

Chartered Accountancy Business Level 01

Financial Accounting Model Paper 02

01 Hour 50 Questions. Answer All the Questions.

Sandeepa Jayasekera MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner.



1. According *Conceptual Framework for Financial Reporting*, the enhancing qualitative characteristics are:
 - A) Comparability and relevance.
 - B) Comparability, timeliness, understandability and verifiability
 - C) Relevance and faithful representation.
 - D) Comparability, timeliness, understandability and faithful representation
2. Consider the following statements:
 - (i) Owners are responsible for the preparation of Financial Statements
 - (ii) Financial Statements help stakeholders to take economic decisions
 - A) i True : ii True
 - B) i True : ii False
 - C) i False: ii True
 - D) i False: ii False
3. Stakeholders have different interests about an business entity. Out of following stakeholders, which stakeholder is focused on competition, market share, business strategies, asset management and profits.
 - A) Employees
 - B) Suppliers
 - C) Managers
 - D) Owners
4. Accounting standards
 - A) have eliminated all the weaknesses of the accounting practice
 - B) are accounting rules formulated by the professional Intuitions
 - C) are sound in theory but rarely used in practice
 - D) are procedures that companies must follow when they compile their financial statements
5. Which of the following groups uses accounting information primarily to help protecting the public
 - A) Tax authority
 - B) Internal auditors
 - C) Regularity agencies
 - D) Registrar of companies
6. Fill the Table provided to identify whether each of the items below would increase/decrease or No change of the owner's equity
 - A) Payment to the Creditor
 - B) Motor vehicle purchased on credit
 - C) Withdrawn money from the business
 - D) An investment of equipment by the owner

Increase	Decrease	No change
	1	

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7. Which of the following sequences of actions describes the proper sequence in the accounting cycle?
- A) entry, post, close, prepare, adjust, analyse
 - B) prepare, entry, post, close, adjust, analyse
 - C) post, close, adjust, Prepare, entry, analyse
 - D) analyse, entry, post, close, prepare, adjust,
8. Under accrual accounting revenue is recognized.....
- A) when it can be matched with expenses
 - B) only at the end of the financial period
 - C) only when cash is received
 - D) when it is earned
9. The principle/concept which states that assets acquired by the business should be recorded at their acquisition price is the.....
- A) Income recognition principle
 - B) Going-concern principle
 - C) Historical Cost principle
 - D) Entity concept
10. Determine the net profit for the period if beginning owner's equity is Rs.20, 000, cash withdrawals by the owner amount to Rs.7, 000, and ending owner's equity is Rs.37,000.
- A) 13,000 B) 27,000 C) 24,000 D) 10,000
11. On January 1, 2018, Vimal Trades had assets of Rs. 500,000 and owner's equity of Rs.300,000. During the year, assets increased by Rs.100,000 and owner's equity decreased by Rs.48,000. What were the liabilities on December 31, 2018?
- A) Rs. 200,000 B) Rs. 148,000 C) Rs. 348,000 D) Rs. 252,000
12. If prepaid expenses are initially treated as assets and a required prepaid adjustment had not been made during the current financial year, the financial statements of the current year would have been affected as follows:
- A) net profit overstated, assets understated, liabilities understated, and owner's equity unaffected
 - B) net profit overstated, assets overstated, liabilities unaffected, and owner's equity overstated
 - C) net profit understated, assets unaffected, liabilities overstated, and owner's equity understated
 - D) net profit understated, assets understated, liabilities understated, and owner's equity unaffected
13. Bimal Trades recorded sales received in advance of Rs. 8,000 and accrued sales revenue of Rs.4,500 as sales revenue. The effect of these entries on total sales revenue recognised for the year is:
- A) an increase of Rs.4,500
 - B) an increase of Rs.12,500
 - C) an increase of Rs.8,000
 - D) an increase of Rs.3,500

