

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2023

(101) FINANCIAL ACCOUNTING

04-03-2023

Morning

[09.00 – 12.00]

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

(1) **Time:** 03 hours.

No. of Pages : 10

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

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 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.**

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 an accounting output?

(1) Ledger Account.

(2) Trial Balance.

(3) Statement of Financial Position.

(4) Sales Journal.

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

(1) Accrual Concept.

(2) Going Concern Concept.

(3) Historical Cost Concept.

(4) Consistency Concept.

1.3 **Ann Traders** acquired a motor vehicle for Rs.5,000,000/- on 01st April 2020 and motor vehicles are depreciated by the business using the diminishing balance method at the rate of 25% per annum. Depreciation charge for the year ended 31st March 2022 was:

(1) Rs.1,250,000/-. (2) Rs.937,500/-. (3) Rs.703,125/-. (4) Rs.900,000/-.

1.4 Jovan Traders, a sole proprietorship sold goods costing of Rs.750,000/- for Rs.1,000,000/- on credit. Select from the following, the correct impact to the accounting equation regarding this transaction:

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+ Liabilities (Rs.)
(1)	-1,000,000	=	-	-1,000,000
(2)	+250,000	=	+250,000	-
(3)	+1,000,000	=	+250,000	+750,000
(4)	+750,000	=	-	+750,000

1.5 The favourable balance of bank statement as at 31st March 2022 of **Sam Traders** was Rs.375,000/- and this balance was different with the cash book balance. Unpresented cheques and unrealized cheques as at 31st March 2022 were Rs.15,000/- and Rs.24,000/- respectively.

Based on the above information, Cash Control Account (cash book) balance appeared as at 31st March 2022 in the books of **Sam Traders** was:

(1) Rs.366,000/-. (2) Rs.336,000/-. (3) Rs.414,000/-. (4) Rs.384,000/-.

1.6 Which one of the following ledger accounts can be categorized as a current asset?

- (1) Sales Account. (2) Pre-payment Account.
 (3) Bank Loan Account. (4) Capital Account.

1.7 Virath has stated “As at 31st March 2022” in the header of his Statement of Financial Position, when he prepared the financial statements for his business. The most relevant accounting concept which he has followed is:

- (1) Periodic concept. (2) Materiality concept.
 (3) Matching concept. (4) Accrual concept.

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

- (1) Sales Invoice. (2) Goods Received Note (GRN).
 (3) Purchase Order (PO). (4) Payment Voucher.

1.9 The following information was extracted from the books of **Manel Stores**, a sole proprietorship for the year ended 31st March 2022:

	Rs.
Total assets as at 31 st March 2022	7,500,000
Capital as at 01 st April 2021	5,000,000
Drawings made during the year	600,000
Liabilities as at 31 st March 2022	1,700,000

Based on the above information, the profit for the year ended 31st March 2022 was:

- (1) Rs.1,400,000/- (2) Rs.200,000/- (3) Rs.1,900,000/- (4) Rs.600,000/-

1.10 Isanka paid Rs.1,750,000/- as capital repayment of the bank loan which was obtained to expand her business. The correct way of recording this transaction in her business's ledger accounts would be:

- (1) Debit Bank Account and credit Bank Loan Account.
- (2) Debit Bank Loan Account and credit Bank Account.
- (3) Debit Bank Account and credit Capital Account.
- (4) Debit Bank Loan Account and credit Capital Account.

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** As per the prudence concept, transactions are recognized considering business and owners as two separate independent entities.
- 1.12** Purchases and sales of Property, Plant and Equipment in cash are recorded in general journal.
- 1.13** Purchase account is an example for a nominal account.
- 1.14** The amount of money given to the petty cashier by the main cashier in order to pay expenses for the period at the beginning of a specified period is known as petty cash imprest.
- 1.15** A liability account generally carries a debit balance.

