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

**YEAR I SEMESTER I – INTAKE VII (GROUP A)**  
**END SEMESTER EXAMINATION – JANUARY 2017**

**AFM 10130 Fundamentals of Financial Accounting**

Date : 30th January 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. What type of accounting error has occurred when an amount received from Mr Kamarage is posted to Mr Satharasingha?
  - A. Error of commission
  - B. Error of duplication
  - C. Double entry error
  - D. Error of principle
  
2. The gross profit is the amount by which:
  - A. The sales in an accounting period exceed the purchases in the same period.
  - B. The sales in an accounting period exceed the cost of goods sold in that period.
  - C. The profit made within an accounting period before deducting taxes.
  - D. The income earned in an accounting period exceeds expenses incurred in that period.
  
3. Which of the following would be an error of principle?
  - A. A credit purchase of furniture for office use is entered in the Purchases Day Book.
  - B. A supplier's Credit Note is not entered in the Returns Outwards Day Book.
  - C. A sale of Rs 21,400 has been entered in the Sales Day Book as Rs 24,100.
  - D. A Credit Note issued to a customer has not been posted.
  
4. What type of accounting error has occurred when a sale, entered in the Sales Day Book has not been posted?
  - A. Entry error
  - B. Error of duplication
  - C. Double entry error
  - D. Error of principle

5. A supplier's invoice for Rs 1,500 less 10% trade discount has been entered in the Purchase Day Book as Rs 1,500 instead of Rs 1,350. What type of error would this be?
- A. Error of principle
  - B. Error of principle
  - C. Entry error
  - D. Error of commission
6. Which of the following statements is incorrect?
- A. The amount a business owes its proprietor decreases by the Net Profit it makes in the year.
  - B. The amount a business owes its proprietor decreases by the drawings he makes in the year.
  - C. The gross profit less all expenses of operating a business is the Net Profit.
  - D. Sales minus the cost of goods sold minus all expenses incurred equals Net Profit.
7. Which is the most appropriate order of current assets in the statement of financial position?
- A. Bank balance, prepayments, receivables, inventory
  - B. Inventory, receivables, prepayments, bank balance
  - C. Inventory, prepayments, receivables, bank balance
  - D. Inventory, bank balance, receivables, prepayments
8. Which of the fundamental accounting concepts are being applied when an allowance for receivables is made in the books of accounts?
- A. Accruals and going concern
  - B. Accruals and consistency
  - C. Accruals and prudence
  - D. Going concern and prudence
9. A suspense account shows a credit balance of Rs 260.  
This could be due to
- A. Omitting a sale of Rs 260 from the sales ledger
  - B. Recording a purchase of Rs 260 twice in the purchases account
  - C. Failing to write off an irrecoverable debt of Rs 260
  - D. Recording an electricity bill paid of Rs 130 by debiting the bank account and crediting the electricity account

10. After the draft financial statements of Cats Ltd have been prepared, some inventories were found in an old building which was not included in the physical inventory count. It appears that they originally cost Rs 1,000, but it was thought that they will worth only Rs 100.

What is the effect on the company's gross profit?

- A. Increase \$100
- B. Decrease \$900
- C. Increase \$1,000
- D. Decrease \$1,000

**(Total 15 Marks)**

## SECTION B

Answer **ALL** questions

### Question No. 02

Silva is a sole trader and he started his business 3 years back. He prepares his financial statements to 30 June each year. At 30 June 2015, his trial balance was as follows:

	Debit (Rs )	Credit (Rs )
Capital at July 2014		65,550
Purchases & Sales	423,500	755,050
Returns	3,200	2,800
Inventory at 1 July 2014	98,200	
Packing materials purchased	12,900	
Wages	71,700	
Allowance for receivables at 1 July 2014		1,000
Heat and light	1,850	
Car expenses	2,400	
Sundry expenses	6,700	
Delivery vehicles cost	112,500	
Delivery vehicles acc. depreciation at July 2014		35,000
Equipment cost	15,000	
Equipment acc. depreciation at July 2014		5,000
Receivables and payables	95,000	42,000
Distribution costs	17,000	
Rent and insurance	5,100	
Telephone	3,200	
Loan		10,000
Loan repayments	6,400	
Bank deposit account	15,000	
Bank current account	<u>26,750</u>	<u>          </u>
	<u>916,400</u>	<u>916,400</u>

The following additional information at 30 June 2015 is available:

1. Closing inventories:

	Rs
Building materials	75,300
Packing materials	700

2. Prepayments:

	Rs
Rent and insurance	450

3. Accrued expenses:

	Rs
Heat and light	400
Telephone	500

There was also an unpaid invoice of Rs 200 for packing materials received and consumed during the year.

