



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2019

(AA11) FINANCIAL ACCOUNTING BASICS

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

(1) **Time allowed:** Reading - 15 minutes

Writing - 03 hours

(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.

02-02-2019
Morning
[8.45 – 12.00]

No. of Pages : 09

No. of Questions : 06

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, select the correct statement:

- (1) Management Accounting provides information only to the external stakeholders.
- (2) The main objective of Financial Accounting is to prevent frauds and errors.
- (3) Transactions are the accounting output of the accounting process.
- (4) Relevance is a fundamental qualitative characteristic of financial information. (02 marks)

1.2 The accounting policy on the depreciation method followed by the entity should not be changed over the years. The accounting concept relating to this treatment is:

- (1) Going Concern concept.
- (2) Entity concept.
- (3) Consistency concept.
- (4) Realization concept.

(02 marks)

1.3 A Debit Note is:

- (1) a document issued by the buyer to the seller, reducing the amount of goods returned due to some reasons.
- (2) a document issued by the seller to the buyer, deducting the amount the buyer owes to the seller under the terms of an earlier invoice.
- (3) a document which can be used as a proof for a monetary transaction occurred between two parties.
- (4) a document which is issued by a responsible person in the business to prove that the entity has received money. (02 marks)

1.4 Select from the following, the correct impact on the accounting equation due to settling a creditor in cash:

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

1.5 Which one of the following group contains the elements of "Income Statement"?

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

1.6 The following information was extracted from the books of **Moon Lanka Traders** for the year ended 31st March 2018:

Description	Rs.
Capital as at 01 st April 2017	750,000
Additional capital introduced during the year	50,000
Liabilities as at 31 st March 2018	75,000
Total assets as at 31 st March 2018	987,000

Based on the above information, profit for the year ended 31st March 2018 would be:

- (1) Rs.112,000/-.
 - (2) Rs.237,000/-.
 - (3) Rs.187,000/-.
 - (4) Rs.162,000/-.
- (02 marks)

1.7 Which one of the following is an example for a master file in a Computerized Accounting System?

- (1) Stocks Master file.
- (2) Payroll Master file.
- (3) Debtors Master file.
- (4) All of the above.

(02 marks)

- 1.8** The following information was extracted from the books of **ABC Traders** for the year ended 31st March 2018:

	Rs.
Sales	750,000
Purchases	425,000
Stock as at 31 st March 2018	250,000
Gross profit	187,500

Based on the above information, the value of the stock as at 01st April 2017 was:

- (1) Rs.112,500/- (2) Rs.387,500/- (3) Rs.575,000/- (4) Rs.262,500/-
(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** State two(02) differences between Financial Accounting and Management Accounting. (02 marks)
- 1.10** State three(03) important matters included in a sales invoice. (03 marks)
- 1.11** Briefly explain the purpose of having temporary files in a computerized accounting system. (03 marks)
- 1.12** Identify the accounting concept applicable for each of the following transactions:
- (a) Expenditure incurred in a particular accounting period should be taken into account irrespective of the actual payment.
 - (b) A land of the business is shown in the statement of financial position at the purchase price.
 - (c) A provision should be made for doubtful debts from its debtors. (03 marks)
- 1.13** **Samantha Traders** purchased a machinery for Rs.900,000/- on 01st April 2016. The policy of the business is to provide depreciation on the diminishing (reducing) balance method at the rate of 25% per annum.
Compute the carrying value (net book value) of the machinery as at 31st March 2018. (03 marks)
- 1.14** State whether each of the following statements is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.
- (a) General ledger is a prime entry book.
 - (b) Nominal accounts contain expenses and income accounts of the business.
 - (c) Purchase of a computer for Rs.100,000/- for office use on credit basis affects only the assets in the statement of financial position.
 - (d) If a transaction is completely omitted from the books of accounts, it will affect the agreement of the trial balance. (04 marks)
- 1.15** **Razeen** is the sole proprietor of **Razeen Traders**. State the correct double entry for each of the following transactions of **Razeen Traders**:
- (a) Purchase of goods for resale in cash for Rs.95,500/-.
 - (b) **Razeen** paid his son's tuition fee of Rs.24,000/- in cash from the business.
 - (c) **Razeen** transferred his personal land worth of Rs.1,000,000/- to the business as an additional capital. (06 marks)

