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

YEAR I SEMESTER II (INTAKE V – GROUP B)
END SEMESTER EXAMINATION – JULY 2016

AFM 10330 Intermediate Financial Accounting

Date : 23rd July 2016
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This is a closed book examination.
- The paper consists of three sections (A, B and C).
- **SECTION A** - Answer **ALL** questions
- **SECTION B** - Answer **ALL** questions
- **SECTION C** - Answer **ANY TWO** questions
- The total marks obtainable for this examination is 100. The marks assigned for each question & sections thereof are included in square brackets.
- This examination accounts for 60% of the module assessment.
- Non programmable calculators are allowed.
- Answers should be written neatly and legibly.

SECTION A

Answer **ALL** questions

Question No. 01

1. Which of the following is **not** an example of directly attributable costs that should be included in the cost of acquisition for property, plant and equipment?
 - a. Costs of site preparation
 - b. Installation and assembly costs
 - c. Initial delivery and handling costs
 - d. Costs of opening a new facility
2. Which of the following is **not** an example of a separate class of property, plant and equipment?
 - a. Office equipment
 - b. Land and buildings
 - c. Patent
 - d. Motor vehicles
3. Sadun Traders, a VAT registered trader purchased a Machine for use in his business under the following terms:

	Rs.
Base Price	1,000,000
Value Added Tax (VAT)	125,000
Freight charges	50,000
1 year maintenance contract	25,000
Installation	100,000
	1,300,000

How much should Sadun Traders capitalise as a non-current asset in relation to the machine?

- a. Rs.1,150,000
- b. Rs.1,175,000
- c. Rs.1,275,000
- d. Rs.1,300,00

4. After an asset has been initially recognised, an entity has a choice between the cost model and the:
 - a. Liquidation value model.
 - b. Accrual model.
 - c. Revaluation model.
 - d. Realisable value model.

5. According to LKAS 16 *Property, Plant and Equipment*, the cost of property, plant and equipment is only recognised as an asset if it is probable that the future economic benefits will flow to the entity and if:
 - a. The cost can be reliably measured.
 - b. It is a physical asset.
 - c. The asset has been received by the purchaser.
 - d. The asset is held for rental.

6. Aminda, Kavinda and Duminda have been in partnership for a number of years with a profit share ratio of 5:3:2. Aminda wishes to step back from the business operations to spend more time with family and it has now been agreed that the profit share ratio will be changed to 1:3:2. The value of goodwill in the business is Rs.2,400,000 and goodwill is to be eliminated from the books of partnership.

Which of the following journal entries would be required to account for goodwill.

a)	Goodwill Dr	2,400,000	
	Capital Account Cr		
	Aminda		1,200,000
	Kavinda		720,000
	Duminda		480,000
b)	Goodwill Dr	2,400,000	
	Capital Account Cr		
	Aminda		400,000
	Kavinda		1,200,00
	Duminda		800,000

c)	Capital Account Dr		
	Aminda	400,000	
	Kavinda	1,200,00	
	Duminda	800,000	
	Goodwill Cr		2,400,000
d)	Capital Account Dr		
	Aminda	400,000	
	Kavinda	1,200,00	
	Duminda	800,000	
	Capital Account Cr		
	Aminda		1,200,000
	Kavinda		720,000
	Duminda		480,000

7. A fire occurred on 31 March 2015 destroyed some of the inventory of sole trader who does not keep full accounting records.

The following information is provided:

	Rs.
Inventory as at 1 April 2014	1,270,000
Purchases	2,530,000
sales	4,500,000
Inventory available in good condition as at 31 March 2015	350,000

Gross profit margin is 30% on sales value.

What was the cost of the inventory lost in the fire?

- Rs. 300,000
- Rs. 650,000
- Rs.1,350,000
- Rs. 3,150,000

8. Which of the following statements are **true** as to Total Comprehensive Income of an entity?

- A. It is the total of the profit or loss and other comprehensive income for a period.
- B. It is the increase in equity during a period resulting from transactions and events other than from those take place with owners in their capacity as owners.
- C. It is the net result of all income and expenses recognized during a period.

