



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2025

(101) FINANCIAL ACCOUNTING

08-02-2025

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

The accounting concept that explains the above statement is:

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

1.2 Select from the following, a stakeholder / stakeholders of a business entity:

- (1) Employees.
- (2) Government.
- (3) Competitors.
- (4) All of the above.

1.3 **Rosi Traders** acquired a motor vehicle for Rs.6,000,000/- on 01st April 2022. The policy of the business is to depreciate the motor vehicles using the diminishing balance method at the rate of 25% per annum. The depreciation charge of the motor vehicle for the year ended 31st March 2024 was:

- (1) Rs.1,500,000/-.
- (2) Rs.1,125,000/-.
- (3) Rs.1,434,375/-.
- (4) Rs.2,625,000/-.

1.4 On 01st January 2025, **Rama Traders**, a sole proprietorship purchased an office equipment worth of Rs.600,000/- for office use on credit. The correct impact on the accounting equation due to this transaction is:

- (1) Increase in assets and increase in liabilities.
- (2) Increase in assets and increase in equity.
- (3) Increase in assets and decrease in liabilities.
- (4) There are no changes in assets and liabilities.

1.5 The debit balance of Cash Control Account as at 31st January 2025 of **XYZ Traders** was Rs.375,000/-. But, there is a difference between Cash Control Account's balance and the balance appeared in the Bank Statement on that date.

It was found that a cheque of Rs.25,000/- was deposited on 30th January 2025, but it was not realized as at 31st January 2025. Further, a cheque of Rs.54,000/- was issued on 30th January 2025 and it was not presented for the payment as at 31st January 2025. Interest income of Rs.2,000/- on the saving account was directly credited by the bank, but it was not recorded in the Cash Book.

Based on the above information, the balance appeared in the Bank Statement as at 31st January 2025 was:

- (1) Rs.344,000/-. (2) Rs.406,000/-. (3) Rs.348,000/-. (4) Rs.402,000/-.

1.6 The following information was extracted from the books of **Silva Traders**, a sole proprietorship for the year ended 31st March 2024:

	Rs.
Capital as at 01 st April 2023	1,500,000
Liabilities as at 31 st March 2024	900,000
Additional capital introduced during the year	500,000
Drawings made during the year	300,000
Profit for the year ended 31 st March 2024	750,000

Based on the above information, total assets as at 31st March 2024 of **Silva Traders** was:

- (1) Rs.3,950,000/-. (2) Rs.3,150,000/-.
(3) Rs.2,450,000/-. (4) Rs.3,350,000/-.

1.7 "Inventories are valued at lower of cost or Net Realizable Value (NRV)".

The accounting concepts relating to the above statement is:

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

1.8 The monthly office rent of **Rohit Stores** of Rs.50,000/- was paid on 31st December 2024. Select from the following, the correct impact to the accounting equation from this transaction:

	Assets (Rs.)	=	Equity (Capital) (Rs.)	+ Liabilities (Rs.)
(1)	+ 50,000	=	-	+ 50,000
(2)	- 50,000	=	- 50,000	-
(3)	-	=	+ 50,000	- 50,000
(4)	+ 50,000	=	+ 50,000	-

1.9 The following information was extracted from the books of **Vivek Traders**, for the month of January 2025:

	Rs.
Trade receivables (debtors) control account balance as at 01 st January 2025	500,000
Sales journal total for the month of January 2025	3,033,000
Return inwards journal total for the month of January 2025	250,000
Bad debt written off during the month	150,000
Cash received from debtors during the month	2,745,000

Based on the above information, the Trade Receivables (Debtors) Control Account balance as at 31st January 2025 was:

- (1) Rs.1,005,000/-. (2) Rs.505,000/-. (3) Rs.388,000/-. (4) Rs.855,000/-.

1.10 On 31st December 2024, the favourable balance appeared in the bank statement of **ZZ Traders** was Rs.22,000/- while cash control account shows a debit (favourable) balance of Rs.20,000/-.

It was found the following reasons for the difference:

- The bank charges of Rs.1,500/- for the month of December was not recorded in the cash book.
- An amount of Rs.25,000/- was directly deposited by a customer, but it was not recorded in the cash book.
- A monthly loan installment of Rs.32,000/- has been debited by the bank and it was not recorded in the cash book.

