



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2020

PILOT PAPER

Level I

101 - FINANCIAL ACCOUNTING (FAC)

A publication of the Education and Training Division

**Association of Accounting Technicians
of Sri Lanka**

101 - Financial Accounting [FAC]

Instructions to Candidates (Please Read Carefully)

Time Allowed:

Writing: 03 hours

Structure of Question Paper:

- This paper consists of three Sections: Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C are compulsory.

Marks:

- Allocation of marks for each section:

Section	Marks
Section A	40
Section B	40
Section C	20
Total	<u>100</u>

- Marks for each question are shown with the question.
- The pass mark for this paper is 50%.

Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

Attached:

- Action verb checklist – 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 checklist.

Objective Test Questions (OTQs)
Twenty (20) compulsory questions

SECTION A

(Two marks for each -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 financial accounting?

- (1) To pay employees' bonus.
- (2) To provide financial information for users to make the decisions.
- (3) To identify the market competition.
- (4) To protect the business properties.

1.2 Impact from **Artificial Intelligence** on accounting is known as:

- (1) Technological Changes.
- (2) Social Changes.
- (3) Economic changes.
- (4) Political Changes.

1.3 Mr. Fernando separated his personal transactions from his business transactions. The applicable accounting concept for this treatment is:

- (1) Consistency Concept.
- (2) Going Concern Concept.
- (3) Entity Concept.
- (4) Dual Aspect Concept.

1.4 The incorrect statement regarding an asset is:

- (1) An asset shows the financial position of a business.
- (2) An asset is a result of past event.
- (3) An asset decreases in economic benefits.
- (4) An asset can be controlled by the entity.

1.5

Assets	=	Equity	+	Liability
(50,000)	=	-(75,000)	+	25,000

Which one of the following transactions the best describes the above accounting equation?

- (1) Paid Rs.50,000/- out of the total electricity bill value of Rs.75,000/- .
- (2) Paid Rs.75,000/- for the total electricity bill value of Rs.50,000/-.
- (3) Paid Rs.25,000/- out of the electricity bill of Rs.75,000/-.
- (4) Paid Rs.50,000/- as an expenses for the period.

1.6 Recording of transactions and events relating to a business considers its substance rather than the legal form. This is known as:

- (1) Disclosure Concept.
- (2) Substance over-form Concept.
- (3) Accrual Concept.
- (4) Money measurement Concept.

1.7 Which one of the following transactions affects only the assets of the business?

- (1) Purchasing a motor vehicle for Rs.890,000/- in cash.
- (2) Paid Rs.98,000/- as monthly telephone bill.
- (3) Paid Rs.125,000/- to creditors.
- (4) Owner of the business obtained Rs.85,000/- for his personal usage.

1.8 The following balances were extracted from **Madura Traders'** a sole proprietorship as at 31st March 2019:

	Rs.
Non-current assets	1,500,000
Non-current liabilities	250,000
Current assets	300,000
Current liabilities	210,000
Profit for the year	525,000
Drawings during the year	300,000

Capital of the business as at 01st April 2018 was:

- (1) Rs.1,340,000/-.
- (2) Rs.1,115,000/-.
- (3) Rs.1,800,000/-.
- (4) Rs.1,565,000/-.

1.9 Which one of the following is a qualitative characteristic of financial information as per the Conceptual Framework of Financial Reporting?

- (1) Accrual basis. (2) Materiality.
(3) Going concern. (4) Relevance.

1.10 Valuation of inventory at lower of cost or net realizable value is based on which one of the following concepts?

- (1) Consistency. (2) Going concern.
(3) Prudence. (4) Entity.

State whether each of the following statement is true or false. Write true or false in the answer booklet with the number assigned to the question:

1.11 Obtaining a bank loan will affect to both assets and liabilities of the business.

1.12 ACCPAC is an example for Specific Accounting Software.

1.13 When a trial balance shows equal totals for both debit & credit sides it is a confirmation for arithmetic accuracy, but errors may still be present.

1.14 As per historical cost concept, land shows in the statement of financial position at the current market value.

1.15 Elements of financial accounting can be categorized based on the facts that they affect to financial position or financial performance.

