



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2022

(101) FINANCIAL ACCOUNTING

27-08-2022

Morning

[09.00 – 12.00]

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

- (1) **Time:** 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 will begin 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 : 10

No. of Questions : 06

**SECTION A**

**Objective Test Questions (OTQs)**

(Total 40 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.10. 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?

- (1) Going Concern.
- (2) Relevance.
- (3) Accrual Basis.
- (4) Historical Cost.

**1.2** Which one of the following is **not** a Prime Entry Book?

- (1) Cash Book.
- (2) Purchase Day Book.
- (3) General Ledger.
- (4) Sales Day Book.

**1.3** Select from the following, the correct process of financial accounting:

- (1) Input → Output → Process.
- (2) Output → Process → Input.
- (3) Input → Process → Output.
- (4) Output → Input → Process.



**1.8** The following information was extracted from the books of **Rose Traders** a sole proprietorship for the year ended 31<sup>st</sup> March 2022:

	<b>Rs.</b>
Capital as at 01 <sup>st</sup> April 2021	2,000,000
Drawing made by owner during the year	300,000
Profit for the year ended 31 <sup>st</sup> March 2022	480,000
Liabilities as at 31 <sup>st</sup> March 2022	600,000

Based on the above information, total assets as at 31<sup>st</sup> March 2022 was:

- (1) Rs.2,180,000/- (2) Rs.2,600,000/- (3) Rs.2,780,000/- (4) Rs.3,380,000/-

**1.9** Which one of the following transactions affects to decrease in assets?

- (1) A computer was purchased for Rs.200,000/- in cash for office use.
- (2) Cost of goods taken by the owner of a business for his personal use was Rs.65,000/-.
- (3) An amount of Rs.100,000/- was collected from a debtor.
- (4) Stock costing worth of Rs.250,000/- was sold on credit for Rs.400,000/-.

**1.10** "The financial statements are prepared on the assumption that an entity will continue in operation for the foreseeable future."

The accounting concept relating to the above statement is:

- (1) Going Concern concept.
- (2) Accrual concept.
- (3) Entity concept.
- (4) Periodic concept.

*State whether each of the following statements from 1.11 to 1.15 is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

**1.11** Purchase of an office equipment for office use on credit is recorded in the general journal.

**1.12** It is required to record all the transactions and events of a business whether it can be measured in money or not.

**1.13** General ledger is a component of the set of financial statements.

**1.14** Valuing inventory at lower of cost or Net Realizable Value (NRV) is an example of prudence accounting concept.

**1.15** Equity is an element directly related to the statement of income.

Write the answers for question No. **1.16** to **1.20** in your answer booklet with the number assigned to the question.

**1.16** State two(02) types of source documents used in business entity.

**1.17** List two(02) reasons why business ethics are important.

**1.18** Define the term “an expense”.

**1.19** State two(02) examples for general accounting software.

**1.20 Maheli Stores** acquired a machinery for Rs.800,000/- on 01<sup>st</sup> April 2020. Business’s policy is to depreciate the machinery using the diminishing balance method at the rate of 20% per annum.

Calculate the depreciation charge for the year ended 31<sup>st</sup> March 2022.

(02 marks each, Total 40 marks)

End of Section A

## SECTION B

(Total 40 marks)

### Question 02

(A) You are given the impact of five (5) transactions to the accounting equation of a sole proprietorship below:

	Assets					=	Equity (Capital)	+	Liabilities
	Office Equipment	+	Inventory	+	Trade Debtors				+
(1)						+1,200,000	=	+1,200,000	
(2)			+150,000			(150,000)	=		
(3)						(40,000)	=	(40,000)	
(4)			(65,000)		+80,000		=	+15,000	
(5)	+100,000						=		+100,000

**You are required to:**

**Identify** the possible transaction that took place for each line items from (1) to (5) of the above accounting equation. (05 marks)

(B) The Bank Statement of **Kavindu Stores** shows a favorable balance of Rs.390,000/- as at 31<sup>st</sup> March 2022 while cash control account shows a debit (favorable) balance of Rs.560,000/-. Following have been identified as reasons for the difference:

- (1) Bank has recovered a loan installment of Rs.120,000/- on the loan obtained from the bank and it was not recorded in the cash book.
- (2) Bank has reversed (credited) Rs.5,000/- in the bank statement to correct the over charged bank charges in the previous month. This was not recorded in the cash book.
- (3) A cheque of Rs.180,000/- was deposited to the bank but not realized as at 31<sup>st</sup> March 2022.
- (4) A cheque of Rs.125,000/- which was issued by **Kavindu** on 30<sup>th</sup> March 2022 was not presented for payment to the bank as at 31<sup>st</sup> March 2022.

**You are required to:**

**Prepare** the following:

- (a) Adjusted Cash Control Account (Cash Book). (03 marks)
  - (b) Bank Reconciliation Statement as at 31<sup>st</sup> March 2022. (02 marks)
- (Total 10 marks)

### Question 03

**Lassana Pots** is a manufacturer of flowerpots and the following information was extracted from the books of **Lassana Pots** for the year ended 31<sup>st</sup> March 2022:

Description	Rs.
Raw Materials Purchased	3,800,000
Carriage Inwards of Raw Materials	350,000
Factory Manager's Salary	420,000
Direct Wages - Production Workers	700,000
Electricity	620,000
Water	400,000
Insurance on Factory	125,000
Depreciation - Plant & Machinery	250,000
Depreciation - Motor Lorry	120,000

The following additional information is also provided:

- (1) Inventories are valued as follows: (Rs.)

