

General Certificate of Education (Ord. Level) Examination, December 2017
Business and Accounting Studies I, II
Three hours

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Note :

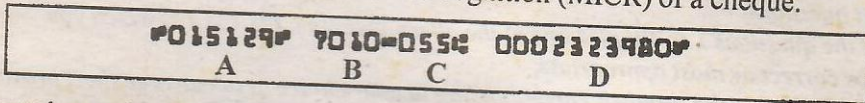
- (i) Answer all questions.
- (ii) In each of the questions 1 to 40, pick one of the alternatives (1), (2), (3), (4) which you consider as correct or most appropriate.
- (iii) Mark a cross (X) on the number corresponding to your choice in the answer sheet provided.
- (iv) Further instructions are given on the back of the answer sheet. Follow them carefully.

Business and Accounting Studies I

- Answer the questions No.1 to 5 paying attention to the following case.
Shakthi, who is conducting a business as 'Shakthi Constructions' to provide residences, received the best constructor award for the year 2016. Shakthi uses bricks only produced by himself for his constructions.
1. What is the basic human need satisfied by the business of 'Shakthi Constructions' in this case?
(1) Food (2) Clothing (3) Housing (4) Education
 2. To what type of business organization does the business of 'Shakthi Constructions' in this case belong?
(1) Sole proprietorship (2) Partnerships
(3) Incorporated companies (4) Societies
 3. To which production factor do the bricks used by 'Shakthi Constructions' belong.
(1) Land (2) Labour (3) Capital (4) Entrepreneurship
 4. Select the correct statement about the business of 'Shakthi Constructions' in this case.
(1) Registration of the name of this business is not compulsory.
(2) The cost of bricks in this business is a direct production cost.
(3) The business has a legal entity.
(4) The liability of Shakthi on this business is limited.
 5. To which management function do the supplying of bricks produced by Shakthi him self for building houses belong?
(1) Planning (2) Organizing (3) Leading (4) Controlling
 6. Following are the certain goals of stakeholders.
A - Obtaining a reasonable salary
B - Collecting taxes
C - Obtaining orders continuously
Select the answer that shows the stakeholders who are interested in the above goals A, B and C in correct order,
(1) Employees, Government, Suppliers
(2) Employees, Owners, Suppliers
(3) Employees, Financial Institutions, Competitors
(4) Managers, Government, Owners

7. Completion of a Master Degree on Business Management by the owner of a business is
- (1) a strength to his business. (2) a weakness to his business.
 (3) an opportunity to his business. (4) a threat to his business.

8. Following is a Magnetic Ink Character Recognition (MICR) of a cheque.



The numbers related to the letters A and C above indicate, in correct order,

- (1) Account Number and Bank Branch Code.
 (2) Bank Code and Account Number.
 (3) Cheque Number and Bank Branch Code.
 (4) Cheque Number and Bank Code.

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9. A crossed cheque received in Sepala's name was **rejected** by the bank officer when it was presented to be deposited to his current account in people's bank, Galle. What is the crossing indicated in the cheque?

(1)

(2)

(3)

(4)

10. Sandun has insured his motor vehicle which is valued at Rs. 1 000 000 to the same amount. In an accident Rs. 400 000 worth damage occurred to the motor vehicle. Sandun claimed Rs. 1 000 000 compensation for the damage from the insurance company. How much is the compensation Sandun received from the insurance company?

- (1) Rs. 400 000
 (3) Rs. 1 000 000

- (2) Rs. 600 000
 (4) Rs. 1 400 000

11. An e-mail is an,

- (1) Internal, Electronic, Verbal Communication method.
 (2) External, Electronic, Verbal Communication method.
 (3) External, Electronic, Sign Communication method.
 (4) External, Electronic, Written Communication method.

