



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2023

(101) FINANCIAL ACCOUNTING

26-08-2023

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 Of the following, select the correct statement:

- (1) Events are the accounting output of the accounting process.
- (2) Relevance is a fundamental qualitative characteristic of the financial information.
- (3) Income is an element of the statement of financial position.
- (4) Management Accounting provides only the historical financial information.

1.2 Select from the following, the correct equation that can be used to calculate the profit / (loss) of an entity:

- (1) Profit/(Loss) = Opening Net Assets - Closing Net Assets.
 - (2) Profit/(Loss) = Closing Net Assets - Opening Net Assets - Additional Capital + Drawings.
 - (3) Profit/(Loss) = Closing Net Assets - Opening Net Assets - Drawings + Additional Capital.
 - (4) Profit/(Loss) = Opening Net Assets - Closing Net Assets - Additional Capital + Drawings.
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1.3 Income / revenue is recognized in the particular accounting period irrespective of whether the cash is received or not. The accounting concept relating to this is:

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

1.4 The following information was extracted from the books of **Ram Traders**, a sole proprietorship for the year ended 31st March 2023:

	Rs.
Total assets as at 31 st March 2023	8,400,000
Capital as at 01 st April 2022	2,000,000
Additional capital introduced during the year	1,000,000
Drawings made during the year	500,000
Profit for the year	2,400,000

Based on the above information, the equity (capital) as at 31st March 2023 was:

- (1) Rs.3,000,000/-.
- (2) Rs.3,500,000/-.
- (3) Rs.4,400,000/-.
- (4) Rs.4,900,000/-.

1.5 Select from the following, the correct impact on the accounting equation due to drawing made by owner in cash:

- (1) Increase in Assets and Decrease in Liabilities.
- (2) Decrease in Assets and Decrease in Equity.
- (3) Increase in Assets and Increase in Liabilities.
- (4) Decrease in Assets and Increase in Equity.

1.6 Accounting is affected by the number of environmental factors, and those can be analyzed using PESTEL analysis. Which one of the following can be categorized under environmental (E) factors in PESTEL analysis?

- (1) Introduction of import restrictions in line with policies of the new government.
- (2) Recent amendments made to the Inland Revenue Act.
- (3) Introduction of Artificial Intelligence for data analyzing.
- (4) Carbon footprint level introduced by the industry experts.

1.7 Which one of the following ledger account can be categorized as a non-current asset in the Statement of Financial Position?

- (1) Trade Receivables.
- (2) Computers used for office works.
- (3) Prepayments.
- (4) Closing inventory.

1.8 Tharu Traders acquired a machinery for Rs.6,000,000/- on 01st April 2021. The policy of the business is to depreciate the machinery using the diminishing balance method at the rate of 20% per annum. The depreciation charge for the year ended 31st March 2023 was:

- (1) Rs.768,000/-. (2) Rs.960,000/-. (3) Rs.1,200,000/-. (4) Rs.1,688,000/-.

1.9 Select the correct source document used by the buyer to return the goods purchased on credit to the supplier:

- (1) Debit Note. (2) Credit Note.
 (3) Purchase Order. (4) Journal Voucher.

1.10 Danidu introduced Rs.1,500,000/- worth of lorry to his business as additional capital. Select from the following, the correct impact to the accounting equation regarding this transaction:

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+ Liabilities (Rs.)
(1)	+1,500,000	=	-	+1,500,000
(2)	-1,500,000	=	-	-1,500,000
(3)	-1,500,000	=	-1,500,000	-
(4)	+1,500,000	=	+1,500,000	-

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** If an entity purchased a land in cash for the use of business, there is no change in assets of the entity.
- 1.12** The source document which is used to record purchase of Property, Plant and Equipment on credit is purchase invoice.
- 1.13** Preparing bank reconciliation statement helps to detect and minimize frauds, errors and manipulations.
- 1.14** Income is the increase in assets or decrease in liabilities that result in an increase in equity, other than those contributed by the owner of the entity.
- 1.15** As per the Going Concern Concept, financial statements are prepared on the assumption that an entity will continue in operation only for a limited period of time.

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) objectives of Financial Accounting.