- a. A and C only
- b. A and B only
- c. B and C only
- d. All A, B and C

9. When depreciating a leased asset acquired on a finance lease, a lessee will use which of the following formula to determine the annual depreciation amount?

- a. Depreciable amount of leased asset / lease term.
- b. Total of minimum lease payments / lease term.
- c. Depreciable amount of leased asset / useful life of leased asset.
- d. Useful life of leased asset/Total of minimum lease payments.

10. As per LKAS 01, categorising expenses as distribution costs and administration expenses is an example of which classification method?

- a. Function of expense method
- b. Nature of expense method
- c. Purpose of expense method
- d. None of the above

11. A sole trader who does not keep full accounting records wishes to calculate his sales revenue for the year

The information available is

- | | |
|---------------------------|----------------------|
| • Opening inventory | Rs.170,000 |
| • Closing inventory | Rs.240,000 |
| • Purchases | Rs.910,000 |
| • Gross profit percentage | 40% on sales revenue |

Which of the following is the sales revenue for the year?

- a. Rs.1,176,000
- b. Rs.1,400,000
- c. Rs.1,800,000
- d. Rs.2210,000

12. Which one of the following list consists only of items which may be included in the cost of inventories in accordance with LKAS 2?

- a. Foreman's wages, carriage inwards, carriage outwards, raw materials
- b. Raw materials, carriage inwards, costs of storage of finished goods, plant depreciation.
- c. Carriage outwards, raw materials, foreman's wages, plant depreciation
- d. Plant depreciation, carriage inwards, raw materials, foreman's wages

13. Profit or loss for a period is the total of income less expenses,

- a. Including the items of other comprehensive income.
- b. Excluding abnormal items.
- c. Excluding the items of other comprehensive income.
- d. Excluding extraordinary items.

14. Which of the following is **not** one of the situations provided in LKAS 17 in relation to the classification of leases as finance leases?

- a. Losses from the fluctuation of the fair value of the asset accrue to the lessee.
- b. Leased assets are of a specialised nature.
- c. The lessee has provided a guarantee that they will acquire the asset at the end of the lease term.
- d. The lease is for a major part of the economic life of the asset.

15. Which of the following is **not** an example of a risk of ownership of an asset?

- a. Uninsured damage.
- b. Idle capacity.
- c. Technical obsolescence.
- d. Gains on the eventual sale of the asset.

(Total 20 Marks)

SECTION B

Answer ALL questions

Question No. 02

Mrs. Mihirani started a sole proprietor business of manufacturing and selling of high-tech electronic equipment. Following trial balance was extracted from her books as at 31 March 2016.

Trial Balance as at 31 March 2016

Description	Debit (Rs.) 000	Credit (Rs.) 000
Property, Plant & Equipment	44,500	
Accumulated Depreciation as at 1 April 2015		6,360
Inventories as at 1 April 2015 :		
Raw Material	1,120	
Work in Progress	480	
Finished Goods	2,000	
Trade Debtors / Trade Creditors	23,000	11,705
Cash in Hand	180	
Capital - as at 1 April 2015		31,951
Long Term Bank Loan (12%)		10,000
Provision for Doubtful Debts as at 1 April 2015		140
Cash at Bank	120	
Sales (Turnover)		78,000
Other income		4,500
Discounts Allowed / Discounts Received	64	256
Direct Wages and Direct Expenses	1,114	
Loan Interest	1,100	
Purchase of Raw Material	22,500	
Factory Overtime	2,406	
Maintenance - Factory & Plant and Machinery	2,500	
General Factory Expenses	1,420	
Carriage Inwards - Raw material	4,220	
Salaries and Wages (including EPF & ETF) - Office	2,200	

Salaries and Wages (including EPF & ETF)- Factory	7,600	
Salaries and Wages(including EPF & ETF)- Showroom	1,100	
Administration Expenses	17,410	
Selling and Distribution Expenses	6,146	
Finance Cost	300	
Bad debts	37	
Insurance - Buildings	200	
Insurance - Plant & Machinery	268	
Insurance - Motor Vehicles	300	
Raw material clearance charge	190	
Royalty	460	
Other prepayments and accruals as at 1 April 2015	25	48
	142,760	142,760

The following information is also available.

