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

**YEAR I SEMESTER II (Intake IV- Group B)**  
**END SEMESTER EXAMINATION – DECEMBER 2015**

**AFM 10330 Intermediate Financial Accounting**

Date : 19th December 2015  
Time : 2.00 p.m. - 5.00 p.m.  
Duration : Three (03) hours

**Instructions to Candidates:**

- Answer any **Five (05)** Questions
- Please submit answers to **Question No. 01** separately in the sheet given
- The total marks for the paper is 100.
- Marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

**Question No. 01**

This question consists of ten (10) Multiple Choice Questions and mark the correct answer in the separate sheet given.

1. Roy and Tony have traded as partners for a number of years. Statement of Financial Position as at 31 December 2014 shows:

<b>Capital accounts</b>	<b>Rs.</b>	<b>Rs.</b>
Rory	45,000	
Tony	37,000	82,000
		<hr/>
<b>Current accounts</b>		
Rory	19,210	
Tony	8,630	27,840
		<hr/>
		<b>109,840</b>
		<hr/>

During the year 2014, the business made a profit of Rs.41,320, the partners took drawings of Rs.12,000 each and Goodwill valued for Rs.25,000.

What was the net asset total of the Partnership as at 1 January 2014?

- A. Rs.67,520
  - B. Rs.92,520
  - C. Rs.127,160
  - D. Rs.152,160
  - E. Rs.152,566
2. P, after having been a sole trader for some years, entered into partnership with Q on 1 July 2014, sharing profits equally.

The business profit for the year ended 31 December 2014 was Rs.340,000, accruing evenly over the year, apart from a charge of Rs.20,000 for an irrecoverable debt relating to trading before 1 July 2014 which it was agreed that P should bear entirely.

How is the profit for the year to be divided between P and Q?

	<b>P</b>	<b>Q</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
A.	245	95
B.	250	90
C.	270	90
D.	255	85
E.	270	85

3. On 30 December 2014 part of the inventory of a company was completely destroyed by fire. The following information is available:

- Inventory at 1 December 2014 at cost was Rs.49,800
- Purchases for December 2014 Rs.88,600
- Sales for December 2014 Rs.130,000
- Inventory at 31 December 2014 – undamaged items Rs.32,000
- Standard gross profit percentage on sales is 30%

Based on this information, what is the cost of the inventory destroyed?

- A. Rs.17,800  
 B. Rs.47,400  
 C. Rs.15,400  
 D. Rs.6,400  
 E. Rs.17,400
4. G, H and I are in partnership, sharing profits in the ratio 3:1:1, after charging salaries of Rs.20,000 per year each for H and I. On 1 January 2014 they agreed to change the profit-sharing ratio to 3:2:1 and to discontinue H's salary. I's salary continued unchanged. The partnership profit for the year ended 30 June 2014 was Rs.380,000, accruing evenly over the year. How should the Rs.380,000 profit be divided among the partners?

	<b>G</b>	<b>H</b>	<b>I</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
A.	192,000	104,000	84,000
B.	192,500	103,333	84,167
C.	209,000	101,333	69,667
D.	209,000	111,333	89,667
E.	192,500	111,333	89,667

5. Chamara sells goods at a margin of 50%. During the year to 31 March 2015 the business made purchases totalling Rs.134,000 and sales totalling Rs.240,000. Inventories in hand at 31 March 2015, valued at cost, was Rs.11,400 higher than the corresponding figure at 1 April 2014.

What was the cost of the goods Chamara had drawn out?

- A. Rs.2,600  
 B. Rs.14,500  
 C. Rs.25,400  
 D. Rs.37,300  
 E. Rs.34,300
6. A partnership employs an inexperienced bookkeeper. He has written up the current account of one of the partners as follows.

<b>CURRENT ACCOUNT</b>			
	<b>Rs.</b>		<b>Rs.</b>
Interest on capital	2,800	Balance b/f	270
Salary	1,500	Drawings	6,200
Balance c/f	10,870	Net profit	8,700
	<b>15,170</b>		<b>15,170</b>

The balance brought forward is entered correctly and the other entries are all correct in amount. However, the bookkeeper is not very sure of the difference between debits and credits. What is the corrected balance carried forward in the partner's current account?

