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

**YEAR I SEMESTER I – INTAKE VIII (GROUP A)
END SEMESTER EXAMINATION – JULY 2017**

AFM 10130 Fundamentals of Financial Accounting

Date : 18th July 2017
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This paper consists of three parts (A, B and C).
- Part A – Answer **ALL** the questions in the sheet provided.
Part B – Answer **ALL** the questions
Part C – Answer any **Three (03) questions** out of the four questions given.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

Section A

Answer **ALL** Questions

Question No. 01

1. Which of the following is the correct sequential order of the items relating to accounting process?
 - a. Source documents, ledger accounts, control accounts, trial balance, financial statements
 - b. Source documents, prime entry books, trial balance, ledger accounts, financial statements
 - c. Source documents, ledger accounts, prime entry books, trial balance, financial statements
 - d. Source documents, prime entry books, ledger accounts, trial balance, financial statements

2. What is meant by going concern concept?
 - a. Concerning about the ongoing operations of the entity for higher profit.
 - b. On time preparation of financial statements without failures.
 - c. Application of conceptual framework by concerning applicable standards for proper compliance with LKASs.
 - d. The assumption that a business will continue in operation for the foreseeable future, without going into liquidation or materially scaling down its operations.

3. PQR (Pvt) Ltd is a small company. On 1 November, it had an opening inventory balance of 50 units of commodity X, valued at Rs. 900. On 12 November, company purchased further 250 units of commodity X for a gross price of Rs. 5,000. It received a bulk purchase discount of 5 % and a further discount of 3% on the gross price for making early cash payment. On 29 November; it sold 200 units of commodity X for a sales value of Rs. 6,600. Using the FIFO method of valuation, the gross profit in the company's trading account for November for the sale of commodity X was;
 - a. Rs. 2,700
 - b. Rs. 2,709
 - c. Rs. 2,850
 - d. Rs. 2,940

4. Mr. Perera bought a new printing machine. The cost of the machine was Rs. 160,000. The installation cost was Rs. 40,000 and the employees received training on how to use the machine, at a cost of Rs. 50,000. Before using the machine to print customers' orders, a test was undertaken which costs Rs. 10,000 for the paper and ink. What is the cost at which the above machine should be recorded in the books of accounts?
- a. Rs.160,000
 - b. Rs.210,000
 - c. Rs. 200,000
 - d. Rs. 250,000
5. Which of the following statements is/are true or false?
- I. Cash sales of the goods are recorded in the sales day book.
 - II. The purchase day book is used to write credit purchases (for resale purpose) from suppliers.
- a. Both statements are true
 - b. Both statements are false
 - c. Statement I is true and statement II is false
 - d. Statement I is false and statement II is true

6. The following transactions and events are relevant to the receivable control account. What is the closing balance of the receivable control account after recording these transactions and events?

Opening balance Rs. 14,000

Credit sales Rs. 300,000 (50% is cash sales)

Cash received Rs. 75,000

Cheques received Rs. 10,000

Discount allowed Rs. 5,000

Dishonoured cheques Rs. 3,000

- a. Rs. 217,000
 - b. Rs. 227,000
 - c. Rs. 77,000
 - d. Rs. 80,000
7. Which one of the followings would be an error of principle?
- a. A sales invoice worth Rs. 21,000 has been omitted from the sales day book
 - b. Discount allowed to debtors amounting to Rs. 560 has been recorded as Rs.650.
 - c. Building repair and maintenance expense amounting to Rs.12,000 has been debited to the Building account.
 - d. Debit note amounting to Rs. 12,000 has been entered twice in the purchase return book.
8. As per the substance over form concept and the guidance given in the LKAS 17- Leases , assets acquired under are capitalized and depreciated.
- a. Finance Leases
 - b. Operating Leases
 - c. Hire purchase transactions
 - d. Cash back Leases

9. Select the correct statement regarding the discounts;
- a. Cash discounts are recorded in prime entry books
 - b. Discounts received column is inserted into the debit side of the cash book.
 - c. Trade discounts are also inserted in the ledger accounts.
 - d. Discount allowed is reflected in the debtors account's credit side.
10. Alfa Enterprise's debtors balance as at 31st March 2017 was Rs. 2,500,000 and the opening balance of Provision for doubtful debt account as at 1st April 2016 was Rs. 250,000.

The company has decided to write off Rs. 50,000 as bad debts and make 10% provision for doubtful debt on the remaining balance. What would be the amount that should be presented in the Statement of Profit or Loss as at 31st March 2017 as doubtful debt?