1. Value of physical stocks as at 31 March 2016 was as follows:

Raw material	Rs. 825,000
Work in progress	Rs. 350,000
Finished goods	Rs. 1,650,000

Raw Material

Raw material which was purchased on 31 March 2016 for Rs. 220,000 had been received by the business only after 31 March 2016. Purchase of these goods are dully recorded in the purchase account.

Work in Progress

All WIP inventories were at the end of the production process.

Finished goods

A credit sale invoice for the month of March 2016 for Rs. 990,000 has been completely omitted from the books. The cost of these inventories is Rs. 600,000. These items are included in the above physical stock.

2. Rs. 140,000 should be written off as bad debts. Provision for doubtful debt is to be adjusted to 2% of the trade debtors' balance outstanding as at 31 March 2016.
3. Cash at bank balance reflected in the trial balance was prior to the preparation of bank reconciliation statement for the month of March 2016. Upon reconciliation it was discovered that
 - A cheque which has been deposited by a trade debtor in settlement of his account, amounting to Rs. 6,000,000 has been credited to business bank account by the bank on 30.03.2016.
 - Bank charges of Rs. 198,000 and the overdraft interest of Rs. 53,000 have been charged by the bank
 - Bank has debited Rs. 100,000 as interest on loan applicable for the month of March 2016 and Rs. 300,000 as capital recovery on loan installment applicable for the month of March 2016.
4. Property, plant & equipment is made up as follows.

Property, Plant & Equipment	Cost as at 31 March 2016 (Rs.)	Accumulated Depreciation as at 01 April 2015 (Rs.)
Office Building	8,400	840
Factory Building	7,200	720
Plant & Machinery	13,300	2,200
Motor Vehicles	3,200	800
Factory Equipment	7,800	1,800
Land	4,600	-
	44,500	6,360

5. A motor vehicle costing Rs. 1,200,000 (accumulated depreciation Rs. 300,000 as at 01 April 2015) was given in part exchange for a new vehicle costing Rs. 2,500,000 on 01 July 2015. The amount paid in cash of Rs. 1,400,000 has been debited to motor vehicle account. No other entries have been made in this regard. Motor vehicles are used by Factory, Office and Sales in equal proportions for transport and delivery purposes.
6. Property, Plant & Equipment are to be depreciated on straight line method at following rates.

Building	5% per annum
Plant & Machinery	10% per annum
Motor Vehicles	20% per annum
Factory Equipment	33 1/3 % per annum

7. Other payable and prepaid expenses as at 31 March are as follows:

	Rs.			
	2016		2015	
	Payable	Prepaid	Payable	Prepaid
Electricity Charges		31,000		11,000
Water Charges	45,000		30,000	
Telephone Expenses	16,000			
Advertising	31,000			14,000
Vehicle running expense (fuel bill)		22,000	18,000	

8. Administration expenses include the following.

Electricity	Rs. 8,420,000
Water	Rs. 610,000
Telephone	Rs. 4,150,000

Selling and distribution expenses include the following

Advertising	Rs. 1,190,000
Vehicle running expenses	Rs. 2,020,000

9. The following expenses have to be apportioned among factory, office and show room at the following rates.

	Factory	Office	Show Room
Electricity	70%	20%	10%
Building Insurance	40%	60%	-

Required,

Prepare the following financial statements for the use of internal management of the Mrs. Mirihani's business.