Write answers for question No. 1.16 – 1.20 in your answer booklet with the numbers assigned to the question:

1.16 List two (02) reasons for moving to a Computerized Accounting System from a Manual Accounting System by an organization.

1.17 Select the correct source documents used to record each of the following transactions related to **ABC Traders**, a sole proprietorship:

- (a) Goods of Rs.250,000/- sold to a customer on credit basis were returned due to low quality.
(b) Purchased a Motor Vehicle of Rs. 2 million on credit basis to deliver the goods.

1.18 Define the term liability.

1.19 State the main objective of preparing a Bank Reconciliation of a business entity.

1.20 The following information is extracted from the book of accounts of **Savani Traders** for the month of December 2019:

	Rs.
Debtors' Control Account balance as at 01 st December 2019	989,600
Sales Journal total for the month	1,569,700
Purchase Journal total for the month	885,200
Discount received during the month	25,600
Bad debt written off during the month	30,000
Received from customers during the month	1,200,000
Return inwards Journal total for the month	32,500

Based on the above information, calculate Debtors Control Account balance as at 31st December 2019.

(02 marks each)

(Total - 40 marks)

End of Section A

Four (04) compulsory questions**SECTION B**

(Total 40 marks)

Question 02

- (a) **KPM Traders** is selling office furniture to the local market. Trial balance of KPM as at 31st March 2019 did not agree and the difference was credited to a suspense Account and draft financial statements were prepared. A net profit of Rs.1,725,000/- shows for the year ended 31st March 2019 as per the draft financial statements.

The following errors were identified subsequently:

- (1) Office furniture purchases for the resale of Rs.81,000/- has been recorded in office furniture account as fixed assets.
- (2) Total of sales journal has been undercast by Rs.75,000/-.
- (3) Interest income directly deposited to the bank account of Rs.79,000 was correctly recorded in cash book but this was recorded in interest income account as Rs.7,900/-.
- (4) Telephone expenses of Rs.48,000/- was debited twice in telephone expenses account and this was correctly recorded in cash book.
- (5) A Motor bicycle purchase of Rs.190,000/- on 01st October 2018 was correctly recorded in cash book and this was recorded in Motor vehicle account as Rs.109,000/- Motor vehicles are depreciated at 12% per annum on the straight line basis.

You are required to:

- (a) **Prepare** Journal Entries to rectify the above errors. *(06 marks)*
- (b) **Identify** Suspense Account Balance before the correction of the above errors. *(02 marks)*
- (c) **Calculate** adjusted net profit for the year ended 31st March 2019. *(02 marks)*

(Total - 10 marks)

Question 03

Mr. Karunathilake started a Grocery Shop on 01st April 2018 by investing Rs.1,250,000/- to the bank account. Analysis of bank statements for the year ended 31st March 2019 was as follows:

	Deposits (Rs.)		Payments (Rs.)
Cash introduction	1,250,000	Reimbursement of Petty Cash	30,000
Receipts from Debtors	975,000	Water Bills	28,000
Sales in cash	1,300,000	Office equipment (purchased on 01.04.2018)	240,000
		Electricity	163,000
		Salary & Wages	1,540,000
		Payments to Creditors	1,290,000
		Bank charges	13,500
	3,525,000		3,304,500

The following additional information is also provided:

- (1) Trade Debtors, trade creditors and accrued expenses balances as at 31st March 2019 were as follows:

	Rs.
Trade Debtors	671,000
Trade Creditors	320,000
Water Bill Payable	5,500

- (2) The following payments were made out of daily cash sales before banking them:

	Rs.
Telephone Expenses	42,000
Drawings	75,000
Advertising	25,000

- (3) Office Equipment is depreciated at 25% per annum on the straight line basis at cost.

(4) Petty cash transactions were as follows:

Petty Cash Control Account

	Rs.		Rs.
Main Cash	30,000	Stationery	7,200
		Travelling	9,800
		Balance C/F	13,000
	<u>30,000</u>		<u>30,000</u>

(5) All purchases are on credit basis and there were no stocks as at 31st March 2019.