Based on the above information, adjusted cash book balance as at 31st December 2024 was:

- (1) Rs.31,500/-. (2) Rs.15,000/-. (3) Rs.37,000/-. (4) Rs.11,500/-.

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 ACCPAC is an example for a General Accounting Software.
- 1.12 The Statement of Financial Position shows the financial performance of a business entity over a period of time.
- 1.13 The balance appeared in the bank statement always has a favourable balance.
- 1.14 Transactions and Events are accounting outputs of the accounting process.
- 1.15 Integrity is a principle of the Code of Ethics adopted by an Accounting Technician.

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) differences between Financial Accounting and Management Accounting.
- 1.17 Define the term "Income".
- 1.18 State two(02) examples of how the accrual concept is applied in preparing financial statements.
- 1.19 Briefly explain the "Entity Concept".
- 1.20 Identify the relevant source document used to record each of the following transactions of **ABC Traders**:
 - (a) Purchased a machinery for Rs.1,000,000/- from **XYZ Ltd.** for office use on credit.
 - (b) Sold goods worth of Rs.150,000/- to a customer on credit.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

- (a) **Rehani Traders**, a sole proprietorship is a retail shop and the following transactions are relevant for the month of January 2025:
 - (1) Purchased goods worth of Rs.960,000/- on credit for resale.
 - (2) Goods costing of Rs.450,000/- were sold for Rs.600,000/- in cash.
 - (3) Paid the monthly shop rent of Rs.20,000/-.
 - (4) Paid Rs.200,000/- to a trade creditor.
 - (5) Interest received from a fixed deposit matured on 25th January 2025 was Rs.16,000/-.

You are required to:

State the impact of each of the above transactions to the following accounting equation.

[Inventory + Trade Receivables + Cash = Equity (Capital) + Liabilities]

(05 marks)

- (b) The following credit sales transactions were occurred during the month of March 2024 of **Radha Traders**, a sole proprietorship:

Date	Invoice No.	Name of the Customer	Description	Quantity	Price per Unit (Rs.)	Trade Discount
05.03.2024	1256	ABC Ltd.	Books (80 pages)	1,200	65/-	5%
10.03.2024	1257	PQ Traders	A4 paper bundles	300	980/-	-
16.03.2024	1258	XYZ Traders	CR Books (120 pages)	200	240/-	10%

Based on the above information,

You are required to:

Prepare the Sales Journal of **Radha Traders** to record the above transactions for the month of March 2024.

(05 marks)

(Total 10 marks)

Question 03

Ann Hardware is a sole proprietorship started by **Ann** on 01st January 2024 investing Rs.4,500,000/- 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 December 2024 was as follows:

Cash Control Account (Cash Book)

Receipts	Dr (Rs.)	Payments	Cr (Rs.)
Investment of Initial Capital	4,500,000	Cash Purchases	3,250,000
Cash Sales	6,200,000	Payments to Trade Creditors	3,150,000
Receipts from Trade Debtors	2,500,000	Travelling and Transport Charges	450,000
		Salaries and Wages	900,000
		Printing and Stationery	80,000
		Purchase of a Lorry (Purchased on 01 st October 2024)	2,000,000
		Office Rent Paid (office rent per month is Rs.60,000/-)	900,000
		Electricity Expenses	280,000
		Insurance	120,000
		Balance C/F	2,070,000
	13,200,000		13,200,000

(2) The following balances were appeared in the books of accounts as at 31st December 2024:

	Rs.
Trade Debtors	2,400,000
Trade Creditors	2,100,000
Prepayment - Office Rent	180,000
Electricity Payable	25,000

(3) Motor vehicles are to be depreciated at the rate of 20% per annum at cost on the straight-line basis.

(4) There were no inventories as at 31st December 2024.

You are required to:

Prepare the Trial Balance of Ann Hardware as at 31st December 2024.