- A. A debit balance of Rs.1,530  
 B. A debit balance of Rs.6,530  
 C. A credit balance of Rs.7,070  
 D. A credit balance of Rs.16,470  
 E. A debit balance of Rs.16,470
7. A business has compiled the following information for the year ended 31 December 2014:
- |                     |             |
|---------------------|-------------|
| Opening inventories | Rs. 386,200 |
| Purchases           | Rs. 989,000 |
| Closing inventories | Rs. 422,700 |

The gross profit percentage of sales is 40%

What is the sales revenue for the year?

- A. Rs.1,333,500
- B. Rs.1,587,500
- C. Rs.2,381,250
- D. Rs.2,301,250
- E. Rs.2,311,250

8. The following information relates to Eva Co's sales tax for the month of March 2014:

	Rs.
Sales (including VAT 12%)	106,400
Purchases (excluding VAT 12%)	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 2014?

- A. Rs.6,470
- B. Rs.11,910
- C. Rs.10,980
- D. Rs.5,540
- E. Rs.11,100

9. Desil, Jagath and Athula are in business together sharing profits in the ratio 3:3:4 after providing for annual salaries for Desil and Jagath of Rs.10,000 and Rs.12,000 respectively. They each receive interest of 8% per annum on their capital balances and pay interest of 10% on their drawings.

The profit for the year is Rs.127,000 before providing for salaries or interest. Partners' capital balances and drawings are as follows:

	<i>Capital balance</i> Rs.	<i>Drawings</i> Rs.
Desil	50,000	23,000
Jagath	45,000	19,000
Athula	66,000	24,000

What is Desil's total Income for the year?

- A. Rs.95,500
- B. Rs.96,700
- C. Rs.96,500
- D. Rs.43,616
- E. Rs.28,616

10. The following information was disclosed in the financial statements of Highsee Co for the year ended 31/12/2015.

	31/12/2014 Rs.	31/12/2015 Rs.
Plant & Equipment (P& E) cost	255,000	235,000
Accumulated depreciation	(100,000)	(110,000)

During 2015, the following occurred in respect of Plant & Equipment:

	Rs.
Purchases of P&E	10,000
Depreciation charged on P&E	25,000
Loss on disposal of P&E	8,000

What were the sales proceeds received on disposal of the P&E?

- A. Rs.7,000
- B. Rs.15,000
- C. Rs.25,000
- D. Rs.8,000
- E. Rs.8,000

**(Total 20 Marks)**

**Question No. 02**

The following trial balance of ABC partnership as at 31/03/2015 has been given to you after Preparing the income statement.

**Trial balance as at 31<sup>st</sup> March 2015**

		<b>Rs.</b>	<b>Rs.</b>
Capital	A		136,000
	B		140,000
	C		132,000
Current Account	A	9,000	
	B		15,000
	C	6,000	
Drawing	A	12,000	
	B	18,000	
Provision for Depreciation			
	Building		60,000
	Vehicle		12,000
Provision for doubtful debtors			31,000
Net profits for the year			363,000
Creditors control account			264,000
Debtors control account		331,000	
Stocks as at 31/03/2015		97,600	
Land & Building		312,000	
Accrued advertising expense			5,000
Prepaid rent		7,400	
Vehicle		179,000	
Investment		135,000	
Cash in hand		21,000	
Cash in bank		30,000	
		<b>1,158,000</b>	<b>1,158,000</b>

Additional information is provided for your consideration.

a. Following conditions are included in the partnership agreement

- Interest on drawings should be charged at 5% p.a
- Interest on partners capital should be paid at 5% p.a

- Monthly salaries should be paid to partners A, B & C as Rs.1,000, Rs.2,000 and Rs. 1,500 respectively
  - Profit & loss should be shared by partners, A, B & C at the ratio of 2:2:1
- b. The following adjustments and the errors identified by the partners have not been considered by the book keeper of the partnerships in the profit & loss account prepared for the year ended 31<sup>st</sup> March 2015.
- Closing stock was overvalued by Rs. 2,200
  - Rs.5,500 worth purchases invoice has not been taken into accounts
  - Accrued salaries of Rs.5,000 was not considered
  - Partner “A” withdraws Rs. 1,000 per month as drawings at the beginning of each month & partner “B” has withdrawn his all drawings on 01/07/2014.
  - Depreciation for vehicle at 10% on cost has not been provided in the books.
  - During the year partner A & C have withdrawn their salaries as follows  
A - Rs. 6,000                      C - Rs. 8,000  
These salaries have been charged to the profit and loss account under administration expenses.
- c. On 31/03/2015 partner “C” has decided to retire from the partnership and A & B agreed to continue the business by sharing profit & loss at the ratio of 2:3. On that date assets were revalued as follows.

