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

YEAR I SEMESTER II (Group A)
END SEMESTER EXAMINATION – DECEMBER 2014

AFM 10330 Intermediate Financial Accounting

Date	:	19th December 2014
Time	:	01.00 p.m. – 04.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer ALL the questions
- Question No. 01: Answer **ALL** questions in the separate sheet provided
- 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. Roy and Tony have traded as partners for a number of years. Statement of Financial Position as at 31 December 2013 shows:

	Rs.	**Rs.**
Capital accounts		
Rory	45,000	
Tony	37,000	82,000
Current accounts		
Rory	19,210	
Tony	8,630	27,840
		109,840

During the year 2013, the business made a profit of Rs.41,320, the partners took drawings of Rs.12,000 each and Goodwill valued for Rs.25,000.

What was the net asset total as at 1 January 2013?

a. Rs.67,520

b. Rs.92,520

c. Rs.127,160

d. Rs.152,160

e. Rs.152,566

II. P, after having been a sole trader for some years, entered into partnership with Q on 1 July 2013, sharing profits equally.

The business profit for the year ended 31 December 2014 was Rs.340,000, accruing evenly over the year, apart from a charge of Rs.20,000 for an irrecoverable debt relating to trading before 1 July 2014 which it was agreed that P should bear entirely.

How is the profit for the year to be divided between P and Q?

	P	Q
	Rs.'000	Rs.'000
a.	245	95
b.	250	90
c.	270	90
d.	255	85
e.	270	85

III. On 30 December 2014 part of the inventory of a company was completely destroyed by fire.

The following information is available:

– Inventory at 1 December 2014 at cost Rs.49,800

– Purchases for December 2014 Rs.88,600

– Sales for December 2014 Rs.130,000

– Inventory at 31 December 2014 – undamaged items Rs.32,000

– Standard gross profit percentage on sales is 30%

Based on this information, what is the cost of the inventory destroyed?

a. Rs.17,800

b. Rs.47,400

c. Rs.15,400

d. Rs.6,400

e. Rs.17,400

IV. G, H and I are in partnership, sharing profits in the ratio 3:1:1, after charging salaries of Rs.20,000 per year each for H and I. On 1 January 2014 they agreed to change the profit-sharing ratio to 3:2:1 and to discontinue H's salary. I's salary continued unchanged. The partnership profit for the year ended 30 June.

2014 was Rs.380,000, accruing evenly over the year.

How should the Rs.380,000 profit be divided among the partners?

	G Rs.	*H* Rs.	*I* Rs.
a.	192,000	104,000	84,000
b.	192,500	103,333	84,167
c.	209,000	101,333	69,667
d.	209,000	111,333	89,667
e.	192,500	111,333	89,667

V. Chamara sells goods at a margin of 50%. During the year to 31 March 2014 the business made purchases totaling Rs.134,000 and sales totaling Rs.240,000. Inventories in hand at 31 March 2014, valued at cost, was Rs.11,400 higher than the corresponding figure at 1 April 2013.

What was the cost of the goods Chamara had drawn out?

a. Rs.2,600

b. Rs.14,500

c. Rs.25,400

d. Rs.37,300

e. Rs.34,300

VI. A partnership employs an inexperienced bookkeeper. He has written up the current account of one of the partners as follows.

CURRENT ACCOUNT (Rs.)

Interest on capital	2,800	Balance b/f	270
Salary	1,500	Drawings	6,200
Balance c/f	10,870	Net profit	8,700
	15,170		**15,170**

The balance brought forward is entered correctly and the other entries are all correct in amount. However, the bookkeeper is not very sure of the difference between debits and credits.

What is the corrected balance carried forward?

a. A debit balance of Rs.1,530
b. A debit balance of Rs.6,530
c. A credit balance of Rs.7,070
d. A credit balance of Rs.16,470
e. A debit balance of Rs.16,470

VII. A business has compiled the following information for the year ended 31 December 2014:

Opening inventories	Rs. 386,200
Purchases	Rs. 989,000
Closing inventories	Rs. 422,700

The gross profit percentage of sales is 40%

What is the sales revenue for the year?

a. Rs.1,333,500
b. Rs.1,587,500
c. Rs.2,381,250
d. Rs.2,301,250
e. Rs.2,311,250

VIII. The following information relates to Eva Co's sales tax for the month of March 2014:

	Rs.
Sales (including VAT 12%)	106,400
Purchases (excluding VAT 12%)	64,000

VAT account showed an opening credit balance of Rs.4,540 at the beginning of the month and a closing debit balance of Rs.2,720 at the end of the month.

