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

YEAR I SEMESTER II – INTAKE VII (GROUP A)
END SEMESTER EXAMINATION – JULY 2017

AFM10330 - Intermediate Financial Accounting

Date : 17th July 2017
Time : 1.00 p.m. - 4.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

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

PART A

Answer **ALL** Questions

Question No. 01

Select the most suitable answer for question No.1 to 10. Mark the letter of the selected answer in your answer booklet.

1. Following information is related to the subscription fee of a sport club for the year ended 2016.03.31. The subscription received in cash during the year is as follows.

<u>Year</u>	<u>Rs</u>		
• 2014/2015	10 000		
• 2015/2016	51 000		
• 2016/2017	<u>21 000</u>		
	<u>82 000</u>		
	2016.03.31(Rs.)	2015.03.31(Rs.)	
• Subscription fee receivable	16 000	11 000	
• Subscription fee received in advance	?	11 000	

What is the Subscription Income to be recognized for the year ended 31st March 2016?

- a. Rs.51,000
- b. Rs.77,000
- c. Rs.80,000
- d. Rs.85,000

2. A, B and C are partners of a partnership sharing profits and losses equally. On 2017.03.31, “A” retired from the partnership and the goodwill is adjusted in the capital accounts by that day. B and C agreed to continue the partnership.

<u>Capital account balances</u>	B	C
• Before adjusting goodwill	300,000	200,000
• After adjusting goodwill	260,000	190,000

What was the value of the Goodwill agreed by partners?

- Rs.10,000
 - Rs. 50,000
 - Rs. 100,000
 - Rs. 150,000
3. X and Y carried on a partnership sharing profit and losses at a ratio of 3:2. On 30th September 2016 Z joined the business agreeing to get $\frac{1}{6}$ th of the profit or loss and a monthly salary of Rs.15,000. The business earned a profit of Rs.750 000 during the year ended 31st March 2017.

Calculate the profit share of X and Z for the year ended 31st March 2017.

- Rs.137,500 and Rs.367,500
- Rs.367,500 and Rs. 137,500
- Rs.367,500 and Rs.345,000
- Rs.345,000 and Rs.367,500

- Use the below mentioned information to answer question No 4 and 5

A company was started on 1st April 2015, with a stated capital of Rs.100, 000,000. Given below are information related to financial years 2015/2016 and 2016/2017.

	2016/2017 (Rs)	2015/2016 (Rs)
Revenue	250,000,000	200,000,000
Expenditure (except the tax)	100,000,000	130,000,000
Income tax	50,000,000	Nil
Dividend paid	40,000,000	Nil
Revaluation Reserve (as at 31 st March)	25,000,000	Nil
Total Assets(as at 31 st March)	250,000,000	180,000,000

4. What is the value of total liability as at 31st March 2016?
 - a. Rs.10,000,000
 - b. Rs. 5,000,000
 - c. Rs. 1,000,000
 - d. Rs.15,000,000
5. What is the value of equity as at 31st March 2017?
 - a. Rs.115,000,000
 - b. Rs.250,000,000
 - c. Rs.255,000,000
 - d. Rs.15,000, 000
6. A company purchased a land 15 years ago. Now it's fair value is amounted to 5 times of its purchased price. If this land is revalued to its fair value, what is the qualitative characteristic associated with the above event?
 - a. Comparability
 - b. Relevance
 - c. Reliability
 - d. Understandability

- Use the below mentioned information to answer question No 7 and 8.

On 1st April 2016 Amila and Mithila started a partnership. They agreed following conditions.

- i. Partners are given an annual salary of Rs.100,000
- ii. Partners are allowed 10% of the capital as interest.
- iii. Partners share profit and losses at the ratio of 3:2

Amila and Mithila brought an amount of Rs.400,000 and Rs.200,000 as the capital respectively.

Partnership earned a net profit of Rs.360,000 for the year ended 31st March 2017

7. What is the balance carried forward of the current account of Amila and Mithila as at 31st March 2017?

	Amila	Mithila
a.	140,000	120,000
b.	160,000	140,000
c.	200,000	160,000
d.	216,000	144,000

8. If Amila and Mithila have taken Rs.50,000 each as drawings, what is the value of equity as at 31st March 2017?

- a. Rs.860,000
- b. Rs.660,000
- c. Rs.260,000
- d. Rs.600,000

9. Amal, Bimal and Chamal conducted a partnership sharing profits and losses in 2:2:1. Chamal retired from the partnership on 31st March 2017. Amal and Bimal continued the business sharing profits and losses at 3:2. The goodwill is estimated to Rs.400,000 on that day. It was adjusted in the capital accounts of partners.

