



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2020

(AA11) FINANCIAL ACCOUNTING BASICS

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

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

25-01-2020
Morning
[8.45 – 12.00]

No. of Pages : 09
No. of Questions : 06

- (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.**

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, users of financial statements are:

- (1) Owners. (2) Employees. (3) Investors. (4) All of the above.
(02 marks)

1.2 Revenue (income) is recognized in the particular accounting period irrespective of receipt of cash. The accounting concept relating to this treatment is:

- (1) Going Concern Concept. (2) Accrual Concept.
(3) Money Measurement Concept. (4) Entity Concept.

(02 marks)

1.3 Perera who is a newly appointed storekeeper of **Zeena Traders** noticed that some stock items are not available in the stores.

Which one of the following source document is used by **Perera** to make the request to purchase department for obtaining required stock items?

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

(02 marks)

1.4

Assets	=	Equity	+	Liability
150,000	=	150,000	+	-
(140,000)		(140,000)		

Which one of the following is the most correct transaction for the above accounting equation?

- (1) Goods costing of Rs.140,000/- were sold for Rs.150,000/-.
 (2) Goods costing of Rs150,000/- were sold for Rs.140,000/-.
 (3) Goods of Rs.150,000/- were sold on credit basis and collected Rs.140,000/-.
 (4) Goods of Rs.150,000/- were purchased on credit basis and paid Rs.140,000/-.

(02 marks)

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

Description	Rs.
Net assets as at 01 st April 2018	975,000
Net assets as at 31 st March 2019	1,350,000
Additional capital introduced by the owner during the year	500,000
Drawings made by the owner during the year	350,000

Based on the above information, profit for the year ended 31st March 2019 was:

- (1) Rs.525,000/-. (2) Rs.225,000/-. (3) Rs.1,475,000/-. (4) Rs.375,000/-.

(02 marks)

1.6 Which one of the following is an example for a real account under the traditional classification of accounts?

- (1) Debtors' Account. (2) Sales Account.
 (3) Loan Interest Account. (4) Machinery Account.

(02 marks)

1.7 An example for a specialized (customized) accounting software is:

- (1) ACCPAC. (2) Quick Book. (3) Payroll System. (4) Tally.

(02 marks)

1.8 Which one of the following transactions affects increase in assets?

- (1) Owner of the business has invested Rs.1.5 million in cash as an additional capital.
- (2) Month of March water bill of Rs.75,000/- was paid.
- (3) An amount of Rs.100,000/- was collected from a trade debtor.
- (4) An amount of Rs.125,000/- was settled to a trade creditor. (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 the two(02) elements of financial statements directly related to financial performance of a sole proprietorship. (02 marks)

1.10 Briefly explain the “Accounting Periodic Concept”. (03 marks)

1.11 Identify the relevant “Source Document” used to record for each of the following transactions of **ABC Traders**:

- (a) Items of Rs.465,000/- purchased by a customer on credit basis were returned due to poor quality.
- (b) Purchased a lorry for Rs.2,500,000/- on credit basis for delivery of goods of the business.
- (c) Received Rs.25,000/- from a trade debtor. (03 marks)

1.12 Priyantha Stores purchased a machinery for Rs.1,250,000/- on 01st April 2018. Estimated useful life of the machinery is 5 years and estimated residual value at the end of the useful life is Rs.250,000/-. The policy of the business is to provide depreciation on the straight-line basis at cost.

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

1.13 List three(03) advantages of a Computerized Accounting System. (03 marks)

1.14 State whether each of the following statements is **True** or **False**. Write the answers (True or False) in your answer booklet, with the number assigned to the question:

- (a) Drawings of owner affects to increase in equity.
- (b) All the stakeholders use management accounting reports of the business.
- (c) As per materiality concept, items which are material should be separately disclosed in the financial statements.
- (d) A criteria of a liability is generating future economic benefits to the business. (04 marks)

1.15 State the correct double entry for each of the following transactions occurred during the month of March 2019 of **Roma Traders**:

- (a) A loan of Rs.500,000/- has been obtained from a bank to repair the shop.
- (b) Interest income of Rs.25,000/- was received to the bank account.
- (c) An electricity bill of Rs.15,000/- of the business was paid by owner from his personal cash. (06 marks)

(Total 40 marks)

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

Praveen started a sole proprietorship, **Praveen Traders** on 01st April 2018 by opening a bank account investing Rs.2,500,000/-.

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

Cash Receipts	Rs.	Cash Payments	Rs.
Capital introduced by Praveen	2,500,000	Motor Lorry (Acquired on 01 st October 2018)	1,500,000
Cash sales	1,300,000	Payments to Trade Creditors	1,150,000
Receipts from Trade Debtors	831,000	Electricity	72,000
	4,631,000	Salaries & Wages	290,000
		Drawings	175,000
		Cash purchases	788,000
			3,975,000

(2) The policy of the business is to provide depreciation on motor lorry at the rate of 25% per annum on the straight line basis at cost.

(3) Receivables and payable balances as at 31st March 2019 were as follows:

	Rs.
Trade Debtors	145,000
Trade Creditors	110,000
Accrued salaries	38,000

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

You are required to:

Prepare the Trial Balance of Praveen Traders as at 31st March 2019.