12. While the Colombo port is①..... of the element of transportation, the Neveska Lady Ship which arrived in the Colombo port is②..... of the element of transportation. Select the answer that shows the suitable terms to ① and ② in the above statement in correct order,

- (1) the mode, the terminal (2) the terminal, the mode
 (3) the terminal, the power (4) the ways, the mode

13. A wholesale trade, from the following is,

- (1) selling 100 milk packets by a milk bar to give to the elephants in Udawalawa elephant orphanage.
 (2) selling peanuts by Radha to the passengers in the train.
 (3) selling 1 000 roofing tiles by a factory to Bathiya for roofing his house.
 (4) selling flowers in small scale by Malith to flower shops in Colombo.

14. Out of the following, select the correct statement with regard to the management.
- (1) Organizing is informing employees of their duties and directing them for these duties by the managers.
 - (2) Planning is the determining the aims of an organization and designing the ways and means of achieving them.
 - (3) Controlling is the directing of human resources in an organization in order to implement the planned objective.
 - (4) Leading is investigating whether the quality products have been produced as planned.

15. Several businesses and target consumer groups are given in column X and Y respectively.

X	Y
1. Suwasevana Hospital	A - School children
2. Haritha Rest	B - Readers
3. Dimuthu School Uniform Suppliers	C - Patients
4. Public Library	D - Tourists

When the above businesses in column X are matched with the target consumer groups in column Y in correct order the answer is,

- (1) A, C, B and D.
 - (2) B, C, D and A.
 - (3) C, B, A and D.
 - (4) C, D, A and B.
16. A return **not** received from investing in ordinary shares is
- (1) dividend income.
 - (2) interest income.
 - (3) voting rights.
 - (4) capital gains.

17. Following is a transaction occurred in a business,
* Purchasing a stock of goods of Rs. 50 000 in cash.

Because of this transaction in the business,

- (1) only the assets change.
- (2) only the liabilities change.
- (3) only the assets and liabilities change.
- (4) all assets, liabilities and equity change.

18. Out of the following, select the transaction that does **not** affect the equity?

- (1) paying Rs. 400 rate in cash.
- (2) Receiving Rs. 500 additional income in cash.
- (3) Paying Rs. 5 000 to creditors by the owner from his own money.
- (4) Paying Rs. 2 000 accrued electricity expenses in cash.

- Answer the questions No. 19 and 20 paying attention to the following case.

* Thisara business purchased a stock of goods at a cost of Rs. 20 000 on credit. Then 10% trade discount was deducted. Further 10% cash discount was received when paying money.

19. The net impact on assets when the above transactions of Thisara business was recorded in the accounting equation is,

- (1) decreasing by Rs. 1 800.
- (2) increasing by Rs. 1 800.
- (3) decreasing by Rs. 18 000.
- (4) increasing by Rs. 20 000.

34. Insuring the building of the business on 01.07.2016, Rs. 18 000 has been paid on the same day, as annual insurance fee.

Select the correct statement with regard to the above transaction.

- (1) Insurance fee indicated in the statement of profit and loss for the year ended 31.12.2016 is Rs. 18 000.
- (2) Accrued insurance fee as at 31.12.2016 is Rs. 9 000.
- (3) Current liabilities as at 31.12.2016 is Rs. 9 000.
- (4) Prepaid insurance fee as at 31.12.2016 is Rs. 9000.

- Use the following information to answer questions No. 35 to 40.

Following are a financial statements prepared for the year ended 31.12.2016 by a trainee accounts clerk for the business which was started on 01.01.2016, employing Rs. 330 000 by Sumudu.

