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

YEAR I SEMESTER I – INTAKE VIII (GROUP B)
END SEMESTER EXAMINATION – SEPTEMBER 2017

AFM 10130 Fundamentals of Financial Accounting

Date : 15th September 2017
Time : 5.30 p.m. - 8.30 p.m
Duration : Three (03) hours

Instructions to Candidates:

- This paper consists of three sections (A, B and C).
- Section A – Answer **ALL** the questions in the sheet provided.
Section B – Answer **ALL** the questions
Section 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.
- Use of scientific calculators is allowed.

Section A

Answer **ALL** Questions

Question No. 01

Select the most suitable answer.

1. The following information was extracted from the books of Alumex Pvt Limited's Stores for the month of July 2017.

Description	Rs.
Sales	1,200,000
Purchases	800,000
Carriage Inward charges	50,000
Stocks as at 1 st July 2017	200,000
Gross Profit	310,000

Based on the above information, the value of stock as at 31st July 2017 is:

- a. Rs. 460,000
 - b. Rs. 160,000
 - c. Rs. 410,000
 - d. Rs. 180,000
2. Which of the following statements are true/false?
- I. Memorandum columns are maintained in the cash book for recording cash discounts.
 - II. Discounts received is connected with debtors and discount allowed is connected with creditors.
- 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

3. The trial balance of Omega enterprise did not agree at the end of its financial year, and a suspense account was opened with a debit balance. Later on, the following errors were identified.
- I. Rs. 16,500 worth salaries and wages paid were recorded in the cash book as Rs.1, 650 while the correct amount is recorded in the salaries and wages account.
 - II. Rs. 110,000 worth sales invoice has been omitted from the sales journal.
 - III. Purchase of Motor vehicle valued at Rs. 500,000 has been recorded in the credit side of cash book and motor vehicle account.
 - IV. Totaling of the purchase return day book is over-estimated by Rs. 45,000.

Which of the errors above would require an entry to the suspense account as part of the correction of accounting errors?

- a. I, II and III
 - b. II, III and IV
 - c. I, III and IV
 - d. All of the above
4. Property Plant and Equipment (PPE) acquired under finance lease is recorded as an asset in the books of accounts based on the ;
- a. Business entity concept
 - b. Materiality concept
 - c. Substance over form concept
 - d. Going concern concept
5. As per LKAS 2, which one of the following statement is correct?
- a. FIFO (First in First Out), LIFO (Last in First out) and WAC (Weighted Average Cost) methods are considered as the cost formulae under this standard.
 - b. Raw materials, Work in progress and finished product stocks should be necessarily there in all the business as closing stocks.
 - c. Inventory cost is always comprised of the cost of purchase and the other related taxes and the transportation costs incurred to bring the stocks into the business premises.
 - d. Inventories should be valued at the lower of Cost and NRV (Net Realizable Value).

6. Browns Enterprise purchased goods costing Rs. 550,000 on cash and sold the entire stock by keeping a 25% profit markup on cost. Which of the following would be the correct accounting equation after incorporating this transaction's net effect?

Assets (Rs)	=	Capital (Rs)	+	Liabilities (Rs.)
a. 550,000	=	550,000		
b. 550,000	=	412,500	+	137,500
c. 137,500	=	137,500		
d. 687,500	=			687,500

7. Which one of the following transactions is **not** recorded in the General Journal?
- Correction of errors
 - Recording of opening balances
 - Owner's fixed assets drawings
 - Sale of goods on credit
8. The purpose of the preparation of bank reconciliation statement is to ;
- Ensure that any difference between the bank balance as per the records of the business and the bank statement is properly reconciled.
 - Identify the errors that the business has done when inserting the transactions into the bank column.
 - Comply with the guidelines given in the Conceptual Framework for Financial Reporting.
 - Ensure that the cheque drawings are in line with the current account balance of the business.

9. The treasurer of the Sports club named “Apex Sports Club” which is having 55 club members, has presented following information relating to the Income and Expenses for the year 2016.

