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

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

AFM 10330 Intermediate Financial Accounting

Date	:	01st August 2016
Time	:	9.00 a.m. – 12.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Formula Sheet is provided.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

a. What are the pros and cons of adopting International Financial Reporting Standards (IFRSs) by Sri Lankan companies? Give two (02) reasons each.
b. What do you mean by "going concern"?
c. Briefly explain what do you mean by "capitalizable expenses"? Give two examples.
d. Why "liquidity" is important for any business organization? Briefly explain.
e. What do you mean by "intangible assets"? Briefly explain with two examples.
f. Why "solvency" is considered as of critical importance for an entity?
g. "All tangible assets are depreciated". Do you agree? Briefly explain.
h. How "source documents" are important in accounting?
i. "Things which cannot be measured in money are not accounted for". Discuss.
j. Why is it necessary to make adjustments for goodwill when there is a change in the ownership of a partnership business? Briefly explain.

(Total 25 Marks)

Question No. 02

Gayan is in the business of manufacturing and sale of rubber products. The following trial balance was extracted from the books of his business as at 31 March 2016.

	Debit (Rs'000)	**Credit (Rs'000)**
Capital - as at 1 April 2015		600
Lands at cost	12,395	
Furniture and fittings at cost	2,435	
Office equipment at cost	1,873	
Motor vehicles at cost	4,526	
Plant and machinery at cost	3,814	
Sales		76,555
Other income		487

Salaries and wages		
Factory (direct)	2,122	
Administration	2,243	
Sales staff	1,625	
Rent		
Factory	1,200	
Office	600	
Cash in hand	450	
Drawings	2,529	
Discounts allowed	715	
Advertising	814	
Electricity bills	1,628	
Water bills	612	
Postage and stationery	424	
Insurance	733	
Telephone	561	
Selling expenses	4,916	
Factory maintenance	2,417	
Maintenance – plant and machinery	825	
Overtime payments – factory	1,286	
Loan interest	512	
Manufacturing royalties	916	
Factory overheads	2,916	
Provision for depreciation as at 31st March 2015		
Furniture and fittings		417
Office equipment		253
Motor vehicles		1,245
Plant and machinery		855
Purchases – raw materials	21,621	
Trade debtors	4,215	
Trade and other payables		850
Provision for doubtful debts as at 31st March 2015		250

Cash at bank	150	
VAT payable		441
Purchase returns - raw material		528
Carriage inwards - raw material	1,473	
Long term loan		2,500
Inventories as at 1 April 2015		
Raw materials	984	
Work in progress	821	
Finished goods	630	
	84,981	**84,981**

You are also given the following additional information.

i. Cost of inventories as at 31 March 2016 was:

Raw material	Rs. 600,000
Finished goods	Rs. 400,000
Work in progress	Rs. 200,000

ii. Rs. 50,000 should be written off as bad debts and the provision for doubtful debts is to be adjusted to 10% of the debtors.

iii. A motor vehicle purchased on 1 April 2014 for Rs.1,200,000 was disposed on 31st March 2016 for Rs.800,000. The sale proceeds have been credited to the sales account and debited to the cash account. No other entries had been made in the books of account in this regard.

iv. Depreciation is to be provided on straight line method as follows.

Furniture and fittings	20% per annum
Office equipment	15% per annum
Motor vehicles	20% per annum
Plant and machinery	20% per annum

v. The following expenses have to be apportioned between factory and office using the following rates.

	Factory	**Office**
Electricity	50%	50%
Insurance	60%	40%
Telephone	70%	30%

vi. Accrued expenses as at 31 March 2016 are as follows:

Electricity	Rs.80,000
Insurance	Rs. 70,000
Telephone	Rs. 50,000

vii. Finished goods costing Rs. 2, 000,000 sent on sales or return basis to another entity at an invoice price of Rs. 2,400,000 are included in the credit sales. However, 40% of these finished goods were unsold at the balance sheet date.

viii. Gayan is expecting to enter into a purchase agreement of Rs. 50,000,000 with one of the major suppliers in the next financial year. Also, he is thinking of producing a new product called “Beta” in the next year. This will need an investment of Rs. 100,000,00.

You are required to prepare,

a. Manufacturing, Trading and Profit & Loss account for the year ended 31st March 2016.

b. Balance Sheet (Statement of Financial Position) as at 31st March 2016.

(Total 35 Marks)

Question No: 03

Wathika and Dilena were in a partnership sharing profits and losses equally. The partnership agreement between them provided that,

- 5% annual interest will be paid on partners' current account balances (based on balances as at 1st day of the financial year).
- 10% annual interest will be charged on drawings.
- Interest will be paid on partners' capital (based on balances as at 1st day of the financial year) at the rate of 10% per annum.
- Each partner is entitled for a salary of Rs. 100,000 per month.
- Goodwill of the partnership will not be recorded separately in the books.