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14. Double entry to record of PAYE tax deduction from employee is:
- A) debit salary control, credit PAYE tax payable
 - B) debit PAYE tax expense, credit PAYE tax payable
 - C) debit PAYE tax payable, credit PAYE tax expense
 - D) none of the above
15. EPF contributions made by employers for employees:
- A) do not increase the costs of employing labour for a business as they are deducted from the employee's gross pay
 - B) do not increase the cost of employing labour as they are reimbursed by the government
 - C) increase the cost of employing labour as they represent additional benefits paid to employees
 - D) none of the above is correct
16. Accounts Payable had a balance of Rs.5,000 on April 1. During April, Rs.1,750 of equipment was purchased on credit. The April 30 balance was a credit of Rs.3,850. How much were payments on Accounts Payable during April?
- A) Rs. 2,100 B) Rs. 2,900 C) Rs. 3,250 D) Rs. 5,600
17. An accountant debited Insurance Expense Rs. 8,000 and credited Cash Rs. 8,000 in error. The correct entry should have been to debit Prepaid Insurance for Rs. 8,000 and credit Cash for Rs. 8,000. As a result of this error:
- A) assets are overstated by Rs. 8,000
 - B) expenses are understated by Rs. 8,000
 - C) the trial balance will not balance
 - D) expenses are overstated by Rs. 8,000
18. Beto Co paid Rs 72,000 being six months' rent on January and has debited to Rent Expenses account. On January 31 Beto Co should:
- A) credit Prepaid Rent for Rs. 60,000
 - B) debit Prepaid Rent for Rs. 12,000
 - C) debit Rent Expense for Rs. 60,000
 - D) credit Rent Expense for Rs. 60,000
19. The following information relates to a Garment Factory for the year ended 31.3.2019:
- Inventories as at 1.4.2018
- | | |
|--------------------|--------|
| • Raw Material | 27,500 |
| • Work in progress | 12,450 |
| • Finished Goods | 34,500 |
- Inventories as at 31.3.2019
- | | |
|------------------------------|---------|
| • Raw Material | 14,500 |
| • Work in progress | 10,450 |
| • Finished Goods | 41,500 |
| • Purchases of raw materials | 432,000 |

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- Direct wages 112,000
- Production overhead 72,500

What was the prime cost of the product for the year ended 31.3.2019

- A) Rs.557,000
- B) Rs.624,500
- C) Rs. 631,500
- D) Rs. 571,500

Answer the questions 20, 21, 22, 23 and 24 by using following information.

Paric LTD opened its Book shop in April 2016. Income statements for the year ended 31st March 2017 and 31st March 2018 are as follows;

Income Statements for the years ended 31st March

	2018	2017
	Rs.	Rs.
Sales Revenue	22,294	21,102
Other Income	82	108
Cost of Sales	(21,083)	(19,942)
Administrative Expenses	(419)	(417)
Interest	(75)	(24)
Taxation	(201)	(187)
Profit	598	640

Using the Financial data of Paric Ltd, you are required to answer the followings:

20. Gross profit for the year 2018 is;

- A) Rs.1,211
- B) Rs. 2,111
- C) Rs. 1,293
- D) Rs. 1,393

21. Income from the operating 2018 would be;

- A) Rs. 598
- B) Rs. 792
- C) Rs.717
- D) Rs. 874

22. Change of Gross profit Margin from 2017 to 2018 would be;

- A) 5.50%
- B) (0.07)%
- C) 5.43%
- D) 0.07%

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23. Interest cover ratio for 2018

- A) 35.4
- B) 10.6
- C) 7.9
- D) 11.6

24. Total comprehensive Income is defined as

- A) Profit before Tax + other comprehensive income
- B) Profit for the period + other comprehensive income
- C) Profit before interest + other comprehensive income
- D) Profit after Tax + other comprehensive income

25. Which of the following is a common measure of a firm's ability to meet short-term liquidity?

- A) Acid test ratio
- B) Return on assets
- C) Debt to equity ratio
- D) price/earnings ratio

26. The dividend yield evaluates.....

- A) the ability to pay current debt
- B) profitability
- C) share as an investment
- D) ability to pay long-term debt

27. The proportion of a firm's assets financed by debt is measured by the.....

- A) current debt ratio
- B) debt yield ratio
- C) debt ratio
- D) times-interest-earned ratio

28. Consider the following statements.

- i) Not-for profit organisations prepare income and expenditure account.
- ii) A partnership is regarded as a separate legal entity.

