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

YEAR I SEMESTER I (Intake V – Group A)
END SEMESTER EXAMINATION – FEBRUARY 2016

AFM 10130 Fundamentals of Financial Accounting

Date : 8th February 2016
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This is a closed book examination
- This paper consists of two sections (A and B).
- Answer the **Question No. 01** in **Section A** and **Any Five (05)** questions from the **Section B.**
- This examination accounts for 60% of the module assessment.
- The marks for each question are shown in brackets.
- The total marks for the paper is 100.
- Non programmable calculators are allowed.
- Answers should be written neatly and legibly

Section A

Question No. 01 (Compulsory)

ABC Enterprises is a sole proprietorship which does buying and selling of televisions. The following trial balance was extracted from the books of accounts as at 31st March 2015.

	Dr. Rs.	Cr. Rs.
Inventory (As at 01 st April 2014)	400,000	
Sales		2,500,000
Purchase	825,000	
Carriage inwards	40,000	
Property Plant and Equipment – Cost As at 31 st March 2015		
- Lands	1,500,000	
- Buildings	1,000,000	
- Motor Vehicles	900,000	
- Furniture	800,000	
Property Plant and Equipment – Accumulated Depreciation - As at 01 st April 2014		
- Buildings		300,000
- Motor Vehicles		400,000
- Furniture		80,000
Carriage outwards	50,000	
Electricity	12,000	
Telephone	8,200	
Rent	50,000	
Rates	8,000	
Finance cost	100,000	
Return inwards	15,000	
Debtors	35,000	
Creditors		30,000
Bank Loan		600,000

Return outwards		4,000
Discount received		800
Discount allowed	600	
Bank loan interest	15,000	
Salary	60,000	
Provision for doubtful debt as at 01 st April 2014		2,000
Sundry expenses	400	
Commission income		1,000
Capital		2,686,400
Promotional expenses	8,000	
Cash in hand	5,000	
Cash at bank	772,000	
	6,604,200	6,604,200

Additional Information.

1. Cost of physical inventories available as at 31st March 2015 was Rs. 400,000/-. However, Net realizable value of this physical stock was Rs. 350,000
2. The company purchased a motor vehicle having a fair value of Rs. 400,000 on a finance lease on 01.01.2015. Lease value is payable in 36 monthly installments of Rs. 17,000 each. Each installment is payable on the last day of each month and the 3 installments paid up to 31.03.2015 was charged to finance cost account. No other entries were passed in respect of this finance lease. Total interest element included in the 3 installments paid amounted to Rs. 30,000. Total interest component included in the 12 installments payable in the following year amounts to Rs. 101,000.
3. ABC Enterprises has taken a bank loan of Rs. 600,000 on 01st October 2014 and it was recorded in the ledger. The interest rate per annum is 12%.
4. Rates were paid for 20 months and are applicable for the period starting from 01st April 2014. Paid rates were recorded in the ledger.
5. Unpaid electricity and telephone bills for the month of March 2015 were Rs. 4,000 and Rs. 2,000 respectively.

6. An amount of Rs. 5,000 is due from a bankrupt customer and it was decided to write it off as bad debt.
7. The owner has taken Rs. 4,000 worth (cost) goods for his personal use and it has not been recorded in the ledger.
8. ABC Enterprises has carried out a physical count of cash in hand on 31st March 2015 night after closing for business, and found that physical cash balance as at that date was Rs. 3,000/-. The entity's investigation into the reasons for the physical balance not being in agreement with the book balance, revealed that none of the cash drawings of the owner have been recorded in the books of accounts.
9. Rs. 500,000 worth (cost) land was sold for Rs. 750,000. Sales proceed was debited to cash book and credited to revenue account. Rest of the entries were not recorded in the ledger.
10. The entity has purchased Rs. 200,000 worth (cost) furniture on 01st July 2014 and it was recorded in the ledger.
11. The entity has decided to keep 10% provision for doubtful debt at the end of the period.
12. Depreciation on Property Plant & Equipment is provided on the straight line basis at cost as follows;

Building	- 5%
Motor vehicle	- 12.5%
Furniture	- 10%

You are required to prepare;

- a. A Statement of Profit and loss and other comprehensive income for the year ended 31st March 2015.

(13 Marks)
- b. A Statement of Financial Position as at 31st March 2015.

(12 Marks)

(Total 25 Marks)

Section B

Answer **any Five (05)** questions

Question No. 02

- a. Following details were extracted from the books of Mihirani Enterprises on inventory items.

Batch	Item	Cost per unit (Rs.)	Net realizable value per unit (Rs.)	Closing inventory units
Pen	Blue	15	12	100
	Red	20	18	120
	Black	50	52	90
Cloth	T shirts	1,000	980	100
	Sarongs	500	475	50
	Shirts	1,200	1300	130

You are required to;

- i. Calculate inventory value at the end of the period on **item basis** and state the closing inventory journal entry in the general journal.
(05 Marks)
- ii. Calculate inventory value at the end of the period on **batch basis**.
(03 Marks)
- b. Define “inventory” according to Sri Lanka Accounting Standards 02 (LKAS 02).
(02 Marks)
- c. Explain the stock rule based on LKAS 02.
(02 Marks)
- d. What are the components of costs of inventory as per the LKAS 02?
(03 Marks)
- (Total 15 Marks)**

Question No. 03

- a. As per the accounting conceptual framework “*Recognition is the process of incorporating in the statement of financial position or income statement an item that meets the definition of an element and satisfies the criteria for recognition*”.

