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

**YEAR I SEMESTER I (INTAKE VI – GROUP B)
END SEMESTER EXAMINATION – JUNE 2016**

AFM 10130 Fundamentals of Financial Accounting

Date : 26th June 2016
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This paper consists of two sections (I and II).
- Section I – Answer **ALL** questions in the separate sheet provided
Section II – Answer **Any Three (03)** 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

Section I

Answer **ALL** questions

Question No. 01

You are required to choose the most appropriate answer.

- I. In an accounts receivable control account, which one of the following list of items would appear on the credit side?
- a. Cash received from customers, sales returns, irrecoverable debts written off, and contras against amounts due to suppliers in the accounts payable ledger.
 - b. Sales, cash refunds to customers, irrecoverable debts written off, and discounts allowed.
 - c. Cash received from customers, discounts allowed, interest charged on overdue accounts, irrecoverable debts written off
 - d. Sales, cash refunds to customers, interest charged on overdue accounts, contras against amounts due to suppliers in the accounts payable ledger.
 - e. Sales, cash refunds to customers, interest paid on overdue accounts, contras against amounts due from suppliers in the accounts receivable ledger.
- II. Y purchased a machine on 1 January 2015 for Rs.38,000. The payment for the machine was correctly entered in the cash book but was entered on the debit side of machine repairs account.
- Y charges depreciation on the straight line basis at 20% per year, with a proportionate charge in the year of acquisition and assuming no scrap value at the end of the life of the asset.

How will Y's profit for the year ended 31 March 2015 be affected by the error?

- a. Understated by Rs.30,400
- b. Understated by Rs.36,100
- c. Understated by Rs.38,000
- d. Overstated by Rs.1,900
- e. Overstated by Rs. 900

III. The trial balance of Z failed to agree, the totals being: debit Rs. 836,200 credit Rs.819,700

A suspense account was opened for the amount of the difference and the following errors were later found and corrected:

- The totals of the cash discount columns in the cash book had not been posted to the discount accounts. The figures were discount allowed Rs. 3,900 and discount received Rs. 5,100.
- A cheque for Rs. 19,000 received from a customer was correctly entered in the cash book but was posted to the control account as Rs. 9,100.

What will be the remaining balance on the suspense account be after the correction of these errors?

- a. Rs. 25,300 credit
- b. Rs. 7,700 credit
- c. Rs. 27,700 debit
- d. Rs. 5,400 credit
- e. Rs. 400 credit

IV. B acquired a lorry on 1 May 2015 at a cost of Rs. 30,000. The lorry has an estimated useful life of four years, and an estimated resale value at the end of that time of Rs.6,000. B charges depreciation on the straight line basis, with a proportionate charge in the period of acquisition.

What will the depreciation charge for the lorry be in B's accounting period to 30 September 2015

- a. Rs. 3,000
- b. Rs. 2,500
- c. Rs. 2,000
- d. Rs. 5,000
- e. Rs. 6,000

V. The following attempt at a bank reconciliation statement has been prepared by Q Co:

	Rs.
Overdraft per bank statement	38,600
Add: deposits not credited	<u>41,200</u>
	79,800
Less: outstanding cheques	<u>3,300</u>
Overdraft per cash book	<u>76,500</u>

Assuming the bank statement balance of Rs. 38,600 to be correct, what should the correct cash book balance be?

- a. Rs. 76,500 overdrawn, as stated
- b. Rs. 5,900 overdrawn
- c. Rs. 700 overdrawn
- d. Rs. 5,900 favourable balance
- e. Rs. 5,500 favourable balance

VI. Cash book balance of Thara PLC did not agree with bank statement balance as at 31st March 2016. Upon comparison of cash book with bank statement, the following were noted being the reasons for differences;

- 1. Bank charges
- 2. A cheque from a customer which was dishonoured
- 3. Cheques not presented
- 4. Deposits not credited
- 5. Credit transfer entered in bank statement
- 6. Standing order entered in bank statement.

Which of the above items require an entry in the cash book?

- a. 1, 2, 5 and 6
- b. 3 and 4
- c. 1, 3, 4 and 6
- d. 3, 4, 5 and 6
- e. 3, 4, 5 and 6

VII. The trial balance of C, a limited liability company, did not agree, and a suspense account was opened for the difference. Checking in the bookkeeping system revealed the following errors.

1. Rs.4,600 paid for motor van repairs was correctly treated in the cash book but was credited to motor vehicles asset account
2. Rs.360 received from B, a customer, was credited in error to the customer "BB" account
3. Rs.9,500 paid for rent was debited to the rent account as Rs. 5,900
4. The total of the discount allowed column in the cash book had been debited in error to the discounts received account
5. No entries have been made to record a cash sale of Rs. 100.

Which of the errors above would require an entry to the suspense account as part of the process of correcting them?

- a. 3 and 4
- b. 1 and 3
- c. 2 and 5
- d. 2 and 3
- e. 2 only

VIII. A company had total receivable from customer amounting to Rs.4,000. It was decided to write off bad debts of Rs.500 and make a provision for doubtful debts of 5% of outstanding debtors.

