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

**YEAR I SEMESTER I (Group A)  
END SEMESTER EXAMINATION – FEBRUARY 2015**

**AFM 10130 Fundamentals of Financial Accounting**

Date : 02<sup>nd</sup> February 2015  
Time : 9.00 a.m. -12.00 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

Select the most appropriate answer for the following questions.

1. Which of the following statements is **true** in relation to financial accounting?
  - a. Financial accounting focuses to provide information to internal stakeholders.
  - b. There is no statutory requirement for financial accounting.
  - c. The output of the financial accounting is the financial statements.
  - d. No specific formats are used in presenting the information in financial accounting.
  
2. A business sold goods for Rs.240,000 on credit and cash the customer returned goods of Rs.40,000 and settled the balance subject to 10% discount. Select the relevant source documents used in these transactions.
  - a. Invoice, Debit note, receipt, Journal voucher
  - b. Invoice, credit note, receipt and payment voucher
  - c. Invoice, credit note, receipt and journal voucher
  - d. Journal voucher, debit note, invoice and receipt
  
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 double entry system?
- a. Increase in equity is debited and decrease in equity is credited.
  - b. Increase in liability is debited and decrease in liability is credited.
  - c. Increase in expense is debited and decrease in expense is credited.
  - d. Increase in income is debited and decrease in income is credited.
5. Which of the following statement is **true** in relation to Prime Entry Books?
- a. The source document used to prepare the purchase journal is the payment voucher.
  - b. The source document used to prepare the return inwards journal is the debit note.
  - c. The source document used to prepare the return outwards journal is the credit note.
  - d. The source document used to prepare the general journal is the journal voucher.
6. Which of the following are **enhancing qualitative characteristics** as per conceptual framework of financial reporting?
- a. Relevance, reliability, understandability and comparability
  - b. Comparability, verifiability, timeliness and understability
  - c. Faithful representation, relevance, comparability, verifiability
  - d. Timeliness, understandability, consistency and verifiability
7. Which of the following **best describe** an asset?
- a. It is resources controlled by the business as a result of past transaction and it will generate future economic benefits to the business.
  - b. It is resources owned by the business as a result of past transaction and it will generate future economic benefits to the business.
  - c. It is resources controlled by the business as a result of past transaction and it will create an outflow of economic resources from the business.
  - d. It is resources owned by the business as a result of past transaction and it will create an outflow of economic resources from the business.

8. Which of the followings is **not** an essential characteristic of a liability?
- a. There should be a present obligation.
  - b. There should be a legal obligation.
  - c. It should be a result of past transaction or event.
  - d. There should be outflow of resources embodying economic benefits to settle it.
9. Which of the followings can be considered as an example for **technical and professional 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 new income tax act.
10. A purchase invoice of Rs.35,000 has been recorded in the purchase Journal as Rs.30,000. The amount of suspense account balance created due to this error is:
- a. Nil
  - b. Rs.5,000
  - c. Rs.30,000
  - d. Rs.35,000

**(Total 20 Marks)**

## Part II

### **Question No. 1**

- a. Differentiate the Financial Accounting from Management Accounting  
(3 Marks)
  - b. Explain the two fundamental qualitative characteristics of financial statements include in Conceptual Framework for Financial Reporting.  
(6 Marks)
  - c. Explain the three main types of business organizations.  
(6 Marks)
  - d. Briefly explain the term corporate governance and its role in financial reporting.  
(5 Marks)
- (Total 20 Marks)**

### **Question No. 02**

The following transactions were occurred in Kandy Traders during the December 2014.

