



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2020

(101) FINANCIAL ACCOUNTING

26-09-2020

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

(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 element of income statement?

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

1.2 Of the following, select the correct statement:

- (1) Relevance is a fundamental qualitative characteristic of financial information.
(2) Transactions are considered as the accounting output.
(3) The main objective of accounting is to protect employees of the organization.
(4) There are no limitations of financial information.

1.3 "Recognizing transactions considering business and owner as two separate independent entities."

Which one of the following accounting concept explains the above statement?

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

1.9 Due to “COVID-19” pandemic, the carbon foot print level or the carbon dioxide release level reduced all over the world. The carbon foot print concept belongs to PESTEL as:

- (1) Technological factor.
- (2) Environmental factor.
- (3) Economical factor.
- (4) Social factor.

1.10

Assets	=	Equity	+	Liability
200,000	=	200,000	+	-

Which one of the following is most correct transaction for the above accounting equation?

- (1) Owner has taken Rs.200,000/- worth of goods for his personal use.
- (2) Owner has paid electricity bill of Rs.200,000/- of the business.
- (3) Additional cash of Rs.200,000/- was introduced by the owner to the business.
- (4) Rs.200,000/- worth of goods was purchased for resale on credit basis.

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** A liability is a present obligation of the entity to transfer an economic resources as a result of past events.
- 1.12** As per materiality concept, inventories are recorded at the lower of cost or net realizable value.
- 1.13** Value of the equity of a business can be calculated by subtracting the value of total liability from the value of total assets.
- 1.14** As per the accrual concept, revenue is recognized in the particular accounting period, irrespective of receipt of cash or not.
- 1.15** Bank reconciliation is a statement prepared by the bank of the 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 Nimalsiri Hardware acquired a machinery for Rs.400,000/- on 01st April 2018. The entity’s policy is to depreciate the machinery using the diminishing balance method.

If the applicable depreciation rate is 25% per annum, calculate the depreciation charge for the year ended 31st March 2020.

1.17 Briefly explain the “Consistency Concept”.

1.18 State two(02) types of transactions recorded in the General Journal.

1.19 State two(02) examples for current assets.

1.20 The following information is extracted from the books of accounts of **Chathura Traders** for the month of March 2020:

	Rs.
Creditors' Control Account balance as at 01 st March 2020	875,000
Purchases Journal total for the month of March	2,350,000
Sales Journal total for the month of March	3,450,000
Return Outwards Journal total for the month of March	575,000
Payments to creditors during the month of March	1,450,000

Considering the above information,

Calculate the Creditors' Control Account balance as at 31st March 2020.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Samanala Stores is a sole proprietorship owned by **Samanala**. Trial Balance of **Samanala Stores** as at 31st March 2020 was not agreed, and the difference of Rs.49,500/- was debited to a suspense Account. Then the draft financial statements were prepared and net profit of Rs.1,350,000/- was recorded as per draft financial statements for the year ended 31st March 2020.

The following errors were identified subsequently:

- (1) Purchase of a computer on 31st March 2020 at a cost Rs.95,000/- on credit, has been debited to computer account as Rs.9,500/-. However, credit entry has been correctly recorded in the relevant creditor's account.
- (2) Cash purchases of Rs.76,000/- has been correctly credited to the cash book. However, the corresponding debit entry has not been posted.
- (3) Office maintenance of Rs.66,000/- incurred on 31st March 2020 has been debited to office equipment account, while it was recorded in the cash book correctly.
- (4) Depreciation of motor vehicle of Rs.112,000/- has been debited twice to the respective depreciation expenses account and the credit entry has been correctly recorded in the relevant ledger account.
- (5) Total of the sales journal was understated by Rs.225,000/-.

You are required to:

- (a) **Prepare** Journal Entries to correct the above errors. (05 marks)
- (b) **Prepare** Suspense Account (02 marks)
- (c) **Compute** the adjusted/corrected net profit for the year ended 31st March 2020. (03 marks)
(Total 10 marks)

Question 03

Nanayakkara started a sole proprietorship on 01st April 2019 by opening a bank account with a deposit of Rs.1,500,000/- as the capital introduction in cash apart from a motor lorry.

The following journal entry was extracted from the General Journal of the Business:

(Rs.)

	Dr.	Cr.
Motor Lorry	1,740,000	
Capital Account		1,740,000
Owner of the business transferred a motor vehicle to the business on 01st April 2019	1,740,000	1,740,000

Cash Control Account (cash book) for the year ended 31st March 2020 is as follows:

	Rs.		Rs.
Capital	1,500,000	Payments to Trade Creditors	3,850,000
Receipts from Trade Debtors	3,200,000	Rent	864,000
Cash Sales	4,118,000	Electricity and Water	258,000
		Salaries and Wages	1,810,000
		Balance C/F	2,036,000
	8,818,000		8,818,000

The following additional information is also provided:

(1) The following balances were appeared in the books of accounts as at 31st March 2020:

	Rs.
Trade Debtors	975,000
Trade Creditors	1,240,000
Electricity and water Payable	15,000

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

(3) Rent has been paid on 01st June 2019 for the period of 12 months, ending 31st May 2020.

