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Index No.

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**Institute of Certified Management Accountants of Sri Lanka  
Foundation Level**

**November 2014 Examination**

|                           |                                |                             |    |
|---------------------------|--------------------------------|-----------------------------|----|
| <b>Examination Date :</b> | 15 <sup>th</sup> November 2014 | <b>Number of Pages :</b>    | 09 |
| <b>Examination Time:</b>  | 9.30 a.m. – 11.30 a.m.         | <b>Number of Questions:</b> | 50 |

**Instructions to Candidates**

1. Time allowed is **two (2) hours**.
2. Total: **100 Marks**.
3. Answer **all** questions.
4. You will need to write your **index number** on the question paper as instructed. Please ensure that your index number is written on each page and that you collate and secure your script at the end of the assessment.
5. **Please indicate your answers in the question paper itself**. Strictly prohibited to take out your question paper / working sheets from the Examination Centre.
6. **Encircle** the correct answer in relation to **Multiple Choice Questions**. **Provide a concise answer in the space provided in relation to questions that require short answers.**
7. Candidates are allowed to use non-programmable calculators.
8. The answers should be in **English Language**.

| <u>Subject</u>                           | <u>Subject Code</u>       |
|--|---------------------------|
| <b>Financial Accounting Fundamentals</b> | <b>(FAF / FL 2 - 102)</b> |

- (1) Which of the following statement is **true** in relation to financial accounting?
  - (a) Generally Accepted Accounting Practices are not used in financial accounting.
  - (b) The objective of financial accounting is to provide information to internal stakeholders.
  - (c) The output of financial accounting is always an input to management accounting.
  - (d) The information provided through financial accounting generally takes historical nature.
- (2) Which of the following statements is **true** in relation to an asset?
  - (a) It results from either a past or future transaction.
  - (b) It is a resource owned by the business.
  - (c) It is a resource controlled by the business.
  - (d) It results in future outflow of economic resources to an entity.
- (3) Which of the following statements is **false** in relations to prime entry books?
  - (a) All transactions are recorded in prime entry books based on the double entry system.
  - (b) Data gathered from source documents are used in prime entry books.
  - (c) Transactions are recorded in prime entry books before they are recorded in the ledger accounts.
  - (d) General Journal is the prime entry book used to record transactions which are not recorded in any other specific journal.
- (4) Trade creditors of the business were settled by issuing a cheque of Rs.45,000/- subject to Rs.5,000/- discount. What is the impact of this transaction to the business?
  - (a) Both assets and liabilities decreased by Rs.45,000/-
  - (b) Both assets and liabilities decreased by Rs.50,000/-
  - (c) Assets decreased by Rs.45,000/-, equity increased by Rs.5,000/- and liabilities decreased by Rs.50,000/-
  - (d) Assets decreased by Rs.50,000/-, equity increased by Rs.5,000/- and liabilities decreased by Rs.45,000/-

- (5) Goods purchased for Rs.75,000/- were sold for Rs.65,000/- on credit. What is the impact of this transaction to the business?
- Both assets and equity increases by Rs.10,000/-.
  - Both assets and equity decreases by Rs.10,000/-.
  - Assets are decreased by Rs.75,000/-, increased by Rs.65,000/- and equity increased by Rs.10,000/-.
  - Assets decreased by Rs.75,000/-, liabilities increased by Rs.65,000/- and equity decreased by Rs.10,000/-.
- (6) Which of the following transactions results in decrease of assets, equity and liabilities?
- Paid Rs.45,000/- to a creditor subject to a 10% discount.
  - Sold goods for Rs.60,000/- on credit with a loss of Rs.20,000/-.
  - Paid a loan installment of Rs.35,000/- including an interest of Rs.10,000/-.
  - Returned goods by the customer which was sold for Rs.25,000/- with a profit of Rs.10,000/-.
- (7) Which of the following statements is **true** in relation to the double entry system?
- It is the system used to record transactions in both prime entry books and ledger.
  - It is the system which assures that all the transactions are accurately recorded in ledger accounts.
  - It is the system of debiting and crediting of two accounts to represent increase in equity and decrease in assets.
  - It is the system of debiting one account and crediting another account to represent the dual impact of a transaction.
- (8) A cheque of Rs.45,000/- issued to Sanath, a creditor has been dishonored by the bank. The correct double entry to record this transaction is:

|     |   | Debit (Rs.) | Credit (Rs.) |
|-----|---|-------------|--------------|
| (a) | Purchase Account<br>Bank Account              | 45,000      | 45,000       |
| (b) | Creditors Control Account<br>Bank Account     | 45,000      | 45,000       |
| (c) | Bank Account<br>Creditors Control Account     | 45,000      | 45,000       |
| (d) | Dishonored Cheque Account<br>Purchase Account | 45,000      | 45,000       |

