



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2022

(101) FINANCIAL ACCOUNTING

26-03-2022

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 group contains the elements of the Statement of Income?

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

1.2 "Saman Traders sold Rs.85,000/- worth of goods on credit terms to ABC Ltd."

The correct source document issued by **Saman Traders** to record the above transaction is:

- | | |
|-----------------------|----------------------|
| (1) Purchase Invoice. | (2) Payment Voucher. |
| (3) Sales Invoice. | (4) Debit Note. |

1.3 Which one of the following is an example for a current asset?

- | | |
|----------------------|--------------------------|
| (1) Trade Creditors. | (2) Accrued Electricity. |
| (3) Trade Debtors. | (4) Bank Loan. |

1.4 The following information was extracted from the books of **Naveen Traders**, a sole proprietorship for the year ended 31st March 2021:

	Rs.
Total assets as at 31 st March 2021	2,400,000
Capital as at 01 st April 2020	1,500,000
Drawings made during the year	200,000
Liabilities as at 31 st March 2021	900,000

Based on the above information, the profit for the year ended 31st March 2021 was:

- (1) Rs.2,200,000/-. (2) Rs.1,800,000/-. (3) Rs.700,000/-. (4) Rs.200,000/-.

1.5 Soyza started a business introducing an office equipment worth of Rs.300,000/-, and Rs.500,000/- in cash.

Select from the following, the correct impact to the accounting equation regarding the above transaction:

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+ Liabilities (Rs.)
(1)	+ 500,000	=	+ 500,000	-
(2)	+ 800,000	=	+ 800,000	-
(3)	+ 800,000	=	+ 500,000	+ 300,000
(4)	+ 200,000	=	+ 200,000	-

1.6 Which one of the following is recorded in the General Journal?

- (1) Purchase of a motor vehicle for office use on credit.
 (2) Return of goods purchased on credit to the creditor.
 (3) Cash purchase of a computer for office use.
 (4) Sale of goods on credit.

1.7 The transaction that affects to increase in liabilities is:

- (1) Purchase of a motor vehicle for cash. (2) Settling an invoice of a trade creditor.
 (3) Obtaining a loan from a bank. (4) Selling goods on credit.

1.8 “A telephone 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) Going concern concept. |
| (3) Matching concept. | (4) Entity concept. |

1.9 On 01st April 2018, a company acquired a machinery for Rs.2,000,000/- and it is depreciated at 20% per annum at cost on the straight-line basis. The carrying value (written down value) of the machinery as at 31st March 2021 was:

- (1) Rs.1,200,000/-. (2) Rs.800,000/-. (3) Rs.1,600,000/-. (4) Rs.400,000/-.

1.10 Of the following, select the correct statement:

- (1) If the trial balance is agreed, errors cannot be existed in the books of accounts.
- (2) As per prudence concept, inventories are valued at the lower of cost or net realizable value.
- (3) The general ledger is a prime entry book.
- (4) The bank reconciliation statement is prepared by the bank of the business entity.

*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 Integrity is a principle of Code of Ethics adopted by an Accounting Technician.

1.12 The source document used to record a transaction in purchase daybook is debit note.

1.13 Equity is the residual interest in assets of the entity after deducting all its liabilities.

1.14 Application of Artificial Intelligence (AI) is a social and cultural factor to the accounting environment.

1.15 There is a dual aspect in every business transaction.

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 difference between the balance of Cash Control Account (Cash Book) and the balance appearing in the Bank Statement.

1.17 List two(02) accounting outputs of the process of Accounting.

1.18 Identify two(02) disadvantages (drawbacks) of Computerized Accounting.

1.19 Define the term “an Asset”.

1.20 The following information was extracted from the books of **Ameen Traders** for the month of March 2021:

	Rs.
Trade payables (creditors) control account balance as at 01 st March 2021	475,000
Purchases day book total for the month	1,250,000
Return outwards journal total for the month	125,000
Payments made to trade creditors during the month	600,000

Identify the Trade Payables (Creditors) Control Account balance as at 31st March 2021.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Sam started a sole proprietorship business, **Sam Traders** by investing Rs.3,000,000/- in cash on 01st April 2020. Summary of Cash Control Account (Cash Book) for the year ended 31st March 2021 was as follows:

Cash Control Account (Cash Book)

	Rs.		Rs.
Initial Capital Investment	3,000,000	Payments to Trade Creditors	2,200,000
Cash Sales	2,000,000	Cash Purchases	900,000
Receipts from Trade debtors	3,600,000	Petty Cash	25,000
		Electricity	25,000
		Salaries and Wages	1,000,000
		Office Rent	350,000
		Purchase of a Motor Vehicle (acquired on 01 st April 2020)	1,500,000
		Balance C/F	2,600,000
	8,600,000		8,600,000
Balance B/F	2,600,000		

The following additional information is also provided:

- (1) Receivables and Payables balances as at 31st March 2021 were as follows:

	Rs.
Trade Debtors	750,000
Trade Creditors	440,000
Accrued Electricity	6,500

- (2) Motor vehicles are depreciated at the rate of 25% per annum at cost on the straight-line basis.
- (3) Petty cash transactions were as follows:

Petty Cash Control Account

	Rs.		Rs.
Cash Control Account	25,000	Printing and Stationery	4,500
		Travelling	8,000
		Office Maintenance	6,500
		B/C/F	6,000
	25,000		25,000

You are required to:

Prepare the Trial Balance of Sam Traders as at 31st March 2021. (10 marks)

Question 03

- (A) The favourable balance of Rs.306,500/- as per the bank statement of **Zeena Ltd.** as at 31st March 2021 was not agreed with the debit balance (favourable) of Cash Control Account (Cash Book) of Rs.345,000/-.