4. Wages includes Rs 23,800 cash withdrawn by Silva.

5. Receivables have been analyzed as follows:

	Rs
Current month	60,000
30 to 60 days	20,000
60 to 90 days	12,000
Over 90 days	3,000

Allowance to be made for receivables as follows:

30 to 60 days	1%
60 to 90 days	2.5%
Over 90 days	5% (after writing off Rs 600)

6. Sundry expenses includes Rs 3,500 paid for Silva's personal tax bill.

7. The loan was taken out some years ago, and is due for repayment on 31 March 2016. The figure shown in the trial balance for loan repayments includes interest of Rs 800 for the year.

8. The bank deposit account was opened on 1 January 2015 as a short-term investment; interest is credited at 31 December annually; the average rate of interest since opening the account has been 6 per cent per annum.
9. At 1 July 2014, Silva decided to bring one of his family cars, valued at Rs 8,000, into the business. No entries have been made in the business books for its introduction.
10. Depreciation is to be provided as follows:
- 20 per cent on cost for delivery vehicles;
  - at 25 per cent on the reducing balance for the car;
  - at 25 per cent on the reducing balance for equipment.

**You are required to;**

- i. Prepare Profit or loss statement for the period ended with 30 June 2015

(13 Marks)

- ii. Prepare the Statement of financial position as at 30 June 2015

(12 Marks)

**(Total 25 Marks)**

## SECTION C

Answer **ANY THREE (03)** questions

### **Question No. 03**

Expo limited Purchased Machinery on 01<sup>st</sup> Jan 2016 from Axis leasing PLC a leasing company and paid an initial payment of Rs 450,000 . The Fair value of the asset at the date of acquisition was Rs 1,901,300.

Expo agreed for the rental payments at the end of each financial year as follows.

Year 01	Rs 500,000
Year 02	Rs 500,000
Year 03	Rs 450,000
Year 04	Rs 450,000

Effective interest rate of the lease is 12 % and economic life time of the asset would be 5 years. According to the lease agreement the ownership of the asset would be transferred to Expo Limited at the end of 4 years period.

#### **You are required to;**

1. What are the criteria's to be used in classification of Leasing for Financial lease and Operating lease according to LKAS 17.

(5 Marks)

2. Record the lease transaction in the books of Expo Limited for all four (4) years.

(15 Marks)

**(Total 20 Marks)**



#### **Question No. 04**

Following balances were extracted from the books of Kamara's Business as at 1/1/2017

Stocks = Rs. 45 000    Trade Creditors = Rs. 46 000    Trade Debtors = Rs. 50 000  
Machinery = Rs.100 000    Cash = Rs.80 000    Loan = Rs.40 000

Following transactions took place during the month of January

- 1/1 Kumara Introduced additional capital by cash Rs.5,000
- 1/5 Sold goods for cash Rs.20,000, cost of goods sold was Rs.17,000
- 1/6 Purchased goods for cash Rs.15,000.
- 1/10 Sold goods on credit to Shiron for Rs.15,000, cost of goods sold is Rs11,000
- 1/12 Electricity paid Rs. 5000
- 1/15 Loan repaid Rs.10,000 with an interest of Rs.3,000
- 1/17 It was found that one Machine cannot be used and book value of that machine is Rs 10000 at 02<sup>nd</sup> of Jan 2017.
- 1/20 Machinery should be depreciated at 15 % on cost
- 1/23 Bad debt should be written off by Rs.5,000
- 1/29 Paid to creditors Rs.5500 to settle Rs.6000
- 1/30 Cash received from a debtor Rs. 9,800 to settle Rs.10,000

