ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 01 EXAMINATION - JULY 2026

(1901) FINANCIAL ACCOUNTING

01-08-2026
Morning
[09.00 – 12.00]

No. of Pages : 10
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 the main objective of Accounting?

(1) To calculate the profit of the business.

(2) To communicate financial information to stakeholders for vital economic decision-making.

(3) To reduce expenses and increase revenue of the business.

(4) To submit the annual tax return to the Department of Inland Revenue.

1.2 Which one of the following is **not** an element of accounting?

(1) Income.
(2) Assets.
(3) Liabilities.
(4) Trial Balance.

1.3 Which one of the following is considered as an accounting input in the accounting process?

(1) Recording the purchase of a motor vehicle of Rs.1,000,000/- as an asset.

(2) Transferring the total credit sales of the month of Rs.500,000/- to the sales account.

(3) Loss of inventory worth of Rs.30,000/- due to a fire.

(4) Preparing the trial balance of the business.

1.4 The following information was extracted from the books of accounts of **Saman Traders,** a sole proprietorship for the year ended 31st March 2026:

	Rs.
Capital as at 01st April 2025	5,000,000
Total Assets as at 31st March 2026	8,500,000
Additional capital introduced during the year	500,000
Drawings made during the year	600,000
Liabilities as at 31st March 2026	2,000,000

Based on the above information, profit for the year ended 31st March 2026 of **Saman Traders** was:

(1) Rs.400,000/-. (2) Rs.1,500,000/-. (3) Rs.1,600,000/-. (4) Rs.1,400,000/-.

1.5 A source document which is used to record a purchase of Property, Plant and Equipment on credit is:

(1) Purchase Invoice. (2) Journal Voucher.

(3) Payment Voucher. (4) Credit Note.

1.6 **Nimal (Pvt) Ltd.**, decides to invest in solar energy to meet the carbon footprint targets considering environmental awareness and government incentives for renewable energy.

Based on the above information, which combination of PESTEL factors is the most appropriate?

(1) Environmental and Political Factors. (2) Political and Social Factors.

(3) Technological and Legal Factors. (4) Technological and Social Factors.

1.7 An amount of Rs.50,000/- was paid in cash to settle the capital portion of a bank loan of the business. Select from the following, the correct impact on accounting equation from this transaction:

(1) Assets decrease by Rs.50,000/- and Capital decreases by Rs.50,000/-.

(2) Assets decrease by Rs.50,000/- and Liabilities decrease by Rs.50,000/-.

(3) Assets increase by Rs.50,000/- and Liabilities increase by Rs.50,000/-.

(4) Liabilities increase by Rs.50,000/- and Capital decreases by Rs.50,000/-.

1.8 Which one of the following accounting treatments is correct with reference to the prudence concept?

(1) Revenue / Income is recognized in the particular accounting period irrespective of the cash received or not.

(2) The value of the assets of an entity is recorded based on cost of acquisition.

(3) Cost of sales should be compared with sales income.

(4) Inventories are valued at lower of Cost or Net Realizable Value (NRV).

1.9 The owner withdrew Rs.20,000/- in cash from the business for his personal use. The correct double entry to record this transaction is:

(1) Debit - Cash Account Rs.20,000/- and Credit - Capital Account Rs.20,000/-.

(2) Debit - Cash Account Rs.20,000/- and Credit - Drawings Account Rs.20,000/-.

(3) Debit - Drawings Account Rs.20,000/- and Credit - Cash Account Rs.20,000/-.

(4) Debit - Drawings Account Rs.20,000/- and Credit - Capital Account Rs.20,000/-.

1.10 Which one of the following is **not** an example of a general accounting software used in Sri Lanka?

(1) Stock Control System. (2) SAGE.

(3) Quick Book. (4) ACCPAC.

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 As per the Disclosure Concept, all material information relevant in decision making shall be disclosed without omitting.

1.12 Agreeing the trial balance of an entity ensures that all accounting errors in the ledgers are detected.

1.13 Cash Account and Office Equipment Account are examples for nominal accounts.

1.14 General Journal is a Prime Entry Book.

1.15 Confidentiality is a fundamental principle of the Code of Ethics followed 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 List two(02) reasons for moving to a Computerized Accounting System by an entity.

