



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2019

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

27-07-2019
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)

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 An objective of accounting is:

- (1) to understand the nature of the business.
- (2) to determine the selling price of a product.
- (3) to ascertain the financial position of the business.
- (4) to identify the weaknesses of internal control system. (02 marks)

1.2 Select the correct source document used by the buyer for return of goods purchased on credit to a supplier:

- (1) Credit note. (2) Sales invoice.
- (3) Debit note. (4) Payment voucher.
- (02 marks)

1.3 “It is assumed that the entity will continue for a long time unless and until it has entered into a state of liquidation.”

The accounting concept relating to the above statement is:

- (1) Historical cost concept. (2) Going concern concept.
(3) Realization concept. (4) Entity concept. (02 marks)

1.4 Of the following, the correct equation to calculate the profit of a business is:

- (1) Closing Net Assets - Opening Net Assets + Drawings + Additional Capital.
(2) Closing Net Assets - Opening Net Assets + Drawings - Additional Capital.
(3) Opening Net Asset - Closing Net Assets - Drawings - Additional Capital.
(4) Opening Net Assets + Closing Net Assets - Drawings - Additional Capital. (02 marks)

1.5 Select the correct impact to the accounting equation due to additional capital invested by an owner:

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

1.6 The following expenditure were incurred by **ABC Traders** during the year ended 31st March 2019:

| Description | Rs. |
|--|---------|
| Construction cost of showroom | 525,000 |
| Salaries paid to showroom staff | 63,000 |
| Cost of air conditioner | 92,000 |
| Insurance premium of the showroom for the year 2018/19 | 28,000 |

Based on the above information, total capital expenditure of **ABC Traders** for the year ended 31st March 2019 would be:

- (1) Rs.708,000/-. (2) Rs.617,000/-. (3) Rs.525,000/-. (4) Rs.680,000/-. (02 marks)

1.7 Which one of the following statement is correct with reference to a transaction file in a Computerized Accounting System?

- (1) It summarizes data available in source documents.
(2) It uses only for a short term.
(3) Suspense account is an example for a transaction file.
(4) All of the above. (02 marks)

1.8 An example for a nominal account under the traditional classification of accounts is:

- (1) Building account. (2) Motor vehicle account.
(3) Bank loan account. (4) Sales account.

(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 List three(03) types of transactions recorded in the General Journal. (03 marks)

1.10 Identify the relevant accounting concept applicable for each of the following statements.

- (a) A company should follow consistently the method adopted for valuation of inventory.
(b) Every transaction is recorded in terms of money.
(c) Goods withdrawn by the owner for his personal use are considered as drawings.

(03 marks)

1.11 State three(03) stakeholders of a business.

(03 marks)

1.12 The following information was extracted from the books of **Super Traders** for the year ended 31st March 2019:

| | Rs. |
|--|---------|
| Total assets as at 31 st March 2019 | 950,000 |
| Capital as at 01 st April 2018 | 400,000 |
| Profit for the year | 150,000 |
| Additional capital introduced during the year | 100,000 |
| Drawings made during the year | 75,000 |

Based on the above information, calculate the total liabilities as at 31st March 2019. (03 marks)

1.13 **Sam Traders** purchased a machinery for Rs.750,000/- on 01st April 2018 and it was installed on the same day. The installation cost of the machinery was Rs.125,000/-. The policy of the business is to provide depreciation on the straight line method at the rate of 20% per annum.

Compute the depreciation of the machinery for the year ended 31st March 2019. (03 marks)

1.14 State three(03) examples for general accounting software packages. (03 marks)

1.15 State the correct double entry for each of the following transactions of a bookshop:

- (a) Electricity payable for the month of March was Rs.82,000/-.
(b) Stationery of Rs.25,000/- was purchased on credit basis for resale.
(c) Interest income of Rs.12,000/- was received to the bank account of the business.

(06 marks)

(Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

Wijaya started a sole proprietorship, **Wijaya Hardware** on 01st April 2018 to sell hardware items by investing Rs.1,400,000/-.

