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

YEAR I SEMESTER II
END SEMESTER EXAMINATION – MAY 2014

AFM 10330 Intermediate Financial Accounting

Date : 12th May 2014
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

Asanka, a craftsman specializing in handcart wood designs, started up in business on 1 January 2012.

During the first year of trading, Asanka was so busy designing various items, that he did not prepare detailed accounts. However, he maintained transactions records and on 31 December 2012 made a brief note of his financial position, which showed the following:

- a. There were workshop fixtures that had cost Rs.4, 000 on 1 January 2012 in Asanka's workshop. The premises were leased for four years at a rental of Rs.800 per annum. No premium had been paid for the lease. It was decided to write off the fixtures over four years.
- b. A stock of materials that had cost Rs.8, 300.
- c. Customers owed Rs.17, 180 for sold handcraft items that had been accepted by the customers.
- d. Suppliers were owed Rs.9, 000.
- e. There was a bank overdraft of Rs.960 and cash in hand of Rs.360.
- f. Asanka had withdrawn Rs.9, 600 for his living expenses during the year ended 31 December 2012.
- g. Office expense creditors amounted to Rs.1, 280.

Asanka felt depressed as he had just run into overdraft, and he felt that it was not worth producing financial accounts on 31 December 2012. However, encouraged by Inland Revenue, he decided that he would continue with the basic records and prepare final accounts as at 31 December 2013, when the position of the business should have improved.

On 31 December 2013 Asanka took the following records to his accountant:

- A. Cash and bank analysis 1 January 2013 to 31 December 2013

<i>Cash receipts</i>	Rs.
Cash received from customers	137,240
Cash drawn from bank	51,500

Additional capital from Asanka on 30 September 2013	4,000
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Cash payments

Supplies of materials, etc	78,060
Drawings by Asanka	12,000
Selling expenses	8,720
Office expenses	12,400
Salesmen's salaries	20,700
Into bank	60,120
Cash in hand at 31 December 2013	560

Cheque payments

Selling expenses	11,680
Office expenses	8,200
Supplies of materials	7,200

B. As at 31 December 2013, debtors, creditors and stock were:

Debtors	Rs.17, 980
Creditors	Rs. 4,140
Stock of materials, etc.	Rs.10, 980

The accountant obtained the following additional information at his interview with Asanka:

- Bank charges of Rs.120 appeared in the bank statements, but were not included in the cash analysis
- A private account of Rs.400 has been paid to Asanka, but had been included as an office expense
- Rent on office premises of Rs.800 was paid and is included in office expenses Rs.8, 200 above.

Required:

- Prepare a Statement of Financial Position as at 1 January 2013.

(05 Marks)

- b. Prepare a Cash Account and Bank Account for year ended 31 December 2013.
(Any cash shortage is to be charged as an expense).

(05 Marks)

- c. Prepare an Income Statement for the year ended 31 December 2013 and a Statement of Financial Position as at 31 December 2013.

(10 Marks)

(Total 20 Marks)

Question No. 02

Kikfast Golf Club prepared the following Receipts and Payments Account for the year ended 31st December 2013.

<i>Receipts</i>	<i>(Rs.000')</i>	<i>Payments</i>	<i>(Rs 000')</i>
Opening balance b/f	3,800	Sports Equipment (Purchased on 1.7.2013)	10,000
Subscription		Bar expenses	2,000
2012	2,000	Electricity	500
2013	18,500	Printing	300
2014	900	Salaries and wages	3,400
Restaurant Debtors collection	1,500	Paid to Restaurant Creditors	1,900
Restaurant Cash Sales	4,800	Restaurant Purchases	800
Entrance fees	800	Expenses for exhibition	2,100
Interest on Investment	1500	Closing Balance c/f	12,800
	33,800		33,800

Additional information:

- 1 Assets and Liabilities of the club on 1/1/2013 and 31/12/2013 include the following:

	<i>(Rs.000 ')</i> 1/1/2013	<i>(Rs.000 ')</i> 31/12/2013
Club land and Building	50,000	45,000
Sports Equipment	15,500	?
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 equipment.
- 3 Club is operating a separate Restaurant and Bar for the welfare of the members.
- 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

- Income and Expenditure account for the year ended 31/12/2013
(08 Marks)
 - Restaurant income statement for the year ended 31/12/2013
(06 Marks)
 - Statement of Financial Position of the club as at 31/12/2013
(06 Marks)
- (Total 20 Marks)

Question No. 03

Chamal and Desil are in partnership. Their partnership agreement provides that:

1. Desil has a partnership salary of Rs.3000 per annum.
2. Interest on capital is 6% per annum.
3. Interest on drawings is charged.
4. Residual profits / losses are shared 3:2 respectively.