*Use the following information to answer question nos. 9 and 10.*

A petty cashier of a business was given a petty cash imprest of Rs.6,000/- as at 01/04/2014. The petty cashier spent Rs.4,400/- during the month of April. The reimbursement was done on 01/05/2014. During the month of May 2014 the following payments were made by the petty cashier.

|                       | Rs.     |
|-----------------------|---------|
| Travelling Expenses   | 2,150/- |
| Refreshments Expenses | 1,600/- |
| Postage Expenses      | 1,100/- |

- (9) The amount received by the petty cashier on 01/05/2014 was:
- Rs.1,600/-
  - Rs.4,400/-
  - Rs.4,850/-
  - Rs.6,000/-
- (10) The amount available with the petty cashier as at 31/05/2014 was :
- Rs.1,150/-
  - Rs.1,600/-
  - Rs.4,850/-
  - Rs.6,000/-

*Use the following information to answer question nos. 11 to 13.*

The total of the debit column of the Trial Balance prepared as at 31/03/2014 by Gamage Traders business did not agree with the total of the credit column. The difference was transferred to a suspense account. The following errors were identified during the subsequent investigation.

- A purchase invoice of Rs.35,000/- has not been recorded in the purchase day book.
- A payment for advertising of Rs.65,000/- has been debited to electricity expense account as Rs.56,000/-.
- A receipt of Rs.25,000/- has been credited to the relevant debtor account in the general ledger as Rs.2,500/-.

The draft net profit for the year ending 31/03/2014 was Rs.650,000/- before correcting the above errors.

(11) The journal entry to correct the error in recording of payment for advertising is:

|     | Description  | Debit(Rs.)      | Credit(Rs.)     |
|-----|--|-----------------|-----------------|
| (a) | Advertising Expense Account<br>Suspense Account<br>Electricity Expense Account | 65,000          | 9,000<br>56,000 |
| (b) | Advertising Expense Account<br>Suspense Account<br>Electricity Expense Account | 56,000<br>9,000 | 65,000          |
| (c) | Advertising Expense Account<br>Electricity Expense Account                     | 56,000          | 56,000          |
| (d) | Advertising Expense Account<br>Electricity Expense Account                     | 65,000          | 65,000          |

(12) The balance of suspense account before correcting the above errors was:

- (a) Rs.13,500/- debit
- (b) Rs.13,500/- credit
- (c) Rs.31,500/- debit
- (d) Rs.31,500/- credit

(13) The profit for the year ending 31/03/2014 after rectifying the above errors is:

- (a) Rs.550,000/-
- (b) Rs.606,000/-
- (c) Rs.676,000/-
- (d) Rs.694,000/-

(14) A debit note of Rs.22,500/- received from a customer has been recorded in the sales return journal as Rs.20,000/-. The journal entry to correct this error is:

|     | Description   | Debit(Rs.)           | Credit(Rs.)          |
|-----|---|----------------------|----------------------|
| (a) | Sales Return Account<br>Debtors Control Account   | 20,000               | 20,000               |
| (b) | Purchase Return Account<br>Suspense Account<br>Sales Return Account   | 22,500               | 2,500<br>20,000      |
| (c) | Creditors Control Account<br>Purchase Return Account<br><br>Debtors Control Account<br>Sales Return Account | 22,500<br><br>20,000 | 22,500<br><br>20,000 |
| (d) | Purchase Return Account<br>Creditors Control Account<br><br>Sales Return Account<br>Debtors Control Account | 22,500<br><br>20,000 | 22,500<br><br>20,000 |

- (15) Which of following statements is **false** in relation to posting of transactions from prime entry books to the General Ledger?
- (a) Total of the purchase day book is debited to purchase account by crediting creditors control account.
  - (b) Total of the sales day book is debited to debtors control account by crediting sales account.
  - (c) Total of the sales return day book is debited to debtors control account by crediting the Sales return account.
  - (d) Total of the Purchase return day book is debited to creditors control account by crediting the Purchase return account.
- (16) The bank balance as per cash book of a business as at 31/03/2014 was Rs.55,000/- (Debit). However the bank statement sent by the bank showed a balance of Rs.45,000/- (Credit) on this date. Which of the following reasons has caused this difference?
- (a) Issued but unpresented cheques of Rs.10,000/-.
  - (b) Deposited but unrealized cheques of Rs.10,000/-.
  - (c) Direct fund transfer made by debtor of Rs.10,000/-.
  - (d) Interest on fixed deposit of Rs.10,000/- credited to account by the bank.