- a. Under provision of Rs. 25,000
- b. Over provision of Rs. 5,000
- c. Under provision of Rs. 245,000
- d. Over provision of Rs. 15,000

(Total 15 Marks)

Section B

Answer **ALL** Questions

Question No. 02

Mr. Samarasinghe is a sole proprietor and the following trail balance was extracted from the books of his business “Samarasinghe Enterprises”, as at 31st March 2017.

Description	Debit (Rs. 000)	Credit (Rs. 000)
Capital Account as at 1st April 2016		8,935
Sales		3,080
Purchases	1,100	
Carriage Inwards chargers	108	
Return Inwards	20	
Return Outwards		65
Land & Buildings at cost (Land- Rs. 1,100,000)	6,000	
Office Equipment at cost	3,450	
Motor Vehicle (acquired on 1 st April 2016)	900	
<u>Accumulated depreciation as at 1st April 2016</u>		
- Building		600
- Office Equipment		400
Trade receivables	500	
Trade payables		835
Fixed deposit (Opened on 1st April 2016 at 10% p.a)	250	
Distribution expenses	165	
Inventories as at 1st April 2016	750	
Electricity expense	30	
Telephone bill	10	
Carriage outwards	20	
Salaries and wages	240	
Discount allowed/ Discount received	32	12

Cash in Hand	500	
Bank Overdraft		13
Bank loan (Obtained on 1st October 2016 at 12% p.a)		300
Rent Income		50
Bank chargers	35	
Repair and maintenance chargers	120	
Provision for doubtful debt as at 1st April 2016		40
Bad debts written off	100	
	14,330	14,330

The following additional information is available

1. Closing stock as at 31st March 2017 was Rs.800,000
2. Electricity bill of Rs. 15,000 and Salaries & wages of Rs.20, 000 relevant for the current financial year were paid on 15th April 2017.
3. A debtor from whom Rs. 50,000 is due need to be written off as bad debts. Provision for doubtful debts should be made at 10% on the remaining balance.
4. Mr. Samarasinghe has paid his life insurance premium amounting to Rs. 25,000 from the business's cash balance on 20th March 2017 and this has not been recorded in the books of accounts.
5. Bank loan interest and the fixed deposit interest have to be adjusted as per the accrual concept.
6. Transactions relating to the Property Plant and Equipment (PPE) of the business are as follows;

The business purchased special type of machinery for cash on 1st October 2016 at a cost of Rs. 100,000 for business's use. This machine has an estimated residual value of Rs. 10,000 and useful life of 9 years. This has to be depreciated on the basis of straight line method. This transaction has not been recorded in the books of the business.

Office equipment purchased on 1st April 2014 for a value of Rs. 450,000 was sold for cash Rs. 500,000 on 31st March 2017. Office equipment is depreciated on the basis of straight line method of depreciation at the rate of 20%. This disposal transaction has also been totally omitted from the books of accounts.

Building has to be depreciated at 10% on the reducing balance method and the Motor Vehicle has to be depreciated at 12% on straight line basis.

7. At the starting date of the financial year, the business has sublet a part of its office building for a monthly rent of Rs.10, 000. The amount in the trial balance shows the rent income received from the tenant.
8. Accrued expenses to be provided for the current financial year has been identified as follows:
 - Telephone bill Rs. 5,000
 - Bank Chargers Rs. 3,000
9. Prepaid repair and maintenance chargers amounted to Rs. 20,000.
10. Distribution expenses include owner's personal expense amounting to Rs. 15,000.

You are required to;

- a. Prepare the Statement of Profit or Loss for the year ended 31st March 2017.

(13 Marks)

- b. Prepare the Statement of Financial position as at 31st March 2017.

(12 Marks)

(Total 25 Marks)

Section C

Answer **Any THREE (03)** Questions

Question No. 03

- i. Mr. Priyankara is conducting a retail business by the name of “Priyankara Enterprises”. The following summarized information has been given in the form of accounting equation.

Date	Bank +	Cash +	Debtors +	Inventory +	NCA (Non- Current Assets) =	Capital +	NCL(Non- Current Liabilities) +	Creditors
1/3	20,000	40,000	1,100,000	200,000	2,000,000	3,000,000	200,000	160,000
2/3	5,000	-5,000						
4/3	-25,000							-25,000
6/3		300,000				300,000		
10/3	-3000					-3000		
15/3		-50,000						-50,000
20/3	-200,000				200,000			
22/3		-50,000					-50,000	
25/3	-50,000					-50,000		
30/3	-450,000			450,000				
31/3		350,000		-200,000		150,000		

Note that the transactions occurred on 6th and 25th March would not affect the profit component.

- a. Identify the possible transactions that could be illustrated by the equation, on the dates specified above in the month of March 2017.

(10 Marks)

b. List down the source documents used in the following journals.