The partners have never kept full accounting records but provided the following information:

Cash book summary for the year ended 31 December 2013

	Rs.		Rs.
Balance b/d	2178	Trade payables	195 911
Trade receivables	44 049	Wages	63 156
Cash sales	332 467	Purchase of machine	8 800
Rent received	7 000	General expenses	56 676
Drawings – Chamal	35 660		

The assets and liabilities were:

	1 January 2013	31 December 2013
	Rs.	Rs.
Fixed capital account – Chamal	100 000Cr	100 000Cr
Fixed capital account – Desil	70 000Cr	70 000Cr
Current account – Chamal	3 210	Cr ?
Current account – Desil	1 304	Cr ?
Machinery (Net Book Value)	147 000	145 000
Motor vehicle (Net Book Value)	16 000	8 000
Inventory	14 003	13 471
Trade receivables	317	183
Trade payables	4 872	5 163
Wages accrued	612	938
Rent receivable accrued	500	–
Rent receivable prepaid	–	500

Additional information:

1. During the year, an old machine which had cost Rs.10 000 was traded in for Rs.3200 in part exchange for a new machine costing Rs.12 000. The old machine had been depreciated by Rs.6000 over its lifetime.

2. Interest on drawings for the year amounted to:

Chamal – Rs.230

Desil – Rs.100

Required to:

- a. Prepare the Income Statement (Trading and Profit and Loss account) **and** Appropriation Account for Chamal and Desil for the year ended 31 December 2013.

(10 Marks)

- b. Prepare the partners' current accounts (in columnar format) for the year ended 31 December 2013.

(10 Marks)

(Total 20 Marks)

Question No. 04

Aruna, Bassini and Chami are in partnership with a profit sharing ratio of 2: 1: 1.

The partnership Statement of Financial Position as at 30th June 2011 was as follows:

Aruna, Bassini and Chami's Statement of Financial Position at 30th June 2011

	Rs.	Rs.	Rs.
Non-current assets			
Land and buildings	180 000		
Fixtures and fittings	28 000		
Motor vehicles	14 500		222 500
Current assets			
Inventories	25 450		
Trade receivables	13 900		
Cash at bank	8 350	47 700	

Current liabilities

Trade payables	(10 200)	<u>37 500</u>
		260 000

Non-current liabilities

Loan account – Aruna		<u>(35 000)</u>
		<u>225 000</u>

Financed by:

Capital Accounts Aruna	100 000	
Bassini	50 000	
Chami	50 000	200 000
Current Accounts Aruna	19 532	
Bassini	7 623	
Chami	(2 155)	<u>25 000</u>
		<u>225 000</u>

On 1st July 2011 the partners decided to dissolve the partnership.

Aruna acquired one of the motor vehicles at a valuation of Rs. 6, 000 and Bassini acquired the other one at an agreed value of Rs.4 500.

The other assets were sold after valuation as follows:	Rs.
Land and buildings	142 500
Fixtures and fittings	22 500
Inventories	18 750

The proceeds were banked together with Rs.13 500 collected from trade receivables.

The partnership settled the trade payables at Rs.10 000.

Dissolution expenses of Rs.1 500 were paid.

On 30th June 2011 the Current Accounts were closed and the balances transferred to the Capital Accounts.

Required to:

Prepare the following accounts to show the closure of the partnership.

(a) The dissolution account

(06 Marks)

(b) The partners' capital accounts in columnar format

(05 Marks)

(c) The bank account

(05 Marks)

Following the dissolution of the partnership, Aruna wishes to invest the proceeds from the dissolution together with some other cash totalling Rs. 200 000.

There are two investment options in the same company:

Option 1 Purchase Rs.200 000 6% debentures redeemable in 2020.

Option 2 Purchase shares to the value of Rs.200 000. The current market price is Rs.2.50 per share and the dividend per share is Rs.0.15.

Required to:

- (d) (i) Calculate the expected annual income from option 1 and option 2.
(ii) Advise Aruna which option he should choose.

(04 Marks)

(Total 20 Marks)

Question No. 05

Pradeep and Samudra (PSm) partnership absorbed Ravi and Samantha (RSa) partnership on 1st January 2014 on the following terms:

- a) That the investments of RSa to be sold out and the investment realized for Rs 24,000;
- b) That the stock of RSa to be reduced to Rs 22,000;
- c) That the machinery of RSa will be increased by 40%;
- d) That the furniture of RSa will be reduced by 10%

Following are the Statements of Financial Position in PSm and RSa partnerships on 31st December 2013.

	PSm	RSa	Assets	PSm	RSa
Capital P	60,000		Machinery	60,000	20,000
Sm	30,000		Furniture	8,000	6,000
R	-	36,000	Stock	32,000	24,000
Sa	-	24,000	Debtors	18,000	30,000
			Investment	-	18,000
Bank loan	10,000	-	Cash	12,000	2,000
Creditors payable	30,000	40,000			
	130,000	100,000		130,000	100,000

It was further decided that for PSm the following are the adjustments to be made:

Assets are to be revalued as follows:

Stocks Rs.40, 000, Machinery -Rs.84, 000, Furniture- Rs.7, 200 and bank loan to be repaid.

You are required to prepare Statement of Financial Position of PSmRSa partnership as at 1st January 2014.

(Total 20 Marks)