***Use the following information to answer question nos. 17 & 18.***

The bank overdraft balance of the Nimali's business as at 31/03/2014 was of Rs.75,000/- as per the bank statement. However, the balance as per records of the business on this date did not agree with this balance. The following reasons were identified in a subsequent investigation.

- Cheques deposited but not realized was Rs.25,000/-.
  - Cheques issued to creditors but not presented to the bank was Rs.39,000/-.
  - A cheque issued to a supplier of Rs.22,000/- has been dishonored but this is not recorded in the books of the business.
- (17) The bank balance as per books of accounts of the business as at 31/03/2014 is:
- (a) Rs. 61,000/-
  - (b) Rs. 83,000/-
  - (c) Rs. 97,000/-
  - (d) Rs.111,000/-
- (18) The bank balance shown in the Statement of Financial Position of Nimali's business as at 31/03/2014 is:
- (a) Rs. 75,000/-
  - (b) Rs. 89,000/-
  - (c) Rs.119,000/-
  - (d) Rs.132,000/-
- (19) Which of the following group of prime entry books is used to record transactions in Debtors Control Account?
- (a) Sales Journal, Cash Book, Sales Return Journal and General Journal
  - (b) Sales Journal, Cash Book, Purchase Return Journal and General Journal
  - (c) Purchase Journal, Cash Book, Purchase Return Journal and General Journal
  - (d) Purchase Journal, Cash Book, Sales Return Journal and General Journal
- (20) A business had a prepaid advertising expense of Rs.32,000/- as at 31/03/2013. During the year ending 31/03/2014, the business paid Rs.197,000/- for the advertising. However, there was accrued advertising expense of Rs.25,000/- as at 31/03/2014. The advertng expenses recognized in the income statement for year ending 31/03/2014 is:
- (a) Rs.190,000/-
  - (b) Rs.197,000/-
  - (c) Rs.204,000/-
  - (d) Rs.254,000/-

- (21) Which of the following is **false** in relation to the Section 24 of the Partnership Act of 1890?
- (a) Partners should share profits or losses of the business equally.
  - (b) Partners are not entitled to receive salary for services provided by them.
  - (c) Partners are entitled to receive 5% interest on their capital balances.
  - (d) Partners are entitled to receive 5% interest for the loan given to the partnership.

***Use the following information to answer question nos. 22 and 23.***

Siva and Bala are partners of SB Associates and they are sharing profit and losses in the ratio of 7:3 respectively. According to the partnership agreement, Siva and Bala are entitled to a monthly salary of Rs.15,000/- and Rs.20,000/- respectively. Further, partners are entitled to receive an interest on capital at 10% per annum. During the year ending 31/03/2014, Siva and Bala made drawings of Rs.50,000/- and Rs.80,000/- respectively. The capital balances of Siva and Bala as at 01/04/2013 were Rs.900,000/- and Rs.600,000/- respectively. The current account balances of Siva and Bala on this date were Rs.60,000/- and Rs.75,000/- respectively. Net Profit for the year ending 31/03/2014 was Rs.800,000/-.

- (22) The total profit distributed to Siva for the year ending 31/03/2014 is:

- (a) Rs.161,000/-
- (b) Rs.369,000/-
- (c) Rs.431,000/-
- (d) Rs.441,000/-

- (23) The current account balance of Bala as at 31/03/2014 is:

- (a) Rs.364,000/-
- (b) Rs.369,000/-
- (c) Rs.441,000/-
- (d) Rs.444,000/-

- (24) Ananda and Damith were partners of AD Associates and they were sharing profit and losses in the ratio of 5:3 respectively. Sandaruwan joined the partnership on 01/04/2013 as a partner by investing Rs.600,000/- as capital. The profit and losses are shared in the new partnership among Ananda, Damith and Sandaruwan at the ratio of 5:3:2 respectively. The goodwill of the partnership as at 01/04/2013 was valued at Rs.800,000/-. The capital balances of Ananda and Damith as at 31/03/2013 were Rs.850,000/- and Rs.700,000/- respectively.