What are the criteria for the recognition of assets in the financial statements?

(03 Marks)

- b. Namal Printing Ltd operates its petty cash account on the imprest system. Petty cash float is Rs. 5,000. During April 2015, the following petty cash transactions arose:

April	1	Cash received from main cash controller	
	1	Bus fare	40
	2	Stationery	60
	4	Bus fare	120
	7	Postage stamps	60
	7	Paid to creditor Naleen	200
	8	Bus fare	80
	11	Tippex	50
	12	Typewriter ribbons	90
	14	Parcel postage	120
	15	Paper-clips	15
	15	Newspapers	70
	16	Photocopier repair	130
	19	Postage stamps	76
	20	Drawing pins	70
	21	Train fare	65
	22	Photocopier paper	175
	23	Display decorations	80
	23	Tippex	50
	25	Wrapping paper	89
	27	Cellotape	40
	30	Pens	60

You are required to;

Record the above transactions in the petty cash book and post the balances to the ledger at the end of the month.

(08 Marks)

- c. As per the conceptual framework of financial reporting, list the fundamental qualitative characteristics and enhancing qualitative characteristics of financial statements.

(03 Marks)

- d. What is the underlying assumption of financial statements in accordance with the conceptual framework of financial reporting?

(01 Mark)

(Total 15 Marks)

Question No. 04

- a. Following balances were extracted from the accounting records of Kalpa Enterprises.

- Equity as at 01st January 2014: Rs. 65,000
- Equity as at 31st December 2014: Rs. 140,000
- Drawings during the year: Rs. 15,500
- Additional Capital introduced during the year: Rs. 25,250

You are required to calculate the net profit for the year ended on 31st December 2014 on equation method.

(03 Marks)

- b. Araliya Enterprises has purchased goods on 1st of January 2015. Following balances are extracted from the books of accounts.

- Purchase price - The entity has purchased 300 kg of flour (Raw material) at Rs. 50 per kg.
- Subsidy from the government Rs. 10 per 1 kg of Flour
- Carriage inwards Rs. 1,200
- Clearing charges Rs. 800
- Carriage outwards Rs. 600
- Load and unload charges Rs. 1,000

- VAT paid to suppliers (Value Added Tax) Rs. 2,200 (60% recoverable)

You are required to calculate the total cost of flours purchased by Araliya Enterprises.

(03 Marks)

- c. The bank statement balance of Gimhan Enterprises did not agree with the overdrawn balance of Rs.67,000/- shown in the bank column of the cash book as at 31st March 2015. The following reasons were discovered later;

Items not appearing in the cash book, but appearing in the bank statement.

- Cheque books charges Rs. 1,200/-
- Fixed deposit interest credited by the bank - Rs.10,000/-.
- Bank has erroneously debited Rs. 1,500/- Gimhan Enterprise's bank account which should have been debited to another current account.
- Bank charges - Rs.4,000/-.
- Standing order payment for insurance - Rs.12,600/-.
- Bank loan installment of Rs. 25,000 has been debited by the bank.

Items not appearing in the bank statement, but appearing in the cash book.

- Cheques deposited but not realised - Rs.4,500/-.
- Cheques issued but not presented for payments - Rs.15,900/-.

You are required to prepare,

- i. Adjusted Cash Book.

(04 Marks)

- ii. Bank Reconciliation Statement as at 31st March 2015.

(03 Marks)

- d. *"Bank reconciliation statements are prepared by organizations to correct mistakes done by the bank and by the organization in the bank column of the cash book"*

Do you agree with this statement? Give reasons for your answer.

(02 Marks)

(Total 15 Marks)

Question No. 05

- a. Company “X” imported a Plant on 01st January 2015 and following expenses have been incurred.

	Rs. 000
Invoice value of the Plant	3,500
Freight and other transport charges	70
Custom duties and VAT (Rs. 250,000/- are claimable)	400
Fee paid to the agent in finalizing the deal	35
Installation charges (X’s existing engineer was assigned to manage the installation on full-time basis and it took one month to complete. His salary for the said month is Rs. 45,000 and is not included above)	185
Staff training cost	20

- i. State with reasons whether above expenses shall be capitalized or not in accordance with LKAS 16 – Property, Plant and Equipment
(05 Marks)
- ii. Show the double entry to record the above transaction.
(01 Mark)
- b. State whether the following transactions are of capital nature or revenue nature.
- The cost of installing a new machine.
 - Cost of repairs to the machine.
 - Legal fees paid in relation to the factory extension.
 - Petrol costs for van
 - Electricity costs of using machinery
 - Painting outside of new building
- (06 Marks)
- c. Define “Property, Plant and Equipment” according to Sri Lanka Accounting Standards 16 (LKAS 16).
(02 Marks)

- d. Define the term “Depreciation” according to Sri Lanka Accounting Standards 16 (LKAS 16)

(01 Mark)

(Total 15 Marks)

Question No. 06

- a. Lakmal Enterprise is a manufacturing entity. Following opening balances were extracted as at 1st of January 2015.