What was the total VAT paid to regulatory authorities during the month of March 2014?

a. Rs.6,470

b. Rs.11,910

c. Rs.10,980

d. Rs.5,540

e. Rs.11,100

IX. Desil, Jagath and Athula are in business together sharing profits in the ratio 3:3:4 after providing for annual salaries for Desil and Jagath of Rs.10,000 and Rs.12,000 respectively. They each receive interest of 8% per annum on their capital balances and pay interest of 10% on their drawings.

The profit for the year is Rs.127,000 before providing for salaries or interest. Partners' capital balances and drawings are as follows:

	Capital balance Rs.	*Drawings* Rs.
Desil	50,000	23,000
Jagath	45,000	19,000
Athula	66,000	24,000

What is Desil's total profit share?

a. Rs.95,500

b. Rs.96,700

c. Rs.96,500

d. Rs.94,300

e. Rs.95,000

X. The following information was disclosed in the financial statements of Highsee Co for the year ended 31/12/2014.

	31/12/*2013 Rs*.	31/12/*2014* Rs.
Plant & Equipment (P& E) cost	255,000	235,000
Accumulated depreciation	(100,000)	(110,000)

During 2014, the following occurred in respect of Plant & Equipment:

	Rs.
Purchases of P&E	10,000
Depreciation charged on P&E	25,000
Loss on disposal of P&E	8,000

What were the sales proceeds received on disposal of the P&E?

a. Rs.7,000
b. Rs.15,000
c. Rs.25,000
d. Rs.8,000
e. Rs.8,000

(Total 20 Marks)

Question No. 02

The following trail balance of ABC partnership as at 31/03/2014 has been given to you after preparing the income statement.

Trial balance as at 31st March 2014

		Rs.	**Rs**
Capital	A		136,000
	B		140,000
	C		132,000

Current Account	A	9,000	
	B		15,000
	C	6,000	
Drawing	A	12,000	
	B	18,000	
Provision for Depreciation			
Building			60,000
Vehicle			12,000
Provision for doubtful debtors			31,000
Net profits for the year			363,000
Creditors control account			264,000
Debtors control account		331,000	
Stocks as at 31/03/2014		97,600	
Land & Building		312,000	
Accrued advertising expense			5,000
Prepaid rent		7,400	
Vehicle		179,000	
Investment		135,000	
Cash in hand		21,000	
Cash in bank		30,000	
		1,158,000	1,158,000

Additional information is provided for your consideration.

a. Following conditions are included in the partnership agreement
  - ❖ Interest on drawings should be charged at 5% p.a
  - ❖ Interest on partners capital should be paid at 5% p.a
  - ❖ Monthly salaries should be paid to partners A, B & C as Rs.1,000,Rs,2000 and Rs. 1,500 respectively
  - ❖ Profit & loss should be shared by partners, A, B & C at the ratio of 2:2:1

b. The following adjustments and the errors identified by the partners have not been considered by the book keeper of the partnerships in the accounts for the year ended 31st March 2014.

- ❖ Closing stock was overvalued by Rs. 2,200
- ❖ Rs.5,500 worth purchases invoice has not been taken into accounts
- ❖ Accrued salaries of Rs.5,000 was not considered
- ❖ Partner “A” withdraws Rs. 1,000 per month as drawings at the beginning of each month & partner “B” has withdrawn his all drawings on 01/07/2013.
- ❖ Depreciation for vehicle at 10% on cost has not been provided in the books.
- ❖ During the year partner A & C have withdrawn their salaries as follows

  A - Rs. 6,000 C - Rs. 8,000

  These salaries have been charged to the profit and loss account under administration expenses.

c. On 01/04/2014 partner “C” has decided to retire from the partnership and A & B agreed to continue the business by sharing profit & loss at the ratio of 2:3. On that date assets were revalued as follows.

Land & Building	310,000
Vehicle	200,000
Investment	130,000
Debtors	290,000
Goodwill	100,000

Partners agreed to take the new values into the books of accounts.

Partners decided to open a loan account for the amount payable to the retiring partner C

You are required to prepare,

i. Statement for adjusted net profit
ii. Capital & current accounts of the partners
iii. Profit & loss appropriation account for the year ended 31/03/2014
iv. Statement of Financial Position as at 01/04/2014

(Total 25 Marks)

Question No. 03

a. A,B,C & D were partners in a business sharing profit & loss equally. C is a limited partner and retired from the business. Then other partner decided to dissolve the business. Partners account balances were was follows on the date of dissolution.

A	B	C	D
550,000	325,000	(90,000)	(120,000)

Lastly agreed capital ratio immediately prior dissolution is 2:2:1:1.

Assuming that D is a bankrupt partner on the date of dissolution, explains the accounting treatment on dissolution of the partnership. (Show the necessary workings)

(05 Marks)

b. Anil and Bally, who makes up their accounts annually to 31st March, were in partnership sharing profit and loss in the ratio of 2:1. No interest was charged on drawing or credited to capital. The following was the summary of the balances as at 31st March 2014.

