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

YEAR I SEMESTER II (Intake IV – Group A)

END SEMESTER EXAMINATION – JANUARY 2016

AFM 10330 Intermediate Financial Accounting

Date	:	11th January 2016
Time	:	9.00 a.m. – 12.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **Any Five (05)** questions out of **Six (06)** given.
- Question No. 01 - Answer **ALL** questions in the separate sheet provided
- 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 provided.

1. Kumar and Khan are in partnership sharing profits and losses equally.
   Interest on capital account balance is to be allowed at 5%.
   The capital account balances at the start of the year are: Kumar Rs.10,000
   Khan Rs.20,000
   The net profit for the year is Rs.28,000.
   How much will be credited to Kumar's current account at the end of the year:
   A. Rs.13,250
   B. Rs.13,750
   C. Rs.14,000
   D. Rs.14,250
   E. Rs.12,250

2. For which type of business will an Appropriation Account be required?

	Sole trader	Partnership	Limited company
A	Yes	Yes	Yes
B	No	Yes	Yes
C	No	Yes	No
D	No	No	Yes
E	No	No	No

3. The following is a summary of X's Statement of Financial Position.

	Rs.
Fixed assets at net book value	120,000
Net current assets	30,000
	150,000
Financed by Equity	150,000

The business is acquired by Mr. Y for Rs.225,000.Y valued the fixed assets of ‘X’ at Rs.180,000 and the net current assets at Rs.20,000. How much does Y pay for Goodwill?

A. Rs.25,000

B. Rs.45,000

C. Rs.75,000

D. Rs.105,000

E. Rs.100,000

4. The following information was disclosed in the financial statements of Highsee Co as at 31.12.2015/ 31.12.2014.

	31.12. 2014 Rs.	**31.12.2015 Rs.**
Plant & Equipment (P& E) cost	255,000	235,000
Accumulated depreciation	(100,000)	(110,000)

During the year ended 31/3/2015, 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

5. A partnership employs an inexperienced bookkeeper. He has written up the current account of one of the partners as follows.

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

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 of the above partners 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

6. A partner's private fuel expense has been treated as part of the partnership's motor vehicle expenses. Which of the following entries is necessary to correct the error?

A. *Debit* Drawings account

Credit Motor vehicle expenses account

B. *Debit* Motor vehicles expenses account

Credit Drawings account

C. *Debit* Motor vehicles expenses account

Credit Capital account

D. *Debit* Capital account

Credit Motor vehicle expenses account

E. *Debit* Motor vehicles account

Credit Capital account

7. 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 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

8. Mr. F, Mr. H and Mr. C are partners sharing residual profits in the ratio of 3:2:1. The partnership agreement provides for interest on capital at the rate of 8% per annum and for a salary for Mr. H of Rs.8,000 per annum.

   Net profit for 2015 was Rs.84,000 and the balances on partners' capital accounts at the beginning of the year were: Mr. F- Rs.20,000; Mr. H -Rs.15,000; Mr. C -Rs.12,000.

   What was Mr. C's share of residual profits for 2015?

   A. Rs.12,040
   B. Rs.12,667
   C. Rs.13,000
   D. Rs.14,000
   E. Rs.13,667

9. P and Q are in partnership, sharing profits in the ratio 3:2 and compiling their accounts to 30 June each year. On 1 January 2015 R joined the partnership, and from that date the profit-sharing ratio became P 50%, Q 25% and R 25%, after providing for salaries for Q and R as follows:

Q- Rs.20,000 per year R -Rs.12,000 per year

The partnership profit for the year ended 30 June 2015 was Rs.480,000, accruing evenly over the year. What are the partners' total profit shares for the year ended 30 June 2015? (Rs.)

	P	*Q*	*R*
A	256,000	162,000	62,000
B	248,000	168,000	64,000
C	264,000	166,000	66,000
D	264,000	156,000	60,000
E	248,000	166,000	62,000

10. A and B were carrying out a partnership business without having a written agreement between them. The following information was extracted from the books of accounts.