Membership fee Rs. 50,000 (Only 50 members paid the annual subscription fee)

Printing of magazines Rs. 5,600

Sale of magazines Rs. 10,000

Stationeries Rs. 1,600

Donations received Rs. 20,000

Transportation Rs. 2,000

Advertisement expenses Rs. 3,000

What would be the surplus/deficit of this sports club?

- a. Surplus Rs. 67,800
 - b. Surplus Rs. 72,800
 - c. Deficit Rs. 27,800
 - d. Deficit Rs. 45,700
10. Following facts are related to LKAS 16- Property Plant & Equipment (PPE). Identify which one would be the **incorrect** statement?
- a. PPE are tangible assets expected to be used more than one accounting period.
 - b. Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life.
 - c. The costs of training staff to use a new asset can be capitalized because it is assured that future economic benefits will flow into the enterprise.
 - d. PPE is recognized when the cost can be reliably measured and it is probable that future economic benefits will flow into the enterprise.

(Total 15 Marks)

Section B

Answer **ALL** Questions

Question No. 02

“David Enterprise” is a sole proprietorship owned by Mr. David. The following trail balance was extracted from the business as at 31st March 2017.

Description	Rs.'000'	Rs.'000'
	Debit	Credit
Capital as at 1.4.2016		18,160
<u>Property Plant & Equipment (at cost)</u>		
Land and Building (Land Rs. 9,200,000)	12,700	
Plant and Machinery	4,000	
Delivery Vehicle	3,000	
<u>Accumulated Depreciation as at 1.4. 2016</u>		
Buildings		1,200
Plant and Machinery		1,450
Delivery Vehicle		1,240
Sales/ Purchases	6,500	10,100
Carriage inward chargers	500	
Inventories as at 1 st April 2016	2,000	
Bank Loan (12% interest rate per annum)		6,500
Trade Receivables/Trade Payables	4,500	2,050
Sales Return/ Purchase Return	600	400
Advertising expenses	100	
Discounts	500	800
Provision for Doubtful debts as at 1.4.2016		300
Distribution costs	700	
Fixed Deposit (15% Interest rate per annum)	2,000	
Electricity	126	
Telephone bill	12	
Bank Chargers	76	

Sales Commission	118	
Rent Income		100
Sundry Expenses	18	
Bank loan interest expense	650	
Drawings by Mr. David	1,500	
Insurance expense	800	
Cash in hand	6,500	
Bank current account balance		4,800
Bad debts written off	200	
	47,100	47,100

The following additional information is available.

1. Closing stock as at 31st March 2017 is valued at Rs. 3,100,000.
2. Mr. David has transferred his personal furniture and equipment items worth Rs. 1,500,000 to the business at the beginning of the financial year, and this was not recorded in the books of accounts. Furniture and Equipment has to be depreciated at 25% on straight line basis.
3. The following transactions relating to the acquisitions and disposals were totally omitted from the books of accounts.
 - On 1st July 2016 a delivery vehicle costing Rs. 700,000 was sold for Rs. 550,000. This asset was purchased on 1st April 2014.
 - A new plant was acquired on 1st April 2016 for Rs. 1,500,000 from ABC Enterprises on credit terms. The amount is payable within five years starting from the next year.
4. Property, Plant and Equipment (PPE) Depreciation policy of the business is as follows;
 - Building 10% on straight line basis.
 - Plant and Machinery 12 % on reducing balance method.
 - Delivery Vehicle 20% on straight line basis.
5. When paying the electricity bill for March 2017, Rs. 12,000 has been paid in excess.

6. The policy of the business is to maintain a provision for doubtful debts at 5% on the outstanding trade receivables balance at the end of the year.
7. Bank loan interest expense and the fixed deposit interest income need to be adjusted as per the accrual concept.
8. Accrued expenses for the year ended 31st March 2017 are as follows;
 - Accrued sales commission Rs. 20,000
 - Accrued Sundry expenses Rs. 15,000
9. Insurance expense includes Mr. David's personal life insurance installment amounting to Rs. 150,000.
10. At the beginning of the financial year, the business has sublet its extra premises on a monthly rental fee of Rs. 10,000. The tenant has settled only 10 months rental fee.

