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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Foundation Level

Pilot Paper

Instructions to Candidates

1. Time allowed is **two (2) hours.**
2. Total **100** Marks
3. Answer **all** questions.
4. Encircle the number of your choice in relation to Multiple Choice Questions.
5. Candidates are allowed to use non-programmable calculators.
6. The answers should be given in **English Language.**

Subject	Subject Code
Financial Accounting and Finance Fundamentals	(FAF / FL 2)

Financial Accounting Fundamentals (70 Marks)

Select the most appropriate answer for questions numbers 1 to 35.

1. Which of the following statements **best describe** Financial Accounting?
 - (A) It is the system which converts data of a business into information.
 - (B) It is an information system which provides information about a business.
 - (C) It is the system which provides information about financial performance of a business.
 - (D) It is a system which provides financial information about a business to external users for decision making.
2. Which of the following group fall within the definition of external stakeholders of a business?
 - (A) Owners, Managers, Customers, Investors, Government
 - (B) Lenders, Suppliers, Customers, Investors, Government
 - (C) Managers, Suppliers, Customers, Investors, Government
 - (D) Employees, Managers, Customers, Investors, Government

3. Which of the following statements is **true** in relation to difference between Financial Accounting and Management Accounting?
- (A) Financial Accounting reports are prepared on demand whereas Management Accounting reports prepared periodically.
 - (B) Specific formats are used in Management Accounting reports whereas no such specific formats are used in Financial Accounting reports.
 - (C) There is a conceptual framework applicable for Management accounting but there is no such conceptual framework for Financial Accounting.
 - (D) Objective of Financial Accounting is to provide information to external stakeholders where as the objective of Management Accounting is to provide information to internal stakeholders.
4. Which of the following is **not** an essential characteristic of an asset?
- (A) It is a result of a past transaction.
 - (B) There should be a present obligation.
 - (C) It should be a resource controlled by the business entity.
 - (D) It is expected to flow future economic benefits to the business entity.
5. Which of the following statements is **true** in relation to liabilities of a business?
- (A) Liabilities are present obligation which results outflow of resources at settlement.
 - (B) Liabilities are future obligation which results outflow of resources at settlement.
 - (C) Liabilities are present obligation which results inflow of resources at settlement.
 - (D) Liabilities are future obligation which results inflow of resources at settlement.
6. A business purchased goods for Rs.150,000 on credit with the intention of resale. What is the impact of this transaction to the business?
- (A) Both assets and equity increased by Rs.150,000.
 - (B) Both assets and liabilities increased by Rs.150,000.
 - (C) Both assets and liabilities decreased by Rs.150,000.
 - (D) Assets increased by Rs.150,000 and liabilities decreased by Rs.150,000.
7. Goods purchased for Rs.200,000 was sold for Rs.250,000 on credit by a business. What is the impact of this transaction to the business?
- (A) Both assets and equity increased Rs.250,000.
 - (B) Both assets and equity decreased Rs.50,000.
 - (C) Assets increased by Rs.250,000 and decreased by Rs.200,000 and equity increased by Rs.50,000.

- (D) Assets increased by Rs.200,000 and decreased by Rs.250,000 and equity increased by Rs.50,000.
8. Trade creditors of Rs.100,000 of the business was settled by issuing a cheque of Rs.90,000. The discount received on this settlement was Rs.10,000. What is the impact of this transaction to the business?
- (A) Both assets and liabilities increased by Rs.100,000.
 (B) Both assets and liabilities decreased by Rs.90,000.
 (C) Assets decreased by Rs.90,000, equity increases by Rs.10,000 and liabilities decreased by Rs.100,000.
 (D) Assets decreased by Rs.90,000, equity decreased by Rs.10,000 and liabilities decreased by Rs.100,000.
9. Which of the following statement is **false** in relation to double entry principles?
- (A) Assets increase is debited and decrease is credited to asset account.
 (B) Equity increase is credited and decrease is debited to equity account.
 (C) Income increase is credited and decrease is debited to income account.
 (D) Liabilities increase is debited and decrease is credited to liabilities account.
10. What is the correct order of recoding transactions in the accounting process?
- (A) Source document, ledger accounts, trial balance, financial statements
 (B) Prime entry books, ledger accounts, trial balance, financial statements
 (C) Prime entry books, trial balance, ledger accounts, financial statements
 (D) Source document, prime entry books, trial balance, financial statements
11. The petty cashier of a business received a petty cash imprest of Rs.15,000 as at 01.04.2016. During the month of April 2016, the following payments were made by the petty cashier.
- | Expenses | Rs. |
|--------------|-------|
| Travelling | 5,750 |
| Stationery | 3,400 |
| Refreshments | 4,200 |
- The amount received by the petty cashier on 01.02.2016 was:
- (A) Rs.1,650
 (B) Rs.13,350
 (C) Rs.15,000
 (D) Rs.16,650
12. Which of following statement is **true** in relation to posting of transactions from prime entry books to the general ledger?