1.17 Briefly explain the difference between “Cash Discounts” and “Trade Discounts”.

1.18 Briefly explain the concept, “Substance Over Form”.

1.19 Briefly explain the term “Professional Competence” under the professional ethical principles.

1.20 State two(02) reasons for moving to computerized accounting systems.

(02 marks each, Total 40 marks)

_____ End of Section A _____

SECTION B

(Total 40 marks)

Question 02

Akmal Traders is a retail business owned by **Akmal**. The trial balance as at 31st March 2023 of the business was not agreed. The difference was transferred to the suspense account and prepared the draft accounts. As per the draft accounts, net profit of Rs.1,875,000/- was recorded for the year ended 31st March 2023. **Akmal Traders** maintains control accounts for trade receivables and trade payables.

The following errors and omissions were identified subsequently:

- (1) Electricity expenses of Rs.35,000/- for the March 2023 has been debited to electricity expenses account as Rs.53,000/-. However, credit entry was correctly recorded.
- (2) Double entry related to a rent provision of Rs.135,000/- for the month of March 2023 has been recorded twice in the relevant books of accounts.
- (3) The total of sales day book was undercasted by Rs.180,000/-.
- (4) Rs.2,500/- bank overdraft interest charged by the bank has been credited to interest income account. However, this was correctly recorded in the cash book.
- (5) Purchase of a computer worth of Rs.150,000/- on 01st January 2023 has been debited to Repair and Maintenance account. However, this was correctly recorded in the cash book. Computers are depreciated at 20% per annum at cost on the straight-line basis.

You are required to:

(a) **Prepare** the Journal entries to rectify the above errors. (06 marks)

(b) **Calculate** the adjusted net profit for the year ended 31st March 2023 of **Akmal Traders**. (04 marks)

(Total 10 marks)

Question 03

Shakthi Concrete Works is a manufacturer of concrete products and the following information was extracted from the books of accounts of **Shakthi Concrete Works** for the year ended 31st March 2023:

Description	Rs.
Raw Material Stock as at 01 st April 2022	650,000
Raw Material purchases	4,250,000
Work-In-Progress as at 01 st April 2022 (valued at prime cost)	150,000
Carriage Inwards of Raw Material	25,000
Direct Wages	1,200,000
Factory Manager's Salary	625,000
Rent	300,000
Water	50,000
Electricity	820,000
Machine Repairs	105,000
Depreciation on Plant & Machinery	120,000
Depreciation on Motor Lorry	220,000

The following additional information is also provided:

- (1) Closing inventory balances as at 31st March 2023 were valued as follows:

Description	Rs.
Raw Material Stock (At cost)	585,000
Work -in -Progress (Valued at Prime Cost)	235,000

- (2) Motor lorry is used by the business to deliver the products to customers, while all plant & machinery are used to produce concrete products.

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

Expenses	Factory	Office
Electricity	75%	25%
Water	90%	10%
Rent	80%	20%

- (4) The manufactured concrete products are transferred to the trading division at a profit margin of 18% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **Shakthi Concrete Works** for the year ended 31st March 2023. (10 marks)

Question 04

Lasantha Traders is a sole proprietorship started by **Lasantha** on 01st April 2022 by investing Rs.2,800,000/- in cash.

The following additional information is also provided:

- (1) Summary of the Cash Control Account (Cash Book) for the year ended 31st March 2023 was as follows:

Cash Control Account (Cash Book)

Receipts	Dr (Rs.)	Payments	Cr (Rs.)
Initial Capital Investment	2,800,000	Cash Purchases	800,000
Cash Sales	4,200,000	Payments to Trade Creditors	3,800,000
Receipts from Trade Debtors	1,800,000	Electricity	185,000
		Amount transferred to petty cash	120,000
		Purchase of office equipment (Purchased on 01 st January 2023)	500,000
		Salaries and Wages	1,800,000
		Balance C/F	1,595,000
	8,800,000		8,800,000
Balance B/F	1,595,000		

- (2) Receivables and Payables as at 31st March 2023 were as follows:

	Rs.
Trade Debtors	1,450,000
Trade Creditors	1,200,000
Electricity Bill Payable	19,000

- (3) The policy of the business is to provide depreciation on Office Equipment at the rate of 20% per annum at cost on the straight-line basis.
- (4) Petty cash related transactions during the year were as follows:
- (i) Travelling cost : Rs.50,000/-.
 - (ii) Staff welfare : Rs.25,000/-.
 - (iii) Stationery : Rs.35,000/-.
- (5) There were no inventory as at 31st March 2023.

