



Institute of Certified Management Accountants of Sri Lanka

Incorporated by Parliament Act No.23 of 2009

PILOT PAPER



CAT 1: Financial Accounting (FA)

INFORMATION:

1. Time allowed:
Reading– 15 minutes.
Writing - Three (3) hours
2. The total mark allowed for this paper is 100.
3. This paper has 18 pages.

INSTRUCTIONS:

4. This paper consists of three sections.
Section I: 25 Multiple Choice Questions (MCQs)
Section II: Question no. 01 (Compulsory Question)
Section III: Question no. 02 – 05 (Answer any two questions)
5. Answer only four (04) questions including Sections 1 and II
6. The answers should be in the English language.
7. Only non-programmable calculators are permitted to use.

**The answer key is given from page 14-18*

Section I

Exam Structure

- 25 Multiple Choice Questions (MCQ)
- Each 02 marks and 50 marks in total.

- 1) Which of the following transactions results to increase in equity:
- Cash taken out by the owner from the business's bank account for the owner's personal use.
 - Liabilities of business settled by the owner from his private property.
 - Sale of damaged stocks at a price lower than their cost.
 - Discounts given to customers when they settle their dues.
- 2) The office rent of Rs.80,000/- for March 2024 had not been accounted for the year ended 31st March 2024 since it was paid in May 2024. Which of the following accounting concepts was **not** adhered to:
- Prudence concept
 - Periodic concept
 - Entity concept
 - Accrual concept
- 3) Which one of the following effects to the accounting equation is correctly stated for Rs.10,000/- stocks withdrawn by the owner for his personal use:
- | | Assets | Liabilities | Equity |
|----|---------------|--------------------|---------------|
| a) | +10,000 | | +10,000 |
| b) | | -10,000 | -10,000 |
| c) | -10,000 | | -10,000 |
| d) | -10,000 | -10,000 | |
- 4) Which of the following is the correct accounting entry for cash receipts of Rs.34,000/- from a trade debtor:
- Debit trade debtors
Credit cash
 - Debit cash
Credit trade debtors
 - Debit cash
Credit sales
 - Debit trade debtors
Credit sales

11) The cash book had a debit balance of Rs 59,000 as at 31st March 2024, which was Rs 4,000/- less than the favorable balance of the bank statement on that date. Select the reason for the difference from the following:

- a) A customer's direct remittance of Rs.4,000/- was not recorded in the cash book.
- b) Bank charges of Rs.4,000/- were not recorded in the cash book.
- c) A cheque deposited but not realized was Rs.4,000/-.
- d) A cheque issued but not presented for payment was Rs.2,000/-.

12) In the books of Samanala Traders, the cash book had a debit balance of Rs.141,000/- as at 31st December 2023, which was different from the bank statement's balance on that date. The following reasons were identified as reasons for the difference between the two balances:

- Unrealized cheque deposit of Rs.25,000/-.
- Direct remittance of Rs.14,000/- made by a customer was not recorded in the cash book.
- Bank charges of Rs.2,000/- were not recorded in the cash book.

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

- a) Rs.128,000/-
- b) Rs.178,000/-
- c) Rs.181,000/-
- d) Rs.153,000/-

13) Which of the following costs of a manufacturing firm is classified as prime cost:

- a) Production manager's salary
- b) Machine maintenance expenses
- c) Cost of raw material consumed
- d) Sales commission

14) Select the correct statement from the following:

- a) A general ledger is a component of financial statements.
- b) A present economic resource controlled by the entity as a result of past events is an asset.
- c) Accrual basis is the assumption underlying the preparation and presentation of financial statements.
- d) A liability account generally carries a debit balance.

15) Which of the following source documents is used to record a return of goods to a supplier:

- a) Debit note
- b) Goods received note
- c) Purchase invoice
- d) Credit note

- 20)** Which one of the following is not a purpose of maintaining a debtors' control account:
- a) Debtors' control account provides a check on the overall accuracy of the debtors' personal ledger accounts.
 - b) Debtors' control account ensures the trial balance balances.
 - c) Debtors' control account provides a centralized record of the total outstanding balance from customers to the business
 - d) Debtors' control account helps detect fraud.

- 21)** Which one of the following items does not appear under the heading 'equity' on a sole proprietorship's Statement of Financial Position:
- a) Capital introduced by the owner
 - b) Drawings made by the owner
 - c) Liabilities settled by the owner
 - d) Non-current assets bought

- 22)** A sole proprietorship had an opening capital of Rs.235,000/- and a closing capital of Rs.321,000/-. During the period, the owner introduced capital of Rs.100,000/- and withdrew Rs.80,000/- for his own use. The profit or loss of the sole proprietorship during the period was:
- a) Rs.14,000 /- loss
 - b) Rs.66,000/- profit
 - c) Rs.94,000/- loss
 - d) Rs.86,000/- profit

- 23)** The following information has been extracted from the accounting records of Wimal's business for the year ended 31st March 2024:

	Rs.
Opening stock	245,000
Purchases	1,200,000
Closing stock	345,000

The gross profit margin of the business during the year was 20%.

