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

**YEAR I SEMESTER II – INTAKE VIII (GROUP A)  
END SEMESTER EXAMINATION – JANUARY 2018**

**AFM 10330 Intermediate Financial Accounting**

Date : 16th January 2018  
Time : 1.00 p.m. - 4.00 p.m.  
Duration : Three (03) hours

**Instructions to Candidates:**

- The 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.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly

## PART A

Answer **ALL** Questions

### Question No. 01

Select the most suitable answer for question 01 to 10. Write the selected letter of the answer in your answer booklet.

1. Which of the following items must be disclosed in a company's published financial statements (including notes) if material according to LKAS 01- *presentation of financial statements*
  - i. Staff expenses
  - ii. Depreciation and amortization expenses
  - iii. Movement in share capital
  - iv. Finance expenses
  - A. (i),(ii) & (v) only
  - B. (ii),(v) & (iv) only
  - C. (iii),(i) & (iv) only
  - D. All the above
2. According to LKAS 16 - *property plant and equipment*, which one of the following **can be** recognized as an Asset?
  - A. Cost of repairing a building
  - B. Legal fees incurred on the purchase of a building
  - C. Purchase of a computer by a computer dealer for resale
  - D. Replacement cost of a broken window of a company
3. Which of the following should **not be** included in the cost of inventory?
  - A. Import duties
  - B. VAT paid on purchases which cannot be claimed as input VAT.
  - C. Trade discounts
  - D. Transport cost incurred for finished goods

4. The closing stock of ABC Company as at 31<sup>st</sup> March 2017 included a damaged stock of Rs. 40,000. This could be sold for Rs.30 000 after incurring an additional cost of Rs. 5,000. How do you record this transaction in the financial statements of ABC?

Dr	Cr
A. Stock write off Account Rs.15,000	Closing Stock Rs.15,000
B. Closing Stock Rs.15,000	Stock write off Account Rs.15,000
C. Closing Stock Rs.10,000	Cost of sales Rs.10,000
D. Cost of sales Rs.200,000	Closing Stock Rs.20,000

- Following information are extracted from the books of Royal sports club. Use that information to answer question 05, 06 and 07.

Subscription fees collected in 2016	Rs.
• For 2015	1,000
• For 2016	15,000
• For 2017	1,000

Subscription receivable

As at year end	2015	Rs. 4,000
	2016	Rs. 8,000

Subscription received in 2015 for 2016 is Rs. 1,000.

5. Calculate the subscription fee to be identified in the income and expenditure account for the year 2016, if the entity is following the cash basis in recording the transactions.
- Rs.15,000
  - Rs.17,000
  - Rs.21,000
  - Rs.16,000

6. Calculate the subscription fee to be identified in the income and expenditure account for the year 2016, if the entity is following the accrual basis in recording the transactions.
- A. Rs.16,000  
B. Rs.23,000  
C. Rs.21,000  
D. Rs.17,000
7. Calculate the Subscription fee received in advance and the subscription receivable according to the statement of financial position as at 31<sup>st</sup> march 2016. (if the transactions are recorded according to accrual basis)
- A. Rs. 8,000 and Rs. 1,000  
B. Rs. 8,000 and Rs. 2,000  
C. Rs. 5,000 and Rs. 1,000  
D. Rs. 12,000 and Rs. 2,000

- Answer the following questions using the information given below.

**Partner's Current Account**

	A (Rs.)	B (Rs.)		A (Rs.)	B (Rs.)
B/F 2016.04.01	60,000	-	B/F 2016.04.01	-	50,000
Cash	20,000	-	Rent	-	60,000
Cost of sales	-	35,000	wages	100,000	120,000
Interest on drawings	5,000	-	Interest on capitals	40,000	30,000
2017.03.31 C/d	<u>80,000</u>	<u>250,000</u>	Share of profit	<u>25,000</u>	<u>25,000</u>
	<u>165,000</u>	<u>285,000</u>		<u>165,000</u>	<u>285,000</u>

**Capital Account**

	A (Rs.)	B (Rs.)		A (Rs.)	B (Rs.)
Goodwill	30,000	-	2016.04.01	1,000,000	750,000
			B/F		
2017.03.31 C/d	970,000	1,030,000		-	250,000
				=	<u>30,000</u>
	<u>1,000,000</u>	<u>1,030,000</u>		<u>1,000,000</u>	<u>1,030,000</u>