Statement of Profit and Loss

Income	Rs.	Rs.
Sales	250 000	
Discounts received	3 000	
		253 000
Expenses		
Purchases	160 000	
Carriage inwards	5 000	
Advertising Expenses	10 000	
Rent	12 000	
Bank loan interest	6 000	
Electricity charges	2 500	
Discounts allowed	1 000	
		(196 500)
Net Profit		56 500

Statement of Financial Position

Assets	Rs.
Motor vehicle	300 000
Furniture	100 000
Debtors	30 000
Cash balance	45 000
	475 000
Equity and Liabilities	
Capital	330 000
Net Profit	56 500
Bank Loan	50 000
Creditors	36 000
Accrued bank loan interest	2 500
	475 000

35. The cost of sales of the business for the year ended 31.12.2016 is
 (1) Rs. 160 000 (2) Rs. 165 000. (3) Rs. 196 500. (4) Rs. 253 000.
36. The Gross profit of the business for the year ended 31.12.2016 is
 (1) Rs. 85 000. (2) Rs. 88 000. (3) Rs. 90 000. (4) Rs. 93 000.
37. The total of establishment and administration expenses indicated in the statement of profit and loss for the year ended 31.12.2016 is
 (1) Rs. 11 000 (2) Rs. 12 000. (3) Rs. 14 500. (4) Rs. 31 500.
38. What is the amount of bank interest paid in cash for the year ended 31.12.2016?
 (1) Rs. 2 500. (2) Rs. 3 500. (3) Rs. 6 000. (4) Rs. 8 500.
39. the increase of the equity of this business from 01.01.2016 to 31.12.2016 is
 (1) Rs. 45 000. (2) Rs. 56 500. (3) Rs. 330 000. (4) Rs. 386 500.
40. Select the answer which shows the total assets and total liabilities of this business as at 31.12.2016 respectively.
 (1) Rs. 475 000 and Rs. 475 000. (2) Rs. 386 500 and Rs. 88 500.
 (3) Rs. 88 500 and Rs. 475 000. (4) Rs. 475 000 and Rs. 88 500.

New Syllabus**General Certificate of Education (Ord. Level) Examination, December 2017
Business and Accounting Studies I, II**

NB: Answer five questions only as instructed. Any extra questions answered if not struck off by the candidate himself, will be crossed out by the examiner, without being marked.

- * Including question No.1 answer five questions selecting two questions from each of the parts I and II
- * Write your answers in neat handwriting.

Business and Accounting Studies II

1. Using the following case, answer the questions No. (i) to (x).

Kolitha, a planter and land owner, who holds an agricultural degree runs a banana farm using organic fertilizers. he supplies fruits to the fruits sellers in the area and sells his products in weekly fair as well.

Bhanuka who is an environmentalist produces lunch boxes by processing banana leaves and banana trunks which are the waste materials of Kolitha's banana farm. Bhanuka sells his products to the canteens and to the office employees.

Bhanuka registered his business on 01st of August 2017 as 'Banana Leaf'. The assets and liabilities of this business as at 01st of August 2017 as follows.

• Cash	Rs.	8 000
• Debtors	Rs.	5 000
• Creditors	Rs.	3 000
• Production equipment	Rs.	40 000
• Bank loan	Rs.	20 000

Following transactions occurred in the "Banana Leaf" business during the month of August 2017.

- Purchases of banana leaves and trunks - In ^{Cash} each Rs. 8 000
- On credit Rs. 12 000
- Sales of lunch boxes - In cash (units 1 000) Rs. 20 000
- On credit (units 2 000) Rs. 40 000
- Cash received from debtors Rs. 35 000
- Cash payment to creditors Rs. 10 000
- Following expenses had been paid for producing lunch boxes during the month of August.
 - * Electricity charges Rs. 3 000
 - * Factory rent Rs. 4 000
 - * Transportation cost Rs. 3 600
 - * Helper's salary Rs. 5 000
 - * Production equipment are depreciated at 12% annually on the opening balance of the month of August.
 - * No remaining stock as at 31st August 2017.

An employee was recruited on 31st August to the 'Banana Leaf' business due to the increase in the demand of its products as a result of the ban imposed by the government on polythene usage from 01st September 2017. Further, Bhanuka decided to expand the business by obtaining a land on lease and farming banana by himself in future.