Required

- 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. Peters & Co. has incurred the following expenses in purchasing raw materials.

80,000 units of raw material at Rs. 10 per each unit

Import tax Rs. 10,000

Realization charges Rs. 16,000

VAT Rs. 48,000 (50% can be recovered)

Transport charges Rs. 8,000

Loading and unloading charges Rs. 4,000

5% trade discount has received on cost.

Government subsidizes Rs.2 per each unit to promote the production.

Calculate cost of purchase of the raw material stock.

(04 marks)

- ii. The following details were extracted from Alfa Private Limited for the month of July 2017.

Product Name	Closing stocks(Units)	Cost per Unit (Rs.)	Selling Price per Unit (Rs.)	Estimated finishing & selling cost per Unit (Rs.)
Alfa 1	200	4.00	4.20	1.00
Alfa 2	600	2.00	1.80	0.80
Alfa 3	300	2.20	3.60	1.00

According to LKAS 2- Inventories, calculate the value of stocks under the following methods and write the double entry for closing stock identification under each method.

a. Item Basis

b. Batch Basis

(06 marks)

iii. State the journal entries for the following adjustments relating to the stocks of the PQR Private Limited.

- a. Closing stock (Finished products) of the business is Rs. 650,000.
- b. The owner's drawing of stocks for his personal use Rs. 120,000.
- c. Due to a fire in the stores, Rs. 65,000 worth stocks were damaged. Regarding this incident, the business is yet to receive Rs. 40,000 as insurance claim.

(06 marks)

iv. Define the following terms as per LKAS 2- Inventories.

- a. Cost of Inventories
- b. Net Realizable Value (NRV)

(04 marks)

(Total 20 marks)

Question No. 04

i. The following sales transactions were extracted from "Apex Bookshop" for the month of August 2017.

2nd August 2017- Items sold on credit to "Samagi Bookshop" (Sales Invoice No: 70)

- 100 CR books at Rs. 125 each
- 200 Story books at Rs. 160 each
- 50 Pencil cases at Rs. 150 each

Trade discount is 10%

16th August 2017- Credit sales to Mrs. Nithyawani (Sales Invoice No: 71)

- 150 CR books at Rs. 65 each
- 50 A4 bundles at Rs. 800 each

Trade discount is 5%

20th August 2017- Credit sales to Mrs. Chandrasekara (Sales Invoice No: 72)

- 100 CR books at Rs. 135 each
- 250 Blue pens at Rs. 20 each

23rd August 2017- Cash received by sale of 100 CR books Rs. 20,000

Prepare the Sales Journal with relevant ledger accounts.

(07 marks)

- ii. R & D Enterprise has a petty cash imprest system and its petty cash imprest is Rs 12,000. Total payment for petty cash expenses for the month of January 2017 is Rs. 9,600. These petty cash expenses were reimbursed on 01.02.2017 and 01.03.2017. Petty cash expenses for the month of February 2017 were as follows;

03-02	Stationeries Rs.1,500
05-02	Travelling Rs. 3,100
08-02	Note books Rs. 800
12-02	Trishaw chargers Rs. 900
15-02	Stamps Rs. 350
18-02	A4 papers Rs. 700
23-02	Pens and Pencils Rs. 150
24-02	Entertainment Rs. 1,000
25-02	Postage fee Rs. 450
26-02	Refreshments (staff party) Rs. 1,200
27-02	Paid to Vimukthi Rs. 500
28-02	Carriage inward Rs. 250

- a. Prepare a petty cash book that is based on the imprest system by limiting to five analysis columns as Stationary, Travelling, Postage, Entertainment and Ledger accounts and balance it by showing the reimbursed amount on 1st March 2017.

(08 marks)

- b. Prepare the relevant ledger accounts.

(05 marks)

(Total 20 marks)

Question No. 05

- i. The below mentioned account balances were extracted from the trial balance of Tudor Enterprise as at 31st December 2016.