8. Calculate the value of Equity of the partnership as at 01<sup>st</sup> April 2016
- A. Rs. 1,000,000
  - B. Rs. 1,700,000
  - C. Rs. 1,740,000
  - D. Rs. 1,750,000
9. Calculate the net profit of the partnership for the year ended 31<sup>st</sup> March 2017.
- A. Rs. 50,000
  - B. Rs 340,000
  - C. Rs. 280,000
  - D. Rs. 335,000
10. According to the partnership agreement, partners have agreed to pay a minimum annual income to **B** and it has already been adjusted when distributing the profit. What is the minimum annual income agreed to pay for **B**?
- A. Rs. 25,000
  - B. Rs. 210,000
  - C. Rs. 175,000
  - D. Rs. 275,000

**(Total 20 Marks)**

## PART B

Answer ALL Questions

### Question No. 02

Sadu, Hiru and Tharu decided to dissolve their partnership from 31<sup>st</sup> December 2016. They shared their profit equally. The statement of financial position as at 31<sup>st</sup> December 2016 was as follows.

#### **Sadu, Hiru and Tharu**

#### **Statement of financial position as at 31<sup>st</sup> December 2016**

	Rs	Rs
<b>Non-Current Assets</b>		
Property Plant and Equipment's – Cost	230,000	
Less- Accumulated Depreciation	(25,000)	205,000
Goodwill		25,000
<b>Current Assets</b>		
Inventory	145,000	
Trade receivables	35,000	
Bank	15,000	195,000
<b>Total Assets</b>		<b>425,000</b>
<b>Capital Accounts</b>		
Hiru	100,000	
Sadu	100,000	
Tharu	50,000	250,000
<b>Current Accounts</b>		
Hiru	15,000	
Sadu	12,000	
Tharu	18,000	45,000

Non – Current Liabilities		50,000
Current Liabilities		
Trade payables	70,000	
Bills payable	10,000	80,000
		<b>425,000</b>

On 31<sup>st</sup> of December 2016 proceeds from the sale of Assets were,

Property Plant and Equipment	Rs. 180,000
Inventory	Rs. 150,000
Trade receivables	Rs. 30,000

On the same date trade payable were discharged by paying Rs. 65,000. Further a premium of Rs. 2,000 had to be paid to settle the bills payable. Realization expenses of Rs. 2,500 were paid and bank account was closed.

**Required,**

- Discuss the applicability of Garner v Murray rule in the dissolution of partnership.
- Show ledger accounts to close the books of the partnership.

**(Total 20 Marks)**

## PART C

Answer any **THREE (03)** Questions

### Question No. 03

Following are the Assets and liabilities of Samagi Youth club and it's Juice Bar.

<b>Youth club</b>	01 <sup>st</sup> January 2016 Rs.	31 <sup>st</sup> December 2016 Rs.
Sports equipment	40,000	45,000
Fixed Deposit (15%)	60,000	60,000
Subscription receivable	8,000	5,000
Cash and cash equivalents	20,000	12,000
Subscription received in advance	4,000	3,000
<b>Juice bar</b>		
Inventory (Soft drinks)	35,000	25,000
Pre-paid rentals ( for juice bar)	6,000	3,000
Equipment	-	30,000
Trade payable	20,000	28,000
Accrued expenses	5,000	7,000

Summary of the receipts and payments account of 2016 are given below.

	Rs		Rs
B/F	20,000	Rent of the juice bar	39,000
Subscription fees	42,000	Sports equipment	15,000
Sales of beverages	125,000	Expenses of the juice bar	16,000
Donations to annual sport meet	17,000	News papers	2,000
Investment income	6,000	Expenses on ground maintenance	12,000
		Sport meet expenses	20,000
		Cash purchases of juice bar	17,000
		Creditors of juice bar	42,000
		Equipment of juice bar	35,000
		C/d	<u>12 000</u>



	<u>210 000</u>	<u>210 000</u>
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### Other Information

The stock of beverages worth of Rs. 2,000 was damaged during the year.

### You are required to prepare:

- The income statement of the juice bar for the year ended 31<sup>st</sup> December 2016.
- Subscription fees account
- Income and expense account of Samagi Youth Club for the year ended 31<sup>st</sup> December 2016.

