



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2025

(101) FINANCIAL ACCOUNTING

02-08-2025

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** An objective of Financial Accounting is:

- (1) To decide the selling price of products of the business.
- (2) To understand the financial position of the business.
- (3) To identify the performance of the employees.
- (4) To reduce expenses of the business.

**1.2** Which one of the following group contains the elements of the Statement of Financial Position?

- |                                       |                                     |
|---------------------------------------|-------------------------------------|
| (1) Assets, Liabilities and Expenses. | (2) Assets, Liabilities and Income. |
| (3) Assets, Liabilities and Equity.   | (4) Assets, Equity and Expenses.    |

**1.3** Which one of the following is a fundamental qualitative characteristic of financial information?

- |                    |                      |
|--------------------|----------------------|
| (1) Going Concern. | (2) Relevance.       |
| (3) Accrual Basis. | (4) Confidentiality. |

**1.4** An amount of Rs.2,000/- was written off as a bad debt from debtors due to a bankruptcy of a customer. The accounting concept relating to this is:

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

**1.5** The following information was extracted from the books of **ABC Traders**, for the month of March 2025:

	Rs.
Net assets as at 31 <sup>st</sup> March 2025	6,800,000
Net assets as at 01 <sup>st</sup> March 2025	4,200,000
Drawings made during the month	500,000
Additional capital introduced during the month	400,000

Based on the above information, the net profit of the business for the month ended 31<sup>st</sup> March 2025 was:

- (1) Rs.2,700,000/-. (2) Rs.1,700,000/-. (3) Rs.1,800,000/-. (4) Rs.2,500,000/-.

**1.6** You are given the following impact of a transaction to the accounting equation of a sole proprietorship:

(Rs.)

Assets			=	Equity	+	Liabilities
Inventory	+	Cash				
- 35,000		+ 45,000	=	+10,000		-

Based on the above information, which one of the following is the most appropriate transaction for the above accounting equation:

- (1) Owner has taken Rs.45,000/- worth of goods for his personal use and cost of goods taken was Rs.35,000/-.  
(2) Goods costing of Rs.35,000/- were sold for Rs.45,000/- in cash.  
(3) Goods costing of Rs.35,000/- were sold for Rs.45,000/- on credit.  
(4) Goods costing of Rs.45,000/- were sold for Rs.35,000/- in cash.

**1.7** Select from the following, the correct impact on accounting elements due to a settlement to a trade creditor:

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

**1.8** Which one of the following is recorded in the General Journal?

- (1) Purchase of goods for resale in cash.
- (2) Purchase of an office equipment for office use on credit.
- (3) Purchase of a motor vehicle for office use in cash.
- (4) Purchase of goods for resale on credit.

**1.9** The source document used by the buyer to record the returned goods that were purchased on credit is:

- |                  |                                |
|------------------|--------------------------------|
| (1) Debit note.  | (2) Sales Invoice.             |
| (3) Credit note. | (4) Goods Received Note (GRN). |

**1.10** Which one of the following statements is correct with reference to the Double Entry Accounting System?

- (1) Every transaction is recorded only in one account.
- (2) Every transaction must record twice in a ledger account.
- (3) Every transaction is recorded based on cash basis.
- (4) Every transaction is recorded at least two accounts.

*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** An Enterprise Resource Planning (ERP) system is a computerized system which performs as an integrated information system that needs for decision making.

**1.12** Building account is an example for a nominal account.

**1.13** A liability is a present economic resource controlled by the entity as a result of past events.

**1.14** As per the historical cost concept, the value of assets of an entity is recorded based on the cost of acquisition or construction of the asset.

**1.15** The “Substance over form” concept means that transactions should be recorded based on their legal form rather than their economic reality.

*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) possible reasons for the time differences between the balance of Cash Control Account (Cash Book) and the balance appearing in the Bank Statement.

**1.17** State the difference between a Current Asset and a Non-Current Asset.

**1.18** Identify the correct source document used to record the following transactions:

- (1) An amount of Rs.5,000/- was received from a debtor.
- (2) Purchased goods worth of Rs.45,000/- for resale on credit.

