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

YEAR I SEMESTER II (Intake III- Group B)
END SEMESTER EXAMINATION – OCTOBER 2015

AFM 10330 Intermediate Financial Accounting

Date : 2nd October 2015
Time : 5.30 p.m. - 8.30 p.m.
Duration : Three (03) Hours

Instructions to Candidates:

- Answer **ALL** questions
- This paper consists of two parts (A and B).
- Part A – Answer **ALL** questions in the separate sheet provided
Part B – Answer **ALL** 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.

Part A

Select most appropriate answer for following questions

1. Which of following statement is **true** in relation to accounting for partnership?
 - A. Drawings are credited to partners' current accounts.
 - B. Profit distributions are credited to partners' capital accounts.
 - C. Interest on capital is debited to profit and loss appropriation account.
 - D. Salaries paid to partners as a method of profit distribution is debited to partner's capital account.

2. Which of following statement is **true** in relation to section 24 of partnership ordinance?
 - A. Partners are entitled to receive interest on capital at 10% per annum.
 - B. Partners should share profit and losses in line with any ratio that they have agreed.
 - C. Partners should contribute to capital of the partnership in line with their profit sharing ratio.
 - D. Partners are entitled to receive 5% interest for loan provided by them to the partnership.

3. Which of the following statement is **true** in relation to a not-for profit organization?
 - A. Receipt and payment account is prepared under the cash basis.
 - B. Income and expenditure account is prepared to calculate the profit or loss of the organization.
 - C. The statement of financial position of a not-for profit organization is prepared under the cash basis.
 - D. Subscription in arrears is recorded under the current liabilities in the statement of financial position.

4. Which of the following statement is **true** in relation to conversion of partnership in to a limited liability company?
 - A. All the assets are realized by cash and all liabilities are settled.
 - B. All assets and liabilities of the partnership are taken over by new company.
 - C. All assets are taken over by the partners and liabilities are settled.
 - D. All assets and liabilities accounts of the partnership are closed.

Use the following information to answer questions No. 5 and 6.

Hiruka and Aken are partners of HA Associates and they are sharing profits and losses in the ratio of 2: 1 respectively. The current account balances of Hiruka and Aken as at 01.04.2014 were Rs.100,000 and Rs.150,000 respectively. The following information is relevant for the year ended 31.03.2015.

- Drawings made by Hiruka was Rs.80,000.
- Net profit for the year was Rs.900,000.
- Interest on capital entitled to Hiruka and Aken for the year ended 31.03.2015 were Rs.250,000 and Rs.350,000 respectively.

5. The balance of the current account of Hiruka as at 31.03.2015 is:

- A. Rs.200,000
- B. Rs.300,000
- C. Rs.470,000
- D. Rs.550,000

6. The balance of current account of Aken as at 31.03.2015 is:

- A. Rs.250,000.
- B. Rs.400,000.
- C. Rs.450,000.
- D. Rs.600,000.

7. The prime cost and total overhead of a manufacturing business for the year ending 31.03.2015 were Rs.800,000 and Rs.450,000 respectively. The raw material and finished goods inventories as at 01.04.2014 were Rs.200,000 and Rs.150,000 respectively. The raw material and finished goods inventories as at 31.03.2015 were Rs.200,000 and Rs.100,000 respectively. Total cost of sales for the year ending 31.03.2015 is:

- A. Rs.1,100,000
- B. Rs.1,200,000
- C. Rs.1,300,000
- D. Rs.1,350,000

8. Which of the following statement is **true** in relation accounting for inventories as per LKAS 2: Inventories?
- A. Inventories are measured at net realizable value.
 - B. Inventories are measured at lower of cost and net realizable value.
 - C. Cost of closing inventories is measured using first in first out or last in first out method.
 - D. Cost of closing inventories is measured using weighted average or last in first out method.
9. Which of the following statement is **true** in relation to measurement of an item of property, plant and equipment at recognition?
- A. It should be measured at cost.
 - B. It should be measured at fair value.
 - C. It should be measured at cost or fair value whichever is higher.
 - D. It is should be measured using cost model or revaluation model.
10. Assets and liabilities of Amal Traders as at 31.03.2015 were Rs.990,000 and Rs.190,000 respectively. During the year ending 31.03.2015 Amal invested Rs.200,000 and made drawings of Rs.150,000. Equity of Amal traders as at 31.03.2014 were Rs.500,000. The profit or loss for the year ending 31.03.2015 was:
- A. Rs.150,000
 - B. Rs.250,000
 - C. Rs.300,000
 - D. Rs.450,000

Part B

Question No. 01

- a. Sanath and Arawinda were partners of SA Associates and they were sharing profit and losses in the ratio of 2:1 respectively. The statement of financial position of SA Associates as at 31.03.2015 is given below.

