



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2021

(101) FINANCIAL ACCOUNTING

13-03-2021

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** Which one of the following is an accounting input of accounting process?

- |                        |                                      |
|------------------------|--------------------------------------|
| (1) Purchase Day Book. | (2) Statement of Financial Position. |
| (3) Transactions.      | (4) Cash Flow Statement.             |

**1.2** Which one of the following is a stakeholder of a business?

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

**1.3** "Inventories are valued at lower of Cost or Net Realizable Value (NRV)".

The accounting concept relating to the above statement is:

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



- 1.9** The correct impact to the accounting equation due to obtaining a bank loan from **XYZ Bank** is:
- (1) Increase in assets and increase in equity.
  - (2) Increase in assets and increase in liabilities.
  - (3) Decrease in assets and decrease in liabilities.
  - (4) Decrease in equity and increase in liabilities.

- 1.10 Ranasinghe**, owner of a sole proprietorship, transferred his personal motor vehicle to his business. The correct double entry to record this transaction is:
- (1) Debit Cash Account and Credit Capital Account.
  - (2) Debit Motor Vehicles Account and Credit Cash Account.
  - (3) Debit Motor Vehicles Account and Credit Capital Account.
  - (4) Debit Capital Account and Credit Motor Vehicles Account.

*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, MYOB and SAGE are examples for general (Tailor-made) Accounting Software.
- 1.12** The balance appeared in the cash control account at the end of a given period is always a debit balance.
- 1.13** Additional capital introduced by owner of a sole proprietorship affects profit / loss for the period of the business.
- 1.14** Purchase of Property, Plant and Equipment on credit are recorded in the General Journal.
- 1.15** A credit note is an example for a source document of a business entity.

*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) reasons for preparation of a Bank Reconciliation Statement.
- 1.17** List two(02) objectives of Accounting.
- 1.18** The following information was extracted from the books of **Jayaweera's Business**, a sole Proprietorship:

	<b>Rs.</b>
Capital as at 01 <sup>st</sup> April 2019	500,000
Drawings made during the year ended 31 <sup>st</sup> March 2020	100,000
Profit for the year ended 31 <sup>st</sup> March 2020	200,000
Liabilities as at 31 <sup>st</sup> March 2020	150,000

Based on the above information, calculate the total assets as at 31<sup>st</sup> March 2020.

1.19 State two(02) limitations of financial information.

1.20 The following credit sales transactions were occurred during the month of January 2021 in **Perera's Business**:

Date	Invoice No.	Name of Customer	Description	Quantity	Price per Unit	Trade Discount
05.01.2021	101	ABC Ltd.	Shirts	10	800	-
25.01.2021	102	XYZ Traders	Frocks	08	1,200	10%

Based on the above information, calculate the amount to be transferred to sales account at the end of January 2021.

(02 marks each, Total 40 marks)

End of Section A

## **SECTION B**

(Total 40 marks)

### **Question 02**

**Sandun** is the Accounts Executive of **Rajarata Stores**. At the time the Financial Statements were prepared for the year ended 31<sup>st</sup> March 2020, the Trial Balance was not agreed and the difference of Rs.334,000/- was debited to a suspense account.

However, the following errors were identified subsequently:

- (1) Purchased items worth of Rs.75,000/-, for resale from a trade creditor was erroneously recorded twice in both trade creditors' account and purchase account.
- (2) Purchase of an office equipment worth of Rs.125,000/- has been debited to Office Maintenance Expense Account. However, it was correctly recorded in the cash book.
- (3) Rent of Rs.76,500/-, paid for the month of March 2020 to the owner of the building was correctly credited to cash book, but corresponding debit entry was not recorded in the relevant ledger account.
- (4) Salary of Rs.475,000/- paid for the month of March 2020 was recorded to salary account as Rs.47,500/-. However, it was correctly recorded in the cash book.
- (5) A cash sale of Rs.100,000/- was not recorded in sales account. However, it was correctly recorded in the cash book.
- (6) Interest income of Rs.35,000/- received on a fixed deposit has been erroneously debited to interest expenses account but it has been correctly recorded in the cash book.

**You are required to:**

- (a) **Prepare** Journal Entries to correct the above errors. (06 marks)
  - (b) **Prepare** the Suspense Account. (04 marks)
- (Total 10 marks)

### Question 03

**Sam** started a sole proprietorship, **Sam Traders** on 01<sup>st</sup> April 2020 investing Rs.580,000/- as initial capital in cash .

The following additional information was also provided:

(1) Cash Control Account (Cash Book) for the month ended 30<sup>th</sup> April 2020 was as follows:

	Rs.		Rs.
Initial capital investment	580,000	Salaries and wages	1,375,000
Additional capital investment	1,200,000	Rent	125,000
Cash sales	5,500,000	Payments to trade creditors	2,250,000
Receipts from trade debtors	1,900,000	Purchased of a Motor Lorry (acquired on 01 <sup>st</sup> April 2020)	2,400,000
		Cash purchases	2,000,000
		Electricity	45,000
		Balance c/f	985,000
	<b>9,180,000</b>		<b>9,180,000</b>

(2) The following balances were appeared in the books of accounts as at 30<sup>th</sup> April 2020:

	Rs.
Trade debtors	1,400,000
Trade creditors	2,100,000
Accrued salaries	25,000

(3) The Motor Lorry is depreciated at the rate of 20% per annum on the straight-line basis at cost.

(4) There were no stocks as at 30<sup>th</sup> April 2020.

