



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2021

(101) FINANCIAL ACCOUNTING

30-10-2021

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 An objective of the Financial Accounting is:

- (1) To motivate the employees of the business.
- (2) To increase the profitability of the business.
- (3) To understand the financial position of the business.
- (4) To decide the selling price of products of the business.

1.2 As at 31st March 2021, **Samanala Traders** recorded Rs.25,000/- as the electricity expense for the month of March 2021, but the payment was made in the month of April 2021.

The accounting concept relating to the above statement is:

- | | |
|----------------------------|-----------------------|
| (1) Entity Concept. | (2) Accrual Concept. |
| (3) Going Concern Concept. | (4) Prudence Concept. |

1.3 Which one of the following is considered as an example of a time difference in preparing the bank reconciliation statement?

- (1) Rs.25,000/- received from **Sarath** as a direct deposit was not recorded in the books of accounts.
- (2) Cheque book charges of Rs.5,000/- was not recorded in the books of accounts.
- (3) A cheque of Rs.23,000/- issued to a supplier was not presented to the bank for payment.
- (4) An amount of Rs.3,500/- was erroneously debited by the bank.

1.4 The following transactions were extracted from the books of accounts of **Nayana's Business**, a sole proprietorship for the year ended 31st March 2021:

| | Rs. |
|---|------------|
| Capital account as at 01 st April 2020 | 1,800,000 |
| Drawings made during the year | 175,000 |
| Personal motor vehicle transferred to the business by the owner during the year | 1,000,000 |
| Profit for the year ended 31 st March 2021 | 490,000 |

Based on the above information, the equity (capital) as at 31st March 2021 was:

- (1) Rs.3,465,000/-. (2) Rs.3,115,000/-. (3) Rs.2,465,000/-. (4) Rs.2,115,000/-.

1.5 Of the following, select the transaction that affects to decrease in assets:

- (1) Purchased a motor lorry of Rs.1,500,000/- on credit to deliver the goods.
- (2) Obtained a loan of Rs.1,000,000/- from a commercial bank.
- (3) Purchased an inventory of Rs.350,000/- on credit for resale.
- (4) Paid an amount of Rs.250,000/- to a creditor.

1.6 Which one of the following is an accounting output of the process of accounting?

- (1) Income statement.
- (2) Sales day book.
- (3) Journal voucher.
- (4) Sales invoice.

1.7 The source document which is used by a buyer to return the goods purchased on credit is:

- (1) Credit Note.
- (2) Purchase Invoice.
- (3) Purchase Order.
- (4) Debit Note.

1.8 Which one of the following is an example for a Specialized (Customized) Accounting Software?

- | | |
|-----------------|---------------------------|
| (1) ACCPAC. | (2) Stock Control System. |
| (3) Quick Book. | (4) SAGE. |

1.9 Rama Traders has a land in Kandy and it is shown in the Statement of Financial Position of **Rama Traders** as at 31st March 2021 at purchase price of Rs.5,000,000/-. However, the market value of this land as at 31st March 2021 was Rs.6,000,000/-. The accounting concept relating to this is:

- | | |
|------------------------------|----------------------------|
| (1) Consistency Concept. | (2) Matching Concept. |
| (3) Historical Cost Concept. | (4) Going Concern Concept. |

1.10 Sampath Traders has disposed a motor lorry for Rs.500,000/- on 01st January 2021. This was purchased on 01st January 2017 at cost of Rs.1,600,000/-. The entity's policy is to depreciate the motor vehicles at 20% per annum using the straight-line basis at cost:

Based on the above information, the profit on disposal of the motor lorry was:

- | | |
|---------------------|-------------------|
| (1) Rs.500,000/-. | (2) Rs.180,000/-. |
| (3) Rs.1,600,000/-. | (4) Rs.900,000/-. |

*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 As per the entity concept, the business and owner are considered as two separate independent entities.

1.12 Balance appeared in the cash control account of a business entity at the end of each month should be equal to the balance showed in the bank statement of the entity at the end of each month.

1.13 General journal is a prime entry book.

1.14 Expenses and income are the elements directly related to the Statement of Financial Position.

1.15 A liability is a present obligation of the entity arising as a result of a past event.

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) stakeholders of a business.

