



No. of Pages - 10
No of Questions - 05

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

YEAR I SEMESTER I (Group A)
END SEMESTER EXAMINATION – JULY 2015

AFM 10130 Fundamentals of Financial Accounting

Date : 13th July 2015
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This paper consists of three sections (A, B and C).
- Answer **ALL** questions in **Section A**, **Section B** and any **TWO (02)** questions from **Section C**.
- Please submit answers to **Section A** separately in the sheet given
- The marks for each question are shown in brackets.
- The total marks for the paper is 100.
- All answers should be in English Medium
- Non programmable calculators are allowed.
- Answers should be written neatly and legibly.

Section A

Choose the most correct answer. Mark your answer separately in the sheet given

Question No. 01

1. According to the Sri Lanka Accounting Standards, Small and Medium sized Entities (SMEs) means
 - a. Entities that do not have a public accountability but publish general purpose financial statements
 - b. Entities that have a public accountability and publish general purpose financial statements
 - c. Entities whose annual turnover is less than Rs. 5 million
 - d. Entities which are not listed in the share market
2. ABC Company sells electronic items on hire purchase. Cost price of all the goods sold during the period is Rs. 750,000. Hire purchase price of these items are Rs. 1,000,000. Installment received during the period is Rs. 600,000. Further installments amounting to Rs. 50,000 is in arrears. What is the value of stock on hire at the end of period?
 - a. Rs. 400,000
 - b. Rs. 262,500
 - c. Rs. 350,000
 - d. Rs. 450,000
3. Lessors should recognize assets held under a finance lease at an amount equal to the
 - a. Net investment in the lease
 - b. Gross Investment in the lease
 - c. Cash price
 - d. Minimum Lease Payment plus any unguaranteed residual value
4. Fundamental qualitative characteristics of financial statements include
 - a. Faithful representation and comparability
 - b. Timeliness and Relevance
 - c. Faithful representation and understandability
 - d. Relevance and Faithful representation

5. The main source document used for recording the transactions in Returns Inward Journal is
- Sales Invoice
 - Credit Note
 - Debit Note
 - Journal voucher
6. A petty cashier has a cash float of Rs. 10,000. He has spent Rs. 8,000 during the first week. How much he will be reimbursed under the imprest system.
- Rs. 10,000
 - Rs. 2,000
 - Rs. 8,000
 - Rs. 18,000
7. A company has recorded the machine maintenance expenses of Rs 10,000 in the machine account. This type of error is known as
- Errors of original entry
 - Errors of Principle
 - Errors of Omission
 - Compensating errors
8. An example for a financial asset is,
- Property, Plant & Equipment
 - Inventory
 - Trade receivables
 - Prepaid expenses
9. Costs that can be attributable to a construction contract are
- general administration costs for which reimbursement is specified in the contract
 - selling costs
 - research and development costs for which reimbursement is not specified in the contract
 - depreciation of idle plant and equipment that is not used on a particular contract

10. Select the most correct answer in relation to hire purchase agreement

- a. The hirer gives the right to use the asset to the vendor
- b. Cash price is the cost to the vendor for an item sold under hire purchase term
- c. Hire purchase price is the total amount that should be paid by the vendor under hire purchase agreement
- d. Hire purchase price is equal to the cash price plus interest

(Total 20 Marks)

Section B

This section is compulsory

Question No. 02

Grapple Enterprises is an importer of fruits to Sri Lanka which is currently run as a sole proprietorship. The owner has requested the support of you as an undergraduate in accounting discipline in order to prepare the financial statements for the year ended 31st March 2015. Details are as follows.

Trial balance as at 31st March 2015

	Debit Rs.	Credit Rs.
Sales		3,500,000
Purchases	2,100,000	
Sales returns	120,000	
Building-cost	800,000	
Land-cost	1,200,000	
Motor vehicles-cost	1,500,000	
Equipment-cost	450,000	
Accumulated depreciation as at 01/04/2014		
Building		400,000
Motor vehicles		420,000
Equipment		200,000
Capital		2,200,000
Retain earnings as at 01/04/2014		485,500
Drawings	50,000	
Stocks as at 01/04/2014	140,000	
Salaries paid to sales staff	240,000	
Salaries to office staff	130,000	
Fuel	110,000	
Vehicle Repairs	25,000	
Electricity	18,000	

Water bills	10,000	
Rates	8,000	
Other administration expenses	14,000	
Other selling and distribution expenses	45,000	
Trade debtors	130,000	
Trade creditors		56,000
Bad debt	4,000	
Provision for doubtful debt as at 01/04/2014		4,500
Cash in hand	20,000	
Bank balance	140,000	
Bank O/D interest	12,000	
	7,266,000	7,266,000

1. The depreciation policy of the enterprise is as follows.

The Enterprise is depreciating its fixed assets under the straight line basis at the following rates from date of purchase to the date of sale.

