

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2026

(101) FINANCIAL ACCOUNTING

24-01-2026

Morning

[09.00 – 12.00]

No. of Pages : 11

No. of Questions : 06

- **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.**

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) Trial Balance.	(2) A ledger Account.
(3) Purchase Journal.	(4) Statement of Income.

1.2 Which one of the following is **not** a Prime Entry Book?

(1) Ledger.	(2) Cash Receipts Journal.
(3) General Journal.	(4) Sales Day Book.

1.3 Which one of the following is a principle of the Code of Ethics adopted by an Accounting Technician?

(1) Integrity.	(2) Professional Competence.
(3) Objectivity.	(4) All of the above.

1.4 The following information was extracted from the books of **Perera Traders**, a sole proprietorship for the year ended 31st March 2025:

	Rs.
Capital as at 01 st April 2024	1,800,000
Total Assets as at 31 st March 2025	4,850,000
Additional capital introduced during the year	800,000
Drawings made during the year	450,000
Profit for the year ended 31 st March 2025	1,250,000

Based on the above information, liabilities as at 31st March 2025 of **Perera Traders** were:

(1) Rs.3,050,000/-.	(2) Rs.1,450,000/-.
(3) Rs.3,450,000/-.	(4) Rs.1,350,000/-.

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

(Rs.)				
Assets			=	Liabilities
Inventory	+	Trade Receivables		
- 65,000		+ 90,000	+25,000	-

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

(1) Sold goods costing of Rs.65,000/- for Rs.90,000/- in cash.	(2) Owner has taken Rs.65,000/- worth of goods for his personal use and cost of these goods were Rs.90,000/-.
(3) Sold goods costing of Rs.65,000/- for Rs.90,000/- on credit.	
(4) Sold goods costing of Rs.25,000/- for Rs.90,000/- in cash.	

1.6 From the following stakeholders, who are primary interested in the profitability and stability of company while ensuring the safeguard of their investment?

(1) Shareholders.	(2) Customers.
(3) Employees.	(4) Competitors.

1.7 **Jeffrey** started a business (a sole proprietorship) introducing Rs.500,000/- in cash and a motor vehicle worth of Rs.800,000/-. The correct way of recording this transaction in his business ledger accounts would be:

- (1) Capital Account Debit Rs.1,300,000/-, Motor Vehicles Account Credit Rs.800,000/- and Cash Account Credit Rs.500,000/-.
- (2) Cash Account Debit Rs.500,000/-, Motor Vehicles Account Debit Rs.800,000/- and Capital Account Credit Rs.1,300,000/-.
- (3) Cash Account Debit Rs.500,000/-, Motor Vehicles Account Debit Rs.800,000/- and Drawings Account Credit Rs.1,300,000/-.
- (4) Cash Account Debit Rs.500,000/-, Capital Account Debit Rs.800,000/- and Motor Vehicles Account Credit Rs.1,300,000/-.

1.8 Revenue (Income) is recognized in the particular accounting period irrespective of the receipts of cash. The accounting concept relating to this treatment is:

(1) Matching Concept.	(2) Entity Concept.
(3) Accrual Concept.	(4) Money Measurement Concept.

1.9 The debit (favourable) balance of cash control account as at 31st December 2025 of **Ramesh Traders** was Rs.475,000/- and this balance was different with the bank statement's balance. Unpresented cheques for payments and unrealized cheques as at 31st December 2025 were Rs.45,000/- and Rs.65,000/- respectively. Further, the bank has charged Rs.1,000/- as bank charges and this was not considered in the Cash Control Account.

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

(1) Rs.454,000/-. (2) Rs.494,000/-. (3) Rs.365,000/-. (4) Rs.495,000/-.

1.10 An electricity bill of the owner of the business was paid by the business and it was considered as drawings of the business. The accounting concept relating to the above treatment is:

(1) Accrual Concept.	(2) Matching Concept.
(3) Entity Concept.	(4) Prudence Concept.

State whether each of the following statements in question No. 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** Faithful representation is a fundamental qualitative characteristic of financial information.
- 1.12** When preparing the bank reconciliation statements, all errors and frauds of the business can be detected.
- 1.13** Sales account is an example for a nominal account.
- 1.14** Quick Book (QB) accounting package can be categorized as a specialized accounting package.
- 1.15** As per the prudence concept, inventories are valued at lower of cost or Net Realizable Value (NRV).