Land & Building	310,000
Vehicle	200,000
Investment	130,000
Debtors	290,000
Goodwill	100,000

Partners agreed to take the new values into the books of accounts.

Partners decided to open a loan account for the amount payable to the retiring partner C

You are required to prepare

- i) Statement for adjusted net profit
- ii) Capital & current accounts of the partners
- iii) Profit & loss appropriation account for the year ended 31/03/2015
- iv) Statement of Financial Position as at 31/03/2015

**(Total 20 Marks)**



**Question No. 03**

Anil and Bally, who makes up their accounts annually to 31<sup>st</sup> March, were in partnership sharing profit and loss in the ratio of 2:1. No interest was charged on drawing or credited to capital. The following was the summary of the balances as at 31<sup>st</sup> March 2015.

Particulars	Rs.	Particulars	Rs.
Leased hold property	500,000	Partner's capital Account	
Furniture and Fittings	220,000	Anil	510,000
		Bally	250,000
Stock as at 01.04.2015	76,000	Loan from Anil at 8% P.a	300,000
Debtors	18,000	Creditors	64,000
Purchases	480,000	Sales	1,040,000
Partner's Drawing		Depreciation on Motor vehicle as on 01.04.2014	350,000
Anil	60,000		
Bally	48,000		
Motor Vehicle at cost	900,000	Bank overdraft	298,000
Wages	350,000		
General expenses	160,000		
	<b>2,812,000</b>		<b>2,812,000</b>

For the purpose of closing the accounts as at 31<sup>st</sup> March 2015, closing stock was valued at Rs.62,000 and Furniture & Fittings at Rs. 180,000. Provision for depreciation is to be calculated at 20% p.a on cost of the motor vehicle and accrued general expenses Rs. 12,000. In addition one year's interest is to be provided on Anil's loan.

The partnership was dissolved on 01.04.2015. It's being agreed that,

1. Anil should take over the stock for Rs. 60,000
2. Bally should takeover motor vehicle at Rs. 270,000 and part of the Furniture & Fittings for Rs. 75,000

During April 2014, the following transactions took place.

- a. Leasehold property were sold, realizing a net amount of Rs. 600,000
- b. Rs. 16,000 was collected from debtors and the balance was taken over by Anil.

- c. The portion of the furniture & fittings were auctioned and realized Rs. 100,000. It was also agreed that the balance of furniture & fittings should be taken over by Bally for Rs. 5,000
- d. Creditors and accrued general expenses were paid in full.
- e. All other receivable and payable in the business were settled.

You are required to prepare

- i. Profit and Loss Account for the year ended 31<sup>st</sup> March 2015.

(05 Marks)

- ii. Realization Account

(05 Marks)

- iii. Cash & Bank Account for April 2015

(05 Marks)

- iv. Partner's account showing the final settlement on dissolution

(05 Marks)

**(Total 20 Marks)**

#### **Question No. 04**

- a. A,B,C & D were partners in a business sharing profit & loss equally. C is a limited partner and retired from the business. Then other partner decided to dissolve the business. Partners account balances were as follows on the date of dissolution.

A	B	C	D
550,000	325,000	(90,000)	(120,000)

Lastly agreed capital ratio immediately prior to dissolution is 2:2:1:1.

Assuming that D is a bankrupt partner on the date of dissolution, explain the accounting treatment on dissolution of the partnership. (Show the necessary workings)

(05 Marks)

- b. The following is the Statement of Financial Position of “ABCD “Partnership firm sharing profit & loss in the ratio of 4:3:2:1. Partners decided to dissolve the partnership with effect from 31<sup>st</sup> March 2015.

Liabilities			Assets	
Capital	A	20,000		
	B	14,000		
	C	10,500		
	D	2,500		
Loan	A	5,000	Stocks	19,000
	C	8,000	Debtors	50,000
Creditors		15,000	Cash	6,000
		<b>75,000</b>		<b>75,000</b>

Realization values & expenses at the each realization times are given bellow.

	<i>Debtor</i>	<i>Stock</i>	<i>Expenses</i>
April	15,000	7,000	500
May	8,500	5,000	1,000
June	11,000	-	250
July	5,500	4,000	150
August	7,000	2,500	100

Stocks were realized fully & remaining debtor balance was taken by B at Rs.2,500.

