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**SCHOOL OF ACCOUNTING AND BUSINESS**  
**BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE**  
**PROGRAMME**

**YEAR I SEMESTER I (Group B)**  
**END SEMESTER EXAMINATION – DECEMBER 2014**

**AFM 10130 Fundamentals of Financial Accounting**

Date : 12<sup>th</sup> December 2014  
Time : 5.30 p.m. – 8.30 p.m.  
Duration : Three (03) hours

**Instructions to Candidates:**

- Answer **ALL** questions
- This paper consists of two parts (I and II).
- Section A – Answer **ALL** questions in the separate sheet provided  
Section B – Answer **ALL** questions
- The total marks for the paper is 100.
- All questions carry equal marks. Marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

## Part I

Answer **ALL** questions

Select the most appropriate answer for the following questions.

1. Which of the following statements **best describes** financial accounting?
  - a. It is a process of converting data in to information.
  - b. It is a system of recording transactions in the prime entry books and ledger accounts.
  - c. It is a system of generating and communicating economic information about a business to stakeholders.
  - d. It is the system of providing information to managers to support their managerial decision making.
  
2. Which of the following statement is **false** in relation to difference between financial accounting and management accounting?
  - a. Financial accounting focuses to provide information to external users where as management accounting focus to provide information to internal users.
  - b. There is a statutory requirement for financial accounting but there is no such statutory requirement for management accounting.
  - c. Specific formats are used in presenting information by financial accounting however no such specific formats exists for management accounting.
  - d. Financial accounting provides only historical information whereas management accounting provides only forecasted information.
  
3. Which of the followings is the correct sequential order of the items relating to accounting process?
  - a. Source documents, ledger accounts, control accounts, trial balance, financial statements
  - b. Source documents, prime entry books, trial balance, ledger accounts, financial statements
  - c. Source documents, ledger accounts, prime entry books, trial balance, financial statements
  - d. Source documents, prime entry books, ledger accounts, trial balance, financial statements

4. Which of the following statement is **true** in relation to source documents?
- a. Debit note is the source document of recording transactions in the Return Inwards Journals.
  - b. Credit Note is the source document of recording transactions in the Return Outwards Journal.
  - c. Journal Voucher is the source document of recording transactions in General Journal.
  - d. Payment Voucher is the source document of recording transactions in the Purchase Journal.
5. Which of the following statement is **true** in relation to Prime Entry Books?
- a. All prime entry books acts as ledger accounts as well.
  - b. Transactions are recorded in the prime entry books using double entry system.
  - c. Data gathered from the source documents are used to record transactions in the prime entry books.
  - d. Receipt Journal is the prime entry book used to record all cash transactions.
6. Which of the following are **fundamental qualitative characteristics** as per conceptual framework of financial reporting?
- a. Relevance and understandability
  - b. Relevance and faithful representation
  - c. Relevance and reliability
  - d. Reliability and faithful representation
7. Which of the following **best describe** a liability?
- a. It is a present obligation as a result of past transaction and it will generate future economic benefits to the business.
  - b. It is a future obligation as a result of present transaction and it will require outflow of economic resources to settle it.
  - c. It is a present obligation as a result of past transaction and it will require outflow of economic resources to settle it.
  - d. It is a future obligation as a result of present transaction and it will generate future economic benefits to the business.

8. Which of the following is **not** an essential characteristic of an asset?
- a. It should be a resource owned by a business.
  - b. It should be a resource control by a business.
  - c. It should generate future economic benefits to the business.
  - d. It should be a result of past transaction.
9. Which of the following can be considered as an example for **technological environment** of accounting?
- a. Introduction of Companies Act No 7 of 2007.
  - b. Introduction of new sets of Accounting Standards with effects from 01st January 2012.
  - c. Introduction of accounting software to maintain accounting records.
  - d. Introduction of inflationary adjusted in accounting records.
10. A sales invoice of Rs.25,000 has been recorded in the Sales Journal as Rs.20,000. The amount of suspense account balance created due to this error is:
- a. Nil
  - b. Rs.5,000
  - c. Rs.20,000
  - d. Rs.25,000

**(Total 20 Marks)**

## **Part II**

Answer **ALL** questions

### **Question No. 01**

- a. Differentiate the Financial Accounting from Management Accounting  
(3 Marks)
  - b. Explain the four enhancing qualitative characteristics of financial statements as per Conceptual Framework for Financial Reporting.  
(10 Marks)
  - c. Differentiate the Accounting Function from the Financing Function of a Business.  
(3 Marks)
  - d. Briefly explain the importance of sound internal control system for the Financial Accounting.  
(4 Marks)
- (Total 20 Marks)**

### **Question No. 02**

The following transactions were occurred in Colombo Traders during the month of January 2014.