1.17 State two(02) reasons for moving in to Computerized Accounting Systems.

1.18 State two(02) examples for current liabilities.

1.19 The debit balance of Cash Control Account of **Jackson Traders** as at 31st March 2021 was Rs.435,000/-, and it was not agreed with the balance in the bank statement due to the following reasons:

- A direct deposit of Rs.25,000/- has not been recorded in the cash control account.
- A cheque of Rs.75,000/- issued on 30th March 2021 was not presented to the bank for the payment.
- The bank charge of Rs.5,000/- was not recorded in the cash control account.

Based on the above information, identify the balance appeared in the bank statement as at 31st March 2021.

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

| | Rs. |
|---|---------|
| Trade Receivables (Debtors) Control Account balance as at 01 st January 2021 | 500,000 |
| Sales day book total for the month | 400,000 |
| Return Inwards Journal total for the month | 25,000 |
| Cash Received from Debtors during the month | 200,000 |

Identify the Trade Receivables (Debtors) Control Account balance as at 31st January 2021.
(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

(A) **Sam** started a retail shop on 01st March 2021. The following transactions were occurred during the month of March 2021:

| Date | Transaction |
|------------|---|
| 01.03.2021 | Invested Rs.1,000,000/- in cash as the initial capital. |
| 02.03.2021 | Purchased goods of Rs.800,000/- on credit for resale. |
| 05.03.2021 | Paid monthly shop rent of Rs.50,000/-. |
| 10.03.2021 | Goods costing of Rs.500,000/- were sold for Rs.750,000/- in cash. |
| 15.03.2021 | Staff salary of Rs.150,000/- was paid. |
| 31.03.2021 | Obtained a bank loan of Rs.500,000/-. |

You are required to:

State the effect of each of the above transactions to the following accounting equation.

(Inventory + Trade Debtors + Cash = Equity + Liabilities)

(06 marks)

- (B) **Sanka Traders** is a sole proprietorship and the following credit purchase transactions are extracted from the books of accounts of the business for the month of March 2021:

| Date | Invoice No. | Name of the Supplier | Description | Quantity | Price per Unit (Rs.) | Trade Discount |
|------------------------|-------------|----------------------|-------------|----------|----------------------|----------------|
| 01 st March | 465 | Nimal & Co. | Rice bags | 50 | 500 | - |
| 10 th March | 950 | Samantha Grocery | Sugar bags | 100 | 2,000 | - |
| 15 th March | 495 | Nimal & Co. | Rice bags | 100 | 500 | 5% |

You are required to:

Prepare the Purchase Day book (Purchase Journal) of **Sanka Traders** for the month of March 2021.

(04 marks)

(Total 10 marks)

Question 03

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

| Description | Rs. |
|--|-----------|
| Raw Material Stock as at 01 st April 2020 | 600,000 |
| Raw Material Purchases | 2,300,000 |
| Work in- Progress as at 01 st April 2020 | 350,000 |
| Direct Wages | 890,000 |
| Electricity | 360,000 |
| Factory Manager's salary | 625,000 |
| Water | 180,000 |
| Depreciation on Plant & Machinery | 110,000 |
| Depreciation on Building | 135,000 |

The following additional information is also provided:

- (1) Closing inventory balances as at 31st March 2021 were valued as follows:

| Description | Cost (Rs.) |
|---|------------|
| Work-in-Progress (Valued at Prime Cost) | 290,000 |
| Raw Material Stock | 1,250,000 |

- (2) 90% of the floor area of the building belongs to the factory and plant & machinery are fully utilized for the production process.
- (3) The following expenses should be allocated as follows:

| Expenses | Factory | Office |
|-------------|---------|--------|
| Electricity | 90% | 10% |
| Water | 60% | 40% |

- (4) An additional incentive of Rs.100/- per unit for each unit produced is entitled by production workers other than the direct wages. Total number of units produced during the year was 600 units.

You are required to:

Prepare the Manufacturing Account of **KDI Traders** for the year ended 31st March 2021.

(10 marks)

Question 04

Ruberu Traders, a sole proprietorship was started by **Ruberu** on 01st April 2020 by investing Rs.2,500,000/- in cash and transferring his personal motor vehicle valued at Rs.1,500,000/-, to the business.