(10 marks)

Question 04

Senewi Engineering is a manufacturer of steel furniture and the following information was extracted from the books of **Senewi Engineering** for the year ended 31st March 2024:

Description	Rs.
Raw Material Purchased	4,750,000
Carriage Inwards of Raw Material	75,000
Direct Wages	2,200,000
Other Direct Expenses	210,000
Electricity	450,000
Factory Manager's Salary	1,200,000
Security Charges	550,000
Insurance on Factory	80,000
Rent	720,000
Depreciation - Plant and Machinery	220,000
Depreciation - Motor Lorry	240,000

The following additional information is also provided:

(1) Inventories are valued as follows:

Description	As at 01 st April 2023 (Rs.)	As at 31 st March 2024 (Rs.)
Raw Material Stock (At cost)	-	250,000
Work -in -Progress (Valued at Prime Cost)	180,000	80,000

(2) The motor lorry is used to transport completed steel furniture to the customers.

(3) The following expenses are to be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Rent	75%	25%
Security Charges	80%	20%

(4) Manufactured products are transferred to the trading division at a profit of 15% on the cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **Senewi Engineering** for the year ended 31st March 2024. (10 marks)

Question 05

Ashini Traders is a sole proprietorship owned by **Ashini**. The Trail Balance of her business as at 31st March 2024 did not agree. The difference of Rs.38,300/- was credited to a suspense account and draft financial statements were prepared. **Ashini Traders** maintains control accounts for trade receivables and trade payables.

The following reasons have been identified subsequently for the difference:

- (1) An office expense of Rs.6,000/- has been recorded in the cash book only.
- (2) The water bill of Rs.3,500/- for the month of March 2024 has been recorded in the Water Expenses account as Rs.5,300/-. Other entry has been correctly recorded.
- (3) Cash withdrawn by the **Ashini** for her personal use was Rs.2,500/- and it was recorded in the cash book only.
- (4) Purchase of a computer for Rs.250,000/- on 31st March 2024 has been recorded in the office maintenance account. This was recorded correctly in the cash book.
- (5) A security bill payable for the month of March 2024 of Rs.35,000/- has been recorded twice in both ledger accounts.
- (6) Total of sales journal was understated by Rs.16,200/-.
- (7) A cash sale of Rs.45,000/- was not recorded in the sales 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)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Praveen Traders is a sole proprietorship owned by **Praveen**. The Trial Balance of **Praveen Traders** as at 31st March 2024 was as follows:

Praveen Traders
Trial Balance as at 31st March 2024 (Rs.'000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Building (Land value – Rs.6,000,000/-)	10,000	
Office Equipment	9,600	
Motor vehicles	3,000	
Accumulated Depreciation as at 01 st April 2023:		
Building		500
Office Equipment		4,400
Motor vehicles		750
Sales		94,000
Purchases	58,300	
Inventory as at 01 st April 2023	5,500	
Cash in Hand	120	
Bank Overdraft		1,500
Trade Receivables	6,400	
Trade Payables		8,000
Salaries and Wages	15,700	
Office Expenses	150	
Office Rent Paid	3,000	
Water Expenses	500	
Security Charges	1,100	
Bank Overdraft Interest	450	
Electricity Expenses	1,250	
Sales Commission	1,300	
Bank Loan		1,000
Bank Charges	150	
Capital Account as at 01 st April 2023		6,370
Total	116,520	116,520

The following additional information is also provided:

- (1) Closing Inventory as at 31st March 2024 was valued at cost of Rs.7,250,000/-.
- (2) The following expenses for the month of March 2024, have not been accrued in the books of accounts:
- | | | |
|------------------|---|--------------|
| Electricity | : | Rs.100,000/- |
| Sales Commission | : | Rs.150,000/- |
- (3) Office rent paid account includes a refundable deposit of Rs.600,000/- paid on rented building to the owner of the building.
- (4) A bank loan of Rs.1,000,000/- was obtained on 01st March 2024 at 15% interest per annum. Repayments of the loan should be started from 01st April 2024 and interest payable for the year ended 31st March 2024 was not accounted in the books of accounts.
- (5) The policy of the business is to provide the depreciation on the straight-line basis at cost as follows:
- | | | |
|------------------|---|---------------|
| Building | : | 05% per annum |
| Office Equipment | : | 20% per annum |
| Motor vehicles | : | 25% per annum |
- (6) **Praveen** decided to write-off an amount of Rs.100,000/- as a bad debt due to bankruptcy of one of customers and to make a provision of 5% from the remaining trade receivables balance as at 31st March 2024.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2024. (11 marks)
- (b) Statement of Financial Position as at 31st March 2024. (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.