You are required to:

Prepare the Trial Balance of Mr. Karunathilake's shop as at 31st March 2019.

(10 marks)

Question 04

The following information relates to **Janasetha & Sons** a manufacturer of plastic boxes for the year ended 31st December 2019:

	Rs.
Inventory as at 1st January 2019	
Raw Materials	1,700,000
Work-in-progress (Valued at Prime Cost)	960,000
Purchase of Raw materials	2,100,000
Carriage inwards- Raw materials	228,000
Factory Machinery Maintenance	426,000
Building at cost	892,000
Machinery at cost	1,280,000
Salary-Factory Manager	928,000
Electricity	632,000
Factory Security expenses	115,000
Direct wages	1,123,000
Water	522,000

The following additional information is also provided:

- (1) Closing inventories as at 31st December 2019 are valued as follows:

	Rs.
Raw materials	1,900,000
Work- in -progress (Valued at Prime Cost)	1,356,000

- (2) 70% of the floor area of the Building belongs to the Factory.
- (3) All machineries recorded in accounts are fully utilized for production.
- (4) The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	90%	10%
Water	80%	20%

- (5) Buildings and machinery are depreciated at 10% and 20% respectively at cost on the straight-line basis.
- (6) The factory workers are entitled for an additional incentive of Rs.5 for each box produced and 20,000 boxes were manufactured during the year.
- (7) The manufactured goods are transferred to the trading division at a margin of 15% on cost and all produced items are transferred to trading division for sales.

You are required to:

- (a) **Prepare** the manufacturing account of **Janasetha & Sons** for the year ended 31st December 2019. *(8 marks)*
- (b) **Calculate** Production Cost per box. *(2 marks)*
- (Total – 10 marks)*

Question 05

(A) As per the cash book as at 31st October 2019 of **Mr. Perera's** business, the credit balance was Rs.45,000/-. However a different balance shows as per Bank statement. The reasons for the difference are as follows:

- (1) Cheques deposits but not realized were Rs.50,000/-.
- (2) Cheques Issued but not presented to the payment were Rs.25,000/-.
- (3) Interest income directly received to bank account was Rs.3,500/- and it was not recorded in the cash book.
- (4) Insurance payment directly made by the bank as a standing order of Rs.4,800/- and Bank charges for the month of Rs.4,500/- were not recorded in the cash book.

You are required to:

- (a) **Prepare** the adjusted cash Book. *(3 marks)*
- (b) **Identify** the balance appeared in the Bank statement as at 31st October 2019. *(2 marks)*

(B) Impacts for some of the transactions of **Silva Traders** are as follows:

	Non-current Assets	+ Inventories	+ Trade receivables	+ Cash	=	Equity	+ Liability
(1)				+ 500,000	=	+ 500,000	
(2)		+ 450,000			=		+ 450,000
(3)		- 400,000	+ 425,000	+ 75,000	=	100,000	
(4)				- 20,000	=		- 20,000
(5)	+ 200,000			- 50,000	=		+ 150,000
(6)		- 50,000			=	- 50,000	

You are required to:

Identify possible transactions for the above 2 to 6.

(Example 1 – Invested Rs.500,000/- in cash to the business)

(5 Marks)
(Total – 10 marks)

End of Section B

One (01) compulsory question

SECTION C

(Total 20 marks)

Question 06

Gayan Traders which is a sole proprietorship owned by **Mr. Gayan Ranasinghe** is selling electronic equipment. The trial balance of **Gayan Traders** as at 31st March 2019 is given below:

Gayan Traders Trial Balance as at 31st March 2019 (Rs.'000)

	Dr.	Cr.
Plant and Equipment at Cost:		
Motor Lorry	1,900	
Office Equipment	540	
Furniture (purchased on 30th September 2018)	1,840	
Accumulated Depreciation as at 01st April 2018:		
Motor Lorry		340
Office Equipment		160
Sales		17,390
Purchases	12,200	
Stocks as at 01st April 2018	875	
Rent paid	650	
Salaries and Wages	990	
Electricity	525	
Water	110	
Trade Receivables	1,250	
Trade Payables		1,100
Commission given to sales staff	320	
Capital as at 01st April 2018		2,985
Drawings	415	
Allowance for trade receivables as at 01st April 2018		80
Bank balance	90	
Fixed deposit	350	
	22,055	22,055