- (i) (a) What is the type of business organization that 'Banana Leaf' business belongs to?
 (b) State a strength that can be seen in the business of Kolitha.
- (ii) Both Kolitha and Bhanuka are involved in retail business.
 (a) Do you agree with the above statement?
 (b) State reasons for your answer.
- (iii) Write an example each for the planning function and the organizing function included in this case.
- (iv) (a) Into which business environment does the imposing a ban by the government on polythene use belong to?
 (b) Write two parties which belongs to internal environment of 'Banana Leaf' business.
- (v) (a) How much is the equity of 'Banana Leaf' business as at 01st of August 2017.
 (b) Name two prime entry books maintained by the 'Banana Leaf' business.
- (vi) (a) Write the journal entry relevant to recoding depreciation of production equipment for the month of August 2017.
 (b) How much is the net value of production equipment as at 31st August 2017?
- (vii) Calculate the cash balance of the 'Banana Leaf' business as at 31st August 2017 by preparing the cash account for the month of August 2017.
- (viii) Write
 (a) a current asset and
 (b) a current liability
 with values as at 31st August 2017 of the 'Banana Leaf' business.
- (ix) State the basic accounting equation of 'Banana Leaf' business with values as at 31st August 2017.
- (x) (a) How much is the cost of a lunch box produced by 'Banana Leaf' business during the month of August?
 (b) How much is the profit retained in selling one lunch box?

(02 x 10 = 20 marks)

Part I - Business Studies.

(Answer two questions only)

2. (i) (a) What is a business?
 (b) Name two parties who are interested in the business activities. (02 marks)
- (ii) State whether the following statements are true or false.
 (a) Things that man should necessarily fulfil in order to exist are human needs.
 (b) According to the nature of the products produced, businesses are classified as public and private businesses.
 (c) The man made things used in production is a factor of production called labour.
 (d) The liability of shareholders of a limited company is limited to the capital invested by them. (02 marks)
- (iii) There is a high demand for the curd supplied by National Livestock Development Board (NLDB) that are sold in Samagi canteen conducted by the employees of Sri Lanka Telecom PLC.

Write an example each for A, B, C and D below from the above case.

- A - Service providing businesses
- B - Public sector businesses
- C - Societies
- D - Welfare oriented businesses

(02 marks)

- (iv) Sunimal conducts a business to sell shoes that are produced by using processed leather.
- (a) What is the human need satisfied by Sunimal's business?
- (b) The processed leather used in shoe production in the above case belong to the factor of production called land. Do you agree with this statement? State reasons for your answer.

(02 marks)

(Total 08 marks)

3. (i) (a) What is a cheque?
- (b) Write two principles of insurance.
- (ii) State whether the following statements are true or false.
- (a) A bank which lends money on jewellery can insure the pawned jewellery.
- (b) The feedback is not essential to complete the communication process.
- (c) The permission given by a bank to withdraw money exceeding the balance in the savings account is the bank overdraft facility.
- (d) A country bringing in products from another country is export trade.
- (iii) (a) "Business activities become efficient by expanding the Colombo port."
Name the element of transportation which is directly related to the above statement.
- (b) Sumathipala purchases potatoes in large scale from Ramachandran who is a potato farmer in Jaffna, and sells them to Piyal who is a trader in weekly fair and to Sumana who sells vegetables to consumers by keeping them in front of her house.
Name a wholeseller and a retailer included in the above case, respectively.
- (iv) Tharanga Perera who conducts a textile business, issued a cheque on 01.10.2017 for Rs. 8 500 to Gamini Silva for purchasing a stock of textile.
A format of a cheque is given below.

(02 marks)

(02 marks)

(02 marks)

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The image shows a sample format of a cheque from BOC (Bank of Ceylon). The cheque is dated 20/10/17. It has fields for 'Pay to the order of', 'Amount in words', 'Amount in figures', and 'Signature'. The BOC logo is visible on the left. The MICR line at the bottom reads: 015129 70100550 0007122980.