What is the net effect on the Capital account balances of Amal and Bimal as a result of goodwill adjustment?

- | Amal | Bimal |
|----------------------------|-------------------------|
| a. No Effect | No Effect |
| b. Reduced by Rs.80,000 | No Effect |
| c. No Effect | Reduced by Rs.80,000 |
| d. Increased by Rs.160,000 | Increased by Rs.160,000 |

10. Select the true statement/s from the below statements related to a loan given by a partner to the partnership.

- A. Partner is given an annual interest of 5%, if a specific rate is not mentioned in the agreement
- B. Loan is treated as an Element of equity.
- C. Loan interest is adjusted when distributing profits and losses of the partnership.

- a. A and B Only
- b. A, B, C all correct
- c. A and C Only
- d. A only

(Total 20 Marks)

PART B

Answer **ALL** Questions

Question No. 02

Firms M & N and O & P decided to amalgamate as at 1st January 2017 under the name Maharashtra Trading Co. Their statements of financial position as at 31st December 2016 were as follows.

Liabilities	M & N Rs.	O & P Rs.	Assets	M & N Rs.	O & P Rs.
Creditors	10,000	22,000	Building	18,000	-
Bank Loan	-	8,000	Goodwill	-	10,000
Reserve	20,000	-	Stock	30,000	26,000
<u>Capital</u>			Debtors	12,000	34,000
M	30,000	-	Investment	20,000	-
N	20,000	-			
O	-	15,000			
P	-	25,000			
	80,000	70,000		80,000	70,000

M & N shared profits in proportion to their capital, while O & P shared profits equally.

The terms of amalgamation were as follows:

- I. The building owned by M & N to be taken over by the new firm at Rs. 23,000.
- II. Investments were valued at Rs 25,000 and decided to take over by new firm.
- III. The goodwill appearing in the books of O & P was valued at Rs 15,000 and taken over by the new company.
- IV. They decided to make a provision of 10% for the doubtful debt for the debtors of M & N and O & P.
- V. After the above adjustments have been made, O & P each to bring in Rs. 5000 as additional capitals.

Required:

1. Show necessary accounts in the books of O & P and M & N
2. The Opening Statement of financial position in the books of Maharashtra Trading Co.

(Total 20 Marks)

PART C

Answer any **THREE (03)** Questions

Question No. 03

“Heroes” is a sports club. The receipt and payment account for the year ended 31st March 2017 is as follows.

The Receipt & Payment Account

B/F	80,000	Improvement of the pavilion	300,000
Donations for sport equipment	500,000	Wages - Manager	240,000
		- Guardian of pavilion	360,000
Subscription Fee	390,000	Office expenses	50,000
Admission fee	120,000	Maintenance of the ground	150,000
Rent received	880,000	Purchase of Sports equipment	500,000
		C/d	370,000
	1,970,000		1,970,000

Other Information

I. The following information is related to the PPE as at 01st April 2016.

Asset	Cost (Rs.)	Accumulated Depreciation (Rs)	Expected useful life time (years)
Ground	2,300,000	-	-
Pavilion	1,800,000	900,000	20
Sport Equipment	1,000,000	600,000	5

II. By 1st October 2016 the Improvement of Pavilion was completed and it was ready for the intended use. This amount is not still identified in the Pavilion account. The remaining useful life of Pavilion is increased up to 15 years due to this improvement.

III. The donations to purchase sports equipment were received on 01st April 2016 and those items were purchased on 01st October 2016. The useful life is 05 years and the donation is identified to the income statement within 05 years.

- IV. Annual subscription fee for a member is Rs.7, 000. There were 40 members in the club as at 01st April 2016. On that day another 10 members joined the club paying subscription fees for two years. The subscription fees received during the year includes Rs. 40,000 related to the year 2015/2016. There were no subscription fees to be received as at 31st March 2017.
- V. The ground was rented for Rs. 400,000 for a sports meet, 60% of this is charged as an advance fee when booking the Ground and the rest should be paid at the date of sports meet. The information about Sport meets held are as follows.