The reasons for the difference were as follows:

- (1) A cheque of Rs.75,000/- deposited by the company on 30th March 2021 was not realized as at 31st March 2021.
- (2) The following cheques issued on 26th March 2021, were not presented for payments to the bank as at 31st March 2021:

Cheque No.	Amount, (Rs.)
143346	28,000
143349	4,500

- (3) An amount of Rs.6,500/- was directly received to the bank as an interest income on 31st March 2021. This was not recorded in the cash book.
- (4) The bank has deducted Rs.2,500/- as bank charges for the month of March 2021 and this 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 2021. (02 marks)

(B) You are given the impact of below five (5) transactions to the accounting equation of a sole proprietorship:

	Assets			=	Equity (Capital)	+	Liabilities
	Inventory	Trade Debtors	Cash				Trade Creditors
(1)			+1,000,000	=	+ 1,000,000		
(2)	+ 600,000			=			+ 600,000
(3)	(500,000)	+ 600,000		=	+ 100,000		
(4)			(400,000)	=			(400,000)
(5)			(50,000)	=	(50,000)		

You are required to:

Identify the possible transaction for each of the above items from (1) to (5). (05 marks)
(Total 10 marks)

Question 04

Ransiri Traders is a manufacturer of paint and the following information was extracted from the books of **Ransiri Traders** for the year ended 31st March 2021:

Description	Rs.
Raw Material Purchased	2,771,000
Carriage inwards of raw material	29,000
Direct Wages	920,000
Insurance	328,000
Factory Manager's salary	900,000
Electricity	420,000
Depreciation - Plant & Machinery	450,000
Depreciation - Factory Building	180,000

The following additional information is also provided:

- (1) Inventories are valued as follows: (Rs.)

Description	As at 01 st April 2020	As at 31 st March 2021
Raw Material	900,000	875,000
Work -in -Progress (Valued at Prime Cost)	175,000	420,000

- (2) The following expenses should be apportioned as follows:

Expenses	Factory	Office
Electricity	80%	20%
Insurance	60%	40%

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

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of **Ransiri Traders** for the year ended 31st March 2021. (10 marks)

Question 05

KTI Traders is a sole proprietorship owned by **Amal**. The Trial Balance of the **KTI Traders** as at 31st March 2021 was not agreed. The difference was credited to a Suspense Account and draft financial statements were prepared. Net profit of Rs.2,250,000/- was recorded as per draft financial statements for the year ended 31st March 2021.

The following errors were identified subsequently:

- (1) Purchase of an office equipment at a cost of Rs.335,000/- on 31st March 2021 was debited to office equipment maintenance account. This was correctly recorded in the cash book.
- (2) Rent expense of Rs.80,000/- for the month of March 2021 which was paid in April 2021 was not recorded in the books of accounts.
- (3) Rs.95,000/- worth of a purchase invoice on credit was completely omitted to record in the books of accounts.
- (4) The total of Sales Day Book was understated by Rs.90,000/-.
- (5) An interest income of Rs.29,000/- received from the bank has been debited to interest expense account, while it was correctly recorded in the cash book.
- (6) Electricity expense of Rs.145,000/- was recorded to electricity expenses account as Rs.154,000/-, but corresponding credit entry was recorded correctly.

You are required to:

- (a) **Prepare** the journal entries to correct the above errors. (06 marks)
- (b) **Calculate** the adjusted / corrected net profit for the year ended 31st March 2021. (04 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Sunshine Traders is a sole proprietorship. The Trial Balance of the **Sunshine Traders** as at 31st March 2021 is as follow:

Sunshine Traders
Trial Balance as at 31st March 2021 (Rs.'000)

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land and Building (cost of the land - Rs.6,000,000)	16,000	
Motor Vehicles	2,800	
Office Equipment	900	
Accumulated Depreciation as at 01 st April 2020:		
Building		2,000
Motor Vehicles		600
Office Equipment		450
Sales		125,000
Purchases	76,000	
Trade Receivables	7,200	
Trade Payables		3,200
Cash in hand	900	
Bank Overdraft		1,750
Inventory as at 01 st April 2020	6,900	
Electricity	3,200	
Salaries and Wages	30,000	
Telephone Charges	2,000	
Advertising	4,000	
Showroom rent paid	550	
Printing and Stationery	1,200	
Interest on Bank Overdraft	300	
Bank Charges	50	
Capital Account as at 01 st April 2020		19,000
	152,000	152,000

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2021 was valued at cost of Rs.7,200,000/-.
- (2) **Sunshine Traders** purchased a Motor Bike for Rs.300,000/- on 01st January 2021 on credit from **City Riders Ltd.** This was not recorded in the books of accounts of **Sunshine Traders** for the year ended 31st March 2021.
- (3) The policy of the business is to provide depreciation on straight-line basis at cost as follows:

Building	:	5% per annum
Motor Vehicles	:	20% per annum
Office Equipment	:	20% per annum
- (4) The rent agreement of the showroom was entered into on 01st April 2020 for a period of one year. Monthly showroom rent is Rs.50,000/-.
- (5) The following expenses for the March 2021 has not been accrued in the books of accounts:

Electricity bill	:	Rs.175,000/-
Advertising	:	Rs.25,000/-
- (6) After evaluating the trade receivables balance as at 31st March 2021, the owner of **Sunshine Traders** has decided to write off a balance of Rs.800,000/- as bad debt.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2021. (12 marks)
 - (b) Statement of Financial Position as at 31st March 2021. (08 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.