(Total 20 Marks)

### Question No. 04

Saman and Kamal have been in partnership for many years sharing profits and losses in the ratio 5:3 respectively. The following was their statement of financial position as at 31 December 2017.

	Rs	Rs
Goodwill		12,400
Plant and machinery		<u>16,320</u>
		<u>28,720</u>
Inventory	6,420	
Accounts receivable	4,100	
Cash at bank	626	
		<u>11,146</u>
Total assets		<u>39,866</u>
Sundry accounts payable		<u>(5,928)</u>
Total assets less current liabilities		<u>33,938</u>
Capital: Saman		19,461
Kamal		<u>14,477</u>
Total capital		<u>33,938</u>

On 1 January 2018, they decided to admit Nimal as a partner on the condition that she contributes Rs 12,000 as her capital but that the plant and machinery and inventory should be revalued at Rs 16,800 and Rs 6,100 respectively, with the other assets, remaining at their book values. The goodwill was agreed to be valueless.

**You are required to prepare:**

- a. The ledger entries dealing with the above in the following accounts:
  - i. Goodwill account,
  - ii. Revaluation accounts,
  - iii. Capital accounts
- b. The statement of financial position of the partnership immediately after the admission of Nimal as a partner.

**(Total 20 Marks)**

**Question No. 05**

Vikum is the owner of computer spare parts shop. He is not preparing the books according to double entry system. Following are extracted from his records of accounts for the year ended 31<sup>st</sup> December 2016.

- i. Summarized bank account for the year

2016.01.01 B/F	17,000	Rent	58,000
Deposits	585,400	Rates	20,400
		Electricity	9,800
		Other expenses	5,600
		Trade payables	388,000
		2016.12.31 C/d	120,600
	<u>602 400</u>		<u>602,400</u>

- ii. All the sales and purchases are done in credit basis
- iii. All payments received from the creditors were deposited in the bank after completing the following payments.
  - a. Drawings – Rs.1,000 per week ( consider 52 weeks per year)
  - b. Salary for the supporter - Rs.88,400
  - c. Other expenses – Rs.21,000

iv. Following additional information are also provided

	2016.01.01 (Rs.)	2016.12.31 (Rs.)
Inventory	36,000	52,000
Trade receivables	10,600	17,600
Trade Payables	27,600	38,680

**You are required to prepare** the income statement of the business for the year ended 31.12.2016.

**(Total 20 Marks)**

**Question No. 06**

Firms T & D and R & Q decided to amalgamate as on 1<sup>st</sup> January, 2018 under the name Vikum Trading Company (Pvt) Ltd. Their statement of financial position as at 31<sup>st</sup> December, 2017 were as follows.

<b>Liabilities</b>	<b>T &amp; D Rs.</b>	<b>R &amp; Q Rs.</b>	<b>Assets</b>	<b>T &amp; D Rs.</b>	<b>R &amp; Q Rs.</b>
Trade payables	20,000	40,000	Buildings	25,000	45,000
Bill payable	22,000	14,000	Plants	28,000	10,000
Bank Loan	-	8,000	Stock	20,000	26,000
			Debtors	22,000	44,000
<u>Capital</u>			Investment	10,000	-
<u>Accounts</u>			Bank	-	10,000
T	33,000	-			
D	30,000	-			
R	-	48,000			
Q	-	25,000			
	<b>105,000</b>	<b>135,000</b>		<b>105,000</b>	<b>135,000</b>

T & D shared profits in proportion of 3 : 2 , while R & Q shared profits in the proportion of 2 : 1.

All the partners agreed to dissolve their partnership and incorporate a new company in the name of Vikum Trading Company (Pvt) Ltd.

New company agreed to undertake assets and liabilities at the agreed values as follows.

	<b>T &amp; D</b> <b>Rs</b>	<b>R &amp; Q</b> <b>Rs</b>
Buildings	35,000	50,000
Plants	30,000	15,000
Stock	18,000	20,000
Debtors	20,000	42,000
Investment	15,000	

In R & D Cash Balance after the settlement of Bank loan would be transferred to R.

All the assets and liabilities would be transferred to the new company except Bank loan of R and Q.

New company will issue shares to partnership in order to settle the purchase consideration.

**You are required to:**

- Show the necessary ledger Accounts of T & D and R & Q.
- Prepare the Opening Statement of financial position in the books of Vikum Trading Company (Pvt) Ltd.

**(Total 20 Marks)**