Particulars	Rs.	Particulars	Rs.
Leased hold property	500,000	Partner's capital Account	
Furniture and Fittings	220,000	Anil Bally	510,000 250,000
Stock as at 01.04.2013	76,000	Loan from Anil at 8% P.a	300,000
Debtors	18,000	Creditors	64,000
Purchases	480,000	Sales	1,040,000
Partner's Drawing Anil Bally	 60,000 48,000	Depreciation on Motor vehicle as on 01.04.2013	350,000
Motor Vehicle at cost	900,000	Bank overdraft	298,000
Wages	350,000		

General expenses	160,000		
	2,812,000		**2,812,000**

For the purpose of closing the accounts as at 31st March 2014, closing stock was valued at Rs.62,000 and Furniture & Fittings at Rs. 180,000. Provision for depreciation is to be calculated at 20% p.a on cost of the motor vehicle and accrued general expenses Rs. 12,000. In addition one year's interest is to be provided on Anil's loan.

The partnership was dissolved on 01.04.2014. It's being agreed that,

1. Anil should take over the stock for Rs. 60,000
2. Bally should takeover motor vehicle at Rs. 270,000 and part of the Furniture & Fittings for Rs. 75,000

   During April 2014, the following transactions took place.

   a. Leasehold property were sold, realizing a net amount of Rs. 600,000
   b. Rs. 16,000 was collected from debtors and the balance was taken over by Anil.
   c. The portion of the furniture & fittings were auctioned and realized Rs. 100,000. It was also agreed that the balance of furniture & fittings should be taken over by Bally for Rs. 5,000
   d. Creditors and accrued general expenses were paid in full.
   e. All amount other receivable and payable in the business were settled.

You are required to prepare;

i. Profit and Loss Account for the year ended 31st March 2014.

(05 Marks)

ii. Realization Account

(05 Marks)

iii. Cash & Bank Account for April 2014

(05 Marks)

iv. Partner's account showing the final settlement on dissolution

(05 Marks)

(20 Marks)

(Total 25 Marks)

Question No. 04

The following is the Statement of Financial Position of "ABCD "Partnership firm sharing profit & loss in the ratio of 4:3:2:1.Partners decided to dissolve the partnership with effect from 31st March 2014.

Liabilities			*Assets*	
Capital	A	20,000		
	B	14,000		
	C	10,500		
	D	2,500		
Loan	A	5,000	Stocks	19,000
	C	8,000	Debtors	50,000
Creditors		15,000	Cash	6,000
		75,000		**75,000**

Realization values & expenses at the each realization times are given bellow.

	Debtor	*Stock*	*Expenses*
April	15,000	7,000	500
May	8,500	5,000	1,000
June	11,000	-	250
July	5,500	4,000	150
August	7,000	2,500	100

Stocks were realized fully & remaining debtor balance was taken by B at Rs. 2,500.

You are required to prepare cash distribution schedule using Assume loss method or surplus capital method.

(Total 10 Marks)

Question No. 05

Asitino sports Club prepared following Receipts and Payments Account for the year ended 31st December 2014

Receipts	*(Rs.000')*	*Payments*	*(Rs 000')*
Opening balance b/f	3,000	Sports Equipments (purchased on 1.10.2014)	20,000
Subscription		Bar expenses	2,000
2013	2,000	Electricity	500
2014	20,000	Printing	300
2015	1,000	Salaries and wages	3,000
Restaurant Debtors collection	1,000	Paid to Restaurant Creditors	2,000
Restaurant Cash Sales	5.000	Restaurant Purchases	2,800
Entrance fees	500	Expenses for exhibition	2,000
Interest on Investment	1600	Closing Balance c/f	1,500
	34,100		**34,100**

Additional information:

1 Assets and Liabilities of the club on 1/1/2014 and 31/12/2014 include the followings:

	*(Rs.000')*1/1/2014	*(Rs.000')*31/12/2014
Club land and Building	60,000	75,000
Sports Equipment	15,000	?
Furniture	2,000	1,900
Investment	12,000	12,000
Restaurant Debtors	200	350
Restaurant Creditors	100	150
Bar stocks	200	170
Accrued Bar expenses	250	100
Accrued Electricity	100	600
Accrued salary	-	1,000
Subscription receivable	2,200	1,900

2 Depreciation to be provided at 10% p.a. on sports equipments

3 Club is operating a separate Restaurant and Bar.

4 20% of Salaries and 50% of Electricity should be charged to the Restaurant.

5 Club's policy is to write off membership fee outstanding more than one year.

You are required to prepare,

i. Income and Expenditure account for the year ended 31/12/2014

(08 Marks)

ii. Restaurant income statement for the year ended 31/12/2014

(06 Marks)

iii. Statement of Financial Position of the club as at 31/12/2014

(06 Marks)

(Total 20 Marks)