What will be closing balance on the Debtors Control account?

- a. Rs.3,325
- b. Rs.3,300
- c. Rs.3,500
- d. Rs.4,000
- e. Rs.4,000

- IX. What would appear in a Purchases Ledger Control account?
- a. Cash purchase
 - b. Discount allowed
 - c. Refund to credit customer
 - d. Return outward
 - e. Return inward
- X. The debit side of a trial balance total was Rs.50 more than the credit side total. Which one of the following could this be due to?
- a. a purchase of goods for Rs. 50 being omitted from the supplier's account
 - b. a sale of goods for Rs. 50 being omitted from the customer's account
 - c. an invoice of Rs. 25 for electricity being credited to the electricity account
 - d. a receipt for Rs. 50 from a customer being omitted from the cash book
 - e. a sale of goods for Rs. 25 being omitted from the customer's account

(Total 20 Marks)

Question No. 02

Following Trial balance as at 31/03/2015 has been extracted from Amilan s' business

	Rs.	Rs.
2014/04/01 Stocks	20,000	
Purchase & sales	270,000	400,000
Debtors & Creditors	42,000	56,000
Bad Debtors	4,000	
Motor Vehicle at cost	600,000	
Motor vehicle Depreciation		100,000
Furniture at costs	400,000	
Furniture Depreciation		80,000
Cash at Bank	44,000	
Accrued Advertising 1/4/2014		2,000
Accrued salary 1/4/2014		4,000
Provision for Doubtful debts at 1/4/2014		2,000
Prepaid advertising 1/4/2014	6,000	
Prepaid telephone 1/4/2014	2,000	
Rent paid	18,000	
Advertising	12,000	
Electricity	24,000	
Telephone Expenses	10,000	
Drawings	4,000	
Salary & Wages	18,000	
Capital		830,000
	1,474,000	1,474,000

Following information is also available for you

- Cost of the Closing Stock available as at 31st March 2015 was Rs.15,000. Its Net Realizable Value was estimated as Rs,13,000
- During the year a stock (cost) of Rs.4,000 was damaged by fire. This stock had been insured and 80% compensation will be received from the insurance company.
- Owner has donated Rs.3,800 worth goods to the business during the period.
- Rent paid is for the year ended 1/7/2015

- e. A set of furniture purchased for Rs.60,000 on 1/4/2013 had been disposed for Rs.33,000 on 31/12/2014. Deposal receipt has been credited to sales account. Motor vehicle & Furniture should be depreciated at 10% on cost.
- f. Rs.100,000 worth of Motor vehicle was purchased on 1st January 2015 and accounted properly during the year.
- g. Rs.5,000 provision should be made for debtors from whom there is a receivable of Rs.25,000 & 5% provision for doubtful debts should be made on balance net debtors.
- h. Accrued expenses and prepayments as at 31/3/2015 are as follows;

	Accrued	Prepayments
Salary	2,400	
Telephone	600	
Electricity		800
Advertising	2000	1400

You are required to prepare the income statement for the year ended 31st March 2015 and statement of financial position as at 31st March 2015

(Total 20 Marks)

Section II

Answer **any three (03)** questions

Question No. 03

- a. State three differences between “Finance leases” and “Hire purchase”
(03 Marks)
- b. State four main criteria that can be used to differentiate “Finance lease” from “Operating lease”
(04 Marks)
- c. Exsiz Ltd. purchased an asset from Pelo PLC, a leasing company on 1st April 2015. Cash price of the asset is Rs. 154,200 and Initial deposit of Rs. 40,000 was paid on 1st April 2015.
- Four annual instalments of Rs. 40,000 each to be paid commencing from 31st March 2016
 - Expected useful life time of the asset is 4 years.
 - Interest rate applicable is 15%.

You are required to;

- i. Determine whether the lease is Finance lease or Operating lease with your justification.
- ii. Show the required accounts and extracts of the Statement of Financial Position as at 31st March 2016 and Income Statement of Exsiz Ltd. for the year ended 31st March 2016.

(13 Marks)

(Total 20 Marks)

Question No. 04

a. In preparing the accounts of NKINI Ltd. for the year ended 31st March 2016, you have noted the following:

1. Although the sales have not yet actually taken place, some reliable customers of the company have placed several large orders that are likely to be extremely profitable.
2. At the year end, an amount is outstanding in respect of water used.
3. During the year the company purchased Rs.200,000 worth of stationery which is to be used in the office. These were still in use at the end of the year.
4. As at 31st December, the electricity bills have not been received for the months of November & December. However, based on previous month's average use, electricity expenses for November & December was estimated to be Rs. 20,000.
5. The management has decided on a 12 month financial reporting period. They have just started on the 1st April so they will complete the twelve months reporting period by 31st March.
6. Once a particular financial period is adopted by a business, it is not changed from one period to the next period.
7. A machine purchased by a company under a finance lease, debit that amount to the Machinery Account. But still the legal ownership was not received by the company.
8. A debtor who owes a large amount of money is rumoured to be going into liquidation.

