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No of Questions - 05

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

YEAR I SEMESTER I (Group B)
END SEMESTER EXAMINATION – JUNE 2015

AFM 10130 Fundamentals of Financial Accounting

Date : 12th June 2015
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

Select the most appropriate answer for the following questions.

1. Which of the following statements is **true** in relation to financial accounting?
 - A. The prime objective of financial accounting is to provide financial information to internal users for decision making.
 - B. The output of financial accounting is the financial statements by which financial information are provided to users for decision making.
 - C. It is the process of converting data in to non-financial information to present them using financial statements.
 - D. It focuses to convert the data gathered from financial statements in to financial and non-financial information.

2. Which of the following statements is **true** in relation to the double entry principles?
 - A. Assets, liability and equity are debited to represent increase and credited to represent decrease.
 - B. Income and expenses are debited to represent increase and credited to represent decrease.
 - C. Income, liabilities and equity are debited to represent decrease and credited to represent increase.
 - D. Assets, expenses and liabilities are debited to represent decrease and credited to represent increase.

3. A loan of Rs.125,000 of the business was settled by the owner out of his personal money. What is the impact of this transaction to the business?
 - A. Both assets and liabilities decrease by Rs.125,000.
 - B. Both assets and equity decrease by Rs.125,000.
 - C. Assets increase and liabilities decrease by Rs.125,000.
 - D. Equity increase and liabilities decrease by Rs.125,000.

4. Which of the following statement is **true** in relation to prime entry books and the ledger?
- A. When a business maintains receipts and payments daybook, a separate cash account is not maintained in the ledger.
 - B. The discount columns maintain in the cash book represents the discount account.
 - C. The cash and bank columns maintained in the cash book represents the cash and bank accounts.
 - D. The purchase journal is the prime entry book used by a business to record all the purchases made with a view of resale.
5. Which of following statement is **false** in relation to posting of transactions from prime entry books to the general ledger?
- A. Total of the purchase day book is debited to purchase account by crediting creditors control account.
 - B. Total of the sales day book is debited to debtors control account by crediting sales account.
 - C. Total of the sales return day book is debited to debtors control account by crediting the sales return account.
 - D. Total of the purchase return day book is debited to creditors control account by crediting the purchase return account.
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 understandability
 - C. Faithful representation, relevance, comparability, verifiability
 - D. Timeliness, understandability, consistency and verifiability
7. Rent receivable of a business as at 31.03.2014 was Rs.80,000. During the year ending 31.03.2015, the business received Rs.450,000 from the tenants. The rent received in advance as at 31.03.2015 was Rs.60,000. The rent income to be recognised in the financial statements for the year ending 31.03.2015 is:
- A. Rs.310,000
 - B. Rs.390,000
 - C. Rs.450,000
 - D. Rs.530,000

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. A business had a prepaid advertising expenses of Rs.45,000 as at 31.03.2014. During the year ending 31.03.2015, the business paid Rs.205,000 for the advertising. However, there was accrued advertising expense of Rs.65,000 as at 31.03.2015. The advertising expenses to be recognised in the income statement for year ending 31.03.2015 is:
- A. Rs.205,000
 - B. Rs.225,000
 - C. Rs.270,000
 - D. Rs.315,000
10. A Sales invoice of Rs.20,000 has been recorded in the sales day book as Rs.10,000. The amount of suspense account balance created due to this error is:
- A. Nil
 - B. Rs.10,000
 - C. Rs.20,000
 - D. Rs.30,000

(Total 20 Marks)

Part II

Question No. 01

- a. Define the following terms as per Conceptual Framework for Financial Reporting by giving an example for each.
- i. Assets
 - ii. Liabilities
 - iii. Equity

(6 Marks)

- b. Differentiate the Financial Accounting from Management Accounting

(4 Marks)

- c. Describe the term 'internal control' and briefly explain importance of it in financial accounting.

(4 Marks)

- d. Briefly explain the following accounting concepts with an example for application of each concept.

- i. Prudence
- ii. Accrual
- iii. Matching

(6 Marks)

(Total 20 Marks)

Question No. 02

The following transactions were occurred in Hiruka Traders, a whole sale business during the month of June 2015.