(10 marks)

Question 03

The following information relates to "**Samanala Traders**" a manufacturer of electrical items, for the year ended 31st March 2019:

	Rs.
Inventories:	
Raw materials as at 01 st April 2018	3,400,000
Raw materials as at 31 st March 2019	2,100,000
Work-in-progress as at 01 st April 2018 (Valued at prime cost)	825,000
Work-in-progress as at 31 st March 2019 (Valued at prime cost)	1,250,000
Purchase of raw materials	3,200,000
Factory Manager's salary	675,000
Electricity expenses	600,000
Security expenses	400,000
Carriage inwards - Raw materials	120,000
Direct wages - Production workers	1,200,000
Depreciation on factory machinery	500,000
Factory rent	1,100,000
Maintenance expenses on factory machinery	110,000

The following additional information is also provided:

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

Expenses	Factory	Office
Electricity Expenses	70%	30%
Security Expenses	60%	40%

- (2) An incentive of Rs.200/- is entitled by production workers other than direct wages for each item produced.
- (3) Total number of items produced during the year was 2,500 units.

You are required to:

- (a) **Prepare** the manufacturing account of **Samanala Traders** for the year ended 31st March 2019. (08 marks)
- (b) **Calculate** the manufacturing cost per item. (02 marks)
- (Total 10 marks)

Question 04

The trial Balance as at 31st March 2019 of **Janasetha Traders** was not agreed and the difference of Rs.43,000/- was credited to a Suspense Account.

The following errors were identified subsequently:

- (1) Cash purchase of Rs.68,900/- for resale was recorded in the purchases account as Rs.86,900/-. This was correctly recorded in the cash book.

- (2) Maintenance expenses on machinery of Rs.33,600/- was debited to machinery account.
- (3) Additional capital of Rs.165,000/- introduced by the owner was erroneously credited to Trade creditors' account while other entry has been correctly recorded in the cash book.
- (4) Rent income received of Rs.Rs.21,000/- has been completely omitted from the books of accounts.
- (5) Rent expenses of Rs.98,000/- was debited twice in rent expense account and this was correctly recorded in the cash book.
- (6) A payment of Rs.109,000/- to a trade creditor had been correctly recorded in the cash book but no entry is made in trade creditors' account.
- (7) A cash sale of Rs.73,900/- has been recorded as Rs.37,900/- in sales account and this was correctly recorded in the cash book.

You are required to prepare:

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

Question 05

- (a) The following transactions were extracted from the books of account of **Fernando Stores**, a sole proprietorship for the month of March 2019:

Date	Transaction
01.03.2019	Purchased goods worth Rs.825,000/- on credit for resale.
05.03.2019	Sold goods costing Rs.420,000/- for Rs.525,000/- in cash.
15.03.2019	Fernando has taken Rs.75,000/- in cash for his expenses.
26.03.2019	Paid Rs.95,000/- to creditors for goods purchased on credit.
30.03.2019	Paid staff salaries of Rs.100,000/-.
31.03.2019	Purchased furniture for office use for Rs.1,500,000/- on credit.

You are required to:

Record the effect of each of the above transactions to the following Accounting Equation.

$$[\text{Non-Current Assets (Fixed Assets)} + \text{Inventory} + \text{Cash} = \text{Equity} + \text{Liabilities}] \quad (06 \text{ marks})$$

- (b) **Samaraweera Traders** is a sole proprietorship and the following transactions have been extracted from the books of accounts of the business for the month ended 31st March 2019:
 - (1) **Samaraweera**, the owner of the business transferred his personal motor vehicle of Rs.750,000/- to the business on 01st March 2019.
 - (2) A machinery was purchased for Rs.250,000/- from **XY Ltd.** on 15th March 2019 on credit basis.
 - (3) An electricity bill of Rs.25,000/- was debited to telephone expenses while other entry was correctly recorded.

You are required to:

Prepare the General Journal to record the above transactions. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

One (01) compulsory question

(Total 20 marks)

Question 06

KPM Traders is a sole proprietorship owned by **Sam Silva**. The Trial Balance of **KPM Traders** as at 31st March 2019 is given below:

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Buildings (land is Rs.3,000,000/-)	8,000	
Motor Vehicles	2,200	
Office Equipment	1,100	
Accumulated Depreciation as at 01 st April 2018:		
Buildings		1,200
Motor Vehicles		400
Office Equipment		225
Stocks as at 01 st April 2018	1,800	
Sales		25,200
Purchases	15,500	
Electricity	1,200	
Water	350	
Trade Receivables	2,800	
Trade Payables		1,900
Stationery	150	
Salaries and Wages	1,250	
Rates paid	180	
Bank Loan		900
Bank overdraft		1,350
Provision for doubtful debts as at 01 st April 2018		170
Bank Overdraft Interest	110	
Capital as at 01 st April 2018		3,295
	34,640	34,640

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) The policy of the business is to provide depreciation on the straight line basis at cost as follows:

Buildings	: 10%
Motor Vehicles	: 20%
Office Equipment	: 25 %
- (3) The management decided to write off Rs.100,000/- from the trade receivable as bad debts and to make a general provision of 10% for doubtful debts on the remaining trade receivables' balance as at 31st March 2019.
- (4) Electricity Payable for the month of March 2019 of Rs.143,000/- was not recorded in the books of accounts.
- (5) A bank loan was obtained on 01st March 2019, at the annual interest rate of 12% per annum. First installment of the loan has been paid on 02nd April 2019 and the interest payable for the year ended 31st March 2019 was not accounted in books of account.
- (6) Rates paid is relevant for the period from 01st January 2019 to 31st December 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.