Wathika and Dilena decided to admit Sachith as a partner with effect from 1st April 2015. Sachith is to be given 1/5 share of profit, and others will share profits equally. Sachith paid a sum of Rs. 5,000,000 as his share of goodwill. This amount was retained in the partnership by Wathika and Dilena. Further, Sachith brought in Rs. 10,000,000 cash as his share of capital. Also, partners agreed to increase the value of land, Machinery and furniture by 20%, 10% and 25% respectively. Both stocks and debtors values are to be reduced by 20%.

The balance sheet as at 31st March 2015 was as follows:

	Rs.'000
Non-current Assets	
Land	70,000
Buildings	10,000
Machinery	5,000
Furniture	2,000
Current Assets	
Stocks	15,000
Trade debtors	10,000
Cash in hand	6,000
	118,000

Capital Accounts

Wathika	44,000
Dilena	34,000

Current Accounts

Wathika	8,000
Dilena	6,000

Current liabilities

Creditors	18,000
Accrued expenses	8,000
	118,000

Drawings during the year 2015/16 were as follows:

Wathika – Rs. 3,000,000 (on 1st April 2015),

Dilena – Rs. 2,000,000 (on 31st October 2015),

Sachith – Rs, 1,000,000 (on 1st December 2015).

The net profit for the year ended 31st March 2016 was Rs. 50,000,000. Partners have already taken half of their annual salaries in cash. This amount is included in the administration expenses.

You are required to,

a. Prepare the opening balance sheet of the "Wathika, Dilena and Sachith Partnership" as at 1st April 2015.

b. Show the balances of the capital accounts and current accounts as at 31st March 2016.

(Total 15 Marks)

Question No: 04

Gold star sports club prepared following receipts and payments account for the year ended 31st December 2015.

Receipts	**Rs.**	**Payments**	**Rs.**
Balance B/F	6,000	Sports equipment (01.10.2015)	40,000
Subscription- Members		Bar expenses	4,000
2014	4,000	Electricity	1,000
2015	40,000	Printing	600
2016	2,000	Salaries	6,000
Debtors collection - Restaurant	2,000	Payments to creditors - restaurant	4,000
Cash sales - Restaurant	10,000	Cash Purchases - restaurant	5,600
Admission Fee - Members	1,000	Expenses for exhibition	4,000
Investment Income	3,200	Balance C/F	3,000
	68,200		**68,200**

Additional information

i. Assets and Liabilities of the club on 01/01/2015 and 31/12/2015 included following:

Asset/Liability	01/01/2015 (Rs. 000')	31/12/2015 (Rs.000')
Land & Building	120,000	150,000
Sports equipment	30,000	**?**
Furniture	4,000	3,800
Investment	24,000	24,000
Restaurant Debtors	400	700
Restaurant Creditors	200	300
Bar stocks	400	340
Accrued Bar expenses	500	200
Accrued Electricity	200	1,200
Accrued Salaries	-	2,000
Subscription receivable	4,400	3,800

ii. Depreciation need to be provided at 10% per annum for sports equipment.
iii. Club is operating a separate restaurant and a bar.
iv. 20% of salaries and 50% electricity need to be charged to restaurant.
v. Clubs policy is to write off membership fee outstanding for more than one year.

You are required to prepare:

a. Trading and Profit & Loss account of the Restaurant & Bar for the year ended 31st December 2015
b. Income and Expenses account for the year ended 31st December 2015
c. Balance Sheet as at 31st December 2015

(Total 15 Marks)

<u>Question No: 05</u>

Ashen, Oshan and Kavisha are in a partnership with a profit sharing ratio of 2:1:1. Statement of Financial Position as at 30th June 2016 was as follows.

Non- Current Assets	**Rs.**	**Rs.**
Land and Buildings	150,000	
Fixtures and Fittings	30,000	
Motor vehicles	20,000	200,000
Current Assets		
Inventories	26,000	
Trade receivables	14,000	
Cash at bank	8,000	48,000
Current Liabilities		
Trade payables	12,000	
Non – Current Liabilities		
Loan Account - Ashen	40,000	(52,000)
Total Net Assets		196,000
Capital Accounts		
Ashen	90,000	
Oshan	45,000	
Kavisha	45,000	180,000
Current Accounts		

Ashen	8,000	
Oshan	4,000	
Kavisha	4,000	16,000
Total		**196,000**

On 1st of July 2016 partners decided to dissolve the partnership. Following are related to dissolution of the partnership.

- Ashen's loan was fully settled.
- Ashen acquired one of the Motor vehicles at a valuation of Rs. 14,000 and Oshan acquired the other one for a value of Rs.3,000.
- Other assets were sold at following values;

Land & Buildings	Rs. 135,000
Fixtures and Fittings	Rs. 25,000
Inventories	Rs. 18,000

- Rs. 12,000 collected from debtors as the full payment.
- Trade payables were fully settled for Rs. 10,000
- Dissolution expenses of Rs. 6,000

Required

a) The dissolution Account

b) Partners' capital Accounts

c) The Bank (Cash) Account

(Total 10 Marks)