	A (Rs)	B (Rs)
Capital balance as at 01.04.2014	500 000	300 000
Drawing during the year 2014/2015	20 000	10 000
Current account credit balance 01.04.2014.	40 000	75 000
Current account credit balance 31.03.2015	70 000	?

Only drawing and profits have been recorded in the partners' current accounts during the year. What is the profit of the partnership for appropriation for the year ended 31st March 2015?

A. Rs. 48 000
B. Rs. 60 000
C. Rs. 80 000
D. Rs.100 000
E. Rs.88,000

(Total 20 Marks)

Question No. 02

The following trail balance of ABC partnership as at 31st March 2015 has been given to you after preparing the income statement.

Trial balance as at 31st March 2015		
	Rs.	**Rs.**
Capital A		230,000
B		240,000
C		230,000
Current Account A	9,000	
B		5,000
C	6,000	
Drawing A	20,000	
B	10,000	
Provision for Depreciation		
Building		60,000
Vehicle		52,000
Provision for doubtful debtors		31,000
Net Profit for the year		482,000
Bank Loan		1,000,000
Creditors control account		260,000
Debtors control account	330,000	
Stocks as at 31/03/2015	97,000	
Land & Building	950,000	
Accrued advertising expense		5,400
Prepaid rent	7,400	
Vehicle	980,000	
Investment	135,000	
Cash in hand	21,000	
Cash at bank	30,000	
	2,595,400	**2,595,400**

The following 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,2000 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 accounts prepared for the year ended 31st March 2015.

- Closing stock was overvalued by Rs. 2,000
- Rs.5,000 worth purchases invoice has not been taken into accounts
- Accrued salaries of Rs.5,000 was not considered
- Partner "A" has made all drawings at the beginning of the year & partner "B" has withdrawn his all drawings on 01/07/2014.
- Depreciation for vehicle at 5% 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.

	Rs.
Land & Building	910,000
Vehicle	900,000
Investment	130,000
Debtors	293,000

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

On the retirement date goodwill of the partnership was valued at Rs.120,000

d. Partner A and B decided to fix their individual capital for Rs.220,000 each after the retirement of "C". Any difference in partners' capital accounts should be adjusted to current accounts.

e. 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 01/04/2015

(Total 20 Marks)

Question No. 03

a. A, B and C are running a hardware shop sharing profits equally. Their financial position is as follows :

Statement of Financial Position as at March 31, 2015			
Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Accounts Payable	20,000	Land and Building	50,000
Bank Loan	7,000	Office Equipment	5,000
B's Loan	20,000	Stock	40,000
Joint Life Policy Reserve	18,000	Accounts Receivable	30,000
Capital Accounts:		Joint Life Policy	18,000
A	27,000	Bank	6,000
B	34,000		
C	23,000		
	149,000		**149,000**

Partners agreed to dissolve the firm on that date. You are given the following information regarding dissolution:

i. The Joint Life Policy was surrendered to the insurance company. The company paid a sum of Rs. 11,500 after deducting an amount of Rs.6,500 towards loan and interest thereon for loan taken by B against the policy.
ii. Office equipment was accepted by a Creditor against his settlement for Rs.7,000.
iii. Bankers accepted stock worth Rs.5,000 against the part settlement if Bank loan the balance settled in cash.
iv. The firm purchased 200 convertible debentures of a leasing company in 2012. After sometime the investment was treated as bad and was written off. These debentures were found to be having a market value of Rs. 8,000 and were accepted by a creditor at this value.
v. Assets realized in the following manner :

Land and Buildings	Rs.70,000
Stock	Rs.30,000
Accounts Receivable	Rs.20,000

vi. All the liabilities were paid off.

You are required to prepare the realization account, bank account and capital accounts of the partners.

(12 Marks)

b. X, Y and Z commenced business on January 1, 2013 with capitals of Rs.100,000, Rs.80,000 and Rs. 60,000 respectively. Profits are shared in the ratio of 4:3:3 respectively. Capitals carried interest at 5% p.a. During 2013 and 2014 business earned profits of Rs.40,000 and Rs.50,000 (before allowing interest on capitals). Drawings of each partner were Rs.10,000 per year.