Bank loan account	Rs. 200,000
Bank loan repayment account	Rs. 120,000

This loan was taken out some years ago, and is due for repayment on 30th June 2017. The figure shown in the trial balance for loan repayment includes interest of Rs 20,000 for the year. The interest rate applicable for this bank loan is 12%. You are required to prepare the followings.

- a. Bank loan account after inserting the loan repayment amount.

(02 marks)

- b. Bank loan interest account

(02 marks)

- c. State under which category the bank loan is inserted in the Statement of Financial Position.

(01 mark)

- d. Justify the reasons for your answer in part (c)

(01 mark)

- ii. Omega Private Limited's Trial balance extracts as at 31st March 2017 are as follows;

Trade Receivables Rs. 190,000

Bad debts Rs. 10,000

Provision for doubtful debt: Rs. 2,000 (as at 1st April 2016)

Further, receivables age analysis is shown below:

	Rs
Current month	120,000
30 to 60 days	40,000
61 to 90 days	24,000
Over 90 days	6,000

Provision for doubtful debt has to be done as follows as at 31.03.2017;

30 to 60 days	1%
61 to 90 days	2.5%
Over 90 days	5% (after writing off Rs. 1,200)

Prepare the Trade receivable account, bad debt account and the Provision for doubtful debt account as at 31.03.2017 to reflect the above adjustment.

(06 marks)

iii. Differentiate the terms “bad debts” and the “doubtful debts” in relation to debtors.

(04 marks)

iv. Silverline private limited has a payable account balance of Rs. 17,250 as at 31st December 2016. However, the extract of balances from the payables ledger totals Rs. 14,500. Investigation finds the following errors;

- Purchase return amount of Rs. 750 had been omitted from the control account.
- An account with a balance of Rs. 500 debit had been included as Rs. 500 credit in the list of balances.
- Payments totaling Rs. 3,000 had been posted to the individual accounts, and no records are being done in the control account.

a. Prepare the corrected payables control account.

b. Prepare a statement showing the adjustments that are necessary to the list of personal account balances.

(04 marks)

(Total 20 marks)

Question No 06

- i. The cash book of Bimal Enterprise showed a balance of Rs. 15,000 on 31st January 2017. At the same date, the bank statement balance of the Entity's account was Rs. 19,000. The reasons for difference of above two balances are given below.
- Cheques for Rs. 30,000 sent to creditors on 30th January were not paid by the bank until 8 February.
 - Cheques amounting to Rs.15, 000 deposited into the bank on 31st January were not credited by the bank until 1st February.
 - A standing order for a charitable subscription of Rs. 6,000 had been paid by the bank on 21st January but no entry had been made in the cash book.
 - Bank chargers and interest chargers have been deducted from the bank statement amounting to Rs. 1,000 and Rs. 4,000 respectively.

Prepare the corrected cash book and the bank reconciliation statement.

(08 marks)

- ii. Listed below are some of the errors that have been discovered by the Accountant from the draft financial statements prepared by the Junior Accounts Executive of XYZ Enterprise. Prepare journal entries to correct these errors.
- a. Credit purchase invoice worth Rs. 12,000 has been entered twice in the purchase journal.
 - b. Machine repair expenses amounting to Rs. 50,000 has been debited to machinery account.
 - c. Cash paid to creditor named Mr. Senarathne amounting to Rs. 45,000 has been credited to his account while the cash book entry is correctly recorded.
 - d. 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.
 - e. Rent income received Rs. 20,000 has been entered in the sales account by mistake.
 - f. Sales income received Rs. 40,000 in cash has been entered only in the cash book.
 - g. Bank charges Rs. 2,500 has been credited only to the bank column of the cash book.
 - h. Owner's additional capital investment by way of a motor vehicle valued at Rs.500,000 has been totally omitted from the books.

(08 marks)

- iii. Briefly explain the "Going concern concept" and the "Business entity concept".

(04 marks)

(Total 20 marks)