Land +	Buildings +	Debtors +	Inventory +	Cash =	Capital +	Non Current Liability +	Current Liability
800,000	600,000	75,000	20,000	24,000	1,200,000	250,000	69,000

Transactions occurred during the period of one month are given below:

- 2nd January - The business purchased land worth Rs. 200,000 on credit basis and a building worth Rs. 300,000 on cash basis.
- 4th January - Mr. Lakmal invested Rs. 500,000 as an additional capital.
- 6th January - The entity has bought goods from Sunil on credit Rs. 30,000
- 9th January - Rs. 25,000 worth (cost) goods were sold for Rs. 35,000 to Mr. Chandana on credit basis.
- 12th January - The entity has obtained a bank loan from the Alpha Bank amounting to Rs. 200,000 on 12% interest per annum.
- 15th January - The entity has paid Rs. 27,000 to Sunil and 10% discount has been received.
- 20th January - The owner has paid Rs. 7,500 to one of the creditors of the enterprise from his personal money.
- 23rd January - The entity has paid an electricity bill of Rs. 19,000 and further Rs. 6,000 should be payable for this month.
- 26th January - Debtor, Mr. Chandana has paid Rs. 30,000 and Rs. 5,000 was allowed as a discount.

30th January - Rs. 5,000 should be written off as bad debts and 10% provision for doubtful debt should be provided as at 31st January 2015.

You are required to;

- i. Show the most suitable effect on the above-mentioned accounting equation for the transactions from 2nd January to 30th January.

(05 Marks)

- ii. Prepare a statement of income to calculate the profit for the month of January 2015.

(02 Marks)

- b. Nayanathara Enterprises has incurred a loss of Rs.80,000/- as per the draft financial statements for the year ended on 31st December 2015 and a suspense account has appeared in the draft financial position statement as an asset. The following errors were identified later;

1. The purchase journal has been under-cast by Rs.6,500/-.
2. A cheque of Rs.8,500/- received from a debtor has been credited to sales account.
3. The entity has paid a sum of Rs.18,500/- as a loan installment including interest. This has been recorded as loan interest whereas the interest component was only Rs.6,500/-.
4. A credit sale of Rs.20,000/- has been completely omitted from the books of accounts.
5. Discounts allowed of Rs.1,500/- has been credited to discounts received account.
6. Office equipment maintenance of Rs.1,200/- has been debited to office equipment account as Rs.12,000/-, while the credit entry was correct.
7. Cost of painting a new building of Rs.12,500 was debited to building maintenance account.
8. Rs. 5,000 worth debit note has been completely omitted from the primary entry books.

You are required to;

- i. Prepare journal entries to rectify the above errors.

(05 Marks)

- ii. Calculate the adjusted profit / loss for the year ended on 31st December 2015.

(03 Marks)

(Total 15 Marks)

Question No. 07

Following transactions have occurred in ABC Enterprises for the month of April 2015.

Opening Balances as at 01st April 2015 are given below.

	Rs.
- Land	800,000
- Building	900,000
- Motor Vehicles	500,000
- Debtor Mr. X	300,000
- Cash	200,000
- Creditor Mr. A	700,000
- Bank Loan	800,000

2nd April 2015 - Cash Sales Rs. 500,000

5th April 2015 - Credit Sales to;
Mr. Y, Rs. 200,000 (No trade discounts)
Mr. Z, Rs. 100,000 (Trade Discount 10%)

7th April 2015 - Bank loan repayment Rs. 300,000

12th April 2015 - Electricity expense Rs. 5,000
Salaries & Wages Rs. 50,000

18th April 2015 - Credit Purchase from;
Mr. B, Rs. 300,000 (Trade Discount 5%)
Mr. C, Rs. 50,000 (Trade Discount 10%)

20th April 2015 - Sales Return by Mr. Z Rs. 10,000 (Gross Amount)

24th April 2015 - Purchase Return by the entity to Mr. C Rs. 20,000 (Gross amount)

26th April 2015 - Cash receipt from debtors;
Mr. X, Rs. 20,000

Mr. Y, Rs. 90,000

27th April 2015 - The entity has decided to write off Rs. 5,000 as bad debts from Mr. X.

30th April 2015 - Cash paid to creditors;
Mr. A, Rs. 150,000
Mr. B, Rs. 285,000

You are required to;

- a. Record the above transactions in the relevant prime entry books and post them to the ledger accounts.
(10 Marks)
 - b. Extract the trial balance as at 30th April 2015 for ABC Enterprises.
(03 Marks)
 - c. Explain the importance of preparing a trial balance for a business.
(02 Marks)
- (Total 15 Marks)**