Based on these figures, what is the sales revenue for the year:

- a) Rs.1,500,000/-
- b) Rs.1,735,000/-
- c) Rs.1,375,000/-
- d) The sales revenue figure cannot be calculated from the given information.

24) The gross profit margin of a firm increased from 19% in the year ended 31st December 2022 to 25% in the year ended 31st December 2023. Which of the following events is most likely to have caused the increase:

- a) An overstatement of the stock value as at 31st December 2023.
- b) An increase in sales volume during the year ending 31st December 2023.
- c) A purchase of stocks in December 2022 mistakenly being recorded as happening in January 2023.
- d) An understatement of the stock value as at 31st December 2023.

25) A business has a current ratio of 1.8, a quick ratio of 0.8, and a positive cash balance. If it purchases inventory on credit, what is the effect on these ratios:

Current ratio	Quick ratio
a) Decrease	Decrease
b) Decrease	Increase
c) Increase	Decrease
d) Increase	Increase

[25 MCQs x 2 Marks each -Total 50 Marks]

Section II – (Compulsory Question)

Exam Structure

- One Scenario- Based Objective Test Questions.
- 20 marks in total

Question 01

Anuththara Traders, a sole proprietorship is in the business of buying and selling motor vehicle spare parts. The following trial balance has been prepared from the accounting records of the business as at 31st March 2024.

Trial Balance as at 31st March 2024 (Rs' 000)

Description	Debit	Credit
Sales		120,000
Purchases	87,000	
Trade Receivables	1,310	
Trade Payables		2,062
Bank Overdraft		586
Inventory as at 1 st April 2023	2,340	
Capital Account as at 1 st April 2023		46,000
Bank Loan		30,000
Showroom Rent	600	
Bank Loan Interest	1,450	
Electricity	1,600	
Discounts Given	300	
Cash in hand	450	
Salaries and Wages	1,800	
Insurance on Motor Vehicle	160	
Bank Overdraft Interest	108	
Transport	2,430	
Land at cost	30,000	
Office Building at cost	70,000	
Motor Vehicle at cost	14,000	
Accumulated Depreciation on Building as at 1 st April 2023		21,000
Sales Commission	2,400	
Advertising Expenses	3,700	
	219,648	219,648

The following additional information is also provided:

- i) The cost of inventory as at 31st March 2024 was Rs.3,550,000/-.
- ii) On 1st June 2023, Anuththara Traders entered into a rent agreement to use a showroom for a period of two years. The monthly showroom rent is Rs.50,000/-.
- iii) The accrued expenses as of 31st March 2024 were electricity bills of Rs.150,000/- and advertising expenses of Rs.300,000/-.
- iv) The motor vehicle was purchased for a cost of Rs 14 million on 1st July 2023. This motor vehicle is used for the delivery of spare parts.
- v) The depreciation is provided on a straight-line basis at the following rates:
 - i. Building 5% per annum
 - ii. Motor vehicle 20% per annum
- vi) It was decided to write off trade debtors amounting to Rs.150,000/- as bad debt.

YOU ARE REQUIRED TO:

1.1. Income Statement for the year ended 31st March 2024.

(10 Marks)

1.2. Statement of Financial Position as at 31st March 2024.

(10 Marks)

[Total 20 Marks]

Section III – (Optional Question)

Exam Structure

- Four Scenario-Based Objective Test Questions.
- 15 marks each and 30 marks in total
- Answer any two questions

Question 02

Bimal started a retail shop on 1st January 2024. The following transactions occurred during the month of January 2024.

Date	Transaction
1 st January	Bimal brought Rs.600,000/- in cash and Rs.3,700,000/- worth of his motor vehicle as the capital.
5 th January	Purchased stocks for Rs.200,000/- on credit.
6 th January	Paid monthly office rent of Rs.30,000/-.
8 th January	Sold Rs.50,000/- worth of stocks for Rs.70,000/- in cash.
10 th January	Rs.20,000/- cash was taken out by the owner for his personal use.
15 th January	Sold Rs.40,000/- worth of stocks for Rs.65,000/- on credit.
25 th January	The staff salaries amounting to Rs.15,000/- was paid.
28 th January	Received Rs.12,000/- in cash as full settlement of a Rs.15,000/- receivable balance from a customer.