The following additional information is also provided:

- (1) Cost and net realizable value of the closing stock as at 31st March 2019 were at Rs.1,625,000/- and Rs.1,600,000/- respectively.
- (2) The policy of the business is to provide depreciation on the straight line basis at cost as follows:
- | | | |
|------------------|---|-----|
| Motor Lorry | - | 15% |
| Office Equipment | - | 20% |
| Furniture | - | 25% |
- (3) Status of Water & electricity bills for the year ended 31st March 2019 which were not recorded in the books of accounts were as follow:
- March Month unpaid water bill value Rs.12,000/-.
- Electricity Bill Over paid Value Rs.63,000/-.
- (4) An amount of Rs.350,000/- was invested in a Fixed Deposit account at the rate of 10% per annum on 01st April 2018. The interest for the year was received on 01st April 2019.
- (5) The rent agreement of the showroom was entered into on 1st April 2018 for one year and monthly rent is Rs.75,000
- (6) The management decided to write off Rs.20,000/= from the trade receivable as Bad Debts and to make a general provision of 10% for doubtful debts on the remaining trade receivables' balance as at 31st March 2019.

You are required to prepare the following,

- (a) Statement of Comprehensive Income for the year ended 31st March 2019. **(11 marks)**
- (b) Statement of Financial Position as at 31st March 2019. **(09 marks)**
- (Total – 20 marks)**

End of Section C

Action Verbs Check List

Analysis (4)	Draws Connections Among Ideas and Solve Problems	Analyze	Examine in details to find the solution or outcome
		Differentiate	Constitute a difference that distinguishes something
		Discuss	Examine in detail by arguments
		Compare	Examine to discover similarities
		Contrast	Examine to show differences
		Outline	Make a summary of significant features
		Communicate	Share or exchange information
Application (3)	Uses and Adapts Knowledge in New Situations	Apply	Put to practical use
		Calculate	Ascertain or reckon with mathematical computation
		Demonstrate	Prove or exhibit with examples
		Prepare	Make or get ready for particular purpose
		Solve	Find solutions through calculations and/or explanation
		Assess	Determine the value, nature, ability or quality
		Graph	Represent by graphs
Comprehension (2)	Explains Ideas and Information	Reconcile	Make consistent/compatible with another
		Define	Give the exact nature, scope or meaning
		Explain	Make a clear description in detail using relevant facts
		Describe	Write and communicate the key features
		Interpret	Translate in to understandable or familiar terms
Knowledge (1)	Recalls Facts and Basic Concepts	Recognize	Show validity or otherwise using knowledge or contextual experience
		List	Write the connected items
		Identify	Recognize, establish or select after consideration
		State	Express details definitely or clearly
		Relate	Establish logical or causal connections
		Draw	Produce a picture or diagram
Level of competency	Description	Action Verbs	Verb Definitions



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2020

SUGGESTED ANSWERS

Level I

101 - FINANCIAL ACCOUNTING (FAC)

A publication of the Education and Training Division

SECTION A

Objective Test Questions (OTQs)

Twenty (20) compulsory questions

(Total 40 marks)

Answer 01

- | | | | |
|------|-----|------|-------|
| 1.1 | (2) | 1.11 | True |
| 1.2 | (1) | 1.12 | False |
| 1.3 | (3) | 1.13 | True |
| 1.4 | (3) | 1.14 | False |
| 1.5 | (1) | 1.15 | True |
| 1.6 | (2) | | |
| 1.7 | (1) | | |
| 1.8 | (2) | | |
| 1.9 | (4) | | |
| 1.10 | (3) | | |

1.16

- Speed is high
- Reliability of generated reports are very high
- Accuracy of information which generated was very high
- Unnecessary staff can be reduced
- Analysing capabilities are very high
- Mass capacity of storage
- Entity can generated up to date reports

