



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - AUG 2023

(101) FINANCIAL ACCOUNTING

• 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]

1. The primary objective of accounting is to:
 - (1) Record all transactions in the book of accounts
 - (2) Record, categories and summaries financial transactions
 - (3) Provide information to users for decision making
 - (4) Provide financial results of an organization through financial statements
 - (5) Provide with detailed analysis of costs to managers
2. The discount received column of the cash book is a column and its total is recorded in theaccount in the general ledger.
3. The petty cashier of an organization had a balance of Rs. 1500 on the petty cash reimbursement day, he had made payments totaling to Rs. 4500 including a salary advance of Rs. 500 given to the owner during the period.
 - (1) What is the impress balance?
 - (2) What is the amount to be reimbursed on that date?
.....

4. The purchase journal is used to record
- (1) Both credit purchases and non-current assets on credit.
 - (2) Only cash purchases.
 - (3) Both credit and cash purchases.
 - (4) Only credit purchases
 - (5) Only credit purchases of non-current assets.
5. Which of the following transactions is recorded in the purchase journal of a firm?
- (1) All item purchased on the credit basis
 - (2) All purchases made with the intention to resale.
 - (3) All credit purchases made with the intention to resale.
 - (4) All cash purchases made with the intention to resale.
 - (5) All non-current assets purchased on credit basis

Use the following information to answer questions no. 6 and 7.

An organization sold goods for Rs. 25 000 on credit. Subsequently Rs. 22 500 was received from the customers and the balance could not be recovered.

6. The source document relevant to record the above transactions are
- (1) Invoice, Receipt and Debit Note.
 - (2) Invoice, Receipt and Journal Voucher.
 - (3) Invoice, Receipt and Credit Note.
 - (4) Invoice, Journal Voucher and Debit Note.
 - (5) Journal Voucher, Receipt and Credit Note.
7. The prime entry books to record above transactions are
- (1) Sales Journal, Cash Book and Sales Return Journal.
 - (2) Sales Journal, Cash Book and General Journal.
 - (3) Sales Journal and Cash Book.
 - (4) Sales Journal and General Journal.
 - (5) General Journal and Cash Book.
8. Nimal bought goods from Saman for which the payment was made within two weeks by issuing a cheque. However, Nimal found that some of the items were defective and returned them to Saman. The relevant source documents to record the transactions in Nimal's prime entry books are:
- (1) Invoice, Payment Voucher and Credit Note.
 - (2) Invoice, Payment Voucher and Debit Note.
 - (3) Invoice, Cheque Counterfoil and Debit Note.
 - (4) Goods Received Note, Cheque Counterfoil and Credit Note.
 - (5) Goods Received Note, Payment Voucher and Debit Note.
9. Which one of the following is a Fundamental qualitative characteristic of financial information?
- | | |
|--------------------|----------------------|
| (1) Going Concern. | (2) Relevance. |
| (3) Accrual Basis. | (4) Historical Cost. |

10. The Credit balance of cash book as at 31st March 2023 of ABC Ltd. was Rs.225,000/- and it was different with bank statement's balance on that date. Unpresented cheques for payments as at 31st March 2023 was Rs.36,000/- and bank charges of Rs.5,000/- charged by the bank was not considered in the cash book.

The balance appeared in the bank statement as at 31st March 2023 was:

- (1) Rs.256,000/-Dr (2) Rs.184,000/-Dr (3) Rs.194,000/-Dr (4) Rs.266,000/-Dr

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 Under the petty cash impress method, a fixed amount of money is reimbursed at the end of each specific time period. T/F (.....)
- 1.12 Cash receipt journal and cash payment journal are primary books T/F (.....)
- 1.13 Bookkeeping is part of the accounting function T/F (.....)
- 1.14 Going concern is the assumption used in the financial statement preparation T/F (.....)
- 1.15 Income is an element directly related to the statement of Financial Position T/F (.....)
- 1.16 What is mean by source documents, give two examples for them
- 1.17 What is the meaning of business ethics? Why it is important for a business?
- 1.18 Define the term "Equity"
- 1.19 What are the two types of accounting software?
- 1.20 Nilanka Stores acquired a machinery for Rs.800,000/- on 01st April 2020. Business's policy is to depreciate the machinery using the diminishing balance method at the rate of 20% per annum. Calculate the depreciation charge for the year ended 31st March 2023.

SECTION – B

[Total 40 marks]

QUESTION 02

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

#	Assets				Equity	Liabilities	
	Fixed Assets	Inventories	Trade Receivable	Cash	Equity	Bank Loan	Trade Creditors
1	+500			+700	+1,200		
2		+200		-100			+100
3		-120	+175	+50	+105		
4	-20				-20		
5			-10		-10		
6				+100		+100	
7				-100	-20	-80	

You are required to:

Identify the possible transaction that took place for each line items from (1) to (7) of the above accounting equation.

Calculate the profit on the transactions

[Total 5 Marks]

- B. There is a bank overdraft balance of Rs.300 as at 30th June 2003 of Kook's financials. On the same day the bank statement shows a credit balance of Rs.65.

Following were observed in the reconciliation process.

1. A cheque issued of Rs.500 was included in the cash book. However, it has not been presented to the bank yet.
2. A cheque deposited of Rs.400 is included in the cash book. However, it has not been realized to the bank account yet.
3. Kook has advised the bank to remit the fixed deposit interest of Rs.60 to the current account as at the end of the month. This amount was remitted to the bank account on 05th July 20X0. However, this amount was credited to the cash book on 30th June 20X0.
4. The bank charges included in the bank statement was Rs.35
5. The payment side of the cash book was under casted by Rs.10
6. The dividend received directly to the bank is Rs.200
7. Amount paid through a savings account of Rs.50 has been recorded as a payment through the current account.
8. A cheque issued to Johns of Rs.25 has been expired and a new cheque has been issued. However, entry has not been passed for the expiry. Both cheques has been included in the unpresented cheques.