YOU ARE REQUIRED TO:

2.1. State the effect of each of the above transactions on the following accounting equation.

$$\text{Motor vehicle} + \text{Inventory} + \text{Trade Debtors} + \text{Cash} = \text{Trade Creditors} + \text{Capital}$$

(12 Marks)

2.2. Calculate the profit of the business for the month ending 31st January 2024.

(03 Marks)

[Total 15 Marks]

Question 03

AD Enterprise is in the business of selling pharmaceutical products. The Trial Balance of the business as at 31st March 2024 was not agreed and the difference was transferred to a suspense account. Upon an investigation of the accounting records, the following errors were subsequently identified.

- i) A cash sale of Rs.250,000/- has been credited to the purchase account, whereas it was correctly recorded in the cash book.
- ii) Rent income of Rs.650,000/- received has been debited to the rent expense account. It was correctly recorded in the cash book.
- iii) Rs.1,500,000/- paid for repairs to the plant on 1st April 2023, has been debited to the plant asset account. The plant is depreciated at the rate of 10% per annum on a straight-line basis.
- iv) The sales journal was undercast by Rs.300,000/-
- v) The salaries paid amounting to Rs.345,000/- were debited to the salaries expense account as Rs.435,000/-.

YOU ARE REQUIRED TO:

3.1. Prepare the journal entries to rectify the above errors.

(12 Marks)

3.2. Calculate the amount of overstatement/understatement of the profit of AD Enterprise due to the above errors.

(03 Marks)

[Total 15 Marks]

Question 04

The financial statements of Rathner Traders for the years ending 31st March 2023 and 2024 are provided below.

Statements of Income

(In Rs. million)

	2023	2024
Sales	3,000	4,400
Less : Cost of Sales		
Opening stock	450	720
Purchases	2,030	3,080
Closing stock	(540)	(850)
	1,940	2,950
Gross Profit	1,060	1,450
Operating expenses	(480)	(964)
Interest expense	(80)	(10)
Profit for the period	500	476

Statements of Financial Position		
	<i>(In Rs. million)</i>	
	2023	2024
Non-current Assets		
Property	1,140	1,900
Plant	1,200	1,200
Current Assets		
Inventory	540	850
Trade Debtors	522	750
Cash at Bank	20	-
Total Assets	3,422	4,700
Equity		
Capital as at beginning	1,884	2,184
Profit for the year	500	476
Drawings	(200)	-
	2,184	2,660
Non-current Liabilities		
Bank loan	800	928
Current Liabilities		
Trade payables	408	537
Bank overdraft	-	550
Income tax payable	30	25
Total Equity and Liabilities	3,422	4,700

Assume that all sales are made on credit basis.

YOU ARE REQUIRED TO:

4.1. Compute the following ratios for the financial years ending/ as at 31st March 2023 and 2024;

- i) Gross Profit Margin
- ii) Net Profit Margin
- iii) Return on Equity
- iv) Current Ratio
- v) Debtors' Collection Period
- vi) Inventory Holding Period
- vii) Property, Plant and Equipment Turnover

(07 Marks)

4.2. Analyze profitability, liquidity and the efficiency of non-current assets management of Rathner Traders during the year ending 31st March 2024 based on the ratios calculated for part (a) above.

(08 Marks)

[Total 15 Marks]

Question 05

The Cash book of XY Traders shows a favorable balance of Rs.62,000/- as at 31st March 2024. However, the balance appeared in the bank statement does not match with the cash book balance. The Accounts Assistant of the business has identified the following reasons for the difference between the balances of bank statement and cash book.

- i) The interest income on a fixed deposit of Rs.43,000/- was directly received to the bank account, however, it was not recorded in the books of the business.
- ii) A cheque amounting to Rs.100,000/- was deposited in the bank but it was not realized as at 31st March 2024.
- iii) Bank charges of Rs.1,500/- charged for March 2024 were not posted to the cash book.
- iv) A cheque amounting to Rs.357,000/- was issued on 30th March 2024, but it was not presented for payment to the bank as of 31st March 2024.
- v) The loan installment of Rs.43,500/- for March 2024 has been charged to the bank's current account. However, it was not recorded in the cash book.