1.17

- a) Credit Note
- b) Journal voucher

1.18 A liability is a present obligation of the entity to transfer an economic resource as a result of past events

1.19 To identify the reasons for differences between cash book balance and bank statement.

1.20

Debtors Control Account

B/B/F	986,600	Bad debt	30,000
Sales	1,569,700	Cash	1,200,000
		Return inwards	32,500
		B/C/F	<u>1,293,800</u>
	<u>2,556,300</u>		<u>2,556,300</u>

(02 marks each, total 40 marks)

SECTION B

Four (04) compulsory questions
(Total 40 marks)

Answer 02

(a)

**KPM Traders
General Journal**

	Description	Dr.	Cr.
(1)	Purchase Account Office Furniture Account (Being correction of classification error)	81,000	81,000
(2)	Debtors' Control A/C Sales A/C (Being correction of Sales for the month)	75,000	75,000
(3)	Suspense Account Interest Income (Being correction of under charge of interest income)	71,100	71,100
(4)	Suspense Account Telephone Expenses (Being correction of duplication error)	48,000	48,000
(5)	Motor Vehicle Account Suspense Account (Being correction of posting error)	81,000	81,000
(6)	Depreciation Account Accumulated Depreciation (Being correction of under Provision of Motor bicycle depreciation)	4,860	4,860

(06 marks)

(b)

Suspense Account			
		Balance B/F	38,100
Interest Income	71,100	Motor Vehicle	81,000
Telephone Expenses	48,000		
	119,100		119,100

(02 marks)

(c)

Profit as per draft accounts		1,725,000
Add : Interest income	71,100	
Sales	75,000	
Telephone	<u>48,000</u>	<u>194,100</u>
		1,919,100
Less: purchase	81,000	
Depreciation	<u>4,860</u>	<u>(85,860)</u>
Adjusted Profit		<u>1,833,240</u>

(02 marks)
(Total 10 marks)

Answer 03

Mr. Karunathilaka
Trial Balance
As at 31st March 2019

	Rs.	Rs.
Cash at bank (3,525,000 – 3,304,500)	220,5000	
Sales (1300 + 1646 + 142) (W - 03)		3,088,000
Purchase (W - 02)	1,610,000	
Salary & Wages	1,540,000	
Electricity Bill	163,000	
Office Equipment	240,000	
Water Bill (28,000 + 5,500)	33,500	
Capital		1,250,000
Water Bill Payable		5,500
Trade Creditors		320,000
Trade Debtors	671,000	
Depreciation – Office Equipment (W -1)	60,000	
Accumulated Depreciation Office Equipment		60,000
Stationary	7,200	
Travelling	9,800	
Petty Cash Balance	13,000	
Telephone	42,000	
Drawings	75,000	
Advertising	25,000	
Bank Charges	13,500	
	4,723,500	4,723,500

(10 marks)

Workings:

Workings 01

Depreciation – Office Equipment

Rs. 240,000 at 25%

60,000

Workings 02

Trade Creditors

Cash	1,290,000	Purchase	1,610,000
B/C/F	<u>320,000</u>		<u> </u>
	<u>1,610,000</u>		<u>1,610,000</u>

Workings 03

Trade Debtors

Sales	1,646,000	Cash	975,000
	<u> </u>	B/C/F	<u>671,000</u>
	<u>1,646,000</u>		<u>1,646,000</u>

Answer 04**(a)**

Janasetha & Sons
Manufacturing account for the year ended 31st December 2019

	Rs.	Rs.
Opening Stock- Raw Materials		1,700,000
Add: Purchases of RM	2,100,000	
Carriage inwards – Raw Materials	228,000	2,328,000
Less: Closing RM Stock		(1,900,000)
Cost of Raw Material Consumed		2,128,000
Other Direct Cost - Direct Wages	1,123,000	
- Incentive	<u>100,000</u>	<u>1,223,000</u>
		3,351,000
Add: Work in progress (01.01.2019)		960,000
Less: Work in progress (31.12.2019)		(1,356,000)
Prime Cost		2,955,000
Factory Overheads		
Depreciation – Building (892,000 × 10%× 70%)	62,440	
Depreciation – Machinery (1,280,000 × 20%)	256,000	
Salary – Factory Manager	928,000	
Factory Machinery Maintenance	426,000	
Electricity (Rs.632,000 × 90%)	568,800	
Factory Security Expenses	115,000	
Water (Rs.522,000 × 80%)	417,600	
Total Factory Overhead		2,773,840
Production Cost Incurred		5,728,840
Profit Margin 15%		859,326
Value of goods transferred to trading division		6,588,166

