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

**YEAR I SEMESTER I (INTAKE VI – GROUP A)**  
**END SEMESTER EXAMINATION – AUGUST 2016**

**AFM 10130 Fundamentals of Financial Accounting**

Date : 02nd August 2016  
Time : 9.00 a.m. – 12.00 p.m.  
Duration : Three (03) hours

**Instructions to Candidates:**

- Write the Index Number in the space provided at the top of this sheet. Do not write your name anywhere in this question paper.
- This paper consists of Three sections (A, B and C)
- **SECTION A** - Answer **ALL** questions in the paper itself and attach it to the answer script.
- **SECTION B** - Answer **ALL** questions
- **SECTION C** - Answer **ANY FIVE (05)** questions
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- This examination accounts for 60% of the module assessment.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

## SECTION A

Answer **ALL** questions

### **Question No. 01**

Underline the most suitable answer (s).

1. Which of the following calculates a sole trader's net profit for a given period?
  - a. Closing net assets + drawings - capital introduced - opening net assets
  - b. Closing net assets + drawings + capital introduced - opening net assets
  - c. Closing net assets - drawings + capital introduced - opening net assets
  - d. Closing net assets - drawings - capital introduced - opening net assets
  
2. Which of the following explains the imprest system of operating petty cash?
  - a. Equal amounts of cash are transferred into petty cash at regular intervals
  - b. All expenditure out of the petty cash must be properly authorized
  - c. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
  - d. Weekly expenditure cannot exceed a set amount
  
3. According to LKAS 2 Inventories, which of the following costs should be included in valuing the inventories of a manufacturing company?
  - a. Depreciation of factory plant
  - b. Carriage outwards
  - c. Bad debts
  - d. General administrative overheads
  
4. The IASB's Conceptual Framework for Financial Reporting identifies qualitative characteristics that make financial information faithfully represent what it purports to represent.  
Which **TWO** of the following are examples of those qualitative characteristics?
  - a. Accruals
  - b. Completeness
  - c. Going concern
  - d. Neutrality

5. A company values its inventory using the FIFO method. At 1st May 2014 the company had 700 units in inventory, valued at Rs. 190 each. During the year ended 30 April 2015 the following transactions took place:

2014;

1 July Purchased 500 units at Rs.220 each

1 November Sold 400 units for Rs.160,000

2015;

1 February Purchased 300 units at Rs. 230 each

15 April Sold 250 units for Rs. 125,000

What is the value of the company's closing inventory as at 30 April 2015?

- a. Rs. 195,500
  - b. Rs. 166,000
  - c. Rs. 188,500
  - d. Rs. 106,000
6. ABC Co. extracted its trial balance as at 31 December 2015. The total of the debits exceeded the credits by Rs. 300.
- Which of the following could explain the above imbalance?
- a. Discounts received of Rs.150 was extracted to the debit column of the trial balance
  - b. Discounts allowed of Rs.150 was extracted to the debit column of the trial balance
  - c. The bank ledger account did not agree with the bank statement by a debit of Rs.300
  - d. Sales of Rs.300 were omitted from the sales day book
7. The Accountant of Good Luck PLC has made a provision for non moving inventories amounting to Rs.2.5 million in the 2014/2015 financial statements of the company. This is done based on the accounting concept of;
- a. Matching
  - b. Prudence
  - c. Going Concern
  - d. Materiality

8. Chamal is a Sole Trader. He has given his personal motor car worth Rs. 2.5 million to a creditor of the business in lieu of Rs.2.5 million payable to him by the business. Which elements of the accounting equation will change due to this transaction?
- a. Assets and liabilities
  - b. Capital and liabilities
  - c. Assets, Capital and Liabilities
  - d. Assets and Capital
9. BIG PLC has spent Rs.100,000 to replace four tyres of the motor car used by the Executive Director of the Company. Ranga, the Assistant Accountant of the company has debited this amount to the motor vehicle account. This would result in;
- a. An overstatement of profit and an understatement of property, plant & equipment
  - b. An understatement of profit and an understatement of property, plant & equipment.
  - c. An overstatement of profit and an overstatement of property, plant & equipment
  - d. An understatement of profit and an overstatement of property, plant & equipment
10. Which of the following statements best explains the objective of primary books used in accounting?
- a. They are used to record the transactions in the financial reports.
  - b. They are the source of all the information recorded by an entity.
  - c. They are maintained as a source of information for the internal auditors.
  - d. They are used to record the transactions initially using the source documents.

**(Total 10 Marks)**

## SECTION B

Answer **ALL** questions

### Question No. 02

Leader Traders, is a sole proprietorship. The following trial balance was extracted from the books of accounts of Leader Traders as at 31<sup>st</sup> March 2015.