- 01/06 Purchased goods for Rs.300,000 from Sagara Traders and paid Rs.200,000 by a cheque.
The balance was agreed to pay after two months.
- 03/06 Returned goods costing Rs.50,000 to Sagara Traders.
- 05/06 Sold goods costing Rs.180,000 at a price of Rs.270,000 on credit.
- 10/06 Purchased office equipment for Rs.350,000.
- 12/06 Received Rs.81,000 from Saman, a debtor subject to cash discount of Rs.9,000.
- 15/06 Owner of the business used Rs.25,000 worth goods for his personal use.
- 16/06 Paid Rs.90,000 to creditors. The discount received on this transaction is Rs.10,000.
- 18/06 Paid Rs.75,000 to employees as salaries and overtimes.
- 20/06 Purchased goods from Kumara Traders and paid by a cheque. The listed price of the goods was Rs.150,000 and 5% trade discount was received from the supplier.
- 22/06 Received Rs.40,000 rent income.
- 25/06 Paid Rs.65,000 as advertising expenses. Further Rs.25,000 is payable.
- 26/06 Paid Rs.10, 000 of the personal telephone bills of Hiruka out of the business's money.
- 28/06 Paid Rs.50,000 bank loan installment including interest of Rs.10,000.
- 31/06 Received the bank statement. The bank has deducted Rs.1,500 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

- a. The bank current account balance of Colombo Traders as at 30th June 2015 was Rs.210,000. However the balance as per bank statement on this date was not agreed with this balance. The following reasons were identified in a subsequent investigation.
- i. Following cheques issued to suppliers during the month have not been presented to bank till the end of June.
 - Cheque no: 275423 Rs.82,000
 - Cheque no: 275426 Rs.68,000
 - ii. Rs.45,000 paid by bank for rent of the office building standing order has not been recorded in the books of the business.
 - iii. Following cheques deposited close to the month's end have not been realized yet.
 - Cheque no: 510435 Rs.45,000
 - Cheque no: 322144 Rs.55,000
 - iv. A cheque of Rs.25,000 issued to a trade creditor has been dishonored. But no accounting entries have been made in the books of the business in relation to this dishonor.
 - v. Bank has credited the business's current account by Rs.80,000 as interest on fixed deposit.
 - vi. A fund transfer made to another account of Rs.45,000 has erroneously being credited to the business's current account by the bank.
 - vii. The bank has made following deductions from the current account of the business.
 - Bank charges : Rs.2,500
 - Cheque book Charges: Rs1,000

Required:

1. Make necessary adjustments in the bank account of the business.
2. Prepare the bank reconciliation statement for June 2015.

(10 Marks)

- b. The trial balance prepared by Mahela's business as at 31.03.2015 did not tally. The difference of the trial balance was transferred to suspense account. The following errors were found in the subsequent investigation.
- i. A purchase invoice of Rs.30,000 has been completely omitted from the accounting record.
 - ii. Credit sales of Rs.34,000 has been recoded in the sales journal as Rs.43,000.

- iii. When totaling the purchase journal it was over casted by Rs.20,000.
- iv. Rs.35,000 payment made to creditor Amal has recorded only in the cash book.
- v. Rs.27,250 payment mad for advertising expenses has been recorded in the advertising expenses account as Rs.17,250.
- vi. When balancing the cash book it has been under stated by Rs.40,000.
- vii. Rs.12,500 interest income received has been erroneously debited to interest expense account even though it is correctly recoded in the cash book.

Required:

1. Write the journal entries (including cash) to correct all the above errors.
2. Prepare the suspense account.

(10 Marks)

(Total 20 Marks)

Question No. 04

The following trail balance was extracted from the Suranga Traders as at 31.03.2015.

	Rs.'000	Rs.'000
Sales		4,500
Land and Buildings-Cost/Accumulated depreciation	3,500	800
Motor vehicles-Cost/Accumulated depreciation	1,500	450
Office equipments-Cost/Accumulated depreciation	750	300
Purchases	2,850	
Inventories as at 01.04.2014	425	
Debtors /Creditors	750	650
Discount Allowed/Received	110	210
Interest Expenses/Income	310	180
Bank Loan		2,100
Salaries	460	
Advertising	220	
Drawings	190	

Cash and Bank	750	
Investment in Fixed deposit	2,000	
Electricity and telephone	310	
Capital		4,935
	14,125	14,125

Additional information

- i. The inventories as at 31.03.2015 was valued at cost of Rs.920,000. However the net realizable value of the inventories are estimated as Rs.785,000.
- ii. Cost of land included in the land and building is Rs.1,500,000.
- iii. Non-current assets are depreciated on cost as follows.
Buildings-5% Motor vehicles-10% Office equipment -20%
- iv. Rs.30,000 of electricity and telephone expenses are payable as at 31.03.2015.
- v. Rs.60,000 of the advertising expenses is relevant to next year.
- vi. Rs.70,000 commission is receivable as at end of the year.
- vii. A debtor amounting to Rs.35,000 was declared as bankrupt by the court.
- viii. Goods costing Rs.200,000 was destroyed due to fire on 20th March 2015. The scrap of destroyed goods were sold for Rs.22,000 and insurance company has agreed to pay Rs.128,000 as a claim. No accounting entries have been made in this regards other than recording the proceeds form sales of scraps as cash sales.

Required:

- a. Prepare the statement of profit or loss for the year ending 31.03.2015.
- b. Prepare statement financial position as at 31.03.2015.

(Total 20 Marks)