- (a) Selecting from the above case write the information that should be written on (A), (B), (C) and (D) in the above format of the cheque.
- (b) State the drawer and drawee in the above cheque separately.

(02 marks)

(Total 08 marks)

4. (i) (a) What is target market?
(b) Write **two** benefits of investing in treasury bills. (02 marks)
- (ii) State whether the following statements are **true** or **false**.
(a) One of the main objectives of the Securities and Exchange Commission of Sri Lanka is to maintain the share market in fair and orderly manner.
(b) When the risk of an investment increases expected return also increases.
(c) Only the process from designing a product to delivering it to the customer is marketing.
(d) Management is necessary to a business to maximize the use of limited resources. (02 marks)
- (iii) Following are four functions done by a marketing manager of a business.
A - Purchasing a van to distribute products.
B - Deciding to change the nature of the current product.
C - Advising the sales employees to maintain good relationship with customers.
D - Examining whether the expected sales income has been earned by implementing the proposed discount.
State separately, into which management function and into which variable in marketing mix and each of the above activities belongs to. (02 marks)
- (iv) Bandara, who does not like to take high risks and expects to retire next month, is considering following two investments to invest his employee provident fund (EPF).
1. Investing in a senior citizen's fixed deposits account at 15% annual interest rate.
2. Investing in ordinary shares in stock market at 25% annual expected returns.
(a) Out of the above investments, which one would you recommend for Bandara to invest?
(b) State the reasons for selecting the above investment. (02 marks)
(Total 08 marks)

Part II - Accounting
(Answer two questions only)

5. (i) (a) What is a liability?
(b) Write **two** types of accounts that can be seen in the ledger. (02 marks)
- (ii) Write the double entry for the following transactions.
(a) Withdrawing Rs. 2 000 for the personal use of the owner.
(b) Purchasing a motor vehicle for Rs. 500 000 on credit from Auto Traders for the use of business. (02 marks)
- (iii) Following shows the balances of assets, liabilities and equity of a business as at 01.01.2017 and how the transactions that took place during the first week of January were recorded using the accounting equation.

	Assets (Rs.)	=	Equity (Rs.)	+	Liabilities (Rs.)
01.01.2017 Balance	200 000	=	150 000		50 000
(1)	+ 25 000 (cash)	=	-		+ 25 000 (bank loan)
(2)	- 10 000 (stock)				
	+ 15 000 (debtors)	=	+ 5 000 (profit)		-
(3)	- 7 000 (cash)	=	- 7 000 (rent)		-
(4)	- 6 000 (cash)	=	-		- 6 000 (creditors)

Required:

- (a) Writing each of the above transaction with values.
(b) Stating separately increase or decrease of total Assets and total Equity during the week. (04 marks)

- (iv) Following are the Purchase Journal and Sales Journal prepared by a business for the month of May 2017.

Purchase Journal

Date	In: No.	Supplier	Total Amount (Rs.)	L/F
5/10	005	Nalaka	4 800	
5/18	1008	Wasana	15 000	

Sales Journal

Date	In: No.	Purchaser	Total Amount (Rs.)	L/F
5/12	326	Madara	6 200	
5/26	327	Wimal	3 000	

Required:

- (a) Completing the above purchase Journal and Sales Journal as at 31st May 2017.
 (b) Recording the transactions in the above Purchase Journal and Sales Journal into Ledger Accounts. (04 marks)

(Total 12 marks)

6. (i) (a) Name the elements of production cost.
 (b) Write two situations where the accounting errors occur. (02 marks)
- (ii) Some information of 'Shakthi Business' which produces concrete blocks, for the month of August 2017 are as follows.

