Institute of Certified Management Accountants of Sri Lanka
Financial Accounting and Finance Fundamentals (FAF / FL 2)– Foundation Level
Pilot Paper - Suggested Answer Scheme

Financial Accounting Fundamentals (70%)

Question No.	Answer	Segmental Learning Outcome	Workings
(1)	**(D)**	*Define the term financial accounting.*	
(2)	**(B)**	*Explain the information needs of stakeholders of the business and the role of financial accounting in this respect.*	
(3)	**(D)**	*Distinguishes the financial accounting and management nt accounting*	
(4)	**(B)**	*Define the terms entity concept, assets, liability and equity*	

(5)	**(A)**	*Define the terms entity concept, assets, liability and equity.*	
(6)	**(B)**	*Illustrate the impact of business transactions on the accounting equation*	
(7)	**(C)**	*Illustrate the impact of business transactions on the accounting equation*	
(8)	**(C)**	*Illustrate the impact of business transactions on the accounting equation*	
(9)	**(D)**	*Apply the concept of double entry*	
(10)	**(B)**	*Describe the accounting process and the interlinkages*	

<table>
<tr><td>(11)</td><td>(B)</td><td>Prepare the prime entry books by recording transactions</td><td></td></tr>
<tr><td>(12)</td><td>(D)</td><td>Prepare the ledger accounts and the trial balance</td><td></td></tr>
<tr><td>(13)</td><td>(A)</td><td>Describe the accounting process and the interlinkages</td><td></td></tr>
<tr><td>(14)</td><td>(C)</td><td>Prepare the ledger accounts and the trial balance</td><td></td></tr>
<tr><td>(15)</td><td>(D)</td><td>Prepare the prime entry books by recording transactions</td><td></td></tr>
<tr><td>(16)</td><td>(B)</td><td>Identify the types, nature and impact of error</td><td></td></tr>
<tr><td>(17)</td><td>(B)</td><td>Apply means of rectifying errors and prepare a trial</td><td>Suspense A/C (Rs.000)
<table>
<tr><td>Cash</td><td>150</td><td>Balance</td><td>50
100</td></tr>
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		balance	**150** Purchase **150**
(18)	**(B)**	*Apply the means of rectifying errors and prepare a trial balance*	***(Rs,000)*** 950 +36 -100 = <u>**886**</u>
(19)	**(C)**	*Prepare a bank reconciliation on statement*	
(20)	**(C)**	*Explain the nature and Purpose of subsidiary ledgers and control accounts*	
(21)	**(D)**	Prepare the subsidiary ledgers and control accounts	
(22)	**(B)**	*Reconcile the differences between control accounts and the subsidiary ledger balances*	***(Rs,000)*** 575−100 −18=457 X−45=457⇒X=457+45 =**502**

(23)	**(D)**	*Reconcile the differences between control accounts and the subsidiary ledger balances*	***(Rs,000)*** 575 -100-18 = **457**
(24)	**(A)**	*Explain the accounting concepts and principles*	
(25)	**(A)**	*Explain the role of financial statements*	
(26)	**(B)**	*Prepare financial statements of a sole proprietor's hip*	***(Rs,000)*** 425 + 1,750-50- 550 = **1,575**
(27)	**(C)**	*Illustrate the Adjusting entries required in the preparation of financial statements*	***(Rs,000)*** 650-55 + 80 = **675**

(28)	**(D)**	*Illustrate the adjusting entries required in the preparation of financial statements*	***(Rs,000)*** 750+150 + 100 = **<u>1,000</u>**
(29)	**(D)**	*Prepare a manufacturing account*	***(Rs,000)*** 650+450 + 350-280 = **<u>1,170</u>**
(30)	**(A)**	*Explain the special accounts relating to partnership s*	
(31)	**(D)**	*Prepare financial statements of a partnership after adjustment s*	***(Rs,000)*** 300+180 + 400 = **<u>880</u>**
(32)	**(A)**	*Explain the special accounts relating to partnership s*	***(Rs,000)*** 240+120 + 200+150-320 = **<u>390</u>**
(33)	**(C)**	Describe the formation and profit sharing of a *partnership*	
(34)	**(A)**	*Record transaction*	***(Rs,000)***

		s in special accounts pertaining to not-for-profit organizations	935-110+65+75-90 = **875**
(35)	**(D)**	*Prepare financial statements of not-for-profit organizations with adjustments*	
(36)	**C**	*A1.1*	No of Shares 625 Market Price per share 22.7 Wealth (No.of shares x MPS) 14187.5
(37)	**C**	*A 1.2*	
(38)	**D**	*A1.1*	
(39)	**C**	*B 2*	
(40)	**C**	*B2*	
(41)	**C**	*B2*	
(42)	**B**	*C1.2*	No of days 133 Purchase price 180 Current Market Price 225 **No** of Shares (1) 125 Dividends received 1375 Dividend per share (2)/(1) 11 Annualized yield 85.38% Capital gain = (225-180)/180 = .25 Dividend Gain = 11/180 = 0.06111 Total gain = Capital Gain + Dividend Gain = Annualized Gain = Total Gain/133*365 0.8538=85.38%
(43)	**C**	*C1.2*	Year | Capital gain | Dividend yield | Yeild | (Ritotal AA) ^2

			yield				
			2012	11%	3%	14%	0.62 %
			2013	8%	3%	11%	0.24 %
			2014	-14%	2%	-12%	3.29 %
			2015	7.50 %	4%	11.5%	0.29 %
						Variance	4.43 %
			Geometric Average Yeild	5.56 %	(((1.14)(1.11)(.88)(1.115))^ .25)-1		
			Arithmetic Average (AA)	6.13 %	(.14+.11-.12+.115)/4		
			Standard deviation	12.2 %			
(44)	**C**	*C1.2*	***See below***				
(45)	**A**	*C2.1*	***See below***				
(46)	**B**	*C2.3*					
(47)	**C**	*C2.1*					
(48)	**A**	*C2.3*					
(49)	**B**	*C2.3*	***See below***				
(50)	**B**	***C.2.3***					

Probability (1)	Returns -A (2)	P*Ra	[(R-ER)^2]*p	Returns -B	P*Rb
10%	-5%	-0.50%	0.00186		5.50%
35%	4.50%	1.58%	0.00059	13.00%	
45%	12.50%	5.63%	0.00068	-3.80%	
10%	19.20%	1.92%	0.00112	16.40%	

				ER -B	
ER a →	Question	8.62%			
		6.52%	0.004246 →		
	09	4.37%			
SD a →		7.18%	(0.004246^.5)		SD -B →
SDp →	Question		(0.00190^.5)		
ER p	10 (Wa*ERa+Wb*ERb)				

Q 44 & 45

49)

Risk Free rate	4.50%		
Market Risk Premium	11.50%		
		Beta	1.2
Expected return	18.30%	4.5+1.2(11.5)	