Explain how you would treat each of the above cases in preparation of financial statements for the year ended 31st March 2016 and give reasons (relevant accounting concept/principle) for the treatment.

(08 Marks)

b. Following ledger balance as at 31/3/2016 are given for your consideration

	Dr. (Rs.000')	Cr. (Rs.000')
Office stationery purchases	1,200	
Insurance expense paid	6,000	
Rent paid	4,000	
Rent payable as at 1/4/2015		200
Advertising expense Paid	5,500	
Rent income receivable at 1/4/2015	200	

Rent income received		1,800
Stock as at 31 st March 2016	1,200	
Bank Loan		95,000

Additional information

1. Office stationary stock as at 31/3/2016 is Rs.500,000
2. Net realizable value of the stock as at 31st March 2016 is Rs.1,100,000
3. Insurance paid is for the year started from 1/2/2016
4. Rent for the factory is Rs.400,000 for a month
5. Advertising expenses paid is for the period from 1/3/2016 to 31/7/2016
6. Company has rented out a part of the business premises for Rs.200,000 per month
7. On 1/3/2016 Company has obtained a loan. Rs.3,500,000 (Including Rs.1,000,000 as interest) should be paid as monthly instalment.

Required;

- a. Write the journal entries for the above adjustments for the year ended 31/3/2016.
- b. Show necessary extracts from Income Statement and Statement of Financial position as at 31st March 2016.
- c. If the profit calculated for the period is Rs.2,255,000 on the cash basis, calculate the corrected profit for the period based on the accrual basis.

(12 Marks)

(Total 20 Marks)

Question No. 05

Following balances were extracted from the books of Samil's Business as at 1/1/2016

Cash = Rs.23000	Creditors = Rs.26000	Stocks = Rs.17000
Loan = Rs.34000	Motor vehicle = Rs.50000	Debtors = Rs.26000

Following transactions took place during the month of January

- 1/1 Samil withdrew cash of Rs.2000
- 1/5 Sold goods for cash Rs.9,000, cost of goods sold was Rs.7,000
- 1/14 Purchased goods for cash Rs.10,000.
- 1/16 Rs.1000 worth of goods were damage by fire

- 1/21 Rs.2,000 receivable became bad
- 1/23 Sold goods on credit to Mr. Basil for Rs.5,000, cost of goods sold is Rs.6,000
- 1/26 Rent paid Rs.9000
- 1/27 Loan repaid Rs.4,000 with an interest of Rs.1,000
- 1/28 Paid to creditors Rs.9500 to settle Rs.11000
- 1/30 Cash received from a debtor Rs.4,800 to settle Rs.5,000
- 1/31 Samil brought additional capital to the business Rs.6,500 money & Rs.10,000 motor vehicle
- 1/31 Motor vehicle should be depreciated at 10% on cost
- 1/31 Bad debt should be written off by Rs.2,000

You are required to;

1. Apply above transactions for the following accounting equation

$$\text{Cash} + \text{Stocks} + \text{Motor vehicle} + \text{Debtors} = \text{Creditors} + \text{Loan} + \text{Capital}$$

2. Calculate the Net Assets as at 1/1/2016 & 31/1/2016
3. Calculate the profit for the month of January
4. Prepare the balance sheet as at 31/1/2016

(Total 20 Marks)

Question No. 06

- a. The following information relates to Eva Co's sales tax for the month of March 2016:

	Rs.
Sales (including VAT 15%)	109,250
Purchases (net of VAT 15%)	64,000

VAT account showed an opening credit balance of Rs.4,540 at the beginning of the month and a closing debit balance of Rs.2,720 at the end of the month.

What was the total VAT paid to regulatory authorities during the month of March 2016?

(05 Marks)

b. Statement of financial position of Amal's business as at 31/3/2016 is as follows

Capital	500,000		Land	150,000
Profit	<u>100,000</u>	600,000	Motor Vehicle	160,000
Bank Loan		150,000	Stocks at Cost	270,000
Creditors		145,000	Debtors	176,200
			Cash & Bank	135,000
			Suspense Ac.	<u>3,800</u>
		<u>895,000</u>		<u>895,000</u>

Before preparing the final accounts, difference in the trial balance was transferred to the suspense account. (Assume that control accounts are maintained by the business)

Later following errors were found.

1. Credit Purchase of goods amounting to Rs.8,000 which is included in the stocks has not been recorded in the books of accounts.
2. Sales journal was under casted by Rs.2,000
3. Total of Rs.4,600 in the discount given column has not been posted to the discount given account
4. A credit sale made amounting to Rs.1,300 had been recorded in the control account as Rs.3,100
5. Accrued Electricity expenses of Rs.1,780 had not been recorded in the books of accounts.
6. Cash paid to a creditor of Rs.1,500 had been credited to the debtors control account.
7. Debit side of the cash book was over casted by Rs.2,000
8. Stocks as at 31.3.2016 was overestimated by Rs.1,400

Prepare statement of financial position after rectifying above errors

(15 Marks)

(Total 20 Marks)