(1) The details of his initial investment made on 01st April 2018 are as follows:

| | Rs. |
|--------------|------------------|
| Motor lorry | 750,000 |
| Cash | 650,000 |
| Total | 1,400,000 |

(2) Cash transactions made during the year ended 31st March 2019 were as follows:

| Cash Receipts | Rs. | Cash Payments | Rs. |
|-----------------------------|------------------|-----------------------------|------------------|
| Cash introduction | 650,000 | Salaries and wages | 600,000 |
| Cash Sales | 2,500,000 | Electricity | 68,000 |
| Receipts from Trade Debtors | 1,300,000 | Payments to Trade Creditors | 3,280,000 |
| Bank Loan | 500,000 | Drawings | 210,000 |
| | 4,950,000 | | 4,158,000 |

(3) There were no stocks as at 31st March 2019.

(4) A bank loan of Rs.500,000/- was obtained on 01st March 2019 at the interest rate of 18% per annum and capital re-payments are to be paid from 01st April 2019.

(5) The following receivable and payable balances were appeared in the books of accounts of the business as at 31st March 2019:

| | Rs. |
|---------------------|------------|
| Accrued Electricity | 18,000 |
| Trade Debtors | 275,000 |
| Trade Creditors | 225,000 |

(6) Motor lorry is depreciated at the rate of 25% per annum at cost on the straight-line basis.

You are required to:

Prepare the Trial Balance of Wijaya Hardware as at 31st March 2019.

(10 marks)

Question 03

KP Ltd. is a manufacturer of plastic products and the following information was extracted from the books of **KP Ltd.** for the year ended 31st March 2019:

| | Rs. |
|--|-----------|
| Inventories as at 01 st April 2018: | |
| Raw Materials | 1,200,000 |
| Work-in-progress (valued at prime cost) | 885,000 |
| Purchase of Raw materials | 1,925,000 |
| Direct wages - Production workers | 1,765,000 |
| Maintenance on factory machinery | 335,000 |
| Depreciation - Building | 1,250,000 |
| Depreciation - Factory machinery | 1,100,000 |
| Factory Manager's salary | 625,000 |
| Electricity | 750,000 |
| Water | 420,000 |

The following additional information is also provided:

(1) Closing inventories are valued as follows:

| | As at 31 st March 2019 (Rs.) |
|---|--|
| Raw materials | 1,100,000 |
| Work- in -progress (Valued at Prime Cost) | 975,000 |

(2) 80% of the floor area of the Building belongs to the Factory.

(3) The following expenses should be allocated as follows:

| Expenses | Factory | Office |
|-------------|---------|--------|
| Electricity | 80% | 20% |
| Water | 70% | 30% |

(4) Manufactured products are transferred to Trading Division at a profit margin of 10% on cost.

You are required to:

Prepare the manufacturing account of **KP Ltd.** for the year ended 31st March 2019. (10 marks)

Question 04

The Trial Balance of **Mount Steel Traders** as at 31st March 2019 prepared by the Accountant did not agree. The difference of Rs.114,900/- was credited to a Suspense Account and draft financial statements were prepared. A net profit of Rs.448,000/- was shown as per the draft financial statements for the year ended 31st March 2019.

The following errors were identified subsequently:

- (1) Purchase of a computer of Rs.85,000/- for office use has been debited to Computer Maintenance account. This was correctly recorded in the cash book.
- (2) A cash sale of Rs.65,000/- was recorded in Sales account as Rs.6,500/- while this amount has been correctly recorded in the cash book.
- (3) Interest income received of Rs.28,200/- on a fixed deposit has been erroneously debited to interest expenses account and it has been correctly recorded in the cash book.
- (4) Credit purchases of Rs.275,000/- has been recorded both in trade creditors account and purchase account as Rs.257,000/-.
- (5) Depreciation on office equipment of Rs.228,000/- has been completely omitted from the books of accounts.