(4) There were no stocks as at 31st March 2020.

You are required to:

Prepare the Trial Balance of Nanayakkara's Business as at 31st March 2020. (10 marks)

Question 04

The following information relates to **BMI**, a company manufacturing school bags for the year ended 31st March 2020:

Description	Rs.
Inventory as at 01 st April 2019:	
Raw material	810,000
Work-In-Progress (at prime cost)	445,000
Raw material purchased	2,850,000
Electricity expenses	275,000
Water expenses	200,000
Rent of factory	225,000
Insurance expenses	300,000
Direct wages	1,270,000
Fuel for factory's machinery	130,000
Factory Manager's salary	860,000
Depreciation on factory's machinery	270,000

The following additional information is also provided:

(1) Inventories as at 31st March 2020 were valued as follows:

Description	Cost (Rs.)
Raw material	900,000
Work-In-Progress (valued at Prime Cost)	690,000

(2) The following expenses are to be allocated between factory and office as follows:

Expenses	Factory	Office
Electricity	80%	20%
Water	75%	25%
Insurance	90%	10%

(3) The completed school bags are transferred to the trading division at a profit margin of 20% on cost.

You are required to:

Prepare the Manufacturing Account of **BMI** for the year ended 31st March 2020. (10 marks)

Question 05

- (A) The following transactions were extracted from the books of **Sam Traders** a sole proprietorship for the month of March 2020:

Date	Transaction
02.03.2020	Purchased goods of Rs.450,000/- for resale on credit.
05.03.2020	Stock costing of Rs.390,000/- was sold on credit for Rs.445,000/-.
10.03.2020	Sam has taken goods costing Rs.38,500/- for his personal use.
15.03.2020	Rs.25,000/- was paid for staff salary.
15.03.2020	Invested Rs.200,000/- in a fixed deposit of a bank.

You are required to:

Record the effect of the above transactions to the following Accounting Equation.

$$[Inventory + Debtors + Fixed Deposit + Cash = Equity + Liabilities] \quad (05 \text{ marks})$$

- (B) Bank balance as per the bank statement of **Ranasinghe & Co.** as at 31st March 2020 was not agreed with the favourable (debit) cash control account (cash book) balance of Rs.155,000/-.

The following reasons were identified later:

- (1) The bank has deducted Rs.75,000/- from the bank account as per standing order instruction and this was not recorded in the cash book.
- (2) A direct deposit of Rs.30,000/- received to the bank from a customer was not recorded in the cash book.
- (3) A cheque of Rs.195,000/- was issued by **Ranasinghe & Co.** on 29th March 2020, but it was not presented for payment to the bank as at 31st March 2020.
- (4) A cheque of Rs.65,000/- deposited to the bank by **Ranasinghe & Co.** on 30th March 2020 was not realized as at 31st March 2020.
- (5) The bank charges of Rs.1,500/- were not recorded in the cash book.

You are required to:

- (a) **Prepare** the adjusted Cash Control Account (Cash Book). (03 marks)
- (b) **Identify** the balance appeared in the Bank Statement as at 31st March 2020. (02 marks)
(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Golden Tech is a sole proprietorship owned by **Karunathilaka**. The Trial Balance of **Golden Tech** as at 31st March 2020 is as follows:

Description	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land	3,000	
Buildings	3,500	
Motor Vehicle	2,700	
Accumulated Depreciation as at 01 st April 2019:		
Buildings		620
Motor Vehicle		440
Inventory as at 01 st April 2019	6,200	
Purchases	18,250	
Sales		33,900
Provision for doubtful debts as at 01 st April 2019		200
Capital Account as at 01 st April 2019		9,450
Bank Loan		2,500
Electricity Expenses	3,200	
Water Expenses	450	
Trade Receivables	3,850	
Trade Payables		2,600
Salaries and Wages	5,550	
Travelling Expenses	290	
Cash in hand and Bank Balance	1,100	
Insurance Expenses	1,200	
Advertising Expenses	100	
Drawings	320	
	49,710	49,710

The following additional information is also provided:

- (1) The closing inventory as at 31st March 2020 was valued at cost of Rs.3,800,000/-.
- (2) Furniture costing of Rs.600,000/- was purchased on 01st October 2019 on credit basis from **X Ltd.** and it was not recorded in the books of accounts. The policy of the business is to provide depreciation on the straight-line basis at cost as follows:

Buildings	:	5% per annum
Motor Vehicles	:	20% per annum
Furniture	:	25% per annum

- (3) The management decided to write-off the following trade receivable balances as bad debt:

	Rs.
Prasanna	150,000
Samantha Associates	200,000
DKW & Company	500,000
	850,000

In addition to the above, a general provision of 10% for doubtful debts on trade receivables balance as at 31st March 2020 should be made after writing off of the above balances.

- (4) The Bills payable for the month of March 2020, were as follows:

Electricity	:	Rs.350, 000/-
Water	:	Rs.80, 000/-

- (5) The bank loan of Rs.2,500,000/- was obtained on 01st March 2020 at the interest rate of 12% per annum. First installment should be paid on 01st April 2020. Interest payable for the year ended 31st March 2020 was not accounted in the books of accounts.

You are required to:

Prepare the following:

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