,000
<b>Inventories as at 01<sup>st</sup> April 2017:</b>	
Raw materials	5,600,000
Work-in progress (valued at prime cost )	2,200,000

The following additional information is also provided:

(1) Closing inventories as at 31<sup>st</sup> March 2018 are as follows:

	Rs.
Raw Materials	4,900,000
Work-in-progress (valued at prime cost)	3,100,000

(2) The expenses related to the building should be allocated as follows:

Factory	80%
Office	20%

(3) The factory workers are entitled for an additional allowance of Rs.500/- for each aluminum cupboard manufactured, and 1,000 cupboards were manufactured for the year ended 31<sup>st</sup> March 2018.

**You are required to:**

**Prepare** the manufacturing account of **Royal Traders** for the year ended 31<sup>st</sup> March 2018. (10 marks)

### Question 03

On 01<sup>st</sup> April 2017, **Shehan** started a sole proprietorship, **Shehan Traders** by investing Rs.2,200,000/- in cash.

A summary of Cash Receipts Journal and Cash Payments Journal (cash book) for the year ended 31<sup>st</sup> March 2018 is given below:

	Rs.
Cash Receipts Journal (Receipts):	
Capital introduced by <b>Shehan</b>	2,200,000
Receipts from Trade Debtors	2,300,000
Cash Payments Journal (Payments):	
Electricity bills	150,000
Salaries	450,000
Payments to Trade creditors	700,000
Vehicle acquired on 01 <sup>st</sup> October 2017	2,000,000
Drawings	400,000

The following additional information is also provided:

- (1) All sales and purchases were made on credit basis.
- (2) The management has decided to provide depreciation for the vehicle at the rate of 10% on the straight line basis at cost.
- (3) The following expenses are to be accrued as at 31<sup>st</sup> March 2018:

	Rs.
Salary	50,000
Electricity	15,000

- (4) The following balances also appeared in the books of accounts of **Shehan Traders** as at 31<sup>st</sup> March 2018:

	Rs.
Trade creditors	800,000
Trade debtors	900,000

- (5) There were no stocks as at 31<sup>st</sup> March 2018.

**You are required to**

**Prepare** the Trial Balance of **Shehan Traders** as at 31<sup>st</sup> March 2018.

(10 marks)

### Question 04

The Trial Balance prepared by the Accounts Assistant of **Q & Q Company** as at 31<sup>st</sup> March 2018 did not agree. The difference was debited to a suspense account and the draft financial statements were prepared. A profit of Rs.748,000/- was shown as per the draft financial statements for the year ended 31<sup>st</sup> March 2018.

The following errors were identified subsequently:

- (1) Purchases of Rs.600,000/- from a trade creditor has been completely omitted from the books of accounts.

- (2) Stationery expenses of Rs.25,000/- has been taken as Rs.52,000/- in the stationery account and this has been correctly recorded in the cash book.
- (3) Rs.355,000/- paid to a trade creditor **Sarath** has been erroneously recorded as Rs.553,000/- in trade creditor account. However, this has been correctly recorded in the cash book.
- (4) Purchase of a laptop for Rs.350,000/- has been recorded in computer maintenance account. This was correctly recorded in the cash book.
- (5) Rent income of Rs.50,000/- has been erroneously debited as Rs.5,000/- in the rent expense account, and it has been correctly recorded in the cash book.
- (6) A credit sale of Rs.33,000/- has been recorded twice both in trade debtors account and sales account.

**You are required to:**

- (a) **Prepare** Journal Entries to rectify the above errors. (06 marks)
  - (b) **Calculate** the adjusted Profit / (Loss) for the year ended 31<sup>st</sup> March 2018 of **Q & Q Company**. (04 marks)
- (Total 10 marks)

### Question 05

- (A) The following transactions were extracted from the books of **Multi Traders**, a sole proprietorship for the month of January 2018:

Date	Transaction
05.01.2018	Stocks costing of Rs.150,000/- were sold to <b>Rathna Traders</b> for Rs.170,000/- on credit basis.
20.01.2018	Received cash from <b>Rathna Traders</b> amounting to Rs.100,000/-.
22.01.2018	Purchased goods worth Rs.200,000/- in cash for resale.
27.01.2018	The owner invested additional capital of Rs.1,000,000/- in cash to the business.
31.01.2018	Staff salary of Rs.125,000/- was paid for the month of January.

**You are required to:**

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

$$(\text{Inventory} + \text{Debtors} + \text{Cash} = \text{Equity} + \text{Liability}) \quad (05 \text{ marks})$$

- (B) **Ruwan Sahal** is a wholesaler of rice. The following transactions are extracted from the books of **Ruwan Sahal** for the month ended 31<sup>st</sup> March 2018:

Date	Source Document	Description	Item details		
			Name	Quantity (kg)	Price per kg (Rs.)
01.03.2018	Invoice No.109	Credit purchases from <b>AB Traders</b>	White rice	1,500	70
10.03.2018	Invoice No.231	Credit purchases from <b>Anand Traders</b>	Red rice	2,000	60
25.03.2018	Invoice No.352	Credit purchases from <b>Ravi and Sons</b>	Basmathi	1,200	90
26.03.2018	Debit Note No. 35	Returns outwards to <b>Anand Traders</b>	Red rice	200	-

**You are required to:**

**Prepare** the following for **Ruwan Sahal** for the month of March 2018:

- (a) Purchase Journal (Purchase Day Book).
- (b) Returns Outwards Journal (Purchase Returns Day Book). (05 marks)

(Total 10 marks)

## SECTION C

One (01) compulsory question

(Total 20 marks)

### Question 06

**Smart Dial** is a sole proprietorship which sells mobile phones and accessories. The Trial Balance of **Smart Dial** as at 31<sup>st</sup> March 2018 is as follows:

**Smart Dial**  
**Trial Balance as at 31<sup>st</sup> March 2018** (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment at cost:		
Land	4,000	
Buildings	3,000	
Computers	1,200	
Office equipment	800	
Accumulated Depreciation as at 01 <sup>st</sup> April 2017:		
Buildings		1,000
Computers		480
Office equipment		320
Sales		10,900
Purchases	8,500	
Stocks as at 01 <sup>st</sup> April 2017	1,500	
Trade Receivables	2,200	
Trade Payables		3,800
Provision for doubtful debts as at 01 <sup>st</sup> April 2017		200
Fixed Deposit (6 Months)	1,500	
Interest income		100
Bank overdraft interest	100	
Electricity	1,200	
Showroom building rent paid	600	
Cash in hand	1,000	
Bank overdraft		2,200
Staff salary	1,800	
Sales commission	500	
Capital as at 01 <sup>st</sup> April 2017		8,900
	<b>27,900</b>	<b>27,900</b>

The following additional information is also provided:

- (1) Closing stock as at 31<sup>st</sup> March 2018 was valued at Rs.3,500,000/-.
- (2) The business policy is to depreciate the Property, Plant and Equipment on the straight-line method at cost using the following rates:

Buildings	:	5%
Computers	:	20%
Office equipment	:	10 %
- (3) Showroom building rent of Rs.600,000/- has been paid for the period from 01<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018.
- (4) The Management decided to write off Rs.30,000/- from the trade receivable and to make a general provision of 10% for doubtful debts on the remaining trade receivables' balance as at 31<sup>st</sup> March 2018.
- (5) The sales commission payable for the month of March 2018 was Rs.100,000/-.
- (6) Interest on fixed deposit has been correctly recorded in the interest income account.

**You are required to:**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2018. (11 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2018. (09 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.