- 01/01 Purchased goods for Rs.75,000 on credit.
- 05/01 Paid Rs.25,000 for advertising expenses.
- 10/01 Sold goods costing Rs.150,000 at a price of Rs.200,000 on credit.
- 12/01 Owner invested Rs.140,000 worth equipments to the business.
- 15/01 Purchased a motor vehicle for Rs.600,000 and paid Rs.150,000 by cash. The Balance was agreed to pay in two months.
- 16/01 Sold goods costing Rs.125,000 at a price of Rs.100,000.
- 18/01 Paid Rs.82,000 to creditors subject to Rs.8,000 discount.
- 20/01 Received Rs.45,000 from a debtor.
- 22/01 Received Rs.35,000 commission income by a cheque.
- 24/01 Deposited the cheque received for commission in the bank.
- 25/01 Owner of the business used Rs.10,000 worth goods for his personal use.

26/01 Paid Rs.25,000 rent of the owner's residence place out of the business's money.

27/01 Paid Rs.65,000 loan installment including Rs.15,000 interest.

31/01 Received the bank statement. The bank has deducted Rs.3,000 bank charges.

**Required:**

Show the effect of the above transactions to business using the basic accounting equation of "Assets=Equity + Liabilities"

**(Total 20 Marks)**

**Question No. 03**

The bank current account balance of Galle Traders as at 01<sup>st</sup> October 2014 was Rs.125,000. This balance was agreed with the balance as per bank statement. The following information is relevant to bank transactions of Galle Traders for October 2014.

Date	Transaction	Remarks
01	Deposited cash – Rs.60,000	
06	Issued a Cheque of Rs.40,000 to a creditor	Presented to bank on 08 <sup>th</sup> October
11	Deposited a cheque of Rs.50,000	Realized on 13 <sup>th</sup> October.
14	Issued a cheque to purchase a computer of Rs.45,000	Presented to bank on 18 <sup>th</sup> October.
21	A debtor has deposited Rs.35,000 in the current account of the business as a settlement.	Business hasn't recorded this in its accounts yet.
24	Bank paid Rs.20,000 of the business rent out of the current account based on standing order given.	Business hasn't recorded this in its accounts yet.
25	Issued a cheque of Rs.44,000 to a creditor.	Not presented to bank yet.
26	Issued a cheque of Rs.25,000 to a creditor.	Presented to bank on 30 <sup>th</sup> . But this was recorded in the

		business as a payment of Rs. 20,000.
29	Deposited a cheque of Rs.37,500.	Not realized yet.
30	Bank has added Rs.28,000 interest income to the bank Account.	This is an erroneous entry made by the bank. It should be added to another account.
31	Bank has deducted bank charges of Rs.2,500 from the current account.	Bank statement was received on 31 <sup>st</sup> October.

**Required:**

- Record the above transactions in the bank account of the business.
- Prepare bank statement sent by the bank.
- Prepare the adjusted the bank account the business.
- Prepare the bank reconciliation statement for October 2014.

**(Total 20 Marks)**

**Question No. 04**

The following trail balance was extracted from the Kandy Traders as at 31.03.2014.

	Rs.'000	Rs.'000
Sales		1,500
Land and Buildings-Cost/Accumulated depreciation	800	100
Motor vehicles-Cost/Accumulated depreciation	650	130
Office equipments-Cost/Accumulated depreciation	250	75
Purchases	750	
Inventories as at 01.04.2013	165	
Debtors /Creditors	265	310
Discount Allowed/Received	45	60
Interest Expenses/Income	90	60
Bank Loan		900
Salaries	180	

Advertising	240	
Drawings	200	
Cash and Bank	450	
Investment in Fixed deposit	800	
Electricity and telephone	200	
Capital		1,850
Suspense		100
	<b>5,085</b>	<b>5,085</b>

### **Additional information**

- The following errors have occurred in the accounting process.
  - Rs.25,000 sales invoice has been completely omitted from the accounting records.
  - Rs.60,000 return inwards has not been recorded in the Return Inward Journal.
  - Rs.140,000 payment to advertising expenses has been debited to advertising expense account as Rs.240,000.
- The inventories as at 31.03.2014 was valued at cost of Rs.240,000. However the net realisable value of the inventories are estimated as Rs.210,000.
- Cost of lands included in the land and building was Rs.300,000.
- Non-current assets are depreciated on cost as follows.
  - Buildings-5%
  - Motor vehicles-10%
  - Office equipment -20%
- Rs.40,000 of electricity and telephone expenses are payable as at 31.03.2014.
- Rs.60,000 of the advertising expenses paid is relevant to next year.

### **Required:**

- Journal entries to rectify the errors.
- Prepare the statement of profit or loss for the year ending 31.03.2014.
- Prepare statement financial position as at 31.03.2014.

**(Total 20 Marks)**