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 “an Asset”.
- 1.17** State two(02) types of transactions recorded in the General Journal.
- 1.18** Briefly explain the “Going Concern Concept”.
- 1.19** State the two(02) elements of Statement of Income.
- 1.20** Identify the relevant source document used to record each of the following transactions of **Mala Traders**:
 - (a) Purchased a computer of Rs.250,000/- for office use on credit.
 - (b) Sold goods worth of Rs.100,000/- to a customer in cash.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

CAT Engineering is a manufacturer of various iron products and the following information was extracted from the books of accounts of **CAT Engineering** for the year ended 31st March 2025:

Description	Rs.
Raw Material Stock as at 01 st April 2024	180,000
Raw Material Purchased during the year	7,750,000
Carriage inwards of Raw Material	230,000
Work-In- Progress as at 01 st April 2024 (valued at prime cost)	190,000
Direct Wages	2,400,000
Insurance on Factory	240,000
Electricity	350,000
Factory Manager's Salary	660,000
Machine Repairs of Factory	130,000
Rent	900,000
Depreciation - Plant and Machinery	400,000
Depreciation - Motor Lorry	500,000

The following additional information is also provided:

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

Description	Cost (Rs.)
Raw Material Stock (At cost)	520,000
Work -in -Progress (Valued at Prime Cost)	260,000

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

Expenses	Factory	Office
Electricity	90%	10%
Rent	65%	35%

(3) Plant and Machinery are used for the factory's purpose while the motor lorry is used to deliver finished products to customers.

(4) Manufactured products are transferred to the Trading Division at a profit of 20% on the cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **CAT Engineering** for the year ended 31st March 2025. (10 marks)

Question 03

Sharma Cafe is a coffee shop started by **Sharma** on 01st January 2025.

The following additional information is also provided:

(1) Summary of the Cash Control Account (Cash Book) for the year ended 31st December 2025 was as follows:

Cash Control Account (Cash Book)

Receipts	Dr (Rs.)	Payments	Cr (Rs.)
Investment of Initial Capital	2,000,000	Cash Purchases	1,250,000
Receipts from Trade Debtors	2,500,000	Payments to Trade Creditors	3,500,000
Cash Sales	4,000,000	Fixed Deposit	800,000
		Purchase of an Automated Coffee Machinery (Purchased on 01 st April 2025)	600,000
		Amount Transferred to Petty Cash	80,000
		Salaries and Wages	500,000
		Advertising Expenses	200,000
		Security Expenses	400,000
		Electricity and Water Bills Paid	300,000
		Rent Paid	440,000
		Balance C/F	430,000
	8,500,000		8,500,000
Balance B/F	430,000		

(2) The receivable and payable balances as at 31st December 2025 were as follows:

	Rs.
Trade Debtors	1,400,000
Trade Creditors	2,600,000
Electricity and Water Bills Payable	25,000

(3) Coffee Machinery is 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:

- Travelling Expenses : Rs.25,000/-.
- Casual Wages : Rs.35,000/-.
- Office Expenses : Rs.5,000/-.

(5) Rent for the month of December 2025 was Rs.40,000/- and it has to be paid in January 2026.

- (6) A three-month term fixed deposit of Rs.800,000/- was opened on 01st October 2025 at an interest rate of 8% per annum. The bank has paid the first 3 months' interest on 01st January 2026.
- (7) There were no inventories as at 31st December 2025.

You are required to:

Prepare the Trial Balance of **Sharma Cafe** as at 31st December 2025. (10 marks)

Question 04

Suren Hardware is a sole proprietorship owned by **Suren**. The trial balance of **Suren Hardware** prepared by the Accounts Executive as at 31st March 2025 showed a difference of Rs.26,300/- in its credit side, which was credited to a Suspense Account and the draft financial statements were prepared. **Suren Hardware** does not maintain control accounts for Trade Receivables and Trade Payables.

The following reasons for the difference have been subsequently identified:

- (1) A purchase of a computer for Rs.450,000/- on 01st March 2025 for office use from **ABC Ltd.** was debited to the purchases account. But this was correctly recorded in the cash book. Computers are depreciated at 20% per annum at cost on the straight-line basis and applicable depreciation for the year has not been recorded in the books of accounts.
- (2) A cash receipt of Rs.12,000/- from a debtor, **Sampath** has been correctly recorded in the Cash Book, but this was credited to the Sales Account instead of the relevant trade debtor account.
- (3) An electricity bill payable of Rs.3,500/- for the month of March 2025 has been recorded only in the accrued expenses account.
- (4) A cash sale of Rs.8,000/- was recorded only in the cash book.
- (5) A rent expense of Rs.25,000/- has been recorded as Rs.52,000/- in the rent expenses account. But it was correctly recorded in the cash book.
- (6) Cash withdrawn by **Suren** for his personal use was Rs.5,200/- and it was recorded only 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) **Andrew** runs a toy shop, and the following transactions have been occurred during the month of August 2025:

- (1) **Andrew** started the business by introducing Rs.6,000,000/- in cash as initial capital.
- (2) Purchased office equipment for Rs.1,000,000/- on credit from **ABC Ltd.**
- (3) Purchased goods worth of Rs.3,500,000/-; paying Rs.1,700,000/- in cash and the balance was on credit.
- (4) Sold goods costing of Rs.2,500,000/- for Rs.3,500,000/- on credit to **XYZ Traders**.
- (5) Paid salaries of Rs.800,000/-.
- (6) **Andrew** withdrew Rs.100,000/- in cash for his personal use.

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] (06 marks)

(B) As at 31st December 2025, the bank statement of **XYZ Traders** showed a favorable balance of Rs.29,000/- while the Cash Control Account showed a debit (favourable) balance of Rs.48,000/-.

Subsequently, the Accounts Executive of **XYZ Traders** 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.10,000/- was issued to a supplier but it was not presented for the payment to the bank as at 31st December 2025.
- (2) A customer has directly deposited Rs.18,000/- into the Bank Account on 20th December 2025, but, this amount was not recorded in the Cash Book.
- (3) Bank charges of Rs.1,500/- which were debited by the bank on 30th December 2025, were not recorded in the Cash Book.
- (4) A cheque of Rs.8,000/- received from a debtor was deposited to the bank. But, it was not realized as at 31st December 2025.
- (5) Interest of Rs.2,500/- on a fixed deposit has been credited to the bank account by the bank. But it was not considered in the Cash Book.
- (6) The bank has debited the loan installment of Rs.40,000/- as per the standing order instruction given to the bank. However, this has not been recorded in the Cash Book.

You are required to:

Prepare the following:

- (a) Adjusted Cash Control Account (Cash Book). (02 marks)
- (b) Bank Reconciliation Statement as at 31st December 2025. (02 marks)

(Total 10 marks)

SECTION C

(Total 20 marks)

Question 06

Viskam Traders is a sole proprietorship owned by **Wishwa**. The Trial Balance of **Viskam Traders** as at 31st March 2025 is as follows:

Viskam Traders
Trial Balance as at 31st March 2025 (Rs.'000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Building (Land Value – Rs.3,000,000/-)	6,000	
Furniture and Fittings	5,000	
Motor Vehicles	4,000	
Office Equipment	1,000	
Accumulated Depreciation as at 01 st April 2024:		
Building		2,400
Furniture and Fittings		2,500
Motor Vehicles		2,000
Office Equipment		250
Sales		140,000
Purchases	72,000	
Inventory as at 01 st April 2024	12,000	
Cash in Hand and at Banks	380	
Trade Receivables	32,000	
Trade Payables		7,000
Bank Loan		4,000
Salaries and Wages	16,100	
Telephone Charges	800	
Stores Rent paid	6,000	
Sales Commission	3,000	
Insurance Expenses	220	
Electricity Expenses	1,500	
Office Expenses	1,350	
Security Charges	600	
Travelling and Transport Expenses	1,400	
Capital Account as at 01 st April 2024		5,200
Total	163,350	163,350

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2025 was valued at cost of Rs.6,500,000/-.
- (2) A bank loan of Rs.4,000,000/- was obtained on 01st January 2025 at an annual interest rate of 10% to expand the business. It was agreed to settle this loan in full within 12 months from 01st April 2025. Interest payable for the year ended 31st March 2025 was not recorded in the books of accounts.
- (3) The policy of the business is to provide the depreciation on the straight-line basis at cost as follows:

Building	:	10% per annum
Furniture and Fittings	:	20% per annum
Motor Vehicles	:	25% per annum
Office Equipment	:	25% per annum

- (4) A sales commission of 5% on sales is paid to sales team of the business. An amount of Rs.3,000,000/- was paid during the financial year ended 31st March 2025 and the balance amount was paid in April 2025.
- (5) "Stores Rent Paid" includes Rs.1,200,000/- applicable for the period from April 2025 to June 2025.
- (6) **Wishwa** decided to write-off a trade debtor with a value of Rs.2,000,000/- as a bad debt and make a provision of 5% for doubtful debts from the remaining trade receivables' balance as at 31st March 2025.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2025. (11 marks)
- (b) Statement of Financial Position as at 31st March 2025. (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.