* Cost of a concrete block	Rs.	30
* Production overhead	Rs.	20 000
* Total production cost	Rs.	60 000
* Direct material cost	Rs.	15 000
* Other direct expenses	Rs.	10 000

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Required:

- (a) Number of concrete blocks produced during the month of August.
 (b) Direct labour cost for the month of August. (02 marks)

- (iii) Following are the certain errors occurred in accounting.

- A - Credit sales of Rs. 4 500 has been recorded in the sales journal as Rs. 5 400.
 B - Paid rate Rs. 1 200 has been recorded only in cash account.
 C - The balance of the electricity expenses account Rs. 8 000 has not been extracted to the trial balance.
 D - Purchase invoice of Rs. 6 000 has been completely omitted from the books.
 E - Paid insurance Rs. 2 500 has been debited to rate account.
 F - Discounts allowed Rs. 1 300 has been recorded as Rs. 3 100 in relevant debtors account.

Required:

Write separately,

- (a) Errors that do not affect the agreement of the trial balance.
 (b) Errors that affect the agreement of the trial balance. (02 marks)

- (iv) The bank account prepared by a business and bank statement received from the bank for the month of September 2017 are as follows.

Bank Account

Date	R.N.	Description	L/F	Amount (Rs.)	Date	V.N.	Description	L/F	Amount (Rs.)
9/01		Balance		18 500	9/07		Creditors 667615		3 000
9/10		Cheque deposit 562518		9 000	9/10		Rent 667616		4 000
9/22		Cheque deposit 336215		16 000	9/28		Purchases 667617		20 000
					9/30		Balance c/d		16 500
				43 500					43 500

Bank Statement

Date	Description	Debit (Rs.)	Credit (Rs.)	Balance (Rs.)
9/01	Balance			18 500
9/08	667615	3 000		15 500
9/11	Cheque deposit 562518		9 000	24 500
9/12	667616	4 000		20 500
9/25	Direct remittances		8 000	28 500
9/30	Standing order (Insurance)	5 000		23 500

Required:

- (a) Adjusting the balance in the bank account as at 30.09.2017.
 (b) Bank reconciliation statement as at 30.09.2017.

(06 marks)

(Total 12 marks)

7. (i) (a) What is the objective of preparing the Trade Account?
 (b) Write the double entry relevant to record accrual expenses. (02 marks)
- (ii) The number of members in Minimuthu Sports Association in 2016 are 100. The annual membership fee per member is Rs. 100. The receipts and payments account prepared for the year 2016 is as follows.

Receipts & Payments Account

1/1	Balance	12 000	Purchases of sports equipment	8 000
	Membership fee	7 000	Expenses for pavilion	3 000
			Sports adviser fee	5 000
			12/31 balance c/d	3 000
		19 000		19 000

Required:

The Income Statement of Minimuthu Sports Association for the year ended 31.12.2016.

(02 marks)

(iii) Trial balance of Ranga's trading business as at 31.12.2016 is as follows.

	Debit (Rs.)	Credit (Rs.)
Capital		200 000
Distribution vehicles (at cost)	250 000	
Distribution vehicles - provision for depreciation (as at 01.01.2016)		30 000
Stock (as at 01.01.2016)	35 000	
12% Bank loan		50 000
Insurance charges	12 000	
Sales		220 000
Purchases	170 000	
Debtors	30 000	
Creditors		40 000
Discounts received		4 000
Discounts allowed	2 500	
Bank loan interest	4 000	
Bad debts	1 000	
Electricity charges	1 500	
Rate	2 000	
Administrative expenses	6 000	
Cash balance	30 000	
	544 000	544 000

Additional Information:

- * Stock as at 31.12.2016 is Rs. 28 000.
- * Distribution vehicle should be depreciated annually at 10% on straight line method.
- * Prepaid insurance as at 31.12.2016 is Rs. 2 000.

Required:

- (a) The statement of Profit and Loss for the year ended 31.12.2016
- (b) The statement of Financial Position as at 31.12.2016

(04 marks)

(04 marks)

(Total 12 marks)