Prepare partners accounts (capital and current accounts together) in columnar form for two years.

(8 Marks)

(Total 20 Marks)

<u>Question No. 04</u>

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 was 2:2:1:1.

Assuming that D is a bankrupt partner on the date of dissolution, explains 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 31st 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
		75,000		**75,000**

Realization values & expenses at the each realization times were as given below.

	Debtors	*Stocks*	*Expenses*
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

Asis sports Club prepared following Receipts and Payments Account for the year ended 31st December 2015

Receipts	*(Rs.000')*	*Payments*	*(Rs.000')*
Opening balance b/f	6,100	Sports Equipment (purchased on 1.10.2015)	20,000
Subscription		Bar expenses	2,000
2014	2,000	Electricity	500
2015	20,000	Printing	300
2016	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	400	Expenses for exhibition	2,000
Interest on Investment	1,600	Closing Balance c/f	4,500
	37,100		**37,100**

Additional information:

1 Assets and Liabilities of the club on 1/1/2015 and 31/12/2015 include the following:

	*(Rs.000')*1/1/2015	*(Rs.000')*31/12/2015
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

2 Depreciation need to be provided at 10% p.a. on sports equipment

3 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 of the club for the year ended 31/12/2015

(08 Marks)

ii. Restaurant income statement for the year ended 31/12/2015

(06 Marks)

iii. Statement of Financial Position of the club as at 31/12/2015

(06 Marks)

(Total 20 Marks)

Question No. 06

Parakum and Rangiri were partners of a service firm sharing profits and losses in the ratio of 3:2. The balance sheet of this partnership as at 31.03.2014 was as follows.

	Rs. '000	**Rs. '000**
Non-current assets		
Property, plant and equipment – at cost	2,600	
Accumulated depreciation	(520)	2,080
Current assets		
Inventory – stationary	200	
Service fees – receivable	600	
Cash	120	920
		3,000
Capital accounts		
Parakum	1,200	
Rangiri	800	2,000
Current accounts		
Parakum	300	
Rangiri	300	600
Current liabilities		
Accrued office expenses		400
		3,000

Additional Information:

i. On 01.04.2014, **Sudesh** was admitted to the business as a partner and he contributed Rs.800,000 in cash as his capital. The goodwill of the partnership was estimated at Rs.2,000,000 as at 01.04.2014 and all adjustments in this regard should be made through partners' capital accounts. The following are the terms agreed among Parakum, Rangiri and Sudesh in the new partnership agreement.

   a. Each partner is entitled to a monthly salary of Rs.20,000.
   b. Profits and losses are shared among Parakum, Rangiri and Sudesh in the ratio of 2:2:1

ii. A summary of the cash transactions of the partnership for the year ending 31.03.2015 was as follows.

		Rs. '000
Receipts		
Service fees (including receivable on 31.03.2014) ……………	2 600	
Amount received from Sudesh on admission as a partner ………………		800
Payments		
Purchase of stationery …………………………………………………		400
Salaries of office employees ………………………………………………		280
Office expenses …………………………………………………………		800
Drawings:		
Parakum …………………………………………………………………		250
Rangiri …………………………………………………………………		220
Sudesh …………………………………………………………………		210
Amount deposited in a fixed deposit on 01.10.2014. (for a one-year period at 12% annual interest) ………………………………………………		1,000

iii. Property, plant and equipment are depreciated at 20% per annum on cost on straight-line method.

iv. Current assets and current liabilities as at 31.03.2015 were:

Inventory – stationery	Rs.100,000
Service fees receivable	Rs.1,000,000
Accrued office expenses	Rs.300,000

Required:

Prepare the following for the Parakum, Rangiri and Sudesh Partnership.

1. Income Statement for the year ending 31.03.2015 (including appropriations to the partners).
(12 Marks)

2. Partners' capital accounts and current accounts for the year ending 31.03.2015.
(08 Marks)

(Total 20 Marks)