The capital account balances of Ananda and Sandaruwan respectively as at 31/03/2014 are:

- (a) Rs.950,000/- and Rs.600,000/-
- (b) Rs.950,000/- and Rs.440,000/-
- (c) Rs.750,000/- and Rs.440,000/-
- (d) Rs.750,000/- and Rs.600,000/-

- (25) Mahela and Sanath were partners of MS Associates and on 01/04/2014 partners decided to convert the partnership into a limited liability company in the name of MS (Pvt.) Ltd. Total assets and liabilities of the partnership as at the date of the conversion were Rs.750,000/- and Rs.180,000/- respectively. All the liabilities except trade creditors of Rs.100,000/- were settled prior to conversion. A motor vehicle with the net book value of Rs.300,000/-, was taken over by Sanath at a value of Rs.250,000/-. All other assets and liabilities were taken over by MS (Pvt.) Ltd. at their book value.

The purchase consideration is:

- (a) Rs.270,000/-
- (b) Rs.350,000/-
- (c) Rs.400,000/-
- (d) Rs.570,000/-

- (26) Which of the following statements is **true** in relation to a not-for profit organization?
- (a) Receipts and payments account is prepared on accrual basis.
  - (b) Life membership fee should be treated as an income in the year that it is received.
  - (c) The balance of income and expenditure account is identified as surplus or deficit.
  - (d) Subscription in arrears at the end of the year is recorded under current liabilities in the Statement of Financial Position.

- (27) Which of the following is **not** an example for application of prudence concept?
- (a) A provision for doubtful debts of Rs.25,000/- was made for a debtor.
  - (b) Goods withdrawal of Rs.25,000/- was deducted from purchases when calculating the cost of sales.
  - (c) Closing stock was valued at net realizable value of Rs.200,000/- while its cost was Rs.225,000/-.
  - (d) Payment for staff training Rs.300,000/- has been considered as expense of the current year even though it may generate benefits over several years.

- (28) Rent receivable of a business as at 31/03/2013 was Rs.60,000/-. During the year ending 31/03/2014, the business received Rs.300,000/- from the tenants. The rent received in advance as at 31/03/2014 was Rs.90,000/-. The rent income recognized for the year ending 31/03/2014 is:
- (a) Rs.150,000/-
  - (b) Rs.270,000/-
  - (c) Rs.300,000/-
  - (d) Rs.390,000/-

- (29) Salaries paid to employees of Reka's business for the year ending 31/03/2014 after deducting 8% employees' contribution for EPF is Rs.460,000/-. The employer's contribution for EPF is 12% and total amount paid by the business for EPF during the year is Rs.70,000/-. The EPF expense for the year is:
- (a) Rs.40,000/-
  - (b) Rs.55,200/-
  - (c) Rs.60,000/-
  - (d) Rs.70,000/-

- (30) Which of the following statements is **true** in relation to Statement of Financial Position?
- (a) It is prepared for a particular date.
  - (b) It is a financial statement as well as an account.
  - (c) It is prepared after closing all assets and liabilities accounts.
  - (d) It provides information about financial position and performance of the business.

- (31) Differentiate the prime cost and manufacturing overhead.

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- (32) Briefly explain the entity concept.

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- (33) State the source documents used to record the following transactions.
- (a) Return of goods purchased :.....
- (b) Make provisions for doubtful debts:.....

- (34) Briefly explain the qualitative characteristic '**understandability**' as per the Conceptual Framework for financial reporting.

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- (35) Total of the purchase day book of Saranga Traders was overstated by Rs.10,000/-. The business does not maintain control accounts for debtors and creditors. Write the journal entry to rectify this error.

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- (36) The debtors balance of a business as at 31/03/2013 and 31/03/2014 were Rs.425,000/- and Rs.367,000/- respectively. During the year ending 31/03/2014 business sold goods for Rs.950,000/- and out of which 70% was credit sales. Total discount allowed to debtors during the year was Rs.44,000/-. During the year debts of Rs.43,000/- was written off as bad debts. The cash received from the debtors during the year ending 31/03/2014 is:

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- (37) What is meant by 'balance between benefit and cost of information'?