- (A) Total of the sales daybook is debited to creditors control account by crediting sales account.
 - (B) Total of the purchase daybook is debited to purchase account by crediting the debtors control account.
 - (C) Total of the return inwards day book is debited to debtors control account by crediting the return inwards account.
 - (D) Total of the return outwards day book is debited to creditors control account by crediting the return outwards account.
13. Which of the following statements is **true** in relation to source documents?
- (A) Journal voucher is the source document used to prepare the general journal.
 - (B) Debit note is the source document used to prepare the return inwards day book.
 - (C) Payment voucher is the source document used to prepare the purchase day book.
 - (D) Credit note is the source document used to prepare the return outwards day book.
14. Select the group which consist of accounts which are expected to be have debit balances
- (A) Debtors, return inwards, purchases and capital.
 - (B) Debtors, return outwards, purchases and capital.
 - (C) Debtors, drawings, return inwards, office equipment (D) Debtors, return outwards, purchases and motor vehicles.
15. Which of the following transactions is **not** recorded in the general journal?
- (A) Investing office equipment worth Rs.500,000 as capital by the owner.
 - (B) Purchase of motor vehicle for Rs.1,500,000 on credit for the use of the business.
 - (C) Rectification of recording Rs.55,000 credit sales as Rs.50,000 in the sales daybook.
 - (D) Sale of a motor vehicle for Rs.875,000 on credit by the business under ordinary cause of business.
16. The following errors were discovered from the accounting records of Colombo Traders which maintains control accounts for debtors and creditors. Which of these errors leads to a balance in suspense account?
- (A) A customer returned goods worth Rs.240,000, but the return was completely omitted from the accounting records.
 - (B) The debtors control account has been under casted by Rs.50,000.
 - (C) A sales invoice of Rs.100,000 was completely omitted from the accounting records.
 - (D) A credit notes of Rs.35,000 was recorded in the returned inwards day book as Rs.53,000.

Use the following information to answer questions No. 17 and 18.

The following errors have been detected from the accounting records of Kandy Traders. The business maintains control accounts for debtors and creditors.

- A sales invoice of Rs.40,000 has been recorded in the sales day book as Rs.4,000
- Total of purchase day book amounting to Rs.270,000 was debited to purchase account as Rs.170,000.
- The cash account was over casted by Rs.150,000 when balancing.

The draft net profit for the year ending 31.03.2016 was Rs.950,000 before correcting the above errors.

17. The balance of the suspense account **before** correcting the above errors was:

- (A) Rs.14,000 (Cr)
- (B) Rs.50,000 (Cr)
- (C) Rs.86,000 (Cr)
- (D) Rs.150,000 (Cr)

18. The profit for the year ending 31.03.2016 **after** rectifying the above errors is:

- (A) Rs.850,000
- (B) Rs.886,000
- (C) Rs.950,000
- (D) Rs.986,000

19. Which of the following item cannot be included in the bank reconciliation statement?

- (A) Deposited but unrealized cheques of Rs.100,000.
- (B) Issued but un-presented cheques of Rs.50,000.
- (C) Deposited but dishonored cheques of Rs.60,000.
- (D) Interest of Rs.75,000 erroneously credited to account by the bank.

