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

YEAR I SEMESTER II – INTAKE VI (GROUP A)
END SEMESTER EXAMINATION – JANUARY 2017

AFM10330 Intermediate Financial Accounting

Date	:	13th January 2017
Time	:	9.00 a.m. – 12.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

a. List four challenges accountants may face due to globalization?
b. What do you mean by "IFRS"?
c. Why "solvency" is considered as critically important for an entity?
d. What do you mean by a "Partnership agreement"?
e. Why "Accounting Standards" are important in accounting?
f. What do you mean by "Financial Reporting"?
g. Why "Accounting Policies" are important in Financial Reporting?
h. Why "Accounting Standards" are important in Financial Reporting?
i. What do you mean by "Life Membership" in a not for profit organization?
j. Why it is necessary to make adjustments for "revaluation" when there is a change in the ownership of a partnership business? Briefly explain.

(Total 20 Marks)

Question No. 02

SUPER sports club prepared following receipts and payments account for the year ended 31st December 2016.

Receipts	**Rs.('000)**	**Payments**	**Rs.('000)**
Balance B/F	12,000	Sports equipment (01.10.2016)	80,000
Life Membership subscriptions	10,000	Bar expenses	8,000
Donations	20,000	Electricity	2,000
Subscriptions- Members		Printing	1,200
2015	8,000	Salaries	12,000
2016	80,000	Payments to creditors - restaurant	8,000
2017	4,000	Cash purchases - restaurant	11,200
Debtors collection - restaurant	4,000	Expenses for exhibition	8,000
Cash sales - restaurant	20,000	Balance C/F	36,000
Admission fee - members	2,000		
Investment income	6,400		
	166,400		**166,400**

Additional information

1. Assets and Liabilities of the club on 01/01/2016 and 31/12/2016 included following:

Asset/Liability	**01/01/2016 (Rs. 000')**	**31/12/2016 (Rs.000')**
Land & Building	120,000	150,000
Sports equipment	30,000	**?**
Furniture	4,000	3,800
Investment	24,000	24,000
Restaurant debtors	400	700
Restaurant creditors	200	300
Bar stocks	400	340
Accrued bar expenses	500	200
Accrued electricity	200	1,200
Accrued salaries	**-**	2,000
Subscription receivable	4,400	3,800
Life membership fund	**-**	**?**

2. Depreciation need to be provided at 10% per annum for sports equipment.
3. Club is operating a separate restaurant and a bar.
4. 10% of the life membership fund is annually transferred directly to accumulated fund.
5. 40% of salaries and 30% electricity to be charged to restaurant and bar.
6. Clubs policy is to write off membership fee outstanding more than one year.

Required:

a. Trading and Profit & Loss account of the restaurant & bar for the year ended 31st December 2016
b. Income and Expenses account of the club for the year ended 31st December 2016
c. Statement of Financial Position of the club as at 31st December 2016

(Total 20 Marks)

Question No. 03

Afrath and Mussakir were in a partnership sharing profits and losses 2:1. The partnership agreement between them provided that,

- 12% annual interest will be paid on partners' current account balances (based on balances as at 1st day of the financial year).
- 5% annual interest will be charged on drawings.
- Interest will be paid on partners' capital (based on balances as at 1st day of the financial year) at the rate of 8% per annum.
- Each partner is entitled for a salary of Rs. 80,000 per month.
- Goodwill of the partnership will not be recorded separately in the books.

Afrath and Mussakir decided to admit Kumudumali as a partner with effect from 1st April 2015. Kumudumali is to be given 1/4 share of profit & losses, and others will share profits according to their previous ratio. Kumudumali paid a sum of Rs. 2,000,000 as her share of goodwill. This amount was retained in the partnership by Afrath and Mussakir. Further, Kumudumali brought in Rs. 8,000,000 cash as her share of capital. Also, partners agreed to increase the value of land, Machinery and furniture by 25%, 20% and 10% respectively. Both stocks and debtors values are to be reduced by 25%.

The balance sheet as at 31st March 2015 was as follows:

	Rs.'000
Non-Current Assets	
Land	105,000
Buildings	15,000
Machinery	7,500
Furniture	3,000
Current Assets	
Stocks	22,500
Trade debtors	15,000
Cash in hand	9,000
	177,000
Capital Accounts	
Afrath	66,000

Mussakir	51,000
<u>Current Accounts</u>	
Afrath	12,000
Mussakir	9,000
<u>Current liabilities</u>	
Creditors	27,000
Accrued expenses	12,000
	177,000

Drawings during the year 2015/16 were as follows:

Afrath – Rs. 2,000,000 (on 1st July 2015), Mussakir – Rs. 3,000,000 (on 31st December 2015), Kumudumali – Rs, 2,000,000 (on 1st March 2016).

The net profit for the year ended 31st March 2016 was Rs. 60,000,000. Partners have already taken half of their annual salaries in cash. This amount is included in the administration expenses.

Required:

a. Prepare the opening Statement of Financial Position of the "Afrath, Mussakir and Kumudumali Partnership" as at 1st April 2015.

b. Show the balances of the capital accounts and current accounts as at 31st March 2016.