Sport meet No	Details	Additional information
01	2016/07/01 ended	Total cash received including the advance
02	2016/11/08 ended	Only the advance
03	Held in 01 st week of April 2017	Advance received during 2016 march

Required:

1. Opening balance of Accumulated Fund as at 1st April 2017
2. Income statement for the year ended 31st March 2017.
3. Statement of financial position as at 31st March 2017.

(Total 20 Marks)

Question No. 04

A & B are partners of a firm sharing profits and losses in 3:2. Their Balance sheet as on 31st December 2016 stood as follows:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	20,000	Goodwill	12,000
Capital Accounts – A 12,000		Cash in hand	15,000
B <u>30,000</u>	42,000	Sundry Debtors 21,000	
		Less: Pro. for bad debts <u>(1,000)</u>	20,000
		Stock-in-Trade	10,750
		Furniture and fittings	250
		Retained Profit	4,000
	<u>62,000</u>		<u>62,000</u>

On the 1st January 2017, they admitted C as a partner on the following terms.

- I. The new profit sharing ratio of A, B and C becomes 5:3:2.
- II. Agreed value of the Goodwill is Rs. 20,000 and partners decided to record the goodwill in the books.
- III. The provision for bad debts is to be increased to 10% of sundry Debtors.
- IV. Furniture and fittings are to be reduced to Rs. 150. C should bring a further sum of Rs. 10,100 as his capital portion.

Required:

Show the necessary entries in the capital Account of the partners and also prepare the Balance Sheet of the new firm as on 1st January 2017.

(Total 20 Marks)

Question No. 05

Kumaradasa runs a retail shop. He does not keep complete accounting records, but he is able to provide you with the following information about his financial position as at 1 April 2016:

Motor vehicle Rs 8,100
Shop fittings Rs 8,200
Inventory Rs 5,210
Trade accounts receivable Rs 3,843
Trade accounts payable Rs 2,596

He has also provided the following summary of his bank account for the year ended 31 March 2017:

	Rs		Rs
Balance as at 1 Apr 2016	4,410	Payments of trade accounts payable	24,179
Cheques received from trade debtors	47,878	Electricity	2,090
Cash sales	3,921	Telephone	1,370
Rent Income	7000	Rent	3,000
		Advertising	1,430
		Insurance	1,946
		Motor vehicle expenses	2,221
		Drawings	6,743
		Balance as at 31 Mar 2017	<u>20,230</u>
	<u>Rs 63,209</u>		<u>Rs 63,209</u>

All the cash cheques received were deposited into the bank account immediately

You have found that the following must also be taken into account:

- Depreciation is to be provided for the motor vehicle at 25% and shop fittings at 15%, calculated on the book values as at 1 April 2016.
- At 31 March 2017 Advertising paid in advance was Rs.250

Other balances at 31 March 2017 were:

	Rs
Trade accounts receivable	5,782
Trade accounts payable	6,945
Inventory	8,063

Required:

1. For the year ended 31 March 2017
 - a. calculate Kumaradasa's sales and purchases,
 - b. prepare his income statement
2. Prepare Kumaradasa's statement of financial position as at 31 March 2017.

(Total 20 Marks)**Question No. 06**

The following was the statement of financial position of Deepal and Nilusha who were carrying on a business sharing profits and losses in the ratio of 3:2 as on 31st December 2016

Liabilities	Rs.	Assets	Rs.
Creditors	38,000	Bank	11,500
Mr. Deepal's Loan	10,000	Stock	6,000
Nilusha's Loan	15,000	Debtors	20,000
Reserve Fund	2,500	Less: Provision	(1,000)
Deepal's Capital	10,000	Furniture	4,000
Nilusha's Capital	8,000	Plant	28,000
		Investments	10,000
		Retained Profit	5,000
	83,500		83,500

The firm was dissolved on 31st December 2016 and the following were the results:

- a. Deepal took over investment at Rs. 8,000.
- b. The assets realized were as follows:
 - Stock: Rs. 1,000 less
 - Debtors: Rs. 18,500
 - Furniture Rs.500 more
 - Plant Rs. 3,000 less
- c. Expenses of realization were Rs.600.
- d. Creditors were paid off less 2 1/2 % discount

Required:

Show ledger accounts to close the books of the partnership.

(Total 20 Marks)