YOU ARE REQUIRED TO:

5.1. Prepare the adjusted cash book.

(09 Marks)

5.2. Bank reconciliation statement as at 31st March 2024.

(06 Marks)

(Total 15 Marks)

ANSWER KEY

Section I

Q. No	Answer	Q. No	Answer
01	B	14	B
02	D	15	A
03	C	16	B
04	B	17	B
05	A	18	D
06	C	19	A
07	B	20	B
08	D	21	D
09	B	22	B
10	C	23	C
11	A	24	A
12	A	25	A
13	C		

Section II

Question 01

1.1

Anuththara Traders		
Income Statement for the year ended 31 st March 2024 (Rs'000)		
Sales		120,000
Cost of sales		
Opening stock	2,340	
Purchases	87,000	
Closing stock	(3,550)	(85,790)
Gross profit		34,210
Administration expenses		
Electricity expenses	1,750	
Depreciation on building	3,500	
Salaries and wages	1,800	
Transport	2,430	(9,480)

Selling and Distribution expenses		
Showroom rent	500	
Advertising expenses	4,000	
Depreciation on motor vehicle	2,100	
Discount given	300	
Insurance on motor vehicle	160	
Sales commission	2,400	(9,460)
Other expenses		
Bad debts	150	(150)
Finance expenses		
Loan interest	1,450	
Overdraft interest	108	(1,558)
		13,562

1.2

Anuththara Traders Statement of Financial Position as at 31 st March 2024 (Rs'000)		
Assets		
Non-current assets		
Land		30,000
Building at cost	70,000	
Provision for depreciation on building	(24,500)	45,500
Motor vehicle at cost	14,000	
Provision for depreciation on motor vehicle	(2,100)	11,900
Current Assets		
Inventory	3,550	
Prepaid rent	100	
Trade Receivables	1,160	
Cash in hand	450	5,260
Total Assets		92,660
Capital;		
As at 1 st April 2023	46,000	
Profit for the year	13,562	59,562
Non-current Liabilities		
Bank Loan		30,000
Current Liabilities		
Trade Payables	2,062	
Bank Overdraft	586	

Accrued expenses: Electricity	150	
Accrued expenses: Advertising	300	3,098
Total Equity and Liabilities		92,660

Section III

Question 02

2.1

Date	Motor vehicle	Inventory	Trade Debtors	Cash	Trade Creditors	Capital
1 st January	+3,700			+600		+4,300
5 th January		+200			+200	
6 th January				-30		-30
8 th January		-50		+70		+20
10 th January				-20		-20
15 th January		-40	+65			+25
25 th January				-15		-15
28 th January			-15	+12		-3

2.2 Profit/(loss) = $-30+20+25-15-3 = \underline{\underline{(3)}}$

Question 03

3.1

	Dr	Cr
(i) Purchase account	250,000	
Sales account		250,000
(ii) Suspense account	1,300,000	
Rent expense account		650,000
Rent income account		650,000
(iii) Repair expense account	1,500,000	
Plant asset account		1,500,000
Provision for dep. on plant	150,000	
Depreciation expense on plant		150,000
(iv) Suspense account	300,000	
Sales account		300,000
(v) Suspense account	90,000	
Salaries expense account		90,000

3.2

Overstatement/understatement of profit;

(i)	Understatement of profit	500,000
(ii)	Understatement of profit	1,300,000
(iii)	Overstatement profit	1,350,000
(iv)	Understatement of profit	300,000
(v)	Understatement of profit	90,000
	Total understatement of profit	340,000

Question 04

4.1

	2023	2024
i. Gross Profit Margin = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$	35.3%	33%
ii. Net Profit Margin = $\frac{\text{Profit for the year}}{\text{Sales}} \times 100$	16.7%	10.8%
iii. Return on Equity = $\frac{\text{Profit for the year}}{\text{Equity}} \times 100$	22.9%	17.9%
iv. Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$	2.5 times	1.4 times
v. Debtors' Collection Period = $\frac{365}{\text{Debtors turnover}}$	64 days	62 days
vi. Inventory Holding Period = $\frac{365}{\text{Inventory turnover}}$	102 days	105 days
vii. PPE Turnover = $\frac{\text{Sales}}{\text{PPE}}$	1.3 times	1.4 times

4.2

- Gross profit margin, net profit margin and return on equity have declined in 2024 when compared to the previous year, which indicate a decline in the profitability.
- The decline in current ratio and increase in inventory holding period indicate a weakening in liquidity position of the business. However, an improvement in cash collection from debtors can be seen in 2024 when compared to the previous year.
- The increase in PPE turnover in 2024 when compared to the previous year indicates an improvement in efficiency in property plant and equipment management.

Question 05

5.1

Cash Book (Adjusted)			
Balance B/F	62,000		
		Bank charges	1,500
Interest income	43,000	Loan instalment	43,500
		Balance C/F	60,000
	105,000		105,000
Balance B/F	60,000		

5.2

Bank Reconciliation Statement as at 31 st March	
Balance as per adjusted cash book	60,000
Unpresented cheques	357,000
Unrealized cheque deposits	(100,000)
Balance as per bank statement	317,000