Description	As at 01 <sup>st</sup> April 2021	As at 31 <sup>st</sup> March 2022
Raw Material (At cost)	800,000	850,000
Work-in-Progress (Valued at Prime Cost)	235,000	Nil

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

Expense	Factory	Office
Electricity	80%	20%
Water	90%	10%

(3) Motor lorry is used only for delivering raw materials to the factory.

(4) An incentive of Rs.25/- is entitled by production workers for each produced pot other than direct wages. Total number of pots produced during the year was 10,000.

(5) The manufactured pots are transferred to the trading division at a profit margin of 20% on cost of production.

**You are required to:**

**Prepare** the Manufacturing Cost Statement (Manufacturing Account) of **Lassana Pots** for the year ended 31<sup>st</sup> March 2022. (10 marks)

### Question 04

**Dusra Traders** is a sole proprietorship started by **Murali** on 01<sup>st</sup> April 2021 investing Rs.7,000,000/- in cash as initial capital.

The following additional information was also provided:

(1) Cash Control Account (Cash Book) for the year ended 31<sup>st</sup> March 2022 was as follows:

#### Cash Control Account (Cash Book)

	DR (Rs.)		CR (Rs.)
Initial Capital Investment	7,000,000	Payments to Trade Creditors	1,800,000
Cash Sales	3,200,000	Cash Purchases	1,200,000
Receipts from Trade Debtors	2,400,000	Electricity and Water	300,000
		Office Rent	275,000
		Purchase of a Machinery (Purchased on 01 <sup>st</sup> October 2021)	2,500,000
		Salaries and Wages	2,100,000
		Balance C/F	4,425,000
	<b>12,600,000</b>		<b>12,600,000</b>
Balance B/F	4,425,000		

(2) The following balances were appeared in the books of accounts as at 31<sup>st</sup> March 2022:

	Rs.
Trade debtors	950,000
Trade creditors	940,000
Electricity and water bills payables	29,000

(3) The policy of the business is to provide depreciation on machinery at the rate of 20% per annum at cost on the straight line basis.

(4) There were no inventory as at 31<sup>st</sup> March 2022.

**You are required to:**

**Prepare** the Trial Balance of **Dusra Traders** as at 31<sup>st</sup> March 2022.

(10 marks)

### Question 05

**Azar Traders** is a curtain selling business located in Pettah. The Trial Balance as at 31<sup>st</sup> March 2022 of the **Azar Traders** prepared by an accounts executive was not agreed. However, the difference of Rs.45,000/- was credited to a Suspense Account and prepared the draft financial statements. **Azar Traders** is maintaining control accounts for Trade Receivables and Trade Payables.

The following errors were identified subsequently:

- (1) An amount of Rs.9,000/- paid for travelling expenses has been debited to salaries and wages account. This has been correctly recorded in the Cash Book.
- (2) A cash sales invoice worth of Rs.129,000/- has been correctly recorded in the cash book, but it has not been recorded in the sales account.
- (3) Payment of insurance premium of Rs.56,000/- has been recorded only in the cash book.
- (4) Total of the sales return day book was understated by Rs.8,000/-.
- (5) An interest expense of Rs.21,500/- charged as overdraft interest by the bank has been credited to interest income account. However, this has been correctly recorded in the cash book.
- (6) Cost of a computer purchased for Rs.120,000/- has been debited to computer maintenance account, while it was correctly recorded in the cash book.
- (7) Telephone expenses of Rs.15,000/- was debited twice in the telephone expenses account while corresponding credit entry was correctly recorded.

**You are required to:**

**Prepare** the following:

(a) Journal entries to rectify the above errors. (07 marks)

(b) Suspense Account. (03 marks)

(Total 10 marks)

End of Section B

## SECTION C

(Total 20 marks)

### Question 06

**Thimira Traders** is a sole proprietorship owned by **Thimira**. The Trial Balance of the **Thimira Traders** as at 31<sup>st</sup> March 2022 is as follows:

**Thimira Traders**  
**Trial Balance as at 31<sup>st</sup> March 2022** (Rs.'000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Machinery	2,000	
Furniture and Fittings	800	
Accumulated Depreciation as at 01 <sup>st</sup> April 2021:		
Machinery		400
Furniture and Fittings		320
Sales		202,000
Purchases	124,000	
Discounts Given	4,000	
Trade Receivables	20,200	
Trade Payables		3,000
Cash in hand	95	
Bank Overdraft		1,050
Inventory as at 01 <sup>st</sup> April 2021	13,950	
Electricity	3,250	
Salaries and Wages	42,000	
Overdraft Interest	500	
Bank Loan Interest	1,100	
Travelling and Transport	7,200	
Office Rent	2,800	
Capital Account as at 01 <sup>st</sup> April 2021		7,625
Bank Loan		7,500
<b>Total</b>	<b>221,895</b>	<b>221,895</b>



The following additional information is also provided:

- (1) The closing Inventory as at 31<sup>st</sup> March 2022 was valued at cost of Rs.8,250,000/-.
- (2) On 01<sup>st</sup> April 2021, a lorry owned by **Thimira** was transferred to the business and the value of the lorry as at 01<sup>st</sup> April 2021 was Rs.1,000,000/-. However, this 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:

Machinery	:	10% per annum
Furniture and Fittings	:	20% per annum
Motor Vehicles	:	25% per annum
- (4) On 01<sup>st</sup> April 2021, **Thimira Traders** entered into a new rent agreement for office premises. As per the new agreement, monthly rent is Rs.200,000/- and rent for the months of April and May 2022 was also paid during the year.
- (5) Electricity bill of Rs.85,000/- for the month of March 2022 has not been paid by 31<sup>st</sup> March 2022.
- (6) **Thimira** has decided to write off Rs.200,000/- due from **ABC (Pvt) Ltd** as bad debt.

**You are required to:**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2022. (11 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2022. (09 marks)
- (Total 20 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.