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

- 1.16** Define the term "Equity".
- 1.17** Identify two(02) differences between "Financial Accounting" and "Management Accounting".
- 1.18** Briefly explain what do you mean by "Business Ethics".
- 1.19** List two(02) examples for "Specialized Accounting Software".
- 1.20** Identify two(02) importances / objectives to maintain prime entry books.

End of Section A (02 marks each, Total 40 marks)

SECTION B

(Total 40 marks)

Question 02

Aneesh Traders is a sole proprietorship started by **Aneesh** on 01st April 2021 by investing Rs.5,000,000/- in cash.

The following additional information is also provided:

- (1) Summary of the Cash Control Account (Cash Book) for the year ended 31st March 2022 was as follows:

Cash Control Account (Cash Book)

Receipts	Dr (Rs.)	Payments	Cr (Rs.)
Initial Capital Investment	5,000,000	Cash Purchases	2,100,000
Cash Sales	3,200,000	Payments to Trade Creditors	2,150,000
Receipts from Trade Debtors	1,400,000	Salaries and Wages	1,300,000
		Office Rent	600,000
		Purchase of a Machinery (Purchased on 01 st January 2022)	3,000,000
		Electricity	100,000
		Balance C/F	350,000
	9,600,000		9,600,000
Balance B/F	350,000		

- (2) Receivables and Payables as at 31st March 2022 were as follows:

	Rs.
Trade Debtors	1,950,000
Trade Creditors	740,000
Pre-payment of Office Rent	100,000
Electricity Bill Payable	25,000

- (3) Machinery is to be depreciated at the rate of 25% per annum at cost on the straight-line basis.
- (4) There were no inventories as at 31st March 2022.

You are required to:

Prepare the Trial Balance of **Aneesh Traders** as at 31st March 2022.

(10 marks)

Question 03

Kaluwara Furniture is a manufacturer of dining tables & chairs and the following information was extracted from the books of **Kaluwara Furniture** for the year ended 31st March 2022:

Description	Rs.
Raw Material Stock as at 01 st April 2021	600,000
Raw Material purchases	4,700,000
Carriage Inwards of Raw Material	185,000
Work-In-Progress as at 01 st April 2021	Nil
Factory Manager's Salary	680,000
Direct Wages	600,000
Rent	800,000
Insurance on Factory Building	200,000
Electricity	720,000
Water	300,000
Depreciation on Plant & Machinery	350,000
Depreciation on Factory Building	600,000

The following additional information is also provided:

- (1) Closing inventory balances as at 31st March 2022 were valued as follows:

Description	Rs.
Raw Material Stock at cost	650,000
Work -in -Progress (Valued at Total Manufacturing Cost)	250,000

- (2) The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Water	40%	60%
Rent	60%	40%

- (3) The manufactured furniture are transferred to the trading division at a profit margin of 25% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **Kaluwara Furniture** for the year ended 31st March 2022. (10 marks)

Question 04

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

	Assets					=	Equity (Capital)	+	Liabilities
	Furniture & Fittings	+	Inventory	+	Trade Debtors				+
(1)						+ 2,000,000	=	+ 2,000,000	
(2)	+ 750,000					(150,000)	=		+ 600,000
(3)			+ 300,000				=		+ 300,000
(4)						(450,000)	=		(450,000)
(5)			(145,000)		+ 180,000		=	+ 35,000	

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 **Nuwan Traders** shows a favourable balance of Rs.195,000/- as at 31st March 2022 while Cash Control Account (Cash Book) of **Nuwan Traders** shows a debit balance of Rs.250,000/-. The accountant of **Nuwan Traders** noted below reasons for the difference.

- (1) Bank has debited Rs.50,000/- for insurance premium as per the standing order instruction given and it was not recorded in the cash book.
- (2) A cheque of Rs.120,000/- was deposited to the bank but it was not realized as at 31st March 2022.
- (3) A direct deposit made to the bank account by a customer was Rs.38,000/- and it was not recorded in the cash book.
- (4) Bank charges of Rs.500/- for the month of March 2022 was not considered in the cash book.
- (5) Bank has erroneously credited Rs.2,500/- to the bank account of **Nuwan Traders**.
- (6) A cheque of Rs.75,000/- issued by **Nuwan Traders** on 29th March 2022 was not presented for payment to the bank as at 31st March 2022.