1. Sales Journal
2. Purchase Return Journal
3. General Journal
4. Petty Cash Book

(04 Marks)

ii. List two (2) fundamental qualitative characteristics and four (4) enhancing qualitative characteristics stated in the conceptual framework for financial reporting.

(06 Marks)

(Total 20 Marks)

Question No. 04

As at 1st April 2016, number of goods in the stores of ABC Enterprises were 1800 units and cost of one unit was Rs.18. Following receipts and issuance of stocks took place during the year.

Stock receipt

30/04/2016	3,000 units at Rs.15 per unit
10/08/2016	1,000 units at Rs.24 per unit
20/02/2017	5,000 units at Rs.21 per unit

Stock issuance

30/05/2016	1,750 units
15/09/2016	3,500 units
25/03/2017	3,800 units

i. Calculate the cost of closing stock as at 31st March 2017 by using following methods.

a. FIFO

(08 Marks)

b. WAC

(08 Marks)

Note: Provide answers to the nearest two decimals.

ii. As per LKAS 02, define the term “Inventories” with an example.

(04 Marks)

(Total 20 Marks)

Question No. 05

Omega Enterprises' Cash book and bank statement for the month of January 2017 are given below.

Cash book (Bank Column Extract)

01.01.2017 Opening Balance	40,000	3.1.2017 Mr. Perera (11)	6,000
11.1.2017 Mr. Wickrama	8,000	18.1.2017 Mr. Nawaratne (12)	3,000
17.1.2017 Mr. Shiwa	19,000	23.1.2017 Mr. Jayasinghe (13)	17,800
29.1.2017 Ms. Dilani	6,000	26.1.2017 Mr. Mohammed (14)	6,400
		29.1.2017 Mr. Silva (15)	13,200
		31.1.2017 B/C/D	26,600
	73,000		73,000

Bank Statement

Date	Description	Debit	Credit	Balance
1.1.2017	Opening Balance			40,000
6.1.2017	Mr. Perera- Cheque (11)	6,000		34,000
11.1.2017	Direct remittance by Mr. Nalaka		14,000	48,000
15.1.2017	Standing Order-Loan instalment	9,000		39,000
22.1.2017	Mr. Nawaratne (12)	3,000		36,000
23.1.2017	Cheque deposit		8,000	44,000
26.1.2017	Mr. Jayasinghe (13)	17,800		26,200
29.1.2017	Cheque Deposit		19,000	45,200
29.1.2017	Standing Order- Electricity bill	2,400		42,800
30.1.2017	Direct remittance by Ms. Fathima		2,000	44,800
31.1.2017	Bank Chargers	4,000		40,800

i. **Required:**

- a. The adjusted cash book

(8 Marks)

- b. The statement of bank reconciliation

(8 Marks)

- ii. State four (4) features of the bank current account.

(4 Marks)

(Total 20 Marks)

Question No. 06

- i. Write the journal entries to rectify the following errors found by the book keeper in Asitha Enterprises as at 30th June 2017.

- a. A sales invoice worth Rs. 20,000 has been ignored from the prime entry books.
- b. Purchase invoice worth Rs. 100,000 has been entered twice in the books.
- c. Machine repair expenses of Rs. 24,000 has been debited to the Machinery account by mistake.
- d. Purchase of motor vehicle amounting to Rs. 500,000 has been erroneously entered in the purchase account.
- e. Rent income received amounting to Rs. 20,000 has been entered in the sales account by mistake.
- f. A credit purchase invoice of Rs. 40,000 has been recorded as Rs. 4,000 in error in the purchase journal.
- g. Rent expense paid of Rs. 10,000 has been entered only in the cash book.
- h. Sales income received of Rs. 20,000 in cash has been entered only in the cash book.
- i. Cash purchase for Rs. 54,000 has been entered in the cash book correctly and has been incorrectly debited to the purchase account as Rs. 45,000
- j. Cash paid to Mr. Saman amounting to Rs. 10,000 has been credited to both the cash book and the creditors account.

(10 Marks)

- ii. State whether the following expenses are capital expenses or revenue expenses.
- a. Purchase cost of machinery amounting to Rs. 100,000
 - b. Maintenance cost of machinery amounting to Rs. 10,000
 - c. The repair expense incurred on motor vehicle amounting to Rs. 30,000
 - d. Installation cost incurred at the time of acquisition of a machine amounting to Rs. 10,000
 - e. Carriage inward charges of the delivery van to bring the machine to the business was Rs. 5,000
 - f. Special training given to staff to operate the machinery amounting to Rs. 10,000.

(06 Marks)

- iii. State two (2) differences between the “Receipts and Payment Account” and the “Income Statement” in Not for Profit organisations.

(04 Marks)

(Total 20 Marks)