- a. Manufacturing Account for the year ended 31 March 2016
(07 marks)
 - b. Income Statement for the year ended 31 March 2016
(08 marks)
 - c. Statement of Financial Position as at 31 March 2016
(10 marks)
- (Total 25 Marks)**

Question No. 03

1. State two (02) advantages of a partnership business over a sole trader.
(02 marks)
2. State two (02) reasons for the dissolution of a partnership business
(02 marks)
3. State three (03) circumstances where goodwill of a partnership business need to be accounted for
(03 marks)
4. State the provisions of the Partnership Ordinance 1890 with regard to the following:
 - a. Interest on loans by partners
 - b. Interest on drawings
 - c. Profit or loss sharing ratio
(03 marks)

5. Ashanthi, Kevinya and Tharushi are in a partnership sharing profit or losses in the ratio of 2:2:1.

The partnership agreement provides the following:

- Interest on capital at 5% per annum is to be paid on the capital account balances remaining at the beginning of the period.
- Kevinya is entitled to a salary of Rs. 75,000 per annum.

Following balances were extracted from the books of account of the partnership as at 31 March 2016.

	Dr (Rs'000)	Cr (Rs'000)
Property, Plant and Equipment (PPE) at cost		
- Land	3000	
- Building	4500	
- Plant	2500	
Accumulated depreciation as at 31 March 2016		
- Building		500
- Plant		1250
Inventory at 31 March 2016	180	
Cash	270	
Trade payables		110
Trade receivables	450	
Partner's Capital Accounts as at 01 April 2015		
Asanthi		4000
Kevinya		2400
Tharushi		1800
Partner's Current Accounts as at 01 April 2015		
Asanthi		230
Kevinya		160
Tharushi	50	
Net profit for the year ended 31 March 2016		500

The following additional information is also provided:

1. On 31 March 2016, it was decided to dissolve the partnership.
2. Dissolution expense of Rs.100, 000 was incurred.

3. Inventory was taken over by Tharushi for Rs.200,000 and all other assets were realized as follows.

Assets	Rs'000
Land	3,500
Building	3,700
Plant	1,400
Trade receivables	400

4. Debtors have been acquired by Kevinya.
5. Trade payables were settled in full by paying Rs.90,000.

Required:

- Profit or loss appropriation account of the partnership for the year ended 31 March 2016.
- Partner's current account
- Realization Account
- Cash Account
- Partner's capital account

(15 marks)

(Total 25 Marks)

SECTION C

Answer **ANY TWO** questions

Question No. 04

- 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
Cloths	T shirts	1,000	980	100
	Sarongs	500	475	50
	Shirts	1,200	1300	130

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.
(05 Marks)
- Calculate inventory value at the end of the period on **batch basis**.
(03 Marks)
- Define “inventory” according to Sri Lanka Accounting Standards 02 (LKAS 02).
(02 Marks)
- Explain the main principle detailed out in LKAS 02 pertaining to inventory valuation.
(02 Marks)
- What are the costs that can be included as part of inventory as per the LKAS 02?

(03 Marks)

(Total 15 Marks)

Question No. 05

- a. As per the conceptual framework for financial reporting “*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 elements to the financial statements?

(03 Marks)

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

(03 Marks)

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

(01 Mark)

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

- Equity as at 01st January 2015: Rs. 65,000
- Equity as at 31st December 2015 : Rs. 140,000
- Drawings during the year: Rs. 15,500
- Additional Capital invested during the year: Rs. 25,250

You are required to calculate the net profit for the year ended on 31st December 2015 based on equation method.

(04 Marks)

- e. Araliya Enterprises has purchased goods on 1st of January 2016. Following balances are extracted from the books of accounts of the business.

- 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 (Value Added Tax) Rs. 2,200 (60% recoverable)

You are required to calculate the total purchase price of the flour that should be included in the financial statement of Araliya Enterprises prepared for the month of January 2016.

(04 Marks)

(Total 15 Marks)

Question No. 06

- a. Company “X” imported a Plant on 1 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

(04 Marks)

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

(01 Mark)

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

- i. The cost of installing a new machine.
- ii. Cost of repairs to the machine.
- iii. Legal fees paid in relation to the factory extension.
- iv. Petrol costs for van
- v. Electricity costs incurred in using machinery

vi. 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. Explain what do you understand by “Depreciation” as stated in Sri Lanka Accounting Standards 16 (LKAS 16)

(02 Marks)

(Total 15 Marks)