*You are required to prepare cash distribution schedule using Assume loss method or surplus capital method.*

(15 Marks)

**(Total 20 Marks)**

**Question No. 05**

Asitino sports Club prepared following Receipts and Payments Account for the year ended 31<sup>st</sup> December 2014.

<i>Receipts</i>	<i>(Rs.000 ')</i>	<i>Payments</i>	<i>(Rs. 000 ')</i>
Opening balance b/f	3,000	Sports Equipment (Purchased on 1.10.2014)	20,000
Subscription		Bar expenses	2,000
2013	2,000	Electricity	500
2014	20,000	Printing	300
2015	1,000	Salaries and wages	3,000
Restaurant Debtors collection	1,000	Paid to Restaurant Creditors	2,000
Restaurant Cash Sales	5,000	Restaurant Purchases	2,800
Entrance fees	500	Expenses for exhibition	2,000
Interest on Investment	1,600	Closing Balance c/f	1,500
	<b>34,100</b>		<b>34,100</b>

**Additional information:**

- Assets and Liabilities of the club on 1/1/2014 and 31/12/2014 include the following

	<i>(Rs.000 ')</i> 1/1/2014	<i>(Rs.000 ')</i> 31/12/2014
Club land	60,000	60,000
Sports Equipment	15,000	?
Furniture	2,000	1,900
Investment	12,000	12,000
Restaurant Debtors	200	350
Restaurant Creditors	100	150
Bar stocks	200	170
Accrued Bar expenses	250	100
Accrued Electricity	100	600
Accrued salary	-	1,000
Subscription receivable	2,200	1,900

- Depreciation to be provided at 10% p.a. on sports equipment
- Club is operating a separate Restaurant and Bar.

4. 20% of Salaries and 50% of Electricity should be charged to the Restaurant.
5. Club's policy is to write off membership fee outstanding more than one year.

You are required to prepare,

- i. Income and Expenditure account for the year ended 31/12/2014

(08 Marks)

- ii. Restaurant income statement for the year ended 31/12/2014

(06 Marks)

- iii. Statement of Financial Position of the club as at 31/12/2014

(06 Marks)

**(Total 20 Marks)**

### **Question No. 06**

The books of account of Pubudu Enterprise were destroyed by a fire that took place on 31/12/2014. However, Pubudu was able to extract the Statement of Financial Position as at 31/12/2013 from the tax file at the department of Inland Revenue.

#### **Statement of Financial Position as at 31/12/2013**

	Rs.	Rs.		Rs.	Rs.
Capital		200,000	NCA (net value)		
Retained Profit		62,100	Land and Buildings		180,000
		<b>262,100</b>	Furniture and Equipment		80,000
10% Long term loan		30,000			<b>260,000</b>
<b>CL</b>			<b>Current Assets</b>		
Creditors	11,000		Stocks	18,800	
Accrued loan interest	1,500	12,500	Debtors	16,200	
			Bank Balance	9,600	<b>44,600</b>
		<b>304,600</b>			<b>304,600</b>

Additional information is given below:

- I. Depreciation is charged on buildings at 10% per annum and furniture and equipment at 25% per annum on reducing balance method. The value of land and buildings includes a land value of Rs. 100,000.
- II. The bank statements revealed that cheques amounting to Rs.178,000 have been received from the debtors during the year. All payments of the enterprise are effected through the bank account and following payments have been made during the year.

	Rs.		Rs.
Wages	36,000	MV hire charges	4,000
Loan Interest	3,000	General Expenses	3,000
Payment to creditors	45,250		

- III. The loan interest is payable semi-annually on 30<sup>th</sup> June and 31<sup>st</sup> December. The loan interest paid during the year includes the payment in respect of accrued interest as at 31<sup>st</sup> December 2013. The loan interest payable on 31<sup>st</sup> December 2014 has been paid on 10<sup>th</sup> January 2015.
- IV. Other balances as at 31/12/2014.

Creditors	Rs.9,500	Debtors	Rs.17,500
Stocks	Rs.16,000		

**You are required to prepare:**

- i. Income Statement of Pubudu Enterprise for the year ending 31/12/2014.

(08 Marks)

- ii. Statement of Financial Position of Pubudu Enterprise as at 31/12/2014.

(12 Marks)

**(Total 20 Marks)**