Which of the above statements is True/False?

- A) i True : ii True B) i True : ii False C) i False : ii True D) i False : ii False

Answer the questions 29,30, 31 and 32 by using following information.

Statements of Financial Position as at 31st March 2017 and 31st March 2018 of Mr. Gejendra's Business are as follows;

Statement of Financial Position as at 31st March

2018

2017

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	Rs.	Rs.
Property, plant & machinery	9,564	8,948
Fixed Deposits	744	744
Inventory	1,007	812
Trade receivables	286	395
Cash and Bank	739	501
Total Assets	12,340	11,400
Capital	2,000	1,800
Retained Earnings	3,629	3,624
Short Term Bank Loan	3,575	3,033
Trade payables	2,987	2,742
Tax payable	149	201
Total Equity and Liabilities	12,340	11,400

Using the Financial data of Mr. Gejendra's Business, you are required to answer the followings:

29. The Current Liabilities as at 31st March 2018 is:

- A) Rs. 6,711
- B) Rs. 12,340
- C) Rs. 5,629
- D) Rs. 3,136

30. Assuming no drawings during the year, calculate the Net profit for the 2018 :

- A) Rs. 3,629
- B) Rs. 3,624
- C) Rs. 5
- D) Rs. 205

31. The Current Assets as at 31st March 2018 is:

- A) Rs. 2,032
- B) Rs. 2,776
- C) Rs. 11,596
- D) Rs. 1,025

32. Changes of Net working capital from 2017 to 2018 would be;

- A) Increase by Rs. 673
- B) Decrease by Rs 131
- C) Decrease by Rs 673
- D) Increase by Rs. 131

33. Select the answers below into the Table provided for each of the following questions.

- A) Income Statement

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- B) State of financial position
- C) Statement of changes of equity
- D) Summary of significant accounting Policies

How much is the business worth?

How much is the dividend paid?

Is the business profitable?

What is the method of depreciation?

34. Suranga's business bank statement as at 31st March 2019 shows Rs. 85,200 (Favorable balance). It was found that as at 31st March 2019, unrealized cheque deposits was Rs.12,500 and unpresented cheques was Rs.7,800. Which figure for bank balance should be stated in the statement of financial position as at 31st March 2019?
- A) Rs. 80,500
 - B) Rs. 89,900
 - C) Rs. 85,200
 - D) Rs.105,500

35. Decide the correct classification of the reasons when preparing bank reconciliation statement for following items as either unrecorded items, timing differences or errors.

Unpresented Cheques

Bank charges

Direct credits to the bank

Unrealized Cheques

36. Based upon the following information what was the credit purchases during the period?

Creditors as at 1.1.2019	Rs. 72,500
Cash paid to suppliers	Rs.180,000
Cash Discounts received	Rs. 2,500
Goods returned	Rs. 1,500
Creditors as at 31. 1.2019	Rs. 92,500

- A) 199,000
- B) 204,000
- C) 159,000
- D) 156,000

37. The following terms relate to the partnership accounting. Match the key letter of the correct term with the description statements below:

- A) Capital deficiency
- B) Goodwill
- C) Unlimited personal liability

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D) General partner

A partnership where the liability of a partner is limited ____

When partnership cannot pay its debts with business assets, the partner must use personal assets to meet the debt ____

A debit balance in a partner's capital account ____

Results when rights obtained do not equal the amount credited to a partner's capital account in the admission of a partner ____

38. At the liquidation, If a partner has a debit balance in his/her Capital account and is personally insolvent, then the other partners:

- A) absorb the deficiency based on their personal wealth
- B) absorb the deficiency based on their profit-and-loss ratio
- C) absorb the deficiency based on their capital Balances
- D) sue the insolvent partner's spouse

39. When liquidating, final cash is distributed to the partners

- A) based on their personal wealth
- B) based on their profit-and-loss ratio
- C) based on their capital account balances
- D) Equally

40. Two sole proprietors, Wenee and Bala, decide to form a partnership called WEB.

Wenee will contribute the following to the partnership on their book values:

Cash	Rs 150,000
Inventory	Rs. 72,000
Equipment	Rs. 97,000
Liabilities	Rs. 61,000

The current market value of the equipment is Rs.80,000 and the cost of the equipment is Rs.125,000. At what amount will the Equipment be recorded in WEB's books?