(Total 40 marks)

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

Ranasinghe started a sole proprietorship, **Ranasinghe Traders** on 01st April 2017 by investing Rs.750,000/- in cash. Summary of cash receipts journal and cash payments journal for the year ended 31st March 2018 was as follows:

Cash Receipts Journal (Receipts)	Rs.
Capital introduced by Ranasinghe	750,000
Receipts from trade debtors	1,200,000
Cash sales	625,000
	2,575,000

Cash Payments Journal (Payments)	Rs.
Payment to trade creditors	1,575,000
Salaries and wages	225,000
Electricity bills	89,000
Purchase of furniture	75,000
Water bills	23,000
Petty cash imprest	25,000
Drawings	100,000
	2,112,000

The following additional information is also provided:

- (1) Receivables and payables balances as at 31st March 2018 were as follows:

	Rs.
Trade debtors	78,000
Trade creditors	125,000
Accrued electricity	12,500

- (2) Petty cash transactions were as follows:

Petty Cash Control Account

	Rs.		Rs.
Cash control account	25,000	Casual wages	5,800
		Travelling expenses	3,500
		Balance C/F	15,700
	25,000		25,000

- (3) All purchases are made on credit basis and there were no stocks as at 31st March 2018.
- (4) Furniture were acquired on 01st October 2017 for Rs.75,000/- and those are depreciated at the rate of 20% per annum at cost on the straight-line basis.

You are required to:

Prepare the Trial Balance of **Ranasinghe Traders** as at 31st March 2018.

(10 marks)

Question 03

The following information relates to **Code Lanka Ltd.**, a manufacturer of school bags, for the year ended 31st March 2018:

	Rs.
Purchase of raw materials	2,100,000
Factory manager's salary	675,000
Repairs and maintenance on factory machinery	175,000
Fuel expenses	120,000
Carriage inwards - Raw material	110,000
Electricity expenses	200,000
Building rent	600,000
Factory's security expenses	135,000
Factory machinery at cost (acquired on 01 st April 2017)	1,000,000
Direct wages – Production workers	720,000

The following additional information is also provided:

- (1) Inventories are valued as follows:

	As at 01 st April 2017	As at 31 st March 2018
Raw material	3,400,000	2,000,000
Work-in-progress (Valued at Prime Cost)	1,600,000	985,000

- (2) **Code Lanka Ltd.**'s policy is to depreciate the factory machinery on the straight line basis at the rate of 25% per annum at cost.
- (3) Building rent, fuel expenses and electricity expenses should be apportioned as follows:
- Factory – 75%
- Office – 25%
- (4) Manufactured school bags are transferred to trading division at a profit margin of 10% on cost.

You are required to:

Prepare the manufacturing account of **Code Lanka Ltd.** for the year ended 31st March 2018.

(10 marks)

Question 04

The Trial Balance of **Hussain Traders** as at 31st March 2018 prepared by the Assistant Accountant did not agree and the difference of Rs.32,500/- was debited to a Suspense Account.

The following errors were identified subsequently:

- (1) Security payment for the month of March 2018 of Rs.78,000/- was recorded in security expense account as Rs.7,800/-. However, this has been correctly recorded in the cash book.
- (2) A receipt of Rs.225,000/- from a trade debtor has been recorded as Rs.22,500/- in the trade debtors account. This was correctly recorded in the cash book.
- (3) Machinery maintenance expenses of Rs.75,000/- has been recorded in the machinery account. This was correctly recorded in the cash book.