The Cash Book (Cash Control Account) for the year ended 31st March 2021 was as follows:

| | Dr. (Rs.) | | Cr. (Rs.) |
|----------------------------|------------------|-----------------------------|------------------|
| Initial Capital Investment | 2,500,000 | Payments to Trade Creditors | 1,300,000 |
| Receipt from Trade Debtors | 1,800,000 | Cash purchases | 600,000 |
| Cash sales | 900,000 | Electricity | 69,000 |
| | | Salaries and wages | 93,000 |
| | | Water | 18,000 |
| | | Balance C/F | 3,120,000 |
| | 5,200,000 | | 5,200,000 |
| Balance B/F | 3,120,000 | | |

The following additional information is also provided:

- (1) The motor vehicle is to be depreciated at the rate of 20% per annum on the straight-line basis at cost.
- (2) Receivables and Payables as at 31st March 2021 were as follows:

| Receivables / Payables | Rs. |
|---------------------------|---------|
| Trade Debtors | 250,000 |
| Trade Creditors | 390,000 |
| Accrued Electricity bills | 11,000 |
| Pre-Paid Water bills | 2,000 |

You are required to:

Prepare the Trial Balance of **Ruberu Traders** as at 31st March 2021.

(10 marks)

Question 05

RT Traders is in the business of selling electrical items. The Trial Balance of **RT Traders** as at 31st March 2021 was not agreed and the difference of Rs.31,000/- was identified. The draft financial statements were prepared by crediting the difference to a suspense account.

The following errors were identified subsequently.

- (1) Purchase of an office equipment of Rs.150,000/- on 01st March 2021, for office use was recorded to office equipment maintenance account. Office equipment is depreciated at the rate of 20% per annum on the straight-line basis at cost.
- (2) Rent expenses of Rs.150,000/- have not been debited to rent expenses account. However, credit entry of this was correctly recorded to the relevant ledger account.
- (3) A cash purchase of Rs.190,000/- has been debited twice to purchase account, whereas it was correctly recorded in the cash book.
- (4) Cost of the goods taken by the owner of the business for his personal use was Rs.98,000/-. This was debited to drawings account as Rs.89,000/-. However, the corresponding credit entry was recorded correctly.
- (5) Total of the purchases day book was overstated by Rs.50,000/-.
- (6) Interest of Rs.2,500/- received on a fixed deposit has been completely omitted from the books of accounts.

You are required to:

Prepare the following:

- (a) Journal entries to rectify the above errors. (07 marks)
 - (b) Suspense Account. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

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

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

| Description | Dr. | Cr. |
|---|----------------|----------------|
| Property, Plant and Equipment at Cost: | | |
| Land and Building (Land value - Rs.1,400,000/-) | 3,600 | |
| Motor Lorry | 1,600 | |
| Office Equipment | 2,000 | |
| Accumulated Depreciation as at 01 st April 2020: | | |
| Building | | 500 |
| Motor Lorry | | 850 |
| Office Equipment | | 1,200 |
| Purchases | 73,000 | |
| Sales | | 114,000 |
| Inventory as at 01 st April 2020 | 8,200 | |
| Insurance | 1,560 | |
| Trade Receivables | 7,600 | |
| Trade Payables | | 5,400 |
| Electricity Expenses | 9,600 | |
| Telephone charges | 2,100 | |
| Salaries and Wages | 22,500 | |
| Bank Charges | 1,200 | |
| Rent Income received | | 1,000 |
| Discounts given | 390 | |
| Advertising | 1,800 | |
| Capital Account as at 01 st April 2020 | | 20,000 |
| Cash in hand and at bank | 7,800 | |
| | 142,950 | 142,950 |

The following additional information is also provided:

- (1) Closing Inventory as at 31st March 2021 was valued at cost of Rs.10,200,000/-.
- (2) The policy of the business is to provide depreciation on the straight-line basis at cost as follows:

| | | |
|------------------|---|---------------|
| Building | : | 10% per annum |
| Motor Lorry | : | 20% per annum |
| Office Equipment | : | 25% per annum |
- (3) Insurance of Rs.1,560,000/- is relevant for the period from 01st January 2021 to 31st December 2021.
- (4) **Milky Traders** has rented out a part of the building to **XY Ltd.** for Rs.100,000/- per month from 01st April 2020. Rent income for February and March 2021 was received during the April 2021.
- (5) The following expenses for the month of March 2021 have not been accrued in the books of accounts:

| | | |
|--------------------|---|----------------|
| Electricity Bill | : | Rs.850,000/- |
| Salaries and Wages | : | Rs.1,800,000/- |
- (6) Due to COVID-19 pandemic, a customer was declared bankrupt and therefore the management has decided to write-off the balance of Rs.100,000/- due from him as a 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. |