(Rs. '000)

| Non-current Assets | Cost | Accumulated depreciation | Carrying Amount |
|--------------------------------|-------------|---------------------------------|------------------------|
| Motor vehicle | 4,500 | (1,500) | 3,000 |
| Office equipment | 2,500 | (1,000) | 1,500 |
| Investment | | | 500 |
| Current Assets | | | |
| Inventory | | 750 | |
| Debtors | | 250 | |
| Cash and bank | | 500 | 1,500 |
| | | | 6,500 |
| Equity | | | |
| Capital Accounts - Sanath | | 2,200 | |
| Capital Accounts - Arawinda | | 1,800 | 4,000 |
| Current Accounts - Santh | | (200) | |
| Current Accounts - Arawinda | | 100 | (100) |
| Non-Current Liabilities | | | |
| Bank loan | | | 1,450 |
| Loan- Sanath | | | 250 |
| Current Liabilities | | | |
| Creditors | | 550 | |
| Accrued expense | | 350 | 900 |
| | | | 6,500 |

Additional information

It was decided to dissolve the partnership on 01.04.2015. The following information is relevant to this dissolution.

1. Office equipment with a cost of Rs.1 million and accumulated depreciation of Rs.400,000 was taken over by Sanath for the market value of Rs.700,000.
2. Loan of the sanath was transferred to his capital account
3. Arawinda agreed to settle the bank loan out of his personnel money.
4. Assets were realized as follows.

| Asset | Realized amount (Rs.'000) |
|------------------|---------------------------|
| Motor vehicle | 3,500 |
| Office equipment | 950 |
| Investments | 1,600 |
| Inventories | Rs.680 |
| Debtors | Subject to 10% discounts |

5. Dissolution expenses of Rs.50,000 was paid by cash.
6. All other liabilities were settled in full. The discount received from the creditors was Rs.50,000.

Required: All the ledger accounts used to account for the dissolution of SA Associates.

(15 marks)

- b. Amal and Kamal were partners of AK Associates and they were sharing profit and losses equally. They decided to convert the partnership in to Limited Liability Company on 31.03.2015. The purchase consideration was settled by issuing ordinary shares by the new firm. Extracts of the statement of financial position of AK Associates as at 31.03.2015 and other relevant information are given below.

| | | |
|--------------------|------------|---|
| Non-current assets | Rs.800,000 | Taken over by new company for Rs950,000 |
| Current Assets | Rs.200,000 | Realized for Rs.120,000 except the cash balance of Rs.100,000 |

| | | |
|-------------------------|------------|---|
| Non-Current Liabilities | Rs.300,000 | Taken over by new company at book value |
| Current Liabilities | Rs.220,000 | Settled using the cash |

You are required to compute,

- i. Purchase consideration
- ii. Realization gain or loss
- iii. Equity of new company immediate after the formation

(05 marks)

(Total 20 marks)

Question No. 02

- a. On 01.04.2014, Gold Star Sport Club had 400 members who pay annual subscription of Rs.3,000. On this date the subscription of 20 members were in arrears and 17 members had paid subscription for year ending 31.03.2015 in advance. During the year ending 31.03.2015, 370 members paid their subscription for the current year and out of which 14 members paid the subscription for year ending 31.03.2016 in advance. Out of the 20 members whose subscription was in arrears as at 01.04.2014, only 15 members paid the arrears amount during the year ending 31.03.2015. Subscription in arrears of the remaining 5 members was written off and their membership was cancelled.

Required: Prepare Annual subscription account for year ending 31.03.2015.

(05 marks)

- b. The following balances were extracted from the general ledger of Singha Spot Club as at 31.03.2015.

| | Debit (Rs.000) | Credit (Rs.000) |
|--|----------------|-----------------|
| Sale of restaurant | | 950 |
| Purchase of foods | 525 | |
| Inventories as at 01.04.2014 | 125 | |
| Income from annual sport festival | | 350 |
| Expenses on annual sport festival | 210 | |
| Sport equipment-cost | 2,400 | |
| Buildings -cost | 2,600 | |
| <u>Accumulated Depreciation as at 01.04.2014</u> | | |
| - Sport equipment | | 800 |
| - Buildings | | 1,200 |
| Annual subscription received | | 1,100 |
| Lifetime subscriptions received | | 400 |
| Income from sport matches | | 475 |
| Expenses on sport matches | 320 | |
| Refreshment expenses | 310 | |
| Building maintenance cost | 160 | |
| Electricity and telephones | 220 | |
| Salaries | 380 | |
| Donation collected | | 450 |