**You are required to;**

1. Apply above transactions for the following accounting equation  
Cash + Stocks + Machinery + Debtors = Creditors + Loan + Capital  
(6 Marks)
  2. Calculate the Net Assets as at 1/1/2017 & 31/1/2017  
(4 Marks)
  3. Calculate the profit for the month of January  
(6 Marks)
  4. Prepare the balance sheet as at 31/1/2017  
(4 Marks)
- (Total 20 Marks)**

**Question No. 05**

A. Vikum Started a manufacturing business and following transactions took place during the first year of operations.

Direct raw materials purchased	Rs 250,000
Direct labor	Rs 120,000
Other variable manufacturing cost	Rs 25,000
Production overheads	Rs 60,000
No of Items Manufactured	11,500 Units
Normal Production Capacity	12,000 Units
No of Items Sold During the period	10000 Units

**You are required to;**

1. Explain the impact of using the FIFO method for the valuation of Inventory for the profit and closing inventory in an inflationary situation.

(3 Marks)

2. Calculate the cost of finished goods at the end of financial reporting period according to the requirements of LKAS 02.

(7 Marks)

B. ABC Limited owns a power plant. It generates electricity and supply to Ceylon Electricity Board.

Information about the property plant and equipment of the company were as follows.

**Balance as at 01<sup>st</sup> Jan 2016**

	<b>Cost</b>	<b>Accumulated depreciation</b>
Land and Building	8,000,000 ( Land is 2,000,000 )	1,200,000
Power plant	3,000,000	1,500,000
Furniture and fittings	500,000	100,000

Transactions during the period were as follows

1. Purchased another power plant by paying Rs 250,000 on 01<sup>st</sup> July 2016.
2. There was a major improvement done for the plant on 01<sup>st</sup> April 2016 for which cost of Rs 500,000 was incurred. According to the engineers of the company it will increase the existing power generating capacity by 5 %.
3. The building was revalued on 31<sup>st</sup> Dec 2016 for 5,000,000 .

The company depreciates the assets at the following rates.

Buildings	5% (Straight line Method)
Power Plant	10% (Straight line Method)
Furniture	20 % (Reducing Balance Method)

**You are required to**

1. Calculate the value of Property plant and equipment's to be presented in the Statement of financial position on 31<sup>st</sup> December 2016.
2. Calculate the amount of depreciation to be charged to the Profit or Loss Statement for the year ended on 31<sup>st</sup> of December 2016.

(6 Marks)

(4 Marks)

**(Total 20 Marks)**

### **Question No. 06**

W Wimalaweera is a sole trader. The trial balance of his business extracted as at 30 June 2015 did not agree. The credits exceeded the debits by Rs 1,310 and the difference was entered in a suspense account.

A detailed examination of the books was undertaken and the following matters were identified

1. Purchases returns of Rs 7,740 has been credited to the sales returns account as Rs 4,470, the corresponding entry was correctly treated
2. A totaling error was discovered in the sales returns day book. As a result of the totaling error the postings to the ledger were undercast by Rs 640
3. An amount of Rs 98 cash received from a customer was debited to the customer account and credited to the cash account.
4. The cash at hand balance of Rs 2,140 as at 30 June 2015 was omitted from the trial balance by an error.
5. Building repairs of Rs 1,720 were undertaken during the year ended 30 June 2015 and this amount was paid for by cheque. The entry was correctly treated in the bank account and Rs 720 was credited to buildings account.
6. W Wimalaweera has taken his business premises on rent. On 1 January 2014 rent for the year ended 31 December 2014 of Rs 9,000 was paid and accounted for correctly. W Wimalaweera's landlord has indicated that rent for 2015 will increase to Rs. 12,000 but has not accrued for this yet as a result of not receiving an invoice W Wimalaweera has not paid any rent for 2015 and has made no accounting entry for it.
7. A credit sale of Rs 5,000 (excluding VAT) was recorded by debiting sales with Rs 5,000 and crediting receivables with Rs 5,000. The rate of VAT tax is 15%

**You are required to**

- a. Prepare the journal entries, with the appropriate narratives, necessary to correct the above errors

(12 marks)

- b. Prepare a suspense account to clear the difference.

(8 marks)

**(Total 20 Marks)**