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SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME 2013/14

YEAR I SEMESTER I (Group B)
END SEMESTER EXAMINATION – MAY 2014

AFM 10130 Fundamentals of Financial Accounting

Date : 10th May 2014
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- Answer ALL questions
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

- i) “Main objective of accounting is to provide the financial information required by the owners of the business organizations”

Would you agree with the above statement? Justify your answer.

(5 Marks)

- ii) State six stake holders of the business organizations?

(3 Marks)

- iii) Ruwan started a business on 1st January 2014. Following transactions have occurred in his business during the first week of January.

- 1st January - Ruwan commenced his business by investing Rs.5 Million
- 2nd January - A motor Vehicle was purchased to be used in his business for Rs.2 Million.
- 3rd January -Stock costing Rs. 1 million was purchased on credit.
- 4th January- Stock costing Rs.500,000 was sold on cash for Rs. 600,000.
- 5th of January-Wages of Rs.20, 000 was paid.
- 6th January – Ruwan withdrew goods costing Rs.20,000 from his business.

You are required to show the above transaction in the accounting equation.

(6 Marks)

- iv) State the components of financial statements?

(3 Marks)

- v) State three items recorded in the state of comprehensive income?

(3 Marks)

(Total 20 Marks)

Question No. 02

i) Distinguish accrual basis of accounting from cash basis of accounting? Your answer should be supported by an example.

(4 Marks)

ii) Briefly explain the following concepts /conventions .Your answer should be supported by examples.

- a) Substance over form convention
- b) Periodicity Concept
- c) Prudence Concept
- d) Objectivity concept

(8 Marks)

iii) Distinguish the following.

- a) Current Assets and Non current assets
- b) Current liabilities and non current liabilities.
- c) Equity Capital and debt capital.
- d) Tangible assets and intangible assets.

(8 Marks)

(Total 20 marks)

Question No. 03

i) Briefly explain the concept of depreciation of property plant and equipment with an example?

(4 Marks)

ii) Briefly explain the what do you understand by “Impairment of assets” with an example?

(4 Marks)

iii) “Most of the intangible assets owned by the businesses are not reflected in the financial statements”. Critically evaluate this statement.

(4 Marks)

iv) State four types of financial assets?

(4 Marks)

v) Briefly explain the difference between operating lease and finance lease?

(4 marks)

(Total 20 marks)

Question No. 04

Saman has been in the business of Buying and selling of toys. The trial balance of his business as at 31st March 2014 is given below.

Trial Balance of Saman’s business as at 31st March 2014.

	Debit (Rs.000)	Credit (Rs.000)
Capital Account – 01 st April 2013		200,000
Current Account – 01 st April 2013		50,000
Motor vehicles	20,000	
Buildings	80,000	
Computers and equipments	25,000	
Land	119,500	
Accumulated Depreciation – 1 st April 2013		
- Motor vehicles		12,000
- Buildings		45,000
- Computers and equip.		18,000
Inventories – 1 st April 2013	25,000	

Purchase	175,000	
Carriage inwards	2,500	
Sales		350,000
Purchase returns		12,500
Sales returns	6,000	
Trade receivables / Payables	25,000	50,000
Other income		8,000
Administration Salaries	35,000	
Electricity	13,000	
Salaries of sales staff	20,000	
Insurance	12,500	
Security	15,000	
Sales commission	20,500	
Discounts	9,000	4,500
VAT payable		12,000
Sale of Vehicle		8,400
Long term loan		29,600
Loan interest	3,700	
Staff loan	5,000	
Other administration expenses	7,800	
Other selling expenses	4,200	
Staff Welfare	3,200	
Telephone expenses	2,500	
Investment in fixed deposit	150,000	
Cash at Bank	20,600	
	800,000	800,000

The following additional information is also available for your consideration.

1. Value of inventories as at 31st March 2014 was Rs.28 Mn.

2. A customer returned finished goods sold at a price of Rs.13 Mn on 30th March 2014. However this event was not recorded in the books of account of the business until 31st March 2014. But the value of these goods has been included in the above finished goods at the above price. Saman maintains a gross profit of 20% on the cost of products sold.

3. Trade receivables amounting to Rs.12 Mn need to be written off as bad debts. Impairment Provision for bad debts should be kept at 10% of the trade receivables (net) outstanding as at 31st March 2014.

4. A vehicle which was acquired on 01st April 2009 for Rs.10 Mn was disposed for Rs. 8.4 Mn on 31st December 2013. Sale proceeds received have been debited to cash book and credited to sale of vehicle account. No other entries have been recorded in the books of accounts of the business in this regard.

5. Property, Plant & Equipment need to be depreciated using straight line method at following rates.

Building	- 5% per annum
Motor Vehicles	- 20% per annum
Computers and Equipments	- 25% per annum

6. The following needs to be accrued as at 31/03/2014.

Electricity	- Rs. 2 Mn
Security	- Rs. 1 Mn
Insurance	- Rs. 3 Mn

7. Investment in fixed deposit was made on 01st January 2014. Bank has offered interest at the rate of 10% per annum. However no interest income has been accrued in 2013/2014 books of accounts of the Company.

You are required to prepare the following for the use of Internal Management of the business.

I. Statement of comprehensive income for the year ended 31st March 2014.

(20 marks)

II. Statement of Financial position as at 31st March 2014.

(20 marks)

(Total 40 marks)