Additional information

1. Subscription in arrears and received in advance as at 31.03.2015 were Rs.185,000 and Rs.140,000 respectively. There was no subscription received in advance or subscription in arrears as at 31.03.2104.
2. The club introduced a life membership fee scheme during the year and it is the policy of the club to defer the life membership fee over 8 years.
3. Cost of Inventories as at 31.03.2015 was Rs.285,000 and net realizable value of these inventories was only Rs.255,000. Inventories entirely consist of foods and beverage items of the restaurant.
4. Assets of the business are depreciated using straight line basis as follows.

| | |
|-----------------|---------------|
| Building | 5% per annum |
| Sport equipment | 10% per annum |

5. Electricity and telephone expenses accrued as at 31.03.2015 was Rs. 45,000.
6. Salaries includes restaurant keepers' salary of Rs. 80,000.
7. 20% of the building space is used for the restaurant.
8. 40% of the electricity and telephone is relevant to the restaurant.

Required:

- i. Restaurant trading account
- ii. Income and expenditure account of the club for the year ending 31.03.2015.

(15 marks)

(Total 20 marks)

Question No. 03

Suranga started a business on 01/04/2014 by investing Rs. 500,000 cash and Rs. 400,000 worth office equipment. On the same date a loan of Rs. 300,000 was obtained from Ajith, a friend and purchased a motor vehicle. The business did not keep proper accounting records.

Only a cash book was maintained. The following is the summarized cash book of the business for year ending 31.03.2015.

Cash Book

| Dr | | Cr | |
|-------------------------|---------|---------------------------|---------|
| Capital | 500,000 | Purchase of goods | 420,000 |
| Bank loan | 250,000 | Fixed deposits | 300,000 |
| Sales | 950,000 | Salaries | 75,000 |
| Collection form debtors | 390,000 | Rent | 55,000 |
| Interest | 20,000 | Advertising | 80,000 |
| | | Furniture | 100,000 |
| | | Electricity and telephone | 40,000 |
| | | Land and buildings | 560,000 |

| | | | |
|--|-----------|-----------------------|-----------|
| | | Payments to creditors | 290,000 |
| | | Balance C/F | 190,000 |
| | 2,110,000 | | 2,110,000 |

The following additional information is also available.

1. Goods costing Rs.40,000 were taken away by Suranga for his personal use during the year.
2. Discount allowed and received during the year were Rs.20,000 and Rs.35,000 respectively.
3. Monthly rent of the building is Rs.7,500.
4. Rs.8,000 electricity and telephone are payable at end of the year and Rs.20,000 of the advertising expenses are relevant to year ended 31/03/2016.
5. Land and buildings were purchased on 01/10/2014 and furniture was purchased on 01/07/2014. The cost of land is Rs.360,000.
6. Assets should be depreciated on straight line basis using following rates.

| | |
|------------------|-----|
| Buildings | 10% |
| Motor vehicles | 20% |
| Furniture | 25% |
| Office equipment | 20% |
7. Fixed deposit was made on 01/04/2014 at annual interest rate of 10%.
8. Inventories as at 31/03/2015 was valued at cost of Rs.275,000. However net realizable value of the inventories was estimated at Rs.290,000.
9. Debtors and creditors as at 31/03/2015 were Rs.310,000 and Rs.245,000 respectively.
10. Interest payable for the loan was Rs.50,000.

You are required to prepare

- a. Statement of profit or loss (Income statement) for the year ended 31.03.2015.
- b. Statement of financial position as at 31.03.2015

(Total 20 marks)

Question No. 04

a. **Define** the following term with reference to relevant accounting standards.

- i. Property, plant and equipment
- ii. Inventories

(4 marks)

b. **Briefly explain** the following terms which are used in preparing a manufacturing account giving 2 examples for each term.

- i. Prime cost
- ii. Manufacturing overhead

(6 marks)

c. **Briefly explain** two fundamental qualitative characteristic of accounting information as per conceptual framework for financial reporting.

(6 marks)

d. **State** four examples of cost items that could be included in cost of an item of property, plant and equipment at initial recognition as per LAKS 16.

(4 marks)

(Total 20 marks)