20. Which of the following statement is **true** in relation to control accounts and sub-ledgers?

- (A) A Double entry is made in both general ledger as well as the sub ledger.
- (B) A Double entry is made in the general ledger but only a single entry made in the sub-ledger.
- (C) When a debtors' control account is maintained in the general ledger, a separate debtor's ledger is maintained by the business.
- (D) When a creditors' control account is maintained in the general ledger, a separate creditors' ledger is not maintained by the business.

21. Which of the following group of prime entry books is used to record transactions in Creditors Control Account?

- (A) Sales Day book, Cash book, Sales Return Day book and General Journal
- (B) Purchase Day book, Cash book, Sales Return Day book and General Journal
- (C) Sales Day book, Cash book, Purchase Return Day book and General Journal
- (D) Purchase Day book, Cash book, Purchase Return Day book and General Journal

Use the following information to answer questions No. 22 and 23.

Balance as per debtors control account of Galle Traders as at 31.03.2016 was Rs.575,000. The total of the list of debtors' ledger balances on this date did not agree with the control account balance. The following errors were detected in the subsequent investigation.

- Total of the sales day book was overcastted by Rs.100,000.
- A sales invoice of Rs.35,000 was recorded in the sales day book as Rs.53,000.
- A receipt of Rs.45,000 to Amal, a debtor, has not been recorded in the debtors' ledger.

22. The total of debtors' ledger account balances **before** correcting these errors was:

- (A) Rs.412,000
- (B) Rs.502,000
- (C) Rs.520,000
- (D) Rs.630,000

23. The balance as per debtors control account **after** rectifying these errors was:

- (A) Rs.412,000
- (B) Rs.457,000
- (C) Rs.493,000
- (D) Rs.502,000

24. Which of the followings **best describe** the matching concept?

- (A) Matching the equity against the expenses revenue.
- (B) Matching the expenses against the recognized revenue.
- (C) Matching the assets against the recognized equity and liabilities.
- (D) Matching the equity and liabilities against the recognized assets.

25. The Statement of Financial Position is financial statement which provides information about:

- (A) Financial position of the business as at a particular date.
- (B) Financial position of the business for a particular period.
- (C) Financial performance of the business as at a particular date.

(D) Financial performance of the business for a particular period.

26. Inventories as at 01.04.2015 and 31.03.2016 of Jaffna Traders were Rs.425,000 and Rs.550,000 respectively. Purchases made during the year ending 31.03.2016 was Rs.1,750,000 and of which Rs.50,000 worth of goods were returned to the suppliers. The cost of sales for the year ending 31.03.2016 was:

- (A) Rs.1,525,000.
- (B) Rs.1,575,000.
- (C) Rs.1,625,000.
- (D) Rs.1,825,000.

27. Mathara Traders has paid administration expense of Rs.650,000 during the year ending 31.03.2016. The prepaid administration expense and accrued administration expenses as at 31.03.2016 were Rs.55,000 and Rs.80,000 respectively. The administration expense recognized for the year ending 31.03.2016 is:

- (A) Rs.625,000.
- (B) Rs.650,000.
- (C) Rs.675,000.
- (D) Rs.730,000.

28. Rajarata Traders has received a rent income of Rs.750,000 during the year ending 31.03.2016. The income received in advance as at 01.04.2015 was Rs.150,000. The rent income receivable as at 31.03.2016 was Rs.100,000. Total rent income recognized for year ending 31.03.2016 is:

- (A) Rs.500,000.
- (B) Rs.800,000.
- (C) Rs.900,000.
- (D) Rs.1,000,000.

29. The prime cost and total manufacturing overhead of a manufacturing business for the year ending 31.03.2016 were Rs.650,000 and Rs.450,000 respectively. The working progress and finished goods inventories of the business as at 01.04.2015 were Rs.350,000 and Rs.300,000 respectively. The working progress and finished goods inventories as at 31.03.2016 were Rs.280,000 and Rs.310,000 respectively. Working progress inventories are valued at factory cost. The total manufacturing cost of the business for the year ending 31.03.2016 is:

- (A) Rs.1,100,000.
- (B) Rs.1,030,000.
- (C) Rs.1,160,000.
- (D) Rs.1,170,000.