- A) Rs. 117,000
- B) Rs. 126,000
- C) Rs. 80,000
- D) Rs.52,000

41. Referring to the above question No. 40, what amount should be recorded in Wenee's Capital account in WEB's books?

- A) Rs. 258,000
- B) Rs. 241,000
- C) Rs. 286,000
- D) Rs.363,000

42. Nath and Ravi formed a partnership. Nath invested Rs. 750,000 and Ravi invested Rs. 500,000. They agreed to share profits as follows:

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- The first Rs.500,000 of profits is allocated based on the partner's capital contribution.
- The next Rs.500,000 of profits is allocated 3/4 to Nath and 1/4 to Ravi based on their service to the partnership.
- Any remaining amount is allocated equally.

If the partnership profits are Rs.1,100,000, how much will be allocated to Nath, and how much will be allocated to Ravi?

- A) Nath Rs.550,000 and Ravi Rs. 550,000
- B) Nath Rs.625,000 and Ravi Rs. 475,000
- C) Nath Rs.475,000 and Ravi Rs. 625,000
- D) Nath Rs.725,000 and Ravi Rs. 375,000

43. Which of the following method is suitable for calculating the cost of inventory when actual costs of individual units of inventory can be determined from the accounting records?

- A) FIFO
- B) LIFO
- C) Specific Identification
- D) Weighted average

44. According to LKAS 2 Inventories, which of the following is considered as inventory of an entity?

- A) Land in property sales company
- B) Furniture in furniture sales company
- C) Petrol in fuel station
- D) All of the above

45. What is the condition that does not allow a change in accounting policy in accordance with LKAS -08 Accounting policies, changes in accounting estimates and errors.

- A) Management decision to change an accounting policy
- B) New accounting standards introduced or interpretation
- C) Change which results in providing more reliable and relevant information
- D) All of the above

46. According to IFRS 15, Revenue from Contracts with Customers, the asset is transferred to a customer.....

- A) When the asset is physically delivered to the customer's premises
- B) On the day specified by a contract with the customer
- C) When the customer obtains control over it
- D) On the day when the entity satisfies all performance obligations, specified in the contract with the customer

47. The carrying amount of contract costs recognised as an asset is Rs.360,000. Further costs required in order to satisfy the obligation are estimated to be Rs.90,000. The consideration receivable by the company when the obligation is satisfied is Rs.396,000. Calculate the amount of the impairment loss :

- A) Rs. 90,000
- B) Rs. 54,000

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- C) Rs. 36,000
- D) Nil

48. Paul Ltd has the following activities for you to consider in preparing the Cash Flow Statement. Identify each of the following transaction as:

- Investing Activity (IA)
- Operating Activity (OA)
- Financing Activity (FA)
- Non-Cash Item (NCI)

Transactions	Activity
A) Cash receipts from sale of Plant & equipment	
B) Cash advances made to third parties	
C) Depreciation of equipment	
D) Cash receipts from customers	

49. Accountant of Robert Ltd has gathered the following data for the year ended 31st March 2019

	Rs.
• Net profit	60,000
• Depreciation	15,000
• Proceeds from sale of land	150,000
• Increase in current assets other than cash	30,000
• Decrease in current liabilities	5,000
• Purchases of equipment	40,000

Net cash flows from operating activities would be;

- A) Rs.40,000
- B) Rs. 110,000
- C) Rs.100,000
- D) (Rs. 20,000)

50. According to LKAS 10- Events after the reporting period, a significant event after the end of the financial year but before the business complete the financial statements should:

- A) Always result in adjustments to the financial statements
- B) Sometimes result in adjustments to the financial statements
- C) Never result in adjustments to the financial statements
- D) Always be reported in the notes to the financial statements