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No of Questions -05

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

YEAR I SEMESTER I (Intake V – Group B)
END SEMESTER EXAMINATION – APRIL 2016

AFM 10130 Fundamentals of Financial Accounting

Date : 9th April 2016
Time : 9.00 a.m. - 12.00 p.m
Duration : Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions
- This paper consists of two parts (I and II).
- Part I – Answer **ALL** questions in the separate sheet provided
Part II – Answer **ALL** questions
- The total marks for the paper is 100.
- All questions carry equal marks. Marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Part I

Answer **ALL** questions

Select the most appropriate answer for the following questions.

1. Which of the following statements is **true** in relation to financial accounting?
 - A. It focuses to provide information to internal stakeholders.
 - B. It provides information based on the demand of the stakeholders.
 - C. It is subject to guidance from accounting standards and conceptual framework.
 - D. It is the system of providing information to managers to support their managerial decision making.

2. Which of the following groups consist of examples for only external environment factors?
 - A. Companies Act, Political stability, Exchange Rates, Economic growth
 - B. Companies Act, Political stability, Corporate Governance, Economic growth
 - C. Ethics of Management, Political stability, Corporate Governance, Economic growth
 - D. Ethics of Management, Political stability, Exchange Rates, Economic growth

3. Which of the followings is the correct sequential order of the accounting process?
 - A. Source documents, ledger accounts, control accounts, trial balance, financial statements
 - B. Source documents, prime entry books, trial balance, ledger accounts, financial statements
 - C. Source documents, ledger accounts, prime entry books, trial balance, financial statements
 - D. Source documents, prime entry books, ledger accounts, trial balance, financial statements

4. Which of the following statement is **false** in relation to source documents?
- A. Journal Voucher is the source document of recording transactions in General Journal.
 - B. Debit note is the source document of recording transactions in the Return Outwards Journals.
 - C. Credit Note is the source document of recording transactions in the Return Inwards Journal.
 - D. Payment Voucher is the source document of recording transactions in the Purchase Journal.
5. Which of the following statement is **true** in relation to Prime Entry Books?
- A. All prime entry books acts as ledger accounts as well.
 - B. Receipt Journal is the prime entry book used to record all cash transactions.
 - C. Transactions are recorded in the prime entry books using double entry system.
 - D. Data gathered from the source documents is used to record transactions in the prime entry books.
6. Which of the following is **false** in relation to income as per conceptual framework of financial reporting?
- A. Income results in an increase in equity during the period.
 - B. Income results in contribution from equity participants.
 - C. Income represents increase in economic benefits during the period.
 - D. Income can arise by way of cash inflow, enhancement of an asset or decrease of a liability
7. Which one of the following **best describe** an asset?
- A. It is a resource owned by the business as a result of past transaction.
 - B. It is a resource controlled by the business as a result of past transaction.
 - C. It is a resource owned or controlled by the business as a result of past transaction.
 - D. It is a resource owned and controlled by the business as a result of past transaction.
8. Which one of the following is **not** an essential characteristic of a liability?
- A. There should be a legal obligation.
 - B. There should be a present obligation.
 - C. It should be a result of past transaction.
 - D. There will be outflow of economic resources at settlement.

9. Which one of the following statement is **true** in relation to Statement of Profit or Loss (Income Statement)?
- A. It is the component of financial statements which provides information about financial position of the business as at a particular date.
 - B. It is the component of financial statements which provides information about financial position of the business for a particular period.
 - C. It is the component of financial statements which provides information about financial performance of a business for a particular period.
 - D. It is the component of financial statements which provides information about financial performance of a business as at a particular date.
10. Which one of the following accounting concept provides the basis for recognizing depreciation as expense in the statement of profit or loss (Income statement)?
- A. Prudence Concept
 - B. Matching Concept
 - C. Realizations Concept
 - D. Substance over form Concept

(Total 20 Marks)

Part II

Answer **ALL** questions

Question No. 01

- a. **List** six qualitative characteristics of accounting information as per the Conceptual Framework of Financial Reporting.

(03 Marks)

- b. **Briefly explain** the following accounting concepts with one example for application of each concept.

- i. Entity concept
- ii. Substance over form concept
- iii. Prudence concept
- iv. Matching concept

(08 Marks)

- c. **Differentiate the** 'Debit Note' and 'Credit Note'.

(02 Marks)

- d. **Briefly explain** the unlimited liability of the owner of a sole-proprietorship

(03 Marks)

- e. **Briefly explain** the term 'agency problem'.