	<b>Dr. (Rs.'000)</b>	<b>Cr. (Rs.'000)</b>
Sales		14,000
Purchases	8,850	
Trade receivables	3,300	
Return inwards	50	
Inventory as at 01 <sup>st</sup> April 2014	850	
Return outwards		100
General administration expenses	2,010	
Electricity	100	
Water	50	
Rates	75	
Selling expenses	975	
Interest on bank overdraft	50	
Telephone	25	
Property Plant and Equipment (at cost)	6,290	
Accumulated depreciation as at 31 <sup>st</sup> March 2015		1,120
Fixed deposit (interest at 12% per annum)	1,200	
Drawings	40	
Cash in hand	615	
Bank loan (interest at 12% per annum)		2,000
Trade payables		1600
Non trade payables		200
Bank overdraft		125
Accrued salaries		65
Capital account as at 01 <sup>st</sup> April 2014		5,270
	<b>24,480</b>	<b>24,480</b>

The following additional information is provided;

1. Physically counted inventories as at 31st March 2015 were valued as follows;
  - at cost Rs.910,000/-
  - at net realizable value Rs.950,000/-
2. Unpaid electricity and telephone bills for the month of March 2015 were Rs.10,000/- and Rs.12,000/- respectively.
3. An amount of Rs.7,000/- due from a bankrupt customer was decided to be written-off as bad debt.
4. Investment on fixed deposit was made on 01<sup>st</sup> October 2014.
5. The bank loan was obtained on 31<sup>st</sup> March 2015, and it should be settled within 12 months in equal monthly installments with interest starting from 01<sup>st</sup> April 2015.
6. General Administration expenses include an annual insurance premium payment of Rs.40,000/- for a van which was purchased on 01<sup>st</sup> October 2014 for Rs.1,000,000/-, included in Property, Plant & Equipment. Depreciation for the year on Property, Plant and Equipment except this van has been adjusted in the books of accounts and depreciation has to be provided at 20% per annum at cost of this vehicle on the straight-line basis.
7. A sales commission of 0.5% on sales has to be accounted and to be paid to the salesmen.
8. Rs. 800,000 worth land has been invested on 1<sup>st</sup> January 2015 by the owner to the business and it was not recorded in the books of accounts for the year ended 31<sup>st</sup> March 2015.

You are required to prepare, for Leader Traders,

- i. Statement of Profit & Loss for the year ended 31<sup>st</sup> March 2015.

(10 Marks)

- ii. Statement of Financial Position as at 31<sup>st</sup> March 2015.

(10 Marks)

**(Total 20 Marks)**

## **SECTION C**

Answer **ANY FIVE (05)** questions

### **Question No. 03**

- a. Noel's cash book as at 28 February 2015 showed a debit balance of Rs. 35,000. However, his bank statement as at 28 February 2015 showed a credit balance of Rs. 21,730. Upon checking the cash book and the bank statement, the following were identified.
1. A cheque received from a customer amounting to Rs. 15,000 had been recorded in the cash book, but the bank has credited this amount only on 2 March 2015.
  2. Cheques drawn amounting to Rs. 5,500 which were entered in the cash book, had not been presented to the bank as of 28<sup>th</sup> February.
  3. Based on the instruction given by Noel, the bank had directly paid his mobile bill amounting to Rs. 3,650. However Noel recorded this payment only in the month of March 2015.
  4. Bank charges not recorded in the cash book were Rs. 1,120.
  5. A cheque issued to a supplier amounting to Rs. 1,000 had been cancelled as it was expired. The supplier was then issued a new cheque. Noel credited his cash book with both cheques issued but no other entry was made. Both cheques were included in the un-presented cheques in (ii) above.
  6. A direct deposit made by a customer to the bank amounting to Rs.1,000 had not been recorded in the cash book.

### **You are required to:**

- i. Prepare the corrected cash book.

(05 Marks)
- ii. Prepare a statement reconciling the balance shown in the bank statement with the corrected cash book balance.

(04 Marks)

- b. *“Bank statement balance should be recorded in the statement of financial position as at year end date rather than corrected cash book balance.”* Comment

(03 Marks)

- c. An accountant of an entity which is having **many current accounts** in the banks, is facing difficulties (time consuming, errors etc.) when preparing bank reconciliations for each current account. As a Software Engineer how would you advise the accountant to solve the difficulties?

(02 Marks)

**(Total 14 Marks)**

**Question No. 04**

- a. The statement of financial position of Alexander Traders, a sole proprietorship as at 01.01.2016 is given below.

**Assets**

Furniture and fittings (Cost Rs. 150,000)	130,000
Inventory	50,000
Receivables	20,000
Cash	<u>50,000</u>
	<u>250,000</u>

Equity	200,000
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**Liabilities**

Payables	<u>50,000</u>
	<u>250,000</u>

The following transactions and events took place during the month of January 2016.

January 4 Sold goods for cash for Rs, 50,000. The cost of these goods was Rs.

40,000

8 Purchased goods worth Rs. 45,000 on credit



- 12 Returned to the supplier Rs. 5,000 worth of goods purchased on 08.01.2016
- 15 Sold goods on credit for Rs. 50,000. The cost of these goods was Rs. 40,000
- 18 Received Rs. 9,000 cash from debtors and Rs. 1000 was written off as bad debts
- 20 Paid Rs. 15,000 as salaries of employees.
- 25 Paid cash to settle the payables balance as at 01.01.2016 and Rs. 5000 was received as cash discount
- 28 The owner withdrew Rs. 5000 in cash for personal use.
- 30 Received in cash the amount written off as bad debts on 18.01.2016
- 31 Provided depreciation of Rs. 3000 on furniture and fittings for the month of January.

