



No. of Pages - 08
No of Questions - 05

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

YEAR I SEMESTER II (Group B)
END SEMESTER EXAMINATION – JANUARY 2015

AFM 10330 Intermediate Financial Accounting

Date : 31st January 2015
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) Hours

Instructions to Candidates:

- Answer **ALL** the 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

Sirimal has been in the business of buying and selling second-hand furniture. He does not keep complete accounting records, however he is able to provide you with the following information about his financial position as at 1 April 2011.

Inventory of furniture Rs 3,210;

Trade receivable Rs 2,643;

Trade payable Rs 1,598;

Motor vehicle Rs 5,100;

Shop fittings Rs 4,200;

Motor Vehicle expenses payable Rs 432.

He has also provided the following summary of his bank account for the year ended 31 March 2012:

	Rs		Rs
Balance at 1 Apr 2011	2,420	Payments of trade accounts payable	22,177
Cheques received from trade debtors	44,846	Electricity	1,090
Cash sales	3,921	Telephone	360
		Rent	2,000
		Advertising	1,430
		Shop fittings	2,550
		Insurance	946
		Motor vehicle expenses	2,111
		Drawings	16,743
		Balance at 31 Mar 2012	1,780
	<hr/> 51,187 <hr/>		<hr/> 51,187 <hr/>

All cash/cheques received were deposited into the bank account immediately

You find that the following must also be take into account:

- Depreciation is to be provided on motor vehicles at 20% and of the shop fittings at 10%, calculated on the book values at 1 April 2011 plus additions during the year.
- At 31 March 2012 motor vehicle-expenses payable was Rs 291 and insurance paid in advance was Rs 177
- Included in the amount paid for shop fittings were: a table bought for Rs 300, which Sirimal resold during the year at cost, some wooden shelving (cost Rs 250), which Sirimal used in building an extension to his house.
- Other balances as at 31 March 2012 were as follows:

	Rs
Trade receivable	4,012
Trade payable	2,445
Inventory of furniture	4,063

Required:

- a. Explain the reasons why double entry is not used
- b. Prepare his income statement for the year ended 31st March 2012
- c. Prepare Sirimal's statement of financial position as at 31st March 2012.

(Total 25 Marks)

Question No. 02

Saman and Kamal are in partnership, sharing profits and losses equally. They decide to admit Nimal as a partner. New partnership agreement provides that, goodwill valued at Rs 40,000 should be brought into the books of business. Nimal is required to introduce capital equal to that of Kamal after she has been credited with her share of goodwill. The new profit sharing ratio is to be 8:3:5 respectively for Saman, Kamal and Nimal.

The statement of financial position before admission of Nimal as a partner was as follows:

	Rs
Non-current and current assets (other than cash)	160,000
Cash	1,000
Total assets	<hr/> 161,000
Current liabilities	(41,000)
Net assets	<hr/> 120,000 <hr/>
 Capital: Saman	 70,000
Capital: Kamal	50,000
	<hr/> 120,000 <hr/>

Show:

- a. Journal entries for admission of Nimal as a partner.(5 Marks)
 - b. Opening statement of financial position of new business.(7 Marks)
 - c. State 5 elements that would generally contain in the partnership agreement.(3 Marks)
- (Total 15 Marks)**

Question No. 03

The following list of balances as at 31 July 2014 has been extracted from the books of Danapala Silva who commenced business on 1 August 2013 as a designer and manufacture of kitchen furniture.

	Rs
Plant and machinery, at cost on 1 August 2013	60,000
Motor vehicles, at cost on 1 August 2013	30,000
Loose tools, at cost	9,000
Sales	170,000
Raw materials purchased	43,000
Direct factory wages	39,000
Light and power	5,000
Indirect factory wages	8,000
Machinery repairs	1,600
Motor vehicle running expenses	12,000
Rent and insurances	11,600
Administrative staff salaries	31,000
Administrative expenses	9,000
Sales and distribution staff salaries	13,000
Capital at 1 August 2013	122,000
Sundry accounts receivable	16,500
Sundry accounts payable	11,200
Balance at bank	8,500
Drawings	6,000

Additional information for the year ended 31 July 2014.

- i. It is estimated that the plant and machinery will be used in the business for ten years and the motor vehicles will be used for four years: in both cases it is estimated that the residual value will be nil. The straight line method of depreciation is to be used.
- ii. Light and power charges payable as at 31 July 2014 amounted to Rs 1,000 and insurance prepaid at 31 July 2014 totaled Rs 800.