**1.19** State two(02) reasons why business ethics are important for an entity.

**1.20** List two(02) reasons for the necessity of accounting concepts for an entity.

(02 marks each, Total 40 marks)

End of Section A

## **SECTION B**

(Total 40 marks)

### **Question 02**

**Rajarata Roofing** is a manufacturer of various roofing tiles and the following information was extracted from the books of accounts of **Rajarata Roofing** for the year ended 31<sup>st</sup> March 2025:

Description	Rs.
Raw Material Stock as at 01 <sup>st</sup> April 2024	150,000
Raw Material Purchased during the year	5,250,000
Carriage inwards of Raw Material	250,000
Work-In- Progress as at 01 <sup>st</sup> April 2024 (valued at prime cost)	180,000
Direct Wages to Production Workers	1,900,000
Electricity	740,000
Water	250,000
Factory's Security Charges	360,000
Machine Repairs	80,000
Rent	600,000
Depreciation - Plant and Machinery	200,000
Depreciation - Motor Lorry	540,000

The following additional information is also provided:

(1) Closing Inventory balances as at 31<sup>st</sup> March 2025 were valued as follows:

Description	(Rs.)
Raw Material Stock (At cost)	80,000
Work -in -Progress (Valued at Prime Cost)	160,000

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

Expenses	Factory	Office
Electricity	60%	40%
Water	90%	10%
Rent	75%	25%

- (3) The manufactured roofing tiles are transferred to the trading division at a profit of 18% on the cost of production.
- (4) Plant & Machinery and motor lorry are completely used for the factory's purpose.
- (5) In addition to the direct wages, an incentive of Rs.5/- is entitled by production workers for each tiles produced and 200,000 tiles were produced during the year.

**You are required to:**

**Prepare** the Manufacturing Cost Statement (Manufacturing Account) of **Rajarata Roofing** for the year ended 31<sup>st</sup> March 2025. (10 marks)

### Question 03

**Rizni Traders** is a sole proprietorship started by **Rizni** on 01<sup>st</sup> April 2024 by investing Rs.2,500,000/- 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 31<sup>st</sup> March 2025 was as follows:

#### Cash Control Account (Cash Book)

Receipts	Dr (Rs.)	Payments	Cr (Rs.)
Investment of Initial Capital	2,500,000	Cash Purchases	2,850,000
Receipts from Trade Debtors	3,900,000	Payments to Trade Creditors	2,250,000
Cash Sales	4,800,000	Investment in a Fixed Deposit	500,000
		Salaries and Wages	800,000
		Amount Transferred to Petty Cash	150,000
		Purchase of a Delivery Van (Purchased on 01 <sup>st</sup> January 2025)	3,200,000
		Electricity and Water Expenses	400,000
		Telephone and Internet Charges	300,000
		Advertising Expenses	120,000
		Office Rent	400,000
		Balance C/F	230,000
	<b>11,200,000</b>		<b>11,200,000</b>
Balance B/F	230,000		

- (2) Receivable and Payable balances as at 31<sup>st</sup> March 2025 were as follows:

	Rs.
Trade Debtors	1,900,000
Trade Creditors	2,500,000
Accrued Telephone and Internet Charges	15,000

- (3) Motor vehicles are to be depreciated at the rate of 20% per annum at cost on the straight line basis.
- (4) The following expenses have been paid from the petty cash:
  - Stationery : Rs.12,500/-.
  - Travelling : Rs.7,500/-.
  - Casual Wages : Rs.55,000/-.
- (5) A fixed deposit was opened on 01<sup>st</sup> October 2024 at an interest rate of 10% per annum. Interest for the year was received in April 2025.
- (6) There were no inventory as at 31<sup>st</sup> March 2025.

**You are required to:**

**Prepare** the Trial Balance of **Rizni Traders** as at 31<sup>st</sup> March 2025.

(10 marks)

### Question 04

The Trial Balance of **Amaya Stores** as at 31<sup>st</sup> March 2025 prepared by the Assistant Accountant did not agree. The difference of Rs.33,100/- was debited to a Suspense Account and the draft financial statements were prepared. **Amaya Stores** maintains control accounts for Trade Receivables and Trade Payables.

The following reasons for the difference have been subsequently identified:

- (1) Purchase of an office equipment of Rs.60,000/- on 01<sup>st</sup> April 2024 has been recorded in the Purchases Account. But this was correctly recorded in the cash book. Applicable depreciation charge on the office equipment is 25% per annum at cost on the straight-line basis and relevant depreciation charge for this office equipment has not been recorded in the books of accounts.
- (2) Cash purchase of Rs.4,000/- was not recorded in the purchase account. However, it was recorded in the cash book correctly.
- (3) Rent expenses of Rs.15,000/- was erroneously credited to the rent income account, while it was correctly recorded in the cash book.
- (4) A telephone bill payable of Rs.6,000/- for the month of March 2025 has been recorded twice in both the ledger accounts.
- (5) Total of purchase journal was overstated by Rs.14,500/-.
- (6) Electricity expenses of Rs.4,500/- has been recorded as Rs.5,400/- in the Electricity 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) **Ravi** started a retail business on 01<sup>st</sup> March 2025 and the following transactions were occurred during the month of March 2025:

- (1) **Ravi** introduced Rs.500,000/- in cash as an initial capital.
- (2) Purchased an office equipment worth of Rs.150,000/- in cash.
- (3) Purchased goods worth of Rs.80,000/- on credit from **XYZ Ltd.** for resale.
- (4) Sold goods costing of Rs.50,000/- for Rs.70,000/- on credit.
- (5) Cash drawings made by **Ravi** during the month was Rs.3,000/-.