1.17 Define the term "a Liability".

1.18 State two(02) particulars / items included in a source document.

1.19 State two(02) objectives of maintaining prime entry books.

1.20 The following information was extracted from the books of **ABC Traders** for the month of March 2026:

	Rs.
Trade receivables (Debtors) control account balance as at 01st March 2026	1,400,000
Sales Day Book total for the month	6,000,000
Bad Debt Written-off during the month	400,000
Cash received from debtors during the month	4,800,000

Identify the Trade Receivables (Debtors) Control Account balance as at 31st March 2026.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

(A) **Sehansa Traders** is a sole proprietorship engaged in the wholesale business of selling sugar:

The following information relates to the credit purchases made during the month of May 2026:

Date	**Invoice No.**	**Supplier**	**Quantity (Kg)**	**Price Per Kg (Rs.)**	**Trade Discount**
01.05.2026	1245	BRC (Pvt) Ltd.	3,000	190/-	-
09.05.2026	14879	Shan Suppliers	4,000	230/-	5%
19.05.2026	0025	CITY Distributors	2,500	190/-	-
23.05.2026	14885	Shan Suppliers	1,500	230/-	5%

Based on the above information,

You are required to:

Prepare the Purchase Day Book (Purchases Journal) of **Sehansa Traders** to record the above transactions for the month of May 2026. (05 marks)

(B) As at 31st March 2026, the bank statement of **Super Traders** showed a favourable balance of Rs.100,000/- while the cash control account (cash book) showed a debit (favourable) balance of Rs.185,000/-.

The following reasons have been identified for the difference:

(1) A cheque of Rs.25,000/- was issued on 30th March 2026 to a supplier, but it was not presented for payment to the bank as at 31st March 2026.

(2) The bank has debited the loan installment of Rs.50,000/- as per the standing order instruction given to the bank. But, this was not considered in the cash book.

(3) A cheque of Rs.60,000/- received from a debtor was deposited to the bank on 30th March 2026. However, it was not realized as at 31st March 2026.

(4) The bank has debited Rs.15,000/- as bank charges for the month. However, this was not recorded in the cash book.

(5) A customer has directly deposited Rs.15,000/- into the bank account. However, this transaction 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 31st March 2026. (02 marks)

(Total 10 marks)

Question 03

Dasun started a business on 01st December 2025. The following transactions have been occurred during the month of December 2025.

(1) **Dasun** has introduced Rs.1,800,000/- in cash and Rs.2,000,000/- worth of a motor vehicle as the initial capital on 01st December 2025.

(2) Purchased goods worth of Rs.1,700,000/- on credit terms from **Shakthi Traders** for resale.

(3) Sold goods costing of Rs.700,000/- for Rs.1,100,000/- on credit. Further, goods costing of Rs.200,000/- were sold for Rs.300,000/- in cash.

(4) Paid the business's electricity bill of Rs.25,000/- using **Dasun's** personal money.

(5) The payable amount to **Shakthi Traders**, was fully settled subject to a 5% cash discount.

(6) Paid salaries of Rs.200,000/- in cash.

You are required to:

(a) **State** the impact of the above transactions to the following accounting equation.

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

(07 marks)

(b) **Calculate** the profit for the month ended 31st December 2025. (03 marks)

(Total 10 marks)

Question 04

Chamika Steel is a manufacturer of steel furniture, and the following information was extracted from the books of accounts of **Chamika Steel** for the year ended 31st March 2026:

Description	Rs.
Raw Materials Stock as at 01st April 2025	250,000
Raw Materials Purchased during the year	6,250,000
Carriage Inwards of Raw Materials	100,000
Work-In- Progress as at 01st April 2025 (Valued at Prime Cost)	-
Direct Wages	2,000,000
Insurance on Factory	120,000
Electricity	400,000
Rent	800,000
Factory Manager's Salary	720,000
Maintenance of Machinery	50,000
Security Charges	900,000
Depreciation - Plant and Machinery	200,000
Depreciation - Motor Lorry	100,000

The following additional information is also provided:

(1) Closing inventory balances as at 31st March 2026 were valued as follows:

Description	Rs.
Raw Materials (At cost)	400,000
Work-in-Progress (Valued at prime cost)	200,000

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

Expenses	Factory	Office
Electricity	80%	20%
Rent	60%	40%
Security charges	80%	20%

(3) Plant & Machinery and Motor Lorry are completely used for the factory's purpose.