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- (38) The administration expense paid by a business during the year ending 31/03/2014 was Rs.650,000/-. This payment included settlement of Rs.60,000/- which was accrued as at 31/03/2013. The accrued and prepaid administration expenses as at 31/03/2014 were Rs.45,000/- and Rs.55,000/- respectively. The administration expenses recognized for year ending 31/03/2014 is:

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- (39) The following balances were extracted from the Trial Balance of Indunil Traders as at 31/03/2014.

|  | Debit (Rs.) | Credit (Rs.) |
|--|-------------|--------------|
| Inventories as at 01/04/2013           | 230,000     |              |
| Purchases                              | 750,000     |              |
| Sales                                  |             | 910,000      |
| Return of sales and Return of purchase | 35,000      | 48,000       |
| Carriage inwards                       | 12,500      |              |
| Carriage outwards                      | 22,000      |              |

The inventories as at 31/03/2014 valued at cost was Rs.250,000/- and net realizable value of these inventories was estimated as Rs.210,000/-. The gross profit for the year ending 31/03/2014 is:

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- (40) Prime cost of a manufacturing business for the year ending 31/03/2014 was Rs.850,000/- which was consisted of direct material and direct labour. The cost of direct labour is Rs.360,000/-. The raw material stock as at 31/03/2013 and 31/03/2014 were Rs.120,000/- and Rs.185,000/- respectively. The cost of raw material purchased during the year is:

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- (41) Gross profit of a manufacturing business for the year ending 31/03/2014 was Rs.750,000/-. The business keeps 50% profit margin on sales value. Finished goods stock as at 31/03/2013 and 31/03/2014 were Rs.210,000/- and Rs.310,000/- respectively. The total manufacturing cost of the business for the year ending 31/03/2014 is:

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**Use the following information to answer question nos. 42 & 43.**

Stars Sports Club had 50 members as at 31/03/2013 and out of which 5 members left the club on 01/04/2013 without paying subscription in arrears for the year 2012/2013. 20 new members joined the club during the year ending 31/03/2014. The subscription in arrears and received in advance as at 31/03/2013 was Rs.55,000/- and Rs.75,000/-. The annual subscription per member is Rs.5,000/-. There were not any subscriptions in arrears or received in advance as at 31/03/2014.

- (42) Total subscription income recognized for the year ending 31/03/2014 is:

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- (43) Total subscription received during the year ending 31/03/2014 is:

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- (44) Classify the following accounts used by a partnership into assets / liabilities / equity / income / expenses.

- (a) Partners' current accounts - .....
- (b) Partners' capital accounts - .....
- (c) EPF payable account - .....
- (d) Provision for depreciation account - .....

- (45) Goods costing Rs.210,000/- was destroyed due to a fire. The scrap items were sold for Rs.50,000/-. These goods had been insured and the insurance company agreed to pay 60% of the cost of destroyed goods. The amount of stock loss to be recognized as an expense of the business is:

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- (46) Sanath, Roshan and Arawinda were partners of SRA partnership and they shared profits and losses in the ratio of 3:2:1 respectively. Roshan retired from the partnership as at 01/04/2014 and Sanath and Arawinda decided to continue the partnership sharing profits and losses in the ratio of 2:1 respectively. The goodwill of the partnership as at 01/04/2014 was valued at Rs.600,000/-. The capital balances of Sanath, Roshan and Arawinda as at 31/03/2014 were Rs.900,000/-, Rs.650,000/- and Rs.700,000/- respectively.

**Calculate** the capital balances of Sanath and Arawinda after adjusting the goodwill.

- (a) Sanath : .....
- (b) Aravinda : .....



**Use the following information to answer question Nos.47 and 48.**

Hiru and Tharu are partners of HT Associates. According to the partnership agreement Hiru is entitled to receive a monthly salary of Rs.25,000/- as a partner and six months salaries were paid to him during the year ending 31/03/2014. Tharu is the Finance Manager of the Partnership and his annual salary is Rs.420,000/-, of which four months salaries were accrued as at 31/03/2014.

- (47) The journal entry to record the salary paid to Tharu during the year is:

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- (48) The journal entry to record the salary entitled by Hiru when profit is distributed at the end of the year is:

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- (49) Amal and Kamal were carrying a partnership sharing profits and losses equally. The total assets and equity of the partnership as at 31/03/2014 were Rs.900,000/- and Rs.650,000/- respectively. The partnership was converted into a limited liability company on 01/04/2014 by transferring all assets and liabilities at a purchase consideration of Rs.780,000/-. The realization gain or loss of partnership due to the conversion is:

.....

- (50) Total assets and liabilities of Deshani Traders as at 31/03/2013 were Rs.975,000/- and Rs.250,000/- respectively. The increase in the assets and decrease in the liabilities during the year ending 31/03/2014 were Rs.560,000/- and Rs.80,000/- respectively. During the year, Deshani invested Rs.325,000/- as additional capital and made drawings of Rs.55,000/-.

How much was the profit or loss for the year ending 31/03/2014?

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**(50 × 2 Marks = Total 100 Marks)**  
End of Question Paper

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