



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2024

(101) FINANCIAL ACCOUNTING

17-02-2024

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 Present economic resources controlled by the entity as a result of past events are:

- (1) Equity. (2) Liabilities. (3) Assets. (4) Income.

1.2 Select the correct source document, prepared by a purchaser incorporating details of goods required to buy such as type, quantity, agreed price, required date and other terms & conditions:

- (1) Payment Voucher (PV). (2) Purchase Order (PO).
(3) Good Received Note (GRN). (4) Material Requisition Note (MRN).

1.3 Select from the following, an economic factor as per PESTEL analysis which can affect for accounting and business activities of businesses:

- (1) Companies Act No. 7 of 2007. (2) Exchange rate.
(3) Attitudes of customers. (4) Use of accounting software.

1.4 Aruna Traders obtained a bank loan of Rs.500,000/- to expand the business. Select from the following, the correct impact to the accounting equation regarding this transaction:

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

1.5 Saman Traders purchased a land for Rs.2,500,000/- and current market value of the land is Rs.4,000,000/-. However it is shown in the financial statements at purchase price of Rs.2,500,000/-. The accounting concept relating to this is:

- | | |
|----------------------------|------------------------------|
| (1) Matching Concept. | (2) Accrual Concept. |
| (3) Going Concern Concept. | (4) Historical Cost Concept. |

1.6 Select from the following, the correct impact on accounting elements due to a cash receipt from a trade debtor:

- (1) Increase in assets and increase in liabilities.
- (2) Increase in assets and increase in equity.
- (3) Decrease in assets and decrease in equity.
- (4) There is no change in assets.

1.7 The favourable balance of the bank statement was Rs.65,000/- as at 31st December 2023 and it was less than the cash book balance by Rs.5,000/- on that date. Select from the following, the reason for the difference:

- (1) Bank charges of Rs.2,500/- were not recorded in the cash book.
- (2) Cheques issued but not presented for payment were Rs.5,000/-.
- (3) Cheques deposited but not realized were Rs.5,000/-.
- (4) A direct deposit of Rs.5,000/- made by a customer was not recorded in the cash book.

1.8 The following information was extracted from the books of **Sameer Traders**, for the month of January 2024:

	Rs.
Net assets as at 31 st January 2024	4,500,000
Net assets as at 01 st January 2024	3,700,000
Drawings made during the month	200,000
Additional capital introduced during the month	300,000

Based on the above information, the profit of the business for the month ended 31st January 2024 was:

(1) Rs.700,000/-. (2) Rs.800,000/-. (3) Rs.900,000/-. (4) Rs.1,100,000/-.

1.9 Which one of the following is a time difference that might be a reason for the difference between the balance in the cash control account and the balance in the bank statement?

- (1) Direct remittances received from customers.
- (2) Cheques deposited but not realized.
- (3) Bank charges debited by the bank.
- (4) Erroneously debited overdraft interest by the bank.

1.10 A part of the building of **ABC Ltd.** has been given out on rent at Rs.10,000/- per month. During the year ended 31st March 2023, an amount of Rs.110,000/- was received and balance Rs.10,000/- was received during the next financial year. **Vishnu**, Assistant Accountant of the company has recognized only Rs.110,000/- as rent income for the year ended 31st March 2023.

Which one of the following accounting concept has been violated by **Vishnu**?

- (1) Matching Concept.
- (2) Entity Concept.
- (3) Accrual Concept.
- (4) Materiality 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** A decrease in assets or an increase in liabilities that result in a decrease in equity, other than those distributions to the owners of the entity can be defined as an expense.
- 1.12** QuickBooks (QB) accounting package can be categorized as a specialized accounting software.
- 1.13** An accounting input of accounting process is Sales Day Book.
- 1.14** Objectivity is a principle of Code of Ethics adopted by an Accounting Technician.
- 1.15** Errors of commission means not recording a transaction in full or recording only one entry of double entry.