- (4) Accrued telephone expenses of Rs.55,000/- has been completely omitted from the books of accounts.
- (5) Cash sale of Rs.114,800/- has been recorded twice in the sales account, though it was correctly recorded in the cash book.
- (6) Rent expenses of Rs.25,000/- was credited to the rent income account, however, it has been correctly recorded in the cash book.

You are required to:

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

Question 05

- (A) The following transactions are related to the credit sales of **Real Electricals** for the month of March 2018:

Date	Invoice No.	Name of Customer	Item Details			
			Description	Quantity	Price per unit	Trade Discount
02.03.2018	256	Green Traders	Switches	75	115	-
15.03.2018	257	Mr. Nihal	Bulbs	100	230	10%
30.03.2018	258	Chandana Stores	Switches	110	115	-

You are required to:

Prepare the Sales Journal (Sales Day Book) of **Real Electricals** for the month of March 2018. (04 marks)

- (B) **Wijesooriya** started a sole proprietorship on 01st September 2018. The following transactions have been extracted from his books of accounts for the month of September 2018:

Date	Transaction
01.09.2018	Wijesooriya commenced the business investing Rs.800,000/- in cash. Further he invested his personal van valued at Rs.1,500,000/- to the business for delivering the goods.
05.09.2018	Purchased goods worth Rs.625,000/- on credit for resale.
18.09.2018	Sold goods costing Rs.375,000/- for Rs.485,000/- on cash basis.
26.09.2018	Staff salary of Rs.125,000/- was paid.
28.09.2018	Wijesooriya withdrew Rs.35,000/- in cash from the business for his personal use.
30.09.2018	Paid Rs.125,000/- to creditors for goods purchased on credit.

You are required to:

Record the effects of each of the above transactions to the following accounting equation.

[Non-current assets (fixed assets) + Inventory + Cash = Equity + Liabilities] (06 marks)

(Total 10 marks)

End of Section B

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

Sampath Traders is a sole proprietorship owned by **Sampath**. The trial balance of **Sampath Traders** as at 31st March 2018 is given below:

Sampath Traders
Trial Balance as at 31st March 2018 (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land	6,000	
Buildings	4,500	
Computers	500	
Office Equipment	1,200	
Accumulated Depreciation as at 01 st April 2017:		
Buildings		2,400
Computers		140
Office Equipment		390
Sales		19,500
Purchases	8,850	
Stocks as at 01 st April 2017	1,900	
Interest Income		200
Trade Receivables	5,850	
Trade Payables		3,200
Rent Paid for the showroom	1,890	
Electricity	990	
Water	145	
Salaries and wages	1,650	
Bank overdraft		2,100
Sales commission	450	
Bank overdraft interest	275	
Provision for doubtful debts as at 01 st April 2017		560
Drawings	250	
Fixed deposits (03 months)	6,000	
Capital as at 01 st April 2017		11,960
	40,450	40,450

The following additional information is also provided:

- (1) Closing stock as at 31st March 2018 was valued at cost amounting to Rs.2,100,000/-.
- (2) The business policy is to provide depreciation on Property, Plant and Equipment based on the straight-line basis at cost as follows:

Buildings	:	10%
Computers	:	25%
Office Equipment	:	20 %

- (3) Electricity payable for the month of March 2018 of Rs.75,000/- was not recorded in the books of accounts as at 31st March 2018.
- (4) The management has decided to write off Rs.40,000/- from the trade receivables and to make a general provision of 10% for doubtful debts on the remaining trade receivables' balance as at 31st March 2018.
- (5) The rent agreement of the showroom was entered into on 01st April 2017 for a period of one year. Monthly showroom rent is Rs.189,000/-.
- (6) Interest on fixed deposits (03 months) 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 31st March 2018. (11 marks)
 - (b) Statement of Financial Position as at 31st March 2018. (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.