You are required to:

Prepare the following:

- (a) Adjusted Cash Control Account (Cash book). (02 marks)
 - (b) Bank reconciliation Statement as at 31st March 2022. (03 marks)
- (Total 10 marks)

Question 05

- (A) **Ranwan Traders** is a wholesale business. The Trial Balance prepared by the Assistant Accountant as at 31st March 2022 was not agreed. The difference of Rs.139,000/- was debited to a Suspense Account and prepared the draft financial statements. **Ranwan Traders** maintains control accounts for trade receivables and trade payables.

The following errors were identified subsequently:

- (1) The total of sales day book was overstated by Rs.135,000/-.
- (2) Purchase of an office equipment costing Rs.117,000/- from **AT Cooray Ltd.** on credit has been recorded twice to both the ledger accounts.
- (3) The rent expense of Rs.65,000/- for the month of March 2022 was credited to rent income account. This has been correctly recorded in the cash book.
- (4) Though telephone expenses of Rs.65,000/- has been correctly recorded in the cash account, it was debited to the telephone expenses account as Rs.56,000/-.
- (5) Purchase of furniture costing Rs.220,000/- has been debited to repair and maintenance account, while this has been correctly recorded in the cash book.

You are required to:

Prepare the following:

- (a) Journal entries to rectify the above errors. (05 marks)
 - (b) Suspense Account. (02 marks)
- (B) You are provided with the following information of **Shakthi Traders** for the month of April 2022:

Description	Cost (Rs.)
Trade Receivables (Debtors) balance as at 01 st April 2022	5,500,000
Sales Day Book total for the month	3,650,000
Cash sales for the month	2,350,000
Sales Inwards Day Book total for the month	500,000
Cash received from Trade Receivables during the month	1,800,000
Bad debts written-off during the month	10,000

You are required to:

- Prepare** the Trade Receivables' Control Account for the month of April 2022. (03 marks)
(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Amal Traders is a sole proprietorship owned by **Amal**. The Trial Balance of **Amal Traders** as at 31st March 2022 is as follows:

Amal Traders
Trial Balance as at 31st March 2022 (Rs.'000)

Description	Dr.	Cr.
Plant and Equipment at Cost:		
Machinery	3,000	
Computers	1,800	
Accumulated Depreciation as at 01 st April 2021:		
Machinery		1,500
Computers		450
Sales		252,000
Purchases	177,000	
Import Duty on Purchases	1,500	
Trade Receivables	20,200	
Trade Payables		6,000
Cash in hand and at bank	85	
Inventory as at 01 st April 2021	12,150	
Water	150	
Electricity	3,450	
Salaries and Wages	45,000	
Office Rent	6,000	
Transport Expenses	4,800	
Bank Loan Interest Paid	1,200	
Telephone and Internet Charges	500	
Capital Account as at 01 st April 2021		11,385
Bank Loan		5,500
Total	276,835	276,835

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2022 was valued at cost of Rs.7,750,000/-.
- (2) On 01st January 2022, a delivery van, value of Rs.2,000,000/- owned by **Amal** was transferred to the business, but it was not recorded in the books of accounts of **Amal Traders**.
- (3) The policy of the business is to provide depreciation on the straight-line basis at cost as follows:

Machinery	:	20% per annum
Computers	:	25% per annum
Motor Vehicles	:	25% per annum
- (4) Electricity bill of Rs.75,000/- and water bill of Rs.22,000/- for the month of March 2022 have not been paid by 31st March 2022.
- (5) Due to the economic crisis, a customer was declared bankrupt and the balance of Rs.75,000/- due from him was decided to be written-off by **Amal** as a bad debt.
- (6) Interest on bank loan for the month of March 2022 was Rs.100,000/- and it was paid in April 2022.

You are required to:

Prepare the following:

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

End of Section C

ACTION VERBS CHECK LIST

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

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

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

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