(04 Marks)

(Total 20 Marks)

Question No. 02

- a. The following transactions were occurred in Kandy Traders during the month of January 2016. On 1st of January 2016 Owner invested Rs.250,000 worth equipment and Cash of Rs.600,000 to the business as capital.
- | | |
|-------|---|
| 05/01 | Obtained a loan of Rs.300,000 from a bank. |
| 08/01 | Purchased goods for Rs.175,000 on credit. |
| 10/01 | Sold goods costing Rs.120,000 at a price of Rs.200,000 on credit. |
| 12/01 | Received Rs.90,000 from debtors subject to 10% discount. |
| 15/01 | Paid Rs.72,000 to creditors and received a discount of Rs.8,000. |
| 20/01 | Paid Rs.50,000 for the rent of the building. |
| 25/01 | Paid a loan installment of Rs.35,000 including interest of Rs.15,000. |
| 26/01 | Paid Rs.25,000 rent of the owner's residence place out of the business's money. |
| 31/01 | Received the electricity bill of the month amounting to Rs.7,000 |

Required:

Show the effect of the above transactions to business using the basic accounting equation of "Assets=Equity + Liabilities"

(10 Marks)

- b. The following errors were detected from the accounting records of Damith Traders.
1. Total of the cash sales analysis column of the receipt journal of Rs370,000 was not recorded in the sales account.
 2. Total of the return inwards journal of Rs.75,000 was recorded in the return inwards account as Rs.55,000.
 3. Total of the purchase journal of Rs.210,000 was recorded in the purchase account as Rs.110,000.
 4. Rent expenses paid amounting to Rs.25,000 was erroneously credited to rent income account.
 5. When balancing the debtors control account it was over casted by Rs.30,000.
 6. Salaries expenses paid amounting to Rs.45,000 was not recorded in the salary expense account.

Required:

- a. Prepare the suspense account.
- b. If the draft net profit calculated before correcting the above errors was Rs.920,000 prepare a statement of profit correction.

(10 Marks)

(Total 20 Marks)

Question No. 03

The balance of the bank current account of Colombo Traders as at 01st March 2016 was Rs.300,000. This balance agreed with the balance as per bank statement. The following information is relevant to bank transactions of Colombo Traders for March 2016.

Date	Transaction	Remarks
01	Deposited cash – Rs.90,000	
06	Issued a Cheque of Rs.60,000 to a creditor	Presented to bank on 08 th March
11	Deposited a cheque of Rs.40,000	Realized on 13 th March.
14	Issued a cheque to purchase furniture of Rs.75,000	Presented to bank on 18 th March.
21	A debtor has deposited Rs.35,000 in the current account of the business as a settlement.	Business hasn't recorded this in its accounts yet.
24	Bank paid Rs.25,000 of the business rent out of the current account based on the standing order given	Business hasn't recorded this in its accounts yet.
25	Issued a cheque of Rs.48,000 to a creditor.	Not presented to bank yet.
26	Issued a cheque of Rs.65,000 to a creditor.	Presented to bank on 28 th . But this was recorded in the cash book of the business as Rs.55,000.
29	Deposited a cheque of Rs.32,500.	Not realized yet.

30	Bank has added Rs.22,500 interest income to the bank Account.	This is an erroneous entry made by the bank. It should be added to another account.
31	Bank has deducted bank charges of Rs.5,000 from the current account.	Bank statement was received on 31 st March.

Required:

- Record the transactions in the bank account of the business.
- Prepare bank statement sent by the bank.
- Adjust the bank account of the business.
- Prepare the bank reconciliation statement for March 2016.

(Total 20 Marks)

Question No. 04

The following trail balance was extracted from the Galle Traders as at 31.03.2016.

	Rs.'000	Rs.'000
Sales		2,900
Return inwards	150	
Land and Buildings-Cost	1,350	
Motor vehicles-Cost	1,100	
Office equipment-Cost	450	
Accumulated depreciation -Building as at 01.04.2015		240
Accumulated depreciation -Motor vehicle as at 01.04.2015		200
Accumulated depreciation -Office equipment as at 01.04.2015		75
Purchases	1,750	
Inventories as at 01.04.2015	275	
Debtors /Creditors	525	375
Discount Allowed/Received	80	120
Interest Expenses/Income	110	140
Bank Loan		1,400
Salaries	210	

Advertising	280	
Drawings	240	
Cash and Bank	670	
Investment in Fixed deposit	1,400	
Electricity and telephone	210	
Capital		3,250
Accrued expenses		100
	8,800	8,800

Additional information

- The following errors have occurred in the accounting process.
 - A sales invoice of Rs.75,000 has been completely omitted from the accounting records.
 - Credit purchase of Rs.45,000 has been recorded in the purchase journal as Rs.25,000.
 - When totaling the return inwards journal it was over casted by Rs.50,000.
 - Total of the return outwards journal of Rs.35,000 has not been recorded in the ledger.
- The inventories as at 31.03.2016 was valued at cost of Rs.440,000. However the net realizable value of the inventories is estimated as Rs.380,000.
- Land and building includes land of which cost was Rs.650,000.
- Non-current assets are depreciated on cost as follows.
 - Buildings-5%
 - Motor vehicles-10%
 - Office equipment -20%
- Rs.40,000 of electricity and telephone expenses are payable as at 31.03.2016.
- Rs.80,000 of the advertising expenses is relevant to next year.
- Rs.70,000 interest income is receivable as at 31.03.2016.
- A debtor of Rs.120,000 has been declared as bankrupt by the court. This has not yet been considered by the business.

Required:

- Prepare Journal entries to rectify the errors.
- Prepare the statement of profit or loss for the year ending 31.03.2016.
- Prepare statement financial position as at 31.03.2016.

(Total 20 Marks)