30. Which of the following is **true** in relation to accounting for partnerships?
- (A) The share of profit distributed to partners is credited to partner's current account.
 - (B) The share of profit distributed to partners is debited to partner's current account.
 - (C) The share of profit distributed to partners is credited to partner's capital account.
 - (D) The share of profit distributed to partners is debited to partner's capital account.

Use the following information to answer questions No. 31 and 32.

Sanath and Arawinda are partners of SA Associates and they are sharing profit and losses in the ratio of 2:1 respectively. According to the partnership agreement, Sanath and Arawinda are entitled to a monthly salary of Rs.25,000 and Rs.20,000 respectively.

Further, partners are entitled to receive an interest on capital at 12% per annum. During the year ending 31.03.2016, Sanath and Arawinda made drawings of Rs.250,000 and Rs.320,000 respectively. The capital balances of Sanath and Arawinda as at 01.04.2015 were Rs.1,500,000 and Rs.1,000,000 respectively. The current account balances of Sanath and Arawinda on this date were Rs.210,000 and Rs.150,000 respectively. Profit for the year ending 31.03.2016 was Rs.1,440,000.

31. The total profit distributed to Sanath for the year ending 31.03.2016 is:
- (A) Rs.400,000.
 - (B) Rs.560,000.
 - (C) Rs.700,000.
 - (D) Rs.880,000.
32. The current account balance of Arawinda as at 31.03.2016 is:
- (A) Rs.390,000.
 - (B) Rs.560,000.
 - (C) Rs.910,000.
 - (D) Rs.1065,000.
33. Which of the following statements is **true** in relation to a Section 24 of the partnership Act?
- (A) Partners are entitled to receive interest of 5% on capital.
 - (B) Partners are entitled to share the profit or loss in line with the capital ratio.
 - (C) No partner shall be entitled to remuneration for acting in the partnership business
 - (D) Partners are not entitled to receive any interest for the loans provided by them to the Partnership.
34. The accounting records of Udarata Sports Club indicated subscription in arrears and subscription received in advance of Rs.110,000 and Rs.65,000 respectively as at 31.03.2015. The total subscription received during the year ending 31.03.2016 were

Rs.935,000. Subscription in arrears and received in advance as at 31.03.2016 were Rs.75,000 and Rs.90,000 respectively. The subscription income recognized for the year ending 31.03.2016 is:

- (A) Rs.875,000.
- (B) Rs.905,000.
- (C) Rs.935,000.
- (D) Rs.995,000.

35. Which of the following item is recorded under the current liabilities in the statement of financial position of a sport club?

- (A) Subscription in arrears at end of the year.
- (B) Total subscription received during the year.
- (C) Lifetime subscription deferred over several years.
- (D) Subscription received in advance at end of the year.

Financial Fundamentals (30%)

36. Assume that you have purchased 625 shares of Access Engineering PLC on 2nd February 2014 at a price of Rs.13.40 per share. The book value of a share is Rs. 10 per share. The Current market price of the share is Rs. 22.70. Your wealth is,

- (A) Rs. 8 375
- (B) Rs. 6250
- (C) Rs. 14 187.50
- (D) Rs. 5 812.50

37. In a listed company,can be identified as an example for an agent while can be identified as an example for a principal. Select the most appropriate answer.

- (A) bond holder, chief executive officer
- (B) shareholder(equity), bond holder
- (C) shareholder(equity), manager
- (D) bond holder, shareholder (equity)

38. Which of the following is a demerit of “Shareholder Wealth maximization” as an objective for a firm,

- (A) It concerns on timing and risk of the benefits
- (B) It encourages a zero pay-out dividend policy
- (C) It is an impersonal objective
- (D) It concern only on shareholders while interests of different stakeholders should be satisfied by the company.

39. A secondary market is,
- (A) where securities which were previously issued are traded
 - (B) where only the securities having maturities more than 1 year are traded
 - (C) having the possibility of existing in the form of an auction market or a negotiated market
 - (D) where seasonal equity offers (SEO's) take place

Select the most appropriate answer.