**You are required to:**

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

*[Office Equipment + Inventory + Debtors + Cash = Equity (Capital) + Liabilities]* (05 marks)

(B) As at 31<sup>st</sup> March 2025, **ABC Traders** had a favourable balance of Rs.42,500/- as per the Bank Statement while Cash Control Account shows a debit (favourable) balance of Rs.26,500/-.

Subsequently, the Accounts Executive has noted the following reasons for the difference between the Bank Statement's balance and the Cash Control Account's balance:

- (1) A cheque of Rs.15,000/- was issued to a supplier on 25<sup>th</sup> March 2025, but it was not presented for payment to the bank as at 31<sup>st</sup> March 2025.
- (2) An amount of Rs.20,000/- was directly deposited to the bank account of **ABC Traders** by a customer, but this amount was not recorded in the cash book.
- (3) Bank charge of Rs.1,000/- which was debited by the bank on 28<sup>th</sup> March 2025 was not recorded in the Cash Book.
- (4) A cheque of Rs.5,000/- received from a debtor was deposited on 30<sup>th</sup> March 2025 to the bank account, but, it was not realized as at 31<sup>st</sup> March 2025.
- (5) Interest income of Rs.2,000/- on a savings account has been credited to the bank account. But it was not considered in the cash book.
- (6) The bank has deducted a loan installment of Rs.15,000/- relating to the loan obtained and it was not recorded in the cash book.

**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 2025. (02 marks)

(Total 10 marks)

End of Section B

## **SECTION C**

(Total 20 marks)

### **Question 06**

**Nathan Traders** is a sole proprietorship owned by **Nathan**. The Trial Balance of **Nathan Traders** as at 31<sup>st</sup> March 2025 is as follows:

**Nathan Traders**  
**Trial Balance as at 31<sup>st</sup> March 2025** (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Buildings (Land value – Rs.2,400,000/-)	8,400	
Furniture	4,000	
Motor vehicles	2,500	
Accumulated Depreciation as at 01 <sup>st</sup> April 2024:		
Buildings		600
Furniture		1,000
Motor vehicles		625
Sales		119,680
Purchases	74,500	
Inventory as at 01 <sup>st</sup> April 2024	9,500	
Cash in Hand and at Bank	310	
Trade Receivables	12,080	
Trade Payables		8,120
Bank Loan		3,000
Salaries and Wages	18,400	
Repair and Maintenance Expenses	900	
Telephone and Water charges	750	
Stores Rent paid	1,650	
Security Charges	550	
Insurance Expenses	120	
Electricity Expenses	1,280	
Office Expenses	1,350	
Travelling and Transport Expenses	1,220	
Capital Account as at 01 <sup>st</sup> April 2024		4,485
<b>Total</b>	<b>137,510</b>	<b>137,510</b>



The following additional information is also provided:

- (1) The closing Inventory as at 31<sup>st</sup> March 2025 was valued at cost of Rs.5,200,000/-.
- (2) A fire insurance policy was obtained on 01<sup>st</sup> January 2025 for the period from 01<sup>st</sup> January 2025 to 31<sup>st</sup> December 2025. The full amount of Rs.120,000/- was debited to the insurance expenses account.
- (3) On 01<sup>st</sup> October 2024, a loan of Rs.3,000,000/- was obtained from a bank at an interest rate of 12% per annum. Capital repayments of the loan were started from 01<sup>st</sup> April 2025. Interest payable for the year ended 31<sup>st</sup> March 2025 was not recorded in the books of accounts.
- (4) The policy of the business is to provide the depreciation on the straight-line basis at cost as follows:

Buildings	:	05% per annum
Furniture	:	20% per annum
Motor vehicles	:	25% per annum
- (5) Stores rent for the month of March 2025 of Rs.150,000/- has not been paid as at 31<sup>st</sup> March 2025.
- (6) **Nathan** decided to write off an amount of Rs.80,000/- as a bad debt and to make a provision of 2% from the remaining trade receivables' balance as at 31<sup>st</sup> March 2025.

**You are required to:**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2025. (12 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2025. (08 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.