- iii. Inventory was valued at cost at 31 July 2014 and were as follows:
- | | |
|----------------|-----------|
| Raw materials | Rs 7,000 |
| Finished goods | Rs 10,000 |
- iv. The valuation of work-in-progress at 31 July 2014 included variable and fixed factory overheads and amounted to Rs 12,300.
- v. Two-thirds of the light and power and rent and insurances costs are to be allocated to the factory costs and one-third to general administration costs.
- vi. Motor vehicle costs are to be allocated equally to factory costs and general administration costs.
- vii. Goods manufactured during the year are to be transferred to the trading account at Rs 95,000
- viii. Loose tools in hand on 31 July 2014 were valued at Rs 5,000.

Required:

- a. Prepare a manufacturing account and income statement for the year ended 31 July 2014 of Danapala Silva.

(15 Marks)

- b. An explanation of going concern concept has affected the preparation of the above accounts.

(5 Marks)

(Total 20 Marks)

Question No. 04

X, Y and Z have been in partnership for several years, sharing profits and losses in the ratio 3 : 2 : 1. Their last statement of financial position which was prepared as at 31 October 2012 was as follows:

Statement of Financial Position of X, Y and Z as at 31 October 2012

	Rs	Rs
<i>Non-current assets</i>		
At cost		20,000
Less Depreciation		(6,000)
		<hr/> 14,000
<i>Current assets</i>		
Inventory	5,000	
Accounts receivable	21,000	26,000
Total Assets	<hr/>	<hr/> 40,000
<i>Current liabilities</i>		
Bank	13,000	
Accounts payable	17,000	
Total liabilities	<hr/>	<hr/> (30,000)
Net Assets		<hr/> 10,000
<i>Capital</i>		
X	4,000	
Y	4,000	
Z	2,000	
Total Capital	<hr/>	<hr/> 10,000

Despite making good profits during recent years they had become increasingly dependent on one credit customer, Smithson, and in order to retain this customer they had gradually increased his credit limit until he owed the partnership Rs18,000. It has now been discovered that Smithson is insolvent and that he is unlikely to repay any of the money owed by him to the partnership. Reluctantly X, Y and Z have agreed to dissolve the partnership on the following terms:

- i. The inventory is to be sold to Nelson Ltd for Rs4,000
 - ii. The non-current assets will be sold for Rs 8,000 except for certain items with a book value of Rs 5,000 which will be taken over by X at an agreed valuation of Rs 7,000.
 - iii. The debtors, except for Smithson, are expected to pay their accounts in full.
 - iv. The costs of dissolution will be Rs 800 and discounts received from creditors will be Rs 500.
- Z is unable to meet his liability to the partnership out of his personal funds.

Required:

- a. What are the steps to be followed in the case of a dissolution of a partnership?
(5 Marks)
 - b. Explain the principle established in the *Garner v Murray*.
(5 Marks)
 - c. Prepare the realisation account
(7 Marks)
 - d. Prepare the capital accounts of the partners recording the dissolution of the partnership.
(8 Marks)
- (Total 25 Marks)**

Question No. 05

The following is a summary of the receipts and payments of the ABC Rotary Club for the year ended 31 July 2014.

ABC Rotary Club**Receipts and Payments Account for the year ended 31 July 2014**

	Rs		Rs
Cash and bank balances b/f	210	Secretarial expenses	163
Sales of competition tickets	437	Rent	1,402
Members' subscriptions	1,987	Visiting speakers' expenses	1,275
Donations	177	Donations to charities	35
Refund of rent	500	Prizes for competitions	270
Balance c/d	<u>13</u>	Stationery and printing	<u>179</u>
	<u>3,324</u>		<u>3,324</u>

The following valuations are also available:

As at 31 July	2013	2014
	Rs	Rs
Equipment (original cost Rs 1,420)	975	780
Subscriptions in arrears	65	85
Owing to suppliers of competition prizes	58	68
Inventory competition prizes	38	46

Required:

- Calculate the value of the accumulated fund of the ABC Rotary Club as at 01st August 2013.
- Prepare the following accounts for the year ended 31st July 2014:
 - the subscriptions account,
 - the competition prizes account,
- Prepare an income and expenditure account for the ABC Rotary Club for the year ended 31st July 2014 and a statement of financial position as at that date.

(Total 15 Marks)