- (A) A only
 - (B) B and D only
 - (C) A and C only
 - (D) A , C and D only
40. Which of the following is not a capital market instrument.
- (A) Corporate bond
 - (B) Preferred stock
 - (C) Commercial paper
 - (D) Sri Lanka development bond
41. Securities and Exchange Commission acts as the regulator of capital market in Sri Lanka. Which of the followings include the objectives of Securities and Exchange Commission,
- (A) To protect the interest of investors.
 - (B) To facilitate transactions between surplus units and deficit units.
 - (C) To create and maintain a market in which securities can be issued and traded in an orderly and fair manner.
 - (D) To maintain financial system stability.
- (A) C only
 - (B) B,C, and D only
 - (C) A and C only
 - (D) A,C and D only
42. Assume that you have purchased 125 equity shares of Hatton National Bank PLC on 12th January 2016 for Rs. 180 per share. During the holding period, a dividend of Rs. 1375 was paid by the company. What is the annualized holding period rate of return if you sell the shares on 24th may 2016, at a market price of Rs. 225 per share? (number of days from 12th January 2016 to 24th may 2016 is 133)
- (A) 31.11%
 - (B) 85.38%
 - (C) 11.34%

(D) 68.61%

43. You are provided with the following information regarding to the returns of a share.

Year	Capital gain yield	Dividend yield
2012	11%	3%
2013	8%	3%
2014	-14%	2%
2015	7.5%	4%

What is the geometric mean return and Standard deviation of returns for the above share for the period of holding?

- (A) 3.13%, 12.2%
- (B) 6.13%, 10.5 %
- (C) 5.56%, 12.2%
- (D) 5.6%, 10.5 %

Use the following to answer question 44 and 45.

Suppose that the following forecasts are available on the economic conditions and the returns of the two stocks Stock A and stock B for the coming year.

Economic Condition	Probability	Return of Stock A	Return of Stock B
1	10%	-5%	5.5%
2	35%	4.5%	13%
3	45%	12.5%	-3.8%
4	10%	19.2%	16.4%

44. Assume that you are going to invest only in Stock A, what is your expected return and the risk associated with the return (Standard deviation).

- (A) 7.80%, 6.52%
- (B) 8.62%, 10.48%
- (C) 8.62%, 6.52%
- (D) 7.80%, 9.08%

45. Assume you are going to invest in a portfolio comprising both Stock A and Stock B. what is your expected return and the risk associated with the return (standard deviation) if the weight of stock A in portfolio is 60%?

- (A) 7.18%, 4.37%

- (B) 6.83%, 7.26%
- (C) 7.18%, 3.26%
- (D) 6.83%, 8.53%

46. Select the most appropriate statement regarding rational investors.

- (A) Investors always prefer high risk – high return investments
- (B) Given a set of investments with equal level of standard deviation, investors would select the investment with highest expected return.
- (C) Given a set of investments with different returns, investors would select the investment with lowest level of risk
- (D) Investors are more concerned about expected return

47. risk can be diversified away when a person invests his money in a two asset portfolio rather than investing in a single asset. The level of diversification will be higher when the correlation between the returns of assets in a portfolio is

-
- (A) Total, closer to 1
 - (B) Systematic, zero
 - (C) Unsystematic, closer to -1
 - (D) Unsystematic, greater than zero

48. The Capital Asset Pricing Model (CAPM) is used to estimate the expected rate of return of a stock based on of that stock. Accordingly, the expected return of a stock is greater than that of the market, when Beta coefficient of that stock is

-
- (A) The systematic risk, greater than 1
 - (B) The total risk, equal to 1
 - (C) The unsystematic risk, zero
 - (D) The unsystematic risk, greater than 1

49. In a particular market the risk free rate and the market risk premium are 4.5% and 11.5% respectively. What is the expected rate of return of Stock X , if the beta of Stock X is 1.2%.

- (A) 16.0%
- (B) 18.3%
- (C) 12.9%
- (D) 11.5%

50. Select the correct statement(s)

Capital Assets Pricing Model (CAPM) assumes that

- (A) Investors have homogeneous expectations.
- (B) Investors can trade without transaction costs.
- (C) Returns of a stock is only determined based on firm specific risk

- (D) The assets are infinitely divisible
- (E) Investors can influence stock prices through buying and selling

- (A) A, B, C and D only
- (B) A, B, and D only
- (C) A, B, D and E only
- (D) B, D, and E only

End of Question Paper