- 01/12 Paid Rs.55,000 to creditors.
- 05/12 Sold goods costing Rs.120,000 at a price of Rs.190,000 on credit.
- 10/12 Purchased a computer for Rs.150,000 and paid Rs.50,000 by cash. The Balance was agreed to pay within four months.
- 12/12 Saman, the owner of the Kandy Traders invested Rs.125,000 worth furniture to be used in the business.
- 15/12 Owner of the business used Rs.15,000 worth of goods for his personal use.
- 16/12 Sold goods costing Rs.110,000 at a price of Rs.95,000.
- 18/12 Paid Rs.75,000 to creditors subject to Rs.5,000 discount.
- 20/12 Received Rs.63,000 from a debtor subject to 10% discount.
- 22/12 Received Rs.40,000 rent income by a cheque.
- 24/12 Deposited the cheque received for rent income in the bank.
- 25/12 Paid Rs.55,000 as salaries to the employees. Further Rs.25,000 is payable.
- 26/12 Paid Rs.15,000 electricity bills of owner's residence place out of the business's money.
- 28/12 Paid Rs.75,000 loan installment which includes Rs.25,000 of interest.
- 31/12 Received the bank statement. The bank has deducted Rs.2,500 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 Colombo Traders as at 01<sup>st</sup> December 2014 was Rs.180,000 credit. This balance was agreed with the balance as per bank statement. The following information is relevant to bank transactions of Colombo Traders for December 2014.

Date	Transaction	Remarks
02	Issued a Cheque of Rs.35,000 to a creditor	Presented to bank on 04 <sup>th</sup> December
06	Deposited cash – Rs.75,000	
11	Issued a cheque to purchase a computer of Rs.55,000	Presented to bank on 13 <sup>th</sup> December.
14	Deposited a cheque of Rs.60,000	Realized on 17 <sup>th</sup> December.
21	A debtor has deposited Rs.25,000 in the current account of the business as a settlement.	Business hasn't recorded this in its accounts yet.
23	Bank paid Rs.30,000 of the rent of business building out of the current account based on a standing order.	Business hasn't recorded this in its accounts yet.
24	Issued a cheque of Rs.37,000 to a creditor.	Presented to bank on 29 <sup>th</sup> . But this was recorded in the books of business as a payment of Rs.30,000 .
26	Issued a cheque of Rs.25,000 to a creditor.	Not presented to bank yet.
29	Deposited a cheque of Rs.26,500.	Not realized yet.
30	Bank has added Rs.20,000 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.3,500 from the current account.	Bank statement was received on 31 <sup>st</sup> December. This was not

		recorded in cash book as at 31 <sup>st</sup> December.
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**Required:**

- Record the transactions in the bank account of the business.
- Prepare bank statement sent by the bank.
- Adjust the bank account for the business.
- Prepare the bank reconciliation statement for December 2014.

**(Total 20 Marks)**

**Question No. 4**

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

	Rs.'000	Rs.'000
Sales		2,250
Land and Buildings-Cost/Accumulated depreciation	1,000	200
Motor vehicles-Cost/Accumulated depreciation	800	320
Office equipments-Cost/Accumulated depreciation	350	105
Purchases	1,150	
Inventories as at 01.04.2013	275	
Debtors /Creditors	450	50
Discount Allowed/Received	65	85
Interest Expenses/Income	120	80
Bank Loan		1,150
Salaries	310	
Advertising	190	
Drawings	175	
Cash and Bank	350	
Investment in Fixed deposit	1,050	

Electricity and telephone	210	
Capital		2,255
	<b>6,495</b>	<b>6,495</b>

### **Additional information**

- The following errors have been occurred in the accounting process. These errors have not been adjusted in the accounting records yet.
  - Rs.35,000 purchase invoice has been completely omitted from the accounting records.
  - Rs.40,000 return outwards has not been recorded in the Return Onwards Journal.
  - Rs.80,000 paid as maintenance expenses of office equipments has been debited to office equipment account.
- The inventories as at 31.03.2014 was valued at cost of Rs.340,000. However the net realisable value of the inventories is estimated as Rs.285,000.
- Cost of land included in the land and building is Rs.400,000.
- Non-current assets are depreciated on cost as follows.
 

Buildings-5%	Motor vehicles-10%	Office equipment -20%
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- Rs.20,000 electricity and telephone expenses are payable as at 31.03.2014.
- Rs.40,000 of the advertising expenses is relevant to next year.
- Rs.45,000 of commission income due for the current year is receivable as at end of the year.
- A debtor amounting to Rs.35,000 was declared as bankrupt by the court.

### **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)**