Building-5%

Motor vehicles-20%

Equipment-25%

2. Motor vehicles include a three wheeler bought at the cost of Rs. 300,000 on 01st October 2012. It was sold on 31st December 2014 for Rs 200,000. Sale proceeds has been accounted under the sales.
3. All the motor vehicles are used for distribution purposes
4. Equipment includes an item which was bought on 01/01/2015 for Rs. 50,000.
5. Cost of closing stock as at 31st March 2015 is Rs. 240,000. However the net realizable value of the stock was Rs. 200,000.
6. The owner has taken goods worth Rs. 8,000 (cost) for his personal use. However it was not accounted.

7. Water bills include a payment of Rs. 1,000 paid for the month of April 2015
8. Electricity bill for the month of March 2015 was Rs. 1,500. It was not paid by the end of the March.
9. A debtor worth of Rs.10,000 has got bankrupt as at 31st March 2015. Company policy is to provide 5% for doubtful debts.

You are required to prepare

- a. Statement of comprehensive Income for the year ended 31st March 2015
- b. Statement of Financial Position as at 31st March 2015

(Total 40 Marks)

Section C

Answer any **TWO** questions

Question No. 03

- a. Compare a fixed price contract with cost plus contract in relation to construction contracts

(5 Marks)

- b. Zipra Constructors has undertaken to build a factory. Construction was commenced on 30th June 2014 and it is scheduled for completion on 31st December 2015. Details as at 31st March 2015 are given below. Customer has agreed to pay Rs.150 million for the construction work

	Rs 000'
Materials sent to the site	25,000
Plant delivered to site (net book value)	75,000
Direct wages paid	12,000
Direct site expenses paid	8,000
Head office charges-(directly attributable)	1,000
Materials returned from site to central stores	300
Cash Received from customer	50,000
<i>Balances as at 31st March 2015</i>	
NBV of plant on site	60,000
Materials on site	1,700
Direct wages payable	1,000

Project manager has estimated that the costs to complete the balance work as Rs. 60 million. Company follows cost method in order to determine the stage of completion. You are required to

- i. calculate the cost incurred to the date

(5 Marks)

- ii. estimate the total profit arising from the construction contract

(2 Marks)

- iii. calculate the stage of completion
(2 Marks)
 - iv. find the profit recognized for the year ended 31st March 2015
(3 Marks)
 - v. find the asset/liability arising from the construction contract as at 31st March 2015
(3 Marks)
- (Total 20 Marks)**

Question No. 04

- a. Identify the difference between a finance lease and an operating lease
(5 Marks)
 - b. AXE company limited has purchased a lorry under a leasing arrangement with CF Leasing PLC. Lease term is for five years and the AXE company has to pay an installment of Rs 1,000,000 at the end of each year. Market value of a similar lorry is Rs. 3,400,000. Useful life of the lorry is for 6 years. Implicit interest rate was found to be 15%
 - i. Calculate the present value of minimum lease payments (MLP)
(3 Marks)
 - ii. Identify the nature of the lease and state the reasons
(3 Marks)
 - iii. Write the accounting entries for initial recognition
(3 Marks)
 - iv. Prepare a lease schedule for 5 years showing interest, principle payment ,closing balance etc
(6 Marks)
- (Total 20 Marks)**

Question No. 05

- a. List how you can classify investments in financial instruments on the basis of subsequent measurement

(3 Marks)

- b. Craze Company has made several investments during the year ended 31st March 2015. Investments records of the company shows the following information.

The company has invested in the shares of Nexta PLC and Adstar PLC as follows.

Investment	No of shares	Amount	Price as at 31 st March 2015
Nexta PLC	2,000	25,000 (including a transaction cost of Rs. 500)	15
Adstar PLC	10,000	525,000 (including a transaction cost of Rs 4,500)	48

Treasury Manager has stated that the shares of Nexta PLC were bought for short term trading purpose. However the Shares of Adstar PLC were bought as a long term strategic investment.

Further the company has invested in debentures of Logic PLC. Details are as follows.

Investment	Face value/ No of debentures	Coupon interest rate	Amount invested	Maturity	Market price as at 31 st March 2015
Logic PLC	100,000 (1000 debentures)	10%	95,000	5 years	102

Coupon interests are paid annually and the effective interest rate of the debenture is found to be 12%. There is an active market for these debentures however the company plans to hold the investment in Logic PLC until maturity.

- i. Identify the classification of each investment

(3 Marks)

- ii. Prepare investment accounts

(8 Marks)

- iii. Show the extracts of Statement of Comprehensive Income for the year ended 31st March 2015 and Statement of Financial Position as at 31st March 2015

(6 Marks)

(Total 20 Marks)