You are required to:

Prepare the Trial Balance of Lasantha Traders as at 31st March 2023.

(10 marks)

Question 05

- (A) The Bank Statement of **Ishakar Traders** shows a favorable balance of Rs.427,400/- as at 31st March 2023 while the Cash Control Account shows a debit balance (favorable) of Rs.336,000/-.

The Assistant Accountant of the business has identified the following reasons for the difference between bank statement's balance and cash book's balance:

- (1) Bank has deducted the loan installment of Rs.25,000/- relating to the loan obtained from the bank and it was not recorded in the cash book.
- (2) Bank charges of Rs.1,500/- for the direct bank confirmation issued was not considered in the cash book.
- (3) Overdraft interest of Rs.12,100/- for the month of February has been charged by the bank during the March 2023 and it was not recorded in the cash book.
- (4) Fixed deposit interest received of Rs.25,000/- was credited to the bank's statement but it was not considered in the cash book.
- (5) A cheque of Rs.120,000/- was deposited to the bank but it was not realized as at 31st March 2023.
- (6) A cheque of Rs.225,000/- was issued on 30th March 2023 but it was not presented for payment to the bank as at 31st March 2023.

You are required to:

Prepare the following:

- (a) Adjusted Cash Control Account (Cash Book). (03 marks)
 - (b) Bank Reconciliation Statement as at 31st March 2023. (02 marks)
- (B) You are given the impact of five (5) transactions to the accounting equation of **Hasanga Traders**, a sole proprietorship:

	Assets					=	Equity (Capital)	+	Liabilities
	Motor Lorry	+	Inventory	+	Trade Debtors				+
(1)	+ 750,000					+ 1,250,000	=	+ 2,000,000	
(2)			+ 950,000				=		+ 950,000
(3)			(60,000)		+ 90,000		=	+ 30,000	
(4)						(150,000)	=	(150,000)	
(5)						(200,000)	=		(200,000)

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)

(Total 10 marks)

SECTION C

(Total 20 marks)

Question 06

Imandi Beauty Centre is a sole proprietorship owned by **Imandi**. The Trial Balance of **Imandi Beauty Centre** as at 31st March 2023 is as follows:

Imandi Beauty Centre
Trial Balance as at 31st March 2023 (Rs.'000)

Description	Dr.	Cr.
Plant and Equipment at Cost:		
Beauty Equipment	3,500	
Furniture & Fittings	5,200	
Accumulated Depreciation as at 01 st April 2022:		
Beauty Equipment		625
Furniture & Fittings		400
Sales		74,100
Purchases	52,000	
Inventory as at 01 st April 2022	1,750	
Trade Receivables	3,500	
Trade Payables		1,050
Cash in hand	75	
Bank Loan		560
Security Expenses	350	
Electricity	1,650	
Salaries and Wages	7,000	
Bank Loan Interest	200	
Office Rent Paid	2,600	
Transport	300	
Water	150	
Capital Account as at 01 st April 2022		1,540
Total	78,275	78,275

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2023 was valued at cost of Rs.6,750,000/-.
- (2) On 31st March 2023, one of **Imandi's** friends supplied furniture of Rs.500,000/- to **Imandi's Business** and **Imandi** agreed to settle the amount in April 2023. This transaction has not been 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:

Beauty Equipment	:	25% per annum
Furniture & Fittings	:	20% per annum
- (4) On 01st April 2022, **Imandi** entered into a new rent agreement. As per the agreement, monthly rental is Rs.200,000/-. Rent for the month of April 2023 has also been paid in March.
- (5) Due to lack of cosmetic products in the open market, **Imandi** has purchased some items from Thailand during her personal tour using her personal credit card on 20th March 2023. Cost of the items bought from Thailand was Rs.900,000/- and she agreed to add the value as additional capital to the business. However, this entire transactions on this regard had not been recorded in the books of account of **Imandi's Business**. Further, this stock has been sold during the month of March 2023 and sales transaction has been correctly recorded in the books of accounts.
- (6) **Imandi** decided to write off a balance receivable of Rs.155,000/- from **ABC Ltd.** as a bad debt.
- (7) Electricity Bill of Rs.78,000/- for the month of March 2023 has not been paid as at 31st March 2023.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2023. (11 marks)
 - (b) Statement of Financial Position as at 31st March 2023. (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.