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

1.16 Identify the relevant source document used for the following transactions:

- (1) A purchase of a computer of Rs.200,000/- for office use on credit.
- (2) A sale of goods of Rs.600,000/- on credit to **ABC Ltd.**

1.17 Kamal Traders acquired a machinery for Rs.6,000,000/- on 01st April 2022 and residual value at the end of useful life time is Rs.1,000,000/- and useful life time of the machinery is 5 years. Business policy is to depreciate the machinery on the straight-line method over useful life time (20% per annum). Calculate the depreciation charge of the machinery for the year ended 31st March 2023.

1.18 List two(02) examples of assets that can be classified as non-current assets.

1.19 State two(02) limitations of financial information.

1.20 Briefly explain the “Matching Concept”. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Nazeer Machine Works is a manufacturer of machine parts and the following information was extracted from the books of accounts of **Nazeer Machine Works** for the year ended 31st March 2023:

Description	Rs.
Raw Material Stock as at 01 st April 2022	850,000
Raw Material Purchases	3,500,000
Work-In-Progress as at 01 st April 2022 (valued at prime cost)	225,000
Carriage Inwards of Raw Material	75,000
Direct wages - Production Workers	1,500,000
Security Charges	500,000
Electricity Expenses	520,000
Factory Manager's Salary	370,000
Depreciation on Plant & Machinery	320,000
Depreciation on Motor Lorry	560,000

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)	250,000
Work-in-Progress (Valued at Prime Cost)	425,000

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

Expenses	Factory	Office
Electricity Expenses	85%	15%
Security Charges	90%	10%

- (3) Plant & Machinery and motor lorry are completely used for the factory purpose.
- (4) In addition to the direct wages, an incentive of Rs.100/- per part is entitled by production workers for each machine parts produced. 10,000 machine parts were produced during the year.
- (5) The manufactured units 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 **Nazeer Machine Works** for the year ended 31st March 2023. (10 marks)

Question 03

Ravi Super is a sole proprietorship started by **Ravi** on 01st April 2022 by investing Rs.4,850,000/- in cash as initial capital.

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.)
Investment of Initial Capital	4,850,000	Cash Purchases	1,850,000
Cash Sales	3,200,000	Payments to Trade Creditors	2,900,000
Receipts from Trade Debtors	2,825,000	Electricity and Water	255,000
		Salaries and Wages	1,200,000
		Amount transferred to petty cash	100,000
		A Delivery Van (Purchased on 01 st October 2022)	3,000,000
		Balance C/F	1,570,000
	10,875,000		10,875,000

(2) Receivable and Payable balances as at 31st March 2023 were as follows:

	Rs.
Trade Debtors	2,400,000
Trade Creditors	2,100,000
Electricity and Water bills Payable	10,000

(3) The motor vehicles are to be depreciated at the rate of 25% per annum on the straight-line basis at cost.

(4) The following expenses have been paid from the petty cash:

- (i) Office Expenses : Rs.15,000/-.
- (ii) Travelling : Rs.12,000/-.
- (iii) Printing & Stationery : Rs.25,000/-.

You are required to:

Prepare the Trial Balance of **Ravi Super** as at 31st March 2023.

(10 marks)

Question 04

The Trial Balance of **Bimal Traders** as at 31st March 2023 prepared by the Accounts Assistant did not agree. The difference of Rs.279,500/- was credited to a Suspense Account and draft financial statements were prepared. **Bimal Traders** maintains control accounts for trade receivables and trade payables.

The following reasons for the difference have been identified subsequently:

- (1) A security bill payable of Rs.35,000/- for the month of March 2023 has been recorded twice to both the ledger accounts.
- (2) Interest income of Rs.2,750/- received on a fixed deposit has been erroneously debited to the interest expense account and it had been correctly recorded in the cash book.
- (3) Total of purchase day book was overstated by Rs.20,000/-.
- (4) Purchase of an office equipment for Rs.250,000/- has been debited to the office expenses account while other entry was correctly recorded in the books of accounts. Applicable depreciation on this office equipment for the year was Rs.50,000/-.
- (5) Cash sales of Rs.265,000/- have been recorded only in the cash book and the corresponding entry was not recorded in the relevant ledger account.
- (6) Telephone expenses of Rs.67,000/- has been recorded as Rs.76,000/- in the telephone expenses account. But it was correctly recorded in the cash book.