(4) Manufactured products are transferred to the trading division at a profit of 18% on the cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **Chamika Steel** for the year ended 31st March 2026. (10 marks)

Question 05

The Trial Balance of **Rashid Traders** prepared by the Assistant Accountant, as at 31st December 2025, showed a difference of Rs.42,500/- in its debit side, which was debited to a Suspense Account and the draft financial statements for the year ended 31st December 2025 were prepared. As per the draft financial statements, a profit of Rs.250,000/- was recorded. **Rashid Traders** maintains control accounts for trade receivables and trade payables.

The following reasons for the difference have been subsequently identified:

(1) Purchase of a printer for Rs.80,000/- has been debited to the computer maintenance account. Also, the applicable depreciation of Rs.20,000/- for the year on the printer has not been recorded.

(2) A cash purchase of Rs.25,000/- was not recorded in the purchase account, but, it was correctly recorded in the cash book.

(3) A travelling expense of Rs.5,000/- made in cash was recorded twice in the travelling expenses account, while it was correctly recorded in the cash book.

(4) An electricity expense of Rs.25,000/- paid for the month December 2025 has been recorded in the electricity expenses account as Rs.2,500/-. However, it was correctly recorded in the cash book.

(5) The total of sales day book was understated by Rs.4,000/-.

You are required to:

(a) **Prepare** Journal entries to rectify the above errors. (05 marks)

(b) **Prepare** Suspense Account. (02 marks)

(c) **Calculate** the adjusted profit for the year ended 31st December 2025. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Pawan Traders is a sole proprietorship owned by **Pawan.** The Trial Balance of **Pawan Traders** as at 31st March 2026 is as follows:

Pawan Traders

Trial Balance as at 31st March 2026 *(Rs.'000)*

Description	**Dr.**	**Cr.**
Property, Plant and Equipment at Cost:		
Land and Building (Land Value – Rs.4,000,000/-)	8,000	
Office Equipment	4,800	
Motor Vehicles	2,500	
Accumulated Depreciation as at 01st April 2025:		
Building		2,000
Office Equipment		1,400
Motor Vehicles		1,250
Sales		154,000
Sales Returns	2,000	
Purchases	80,000	
Inventory as at 01st April 2025	6,000	
Cash in Hand and at Banks	1,550	
Trade Payables		1,825
Bank Loan		3,000
Trade Receivables	36,000	
Salaries and Wages	26,000	
Telephone Charges	450	
Office Rent	4,500	
Insurance Expenses	355	
Electricity Expenses	1,600	
Office Maintenance Expenses	3,050	
Security Charges	770	
Capital Account as at 01st April 2025		14,100
Total	**177,575**	**177,575**

The following additional information is also provided:

(1) The closing Inventory as at 31st March 2026 was valued at cost of 3,500,000/-.

(2) The policy of the business is to provide depreciation on the straight-line basis at cost as follows:

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

(3) Office maintenance expenses include Rs.200,000/- worth of a computer purchased on 01st October 2025.

(4) The bank loan of Rs.3,000,000/- was obtained on 01st March 2026 at 12% interest per annum. It was agreed to settle the loan in full within 24 months. The bank has not yet charged the applicable interest for the period and the interest payable for the year ended 31st March 2026 was not accounted in the books of accounts.

(5) **Pawan** decided to write-off an amount of Rs.1,000,000/- as a bad debt due to bankruptcy of a customer and to make a provision of 10% from the remaining trade receivables' balance as at 31st March 2026.

(6) Audit fee for the year 2025/26 of Rs.60,000/- has not been paid as at 31st March 2026.

You are required to:

Prepare the following:

(a) Statement of Comprehensive Income for the year ended 31st March 2026. (11 marks)

(b) Statement of Financial Position as at 31st March 2026. (09 marks)

(Total 20 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.