**You are required to:**

**Prepare** the Trial Balance of **Sam Traders** as at 30<sup>th</sup> April 2020.

(10 marks)

## Question 04

**Ramanayake Ceramic** is a manufacturer of ceramic items and the following information was extracted from the books of **Ramanayake Ceramic** for the year ended 31<sup>st</sup> March 2020:

Description	Rs.
Raw Material purchased	2,100,000
Raw Material inventory as at 01 <sup>st</sup> April 2019	650,000
Work-in-Progress as at 01 <sup>st</sup> April 2019 (Valued at Prime Cost)	910,000
Carriage inwards - Raw material	330,000
Direct Wages	1,650,000
Electricity	400,000
Fuel for Factory Generator	125,000
Depreciation on Motor Lorry	250,000
Depreciation on Buildings	160,000
Insurance for factory building	270,000

The following additional information is also provided:

- (1) Closing inventories as at 31<sup>st</sup> March 2020 were valued as follows:

Description	Cost (Rs.)
Raw Material	700,000
Work-in-Progress (Valued at Prime Cost)	440,000

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

	Rate
Buildings	10% per annum
Motor Lorry	25% per annum

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

	Factory	Office
Electricity	80%	20%
Depreciation on Buildings	80%	20%
Depreciation on Motor Lorry	90%	10%

- (4) The manufactured goods are transferred to the trading division at a profit of 10% on cost.

**You are required to:**

**Prepare** the Manufacturing Account of **Ramanayake Ceramic** for the year ended 31<sup>st</sup> March 2020. (10 marks)

## Question 05

- (A) The following transactions were occurred in the business of **Raja Stores**, a sole proprietorship during the month of January 2021:

Date	Transaction
01.01.2021	<b>Raja</b> started a business investing Rs.2,000,000/- in cash as capital.
05.01.2021	Purchased of goods worth Rs.750,000/- on credit for resale.
10.01.2021	Stock costing Rs.500,000/- was sold on credit for Rs.650,000/-.
15.01.2021	Received Rs.400,000/- from a trade debtor.
25.01.2021	Paid Rs.300,000/- as staff salary for the month of January 2021.
31.01.2021	<b>Raja</b> has taken goods costing of Rs.25,000/- for his personal use.

**You are required to:**

**Record** the impact of the above transactions to the following Accounting Equation.

$$[Inventory + Trade Debtors + Cash = Equity + Liabilities] \quad (06 \text{ marks})$$

- (B) The bank statement of **XYZ Ltd.** shows a favourable balance of Rs.243,000/- as at 31<sup>st</sup> January 2021 while the Cash Control Account of **XYZ Ltd.** shows a debit (favourable) balance of Rs.175,000/-.

The reasons for the difference are as follows:

- (1) The bank has deducted Rs.5,000/- as bank charges and this was not recorded in the cash control account.
- (2) An interest of Rs.98,000/- was directly received to the bank as interest income from a Fixed Deposit. However, this was not recorded in the cash book.
- (3) The cheque of Rs.125,000/- was issued by **XYZ Ltd.** on 29<sup>th</sup> January 2021 but it was not presented for payment to the bank as at 31<sup>st</sup> January 2021.
- (4) A cheque of Rs.150,000/- was deposited to the bank but not realized as at 31<sup>st</sup> January 2021.

**You are required to:**

**Prepare** the following:

- (a) Adjusted Cash Control Account (Cash Book). (02 marks)
- (b) Bank Reconciliation Statement as at 31<sup>st</sup> January 2021. (02 marks)

(Total 10 marks)

End of Section B

## SECTION C

(Total 20 marks)

### Question 06

**Sahana Traders** is a sole proprietorship owned by **Sahan**. The Trial Balance of **Sahana Traders** as at 31<sup>st</sup> March 2020 is given below:

**Sahana Traders**  
**Trial Balance as at 31<sup>st</sup> March 2020** (Rs. '000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land	2,000	
Building	4,750	
Motor Vehicles	2,500	
Office Equipment	1,700	
Accumulated Depreciation as at 01 <sup>st</sup> April 2019:		
Building		1,250
Motor Vehicles		520
Office Equipment		350
Sales		48,000
Purchases	27,170	
Inventory as at 01 <sup>st</sup> April 2019	2,900	
Capital Account as at 01 <sup>st</sup> April 2019		9,000
Fixed Deposit (invested on 01 <sup>st</sup> October 2019)	1,500	
Trade Receivables	4,100	
Trade Payables		1,895
Electricity	1,200	
Salaries and Wages	6,200	
Transport Expenses	500	
Water	190	
Bank Charges	25	
Rent of the Showroom	1,100	
Interest Income on Fixed Deposit		50
Cash in hand and at bank balances	5,230	
	<b>61,065</b>	<b>61,065</b>



The following additional information is also provided:

- (1) Closing inventory as at 31<sup>st</sup> March 2020 was valued at cost of Rs.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 |
| Motor Vehicles   | : | 25% per annum |
| Office Equipment | : | 10% per annum |
- (3) The interest rate applicable for the fixed deposit is 8% per annum and the interest receivable for the month of March 2020 has not been accounted in the books of accounts of **Sahana Traders**.
- (4) Bills payable for the month of March 2020, which were not recorded in the books of accounts were as follows:
- |             |   |             |
|-------------|---|-------------|
| Electricity | : | Rs.75,000/- |
| Water       | : | Rs.21,000/- |
- (5) **Sahana Traders** entered into the rent agreement for showroom on 01<sup>st</sup> April 2019 and monthly rent of the showroom is Rs.100,000/-.

**You are required to:**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2020. (11 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2020. (09 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.