*(8 marks)***(b)**

$$\begin{aligned} \text{Production Cost per box} &= \frac{5,728,840}{20,000} \\ &= \text{Rs.}286.44 \end{aligned}$$

(02 marks)
(Total 10 marks)

Answer 05**(A)****(a)****Adjusted Cash Book**

Interest Income	3,500	B/B/F	45,000
B/C/F	50,800	Insurance Payment	4,800
		Bank Charges	4,500
	54,300		54,300

*(03 marks)***(b)**

Adjusted Cash Book Balance	(50,800)
Less: Unrealized Deposits	<u>(50,000)</u>
	(100,800)

Add: Unpresented Cheques	<u>25,000</u>
Balance as per Bank Statement	<u>(75,800)</u>

*(02 marks)***(B)**

- 1) Purchased goods of Rs.450,000/- on credit
- 2) Goods costing of Rs.400,000/- were sold for Rs.500,000/- and collected Rs.75,000/-.
- 3) Paid to a creditor Rs.20,000/-.
- 4) Purchased Office Equipment of Rs.200,000/- paying Rs.50,000/-.
- 5) Owner has taken goods costing of Rs.50,000/- for his personal use.

*(05 marks)**(Total 10 marks)*

SECTION C

One (01) compulsory question
(Total 20 marks)

Answer 06

(a)

Gayan Traders
Statement of Comprehensive income for the year ended 31st March 2019
(Rs.'000)

Sales			17,390
Less:			
Cost of Sales			
Opening Stocks		875	
Purchases		12,200	
Closing Stocks		(1,600)	(11,475)
Gross Profit			5,915
Other Income			
Fixed Deposit Interest Income (350 × 10%)			35
			5,950
Distribution Expenses			
Commission Given	320		
Motor Vehicle Depreciation (1900 × 15%)	285		
Provision for doubtful debts [Note 02]	43		
Bad debt	20	(668)	
Administration Expenses			
Salaries & Wages	990		
Rent Expenses (650+250)[Note - 03]	900		
Electricity(525-63)	462		
Depreciation (Note 01)	338		
Water (110+12)	122	(2,812)	(3,480)
Net Profit/ (Loss)			2,470

(11 marks)

Note 01.

Depreciation Calculation

Office Equipment	$540 \times 20\%$	108
Furniture & Fittings (Purchased on 30 th Sep 2018)	$1,840 \times 25\% \times 6/12$	230
		338

Note 02.

Bad debt Provision – General (1,250 - 20)	1,230 × 10%	123
Existing Provision		(80)
Under Provision		43

Note 03.**Rent Expenses**

Total Rent Expenses	75 × 12	900
Less Already Accounted		(650)
Payable		250

(b)

Gayan Traders
Statement of Financial Position
As at 31st March 2019

Rs.'000

	Cost	Accumulated Depreciation	Carrying Value
Non-current assets			
Motor Lorry	1,900	625	1,275
Furniture & Fitting	1,840	230	1,610
Office Equipment	540	268	272
	4,280	1,123	3,157
Current Assets			
Inventories		1,600	
Trade Receivable (1250- 20)	1,230		
Less: Provision for doubtful debts (80+43)	(123)	1,107	
Pre-paid Electricity		63	
Interest receivable		35	
Fixed Deposit		350	
Bank		90	3,245
Total Assets			6,402
Equity			
Capital		2,985	
Net Profit		2,470	
Less: Drawings		(415)	5,040
Current Liabilities			
Trade payable		1,100	
Water payable		12	
Rent Payable		250	1,362
Equity & Liabilities			6,402

(09 marks)

(Total 20 marks)