**You are required to:**

- i. Show the impact of above transactions in the accounting equation.  
(05 Marks)
- ii. Calculate net profit or loss for the month of January 2016 using net asset basis.  
(04 Marks)
- b. Explain the **Four (4)** enhancing qualitative characteristics of financial information identified in the IASB's Conceptual Framework for Financial Reporting.  
(05 Marks)

**(Total 14 Marks)**

**Question No. 05**

- a. Multi Shop has incurred a Loss of Rs.36,000/- as per the draft accounts prepared for the year ended 31st March 2015 and a suspense account has appeared in the draft balance sheet as an asset. The following errors were identified later:
1. A cheque of Rs.5,000/- received from a debtor has been credited to sales account.
  2. Discounts allowed of Rs.2,500/- has been credited to discounts received account.
  3. Firm has paid a sum of Rs.12,500/- as a loan installment including interest. This has been recorded as loan interest whereas the interest component was only Rs.2,500/-.
  4. The purchase journal has been under-cast by Rs.4,500/-.
  5. Building paint cost incurred on 31st March 2015 of Rs.9,600/- has been debited to building account.
  6. A credit sale of Rs.30,000/- has been completely omitted from the books of accounts.

**You are required to:**

- i. Prepare journal entries to rectify the above errors.  
(06 Marks)
  - ii. Calculate the adjusted profit / loss for the year ended 31st March 2015.  
(03Marks)
- b. State and briefly explain **Five (05)** factors to be considered in acquiring an accounting software.  
(03 Marks)
- c. *“Manual Accounting Recording System is better than a computerized Accounting system.”* Comment  
(02 Marks)
- (Total 14 Marks)**

**Question No. 06**

- a. XYZ (Pvt) Ltd operates its petty cash account on the imprest system. Petty cash float is Rs. 15,000 and company has spent Rs. 8,000 during the month of December 2015 and it has been reimbursed on 01<sup>st</sup> January 2016.

The following petty cash transactions occurred during the month of January 2016:

		Rs
January	2 Photocopier repair	1,730
	3 Stationery	60
	4 Typewriter ribbons	90
	5 Bus fare	420
	6 Postage stamps	70
	7 Payment to the creditor Sunil	1,000
	8 Bus fare	80
	14 Cleaning	220
	15 Postage stamps	650
	19 Postage stamps	520
	20 Drawing pins	160
	21 Bus fare	240
	22 Photocopy paper	175
	25 Wrapping paper	170
	27 Stationery	330
	30 Soft drinks	660

- i. You are required to record the above transactions in the petty cash book for the month ended 31st January 2016 and post the balances to the ledger.

(07 Marks)

- b. List **Two** advantages of maintaining a petty cash book.

(01 Marks)

- c. State whether the following transactions are of capital nature or revenue nature.

- i. The cost of installing a spare part to an existing machine. It should be replaced once in every 6 months.

- ii. The cost of acquiring patent rights.
- iii. Cost of painting an existing building.
- iv. Annual insurance premium paid for a new motor vehicle.
- v. Legal fees paid in relation to the factory extension.
- vi. Cost of altering interior of the new van to increase carrying capacity.

(06 Marks)

**(Total 14 Marks)**

**Question No. 07**

- a. Company "X" imported a Plant on 1 January 2015 and following expenses have been incurred.

	<b>Rs. 000</b>
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.

(07 Marks)

- ii. Show the double entry to record the above transaction.

(01 Mark)

- b. Company has purchased a payroll software for Rs. 900,000 and installed it to the computers. Software can be used for five years.

Illustrate the above statement referring to "Elements of financial statements"

(03 Mark)

- c. Define "Useful life" and "Scrap value" in accordance with LKAS 16, Property Plant and Equipment.

(03 Mark)

**(Total 14 Marks)**

**Question No. 08**

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

Batch	Item	Cost per unit (Rs.)	Net realizable value per unit (Rs.)	Closing inventory quantity
Soap	Rani	40	41	200
	Kohomba	35	30	220
	Apsara	50	52	190
Perfume	Gold	800	825	20
	Black night	950	925	40
Milk	Raththi	400	380	100
	Anchor	450	451	50
	Maliban	425	422	75

**You are required to;**

- Calculate inventory value at the end of the period on **item basis** and state the closing inventory journal entry in the general journal.  
(06 Marks)
  - Calculate inventory value at the end of the period on **batch basis**.  
(03 Marks)
- b. *"Cost of inventory can be divided into three parts in accordance with Sri Lanka Accounting Standard 02 (LKAS 02) Inventory".*  
You are required to illustrate the above statement through examples.  
(03 Marks)
- c. *"FIFO method is more accurate than WAC method"* Comment on the above statement.  
(02 Marks)

**(Total 14 Marks)**