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)

Question 05

(A) **Dunith** started a pastry shop on 01st December 2023. The following transactions were occurred in the business of **Dunith** during the month of December 2023:

- (1) **Dunith** introduced initial capital of Rs.2,000,000/- which comprised of Rs.1,200,000/- in cash and an office equipment worth of Rs.800,000/-.
- (2) Purchased goods worth of Rs.650,000/- on credit for resale.
- (3) Pastry items costing of Rs.260,000/- were sold for Rs.350,000/- on cash basis.
- (4) Cash drawings made by **Dunith** for the month was Rs.250,000/-.
- (5) Paid Rs.200,000/- as staff salaries of the month.

You are required to:

State the impact of each of the above transactions to the following Accounting Equation.

$$[\text{Office Equipment} + \text{Inventory} + \text{Cash} = \text{Equity (Capital)} + \text{Liabilities}] \quad (05 \text{ marks})$$

(B) As at 31st December 2023, **Nimal Hardware** had a favorable balance of Rs.277,500/- as per the Bank Statement. On the same date, the Cash Control Account also shows a debit (favorable) balance of Rs.225,000/-.

The following reasons have been identified for the difference between the Bank Statement's balance and the Cash Control Account's balance:

- (1) The bank has debited Rs.55,000/- for monthly rent based on the standing order instructions given and this was not recorded in the cash book.
- (2) A cheque issued of Rs.128,000/- on 30th December 2023 was not presented to the bank for payment by 31st December 2023.
- (3) Bank charges of Rs.5,000/- which was debited by the bank on 15th December 2023 was not considered in the cash book.
- (4) The bank has credited the previous month's overcharged overdraft interest of Rs.12,500/- on 31st December 2023 and it was not recorded in the cash book.
- (5) A cheque of Rs.28,000/- was deposited to the bank account but it was not realized as at 31st December 2023.

You are required to:

Prepare the following:

- (a) Adjusted Cash Control Account (Cash Book). (03 marks)
- (b) Bank Reconciliation Statement as at 31st December 2023. (02 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Nihal Electricals is a sole proprietorship owned by **Nihal**. The Trial Balance of **Nihal Electricals** as at 31st March 2023 was as follows:

Nihal Electricals
Trial Balance as at 31st March 2023 (Rs. '000)

Description	Dr.	Cr.
Plant and Equipment at Cost:		
Plant and Machinery	7,000	
Furniture and Fittings	4,000	
Office Equipment	1,000	
Accumulated Depreciation as at 01 st April 2022:		
Plant and Machinery		2,200
Furniture and Fittings		600
Sales		62,900
Purchases	38,000	
Transport Expenses	900	
Inventory as at 01 st April 2022	2,800	
Trade Receivables	9,500	
Trade Payables		15,900
Cash at Bank	3,500	
Cash in Hand	460	
Bank Loan		1,000
Water	2,500	
Salaries and Wages	11,000	
Insurance	260	
Electricity	7,850	
Telephone Charges	350	
Office Rent	2,200	
Bank Charges	40	
Capital Account as at 01 st April 2022		8,760
Total	91,360	91,360

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2023 was valued at cost of Rs.9,270,000/-.
- (2) On 01st October 2022, a loan of Rs.1,000,000/- was obtained from a bank at an interest rate of 20% per annum. On the same date, office equipment of Rs.1,000,000/- was purchased using this loan. Capital repayments of the loan was started from 01st April 2023 and interest for the year was not accounted in the books of accounts.
- (3) The policy of the business is to provide depreciation on the straight-line basis at cost as follows:

Plant and Machinery	:	20% per annum
Furniture and Fittings	:	20% per annum
Office Equipment	:	15% per annum
- (4) Insurance of Rs.260,000/- is relevant for the period from 01st January 2023 to 31st December 2023.
- (5) **Nihal** decided to write-off a receivable balance of Rs.50,000/- which is receivable from **Silva** as a bad debt.
- (6) The following expenses for the month of March 2023 have not been accrued in the books of accounts:

Rent	:	Rs.200,000/-
Electricity	:	Rs.135,000/-

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.