You are required to prepare:

- (a) Journal Entries to rectify the above errors (05 marks)
 - (b) Suspense Account. (02 marks)
 - (c) Adjusted net profit after correcting the above errors. (03 marks)
- (Total 10 marks)

Question 05

- (A) The following transactions were extracted from the books of accounts of **Saman Traders**, a sole proprietorship for the month of January 2019:

| Date | Transaction |
|------------|---|
| 02.01.2019 | Purchased Rs.723,000/- worth of goods on credit for re-sale. |
| 05.01.2019 | Saman , the owner has taken goods costing of Rs.50,000/- for his personal use. |
| 10.01.2019 | Sold goods costing of Rs.575,000/- for Rs.600,000/- on credit basis. |
| 15.01.2019 | Cash received from Debtors Rs.550,000/-. |
| 28.01.2019 | Telephone Bill for the month of January 2019 was Rs.18,000/- and paid only Rs.12,000/-. |
| 30.01.2019 | Purchased a motor bicycle of Rs.500,000/- for cash 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) + Inventory + Debtors + Cash = Equity + Liabilities]

(06 marks)

- (B) **Amal Stores** is a sole proprietorship which sells stationery items. Credit sales of **Amal Stores** for the month of March 2019 were as follows:

| Date | Invoice No. | Name of Customer | Item Details | | | |
|------------|-------------|------------------|--------------|----------|----------------------|----------------|
| | | | Description | Quantity | Price per unit (Rs.) | Trade Discount |
| 02.03.2019 | 217 | ABC Ltd. | CR Books | 75 | 140 | 5% |
| 10.03.2019 | 218 | Kamal | Pencils | 120 | 6 | - |
| 25.03.2019 | 219 | Perera | Pens | 180 | 8 | - |

You are required to:

Prepare the Sales Journal (Sales Day Book) of **Amal Stores** for the month of March 2019.

(04 marks)

(Total 10 marks)

End of Section B

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

MMK Traders is a sole proprietorship owned by **Maheel**. The trail balance of **MMK Traders** as at 31st March 2019 is given below:

MMK Traders
Trial Balance as at 31st March 2019 (Rs. '000)

| Description | Dr. | Cr. |
|--|---------------|---------------|
| Property, Plant and Equipment at Cost: | | |
| Land | 1,100 | |
| Buildings | 3,200 | |
| Office Equipment | 2,400 | |
| Motor Vehicles | 2,800 | |
| Accumulated Depreciation as at 01 st April 2018: | | |
| Buildings | | 1,200 |
| Office Equipment | | 1,195 |
| Motor Vehicles | | 1,275 |
| Drawings | 2,200 | |
| Stocks as at 01 st April 2018 | 1,100 | |
| Sales | | 16,300 |
| Purchases | 7,950 | |
| Trade Receivables | 4,320 | |
| Trade Payables | | 3,120 |
| Electricity | 1,930 | |
| Salaries and wages | 1,800 | |
| Office Maintenance Expenses | 895 | |
| Advertising | 430 | |
| Provision for doubtful debts as at 01 st April 2018 | | 220 |
| Bank overdraft | | 1,890 |
| Insurance premium paid | 300 | |
| Bank Overdraft Interest | 375 | |
| Capital Balance as at 01 st April 2018 | | 5,600 |
| | 30,800 | 30,800 |

The following additional information is also provided:

- (1) The closing stock as at 31st March 2019 was valued at cost of Rs.1,850,000/-.
- (2) **Maheel** has transferred his personal motor van valued at Rs.1,800,000/- to the business on 31st March 2019 for transport purpose and this transaction was not recorded in the books of accounts.
- (3) The policy of the business is to provide depreciation on the straight line basis at cost as follows:

| | | |
|------------------|---|------|
| Buildings | : | 10% |
| Office Equipment | : | 20% |
| Motor vehicles | : | 25 % |
- (4) Insurance premium of Rs.300,000/- was paid for the period from 01st January 2019 to 31st December 2019.
- (5) Electricity payable for the month of March 2019 was Rs.148,000/- and it was not recorded in the books of accounts.
- (6) **Maheel** has decided to make a 10% general provision for doubtful debts on the trade receivable balance as at 31st March 2019.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2019. (11 marks)
 - (b) Statement of Financial Position as at 31st March 2019. (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. |