Required

1. Adjust the cash book
2. Prepare a reconciliation to reconcile the difference

[Total 10 Marks]

QUESTION 03.

Manufacturing Account

Saaliya Ltd. has production business. Following information is relevant for the year ended 31 December 2022.

	Rs.'000
Revenue	179,000
Raw Materials Purchases	60,000
Direct Labour	70,000
Equipment Depreciation	10,000
Rent	5,000
Building Depreciation	2,000
Electricity and Power	3,000
Telephone	2,000
Other Production Overhead	2,300
Other Administration Expenses	2,550
Other Promotional Expenses	1,150

Overhead cost shall be allocated on following bases.

	Production Distribution	Administration
Equipment Depreciation 15%	80%	5%
Rent 20%	50%	30%
Building Depreciation 20%	50%	30%
Electricity and Power 25%	40%	35%
Telephone 60%	-	40%

The inventory values are given below.

	2022.01.01	2022.12.31
Raw Materials 3,000	5,000	
Work in Progress 3,000	4,000	
Finished Goods 18,000	16,000	

Required

Prepare the Production account and Income Statement for the year ended 31 December 2022.

[Total 10
Marks]

QUESTION 04.

Sunil commenced a business, **SP Trading** on 01st January 2015. The details of the business transactions for the first week of the business are as follows:

Date	Transaction
01.01.2015	The investments made by Sunil to establish his new business are as follows: <ul style="list-style-type: none">Rs.50,000/- was paid for the business registration.A lorry owned by Sunil valued at Rs.2,500,000/- was invested in the business for the delivery purposes.Sunil opened a bank account in the name of the business and deposited Rs.2,000,000/-.
02.01.2015	Rs.175,000/- was drawn from the bank account to pay 6 months refundable deposit of Rs.150,000/- and the monthly rent expense of Rs.25,000/- (cheque No. 345543).
04.01.2015	Purchased goods for resale for Rs.2,175,000/- (cheque No. 345544).
05.01.2015	A cash cheque (cheque No. 345545) was drawn for Rs.175,000/- out of which Rs.145,000/- was incurred as the expenses for the business opening ceremony. The balance cash was transferred to the petty cash account.
06.01.2015	Cash sales of Rs.975,000/- was made at the opening ceremony. The collection was deposited to the bank during the same day.

You are required to prepare:

- General Ledger of the business.
- Trail Balance as at 07th January 2015. (08 marks)

QUESTION 05.

The trial balance got imbalanced in Dasun Ltd. and the difference was recorded in the suspense account as a credit balance of Rs.1,040.

Following errors were observed.

- Omission of credit sale of Rs.1,000 from the sales account.
- Installation cost of a new plant of Rs.240 was charged to profit or loss.
- Rs.150 paid to a creditor was recorded as a discount received.
- An inventory of Rs.240 was omitted from the accounts.
- A purchase of Rs.350 was recorded as Rs.850 in the purchase account.
- Rs.230 worth of credit note was recorded properly in the debtor's account. However, this was recorded as a purchase return.

Required:

- Correction entries
- Prepare the suspense account with correction entries

3. If gross profit and net profit prior to corrections are Rs.35,750 and Rs.18,500 respectively, calculated the adjusted gross profit and the net profit.

[Total 07
Marks]

SECTION C [Total 20 marks]

Question 06.

Kalupahana Traders is a sole proprietorship owned by Nuwan Kalupahana. The Trial Balance of the Kalupahana Traders as at 31st March 2023 is as follows:

Kalupahana Traders Trial Balance as at 31st March 2023			Rs. 000
Description	Debit		Credit
Property, Plant and Equipment at Cost:			
Land & Building (Land 10,000/-)	60,000		
Machinery	20,000		
Furniture & Fittings	15,000		
Accumulated Depreciation as at 01st April 2022:			
Building			2,000
Machinery			500
Furniture & Fittings			750
Sales			15,000
Purchases	7,500		
Discounts Given	50		
Trade Receivables	3,500		
Trade Payables			1,125
Cash in hand	351		
Bank Overdraft			520
Inventory as at 01st April 2022	850		
Electricity	125		
Salaries and Wages	520		
Overdraft Interest	15		
Bank Loan Interest	14		
Travelling and Transport	96		
Office Rent	280		
Capital Account as at 01st April 2022			87,056
Bank Loan			1,500
Bank Loan Interest	150		
	108,411		108,411

The following additional information is also provided:

(1) The closing Inventory as at 31st March 2022 was valued at cost of Rs.8,250,000/-.

(2) On 01st April 2021, a lorry owned by Kalupahana was transferred to the business and the value of the lorry as at 01st April 2022 was Rs.1,000,000/-. However, this was not recorded in the books of accounts.

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

Building : 5% per annum
Machinery : 10% per annum
Furniture and Fittings : 20% per annum
Motor Vehicle 10% per annum

(4) On 01st April 2022, Thimira Traders entered into a new rent agreement for office premises. As per the new agreement, monthly rent is Rs.20,000/- and rent for the months of April and May 2023 was also paid during the year.

(5) Electricity bill of Rs.85,000/- for the month of March 2023 has not been paid by 31st March 2023.

(6) Kalupahana has decided to write off Rs.20,000/- due from ABC (Pvt) Ltd as bad debt.

You are required to:

Prepare the following:

- (a) Statement of Comprehensive Income for the year ended 31st March 2023.
- (b) Statement of Financial Position as at 31st March 2023.

[Total 20 Marks]