(Total 20 Marks)

Question No. 04

Hashani is in the business of manufacturing and sale of products. The following trial balance was extracted from the books of her business as at 31 March 2016.

	Debit (Rs'000)	**Credit (Rs'000)**
Capital - as at 1 April 2015		1,000
Lands at cost	18,689	
Furniture and fittings at cost	3,653	
Office equipment at cost	2,810	
Motor vehicles at cost	6,789	
Plant and machinery at cost	5,721	
Sales		114,833
Other income		731
Salaries and wages;		
Factory (direct)	3,183	
Administration	3,365	
Sales staff	2,438	
Rent;		
Factory	1,800	
Office	900	
Cash in hand	675	
Drawings	3,794	
Discounts allowed	1,073	
Advertising	1,221	
Electricity bills	2,442	
Water bills	918	
Postage and stationery	636	
Insurance	1,100	
Telephone	842	
Selling expenses	7,374	
Factory maintenance	3,626	
Maintenance – plant and machinery	1,238	
Overtime payments – factory	1,929	

Loan interest	768	
Manufacturing royalties	1,374	
Factory overheads	4,374	
Provision for depreciation as at 31st March 2015;		
Furniture and fittings		626
Office equipment		380
Motor vehicles		1,868
Plant and machinery		1,283
Purchases – raw materials	32,432	
Trade debtors	6,323	
Trade and other payables		1,275
Provision for doubtful debts as at 31st March 2015		375
Cash at bank	225	
VAT payable		662
Purchase returns - raw material		792
Carriage inwards - raw material	2,210	
Long term loan		3,750
Inventories as at 1 April 2015;		
Raw materials	1,476	
Work in progress	1,232	
Finished goods	945	
	127,575	**127,575**

You are also given the following additional information.

i. Cost of inventories as at 31 March 2016 was:

Raw material	Rs. 900,000
Work in progress	Rs. 300,000
Finished goods	Rs. 600,000

ii. Rs. 75,000 should be written off as bad debts and the provision for doubtful debts is to be adjusted to 10% of the debtors.

iii. A motor vehicle purchased on 1st April 2014 for Rs. 1,000,000 was disposed on 31st March 2016 for Rs.1,200,000. The sale proceeds have been credited to the sales account and debited to the cash account. No other entries had been made in the books of account in this regard.

iv. Depreciation is to be provided on straight line method as follows.

Furniture and fittings	20%	per annum
Office equipment	15%	per annum
Motor vehicles	20%	per annum
Plant and machinery	20%	per annum

v. The following expenses have to be apportioned between factory and office using the following rates.

	Factory	**Office**
Electricity	50%	50%
Insurance	60%	40%
Telephone	70%	30%

vi. Accrued expenses as at 31 March 2016 are as follows:

Electricity	Rs.75,000
Insurance	Rs. 60,000
Telephone	Rs. 40,000

vii. Finished goods costing Rs. 3,000,000 sent on sales or return basis to another entity at an invoice price of Rs. 4,000,000 are included in the credit sales. However, 60% of these finished goods were unsold at the balance sheet date.

viii. 1/5th of the long-term loan is due to be repaid in next year.

Required:

a. Manufacturing, Trading and Profit & Loss account for the year ended 31st March 2016.
b. Statement of Financial Position as at 31st March 2016.

(Total 30 Marks)

<u>Question No. 05</u>

Jayalal, Nayanajith and Sayuru are in a partnership with a profit sharing ratio of 2:1:1. Statement of Financial Position as at 31st December 2016 was as follows.

Non- Current Assets	**Rs.**	**Rs.**
Land and Buildings	165,000	
Fixtures and Fittings	33,000	
Motor vehicles	22,000	**220,000**
Current Assets		
Inventories	28,600	
Trade receivables	15,400	
Cash at bank	8,800	**52,800**
Current Liabilities		
Trade payables	13,200	
Non – Current Liabilities		
Loan Account - Jayalal	44,000	**(57,200)**
Total Net Assets		**215,600**
Capital Accounts		
Jayalal	99,000	
Nayanajith	49,500	
Sayuru	49,500	**198,000**
Current Accounts		
Jayalal	8,800	
Nayanajith	4,400	
Sayuru	4,400	**17,600**
Total		**215,600**

On 1st of January 2017 partners decided to dissolve the partnership. Following are related to dissolution of the partnership.

- Jayalal acquired one of the Motor vehicles at a valuation of Rs. 12,000 and Nayanajith acquired the other one for a value of Rs.4,000.
- Jayalal's loan was fully settled.
- Trade payables were fully settled at Rs. 11,000
- Other assets were sold at following values;

Land & Buildings	Rs. 140,000
Fixtures and Fittings	Rs. 26,000
Inventories	Rs. 20,000

- Rs. 14,000 collected from debtors as the full payment.
- Dissolution expenses were Rs. 5,000

Required

a. The Realization Account
b. Partners' capital Accounts
c. The Bank (Cash) Account

(Total 10 Marks)