

Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Hospitality Tourism and events

Management

SECOND YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017

HTE 272 -2 Financial Accounting



Instructions to candidates:

No. of pages : Seven (07)
No. of questions : Five (05) Essay
Time : Two (02) hours
Marks allocated : 100 Marks

Index No:

Answer only four (04) questions. Show all the workings clearly. Non programmable calculators are permitted.

01.

- i) Briefly explain the importance of Financial Accounting for management (04 Marks)
- ii) Describe the underline assumption used by the entities in preparing financial statements. (04 Marks)
- iii) State the 'Fundamental Qualitative Characteristics' and 'Enhancing Qualitative Characteristics' of financial information as mentioned in the Framework for Financial Reporting. (06 Marks)
- iv) List the five (05) elements of financial statements (05 Marks)
- v) Mr.Pubudu Jayendra started a Sole Trader Business on 01 April 2017 introducing a Rs.100,000 as initial capital. Following transactions were taken place in the month of April 2017.
 - A. Purchase goods for Rs.40,000
 - B. Opened a current account in a commercial bank by depositing Rs.10,000
 - C. Obtain a bank loan of Rs.75,000
 - D. Purchased office equipment for Rs.50,000
 - E. Purchased goods on credit for Rs.60,000



- F. Goods worth of Rs.10,000 were sold for Rs.15,000
- G. Sold Rs.4,000 worth of goods to Raheem enterprises for Rs.7,000.
- H. Cash paid to creditors Rs.10,000
- I. Cash received from trade debtors Rs.7,000.
- J. Administrative expenses paid Rs.1,000
- K. Loan installment paid Rs.5,500 including interest of Rs.500
- L. Sold Rs.10,000 cost of goods to Mr. Gamunu Parackrama for Rs.9, 500.

Record the above transactions in the Basic Accounting Equation. (06 Marks)

(Total Marks - 25)

02.

- i) Preparing financial statements is not a statutory requirement for sole proprietorships. Still the most of the owners spends a considerable amount on preparing financial statements of their sole proprietorship business. State the importance having proper financial accounting practices for sole proprietorships. (08 Marks)
- ii) The following trail balance was extracted from George Traders, a sole proprietorship as at 31/03/2017.

Particulars	Debit (Rs.000)	Credit (Rs.000)
Sales		6,107
Purchases	3,875	
Return inwards and outwards	170	15
Stock on 31/03/2016	1,050	
Sundry debtors and creditors	560	573
Administrative Expenses	258	
Selling and Distribution Expenses	206	

The following information is extracted from the books of Ramani, Kamani and Pawani partnership on 31/03/2017.

Description	Debit (Rs.)	Credit (Rs.)
Net profit		585,000
Capital Account Balances		
Ramani		200,000
Kamani		300,000
Pawani		250,000
Current Account Balances		
Ramani		25,000
Kamani		10,000
Pawani	15,000	
Land and Building	500,000	
Motor vehicle	350,000	
Furniture and fittings	250,000	
Office equipment	150,000	
Stock	75,000	
Debtors and creditors	50,000	60,000
Cash	40,000	
	1,430,000	1,430,000

Additional information

- Rs.5,000 expense payable and Rs.25,000 interest income receivable has not adjusted before calculating the net profit.



- Pawani introduced Rs.50,000 as additional capital on 1/9/2016 and it has been recorded in the accounts accurately. No any other changes has been taken placed in the capital accounts during the year

You are required to prepare;

- a. the Profit and Loss Appropriation account of the Ramani, Kamani and Pawani partnership for the year ended 31/03/2017. (08 Marks)
- b. the Balance Sheet of Ramani, Kamani and Pawani partnership as at 31/03/2017 (07 Marks)
- c. Partners' current account (03 Marks)

(Total Marks-25)

04. Any business entity, organization or any association registered under the Companies Act No.7 of 2007 is treated as a company.

- i) State how would you distinguish a Limited Liability Company from a Partnership Business (06 Marks)
- ii) List the three (03) main types of companies that can be registered under the Companies Act No. 7 of 2007. (03 Marks)
- iii) List the different types of shares issued by a company for collecting capital required for the business. (06Marks)
- iv) XYZ Company invited applications for 100,000 shares at Rs.25 each payable as follows.

Rs. 15 on application

Rs. 5 on allotment

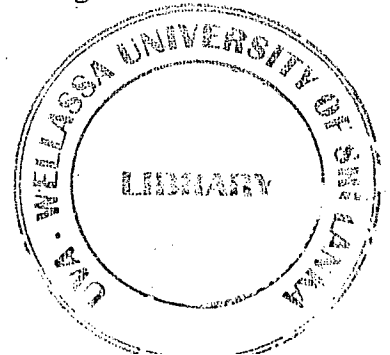
Rs. 5 on call

The company received applications for 150,000 shares. The applications for 30,000 shares found to be incomplete. The company rejected all the incomplete applications

Provision for doubtful debt		44
Motor vehicle (At cost)	450	
Land and Building (At cost)	1,400	
Office equipment (At cost)	525	
Insurance	49	
12% Bank loan		250
Drawings	20	
Capital Account		1,675
Cash at bank	81	
Cash in hand	20	
	8,664	8,664

The following adjustments are to be made as at 31/03/2017 before preparing final accounts.

- Stock as at 31/03/2017 was valued at Rs.1,200,000
- Administrative expenses payable for the year is Rs.10,000.
- A provision for doubtful debt is to be created to the extent of 5% on final debtor balance.
- Property plant and equipment should be depreciated based on the following percentages.
 - Motor vehicle 20%
 - Building 5%
 - Office equipment 10%
- The insurance expense paid consists of Rs.20,000 of prepaid insurance charges as at 31/03/2017 and Rs.15,000 for the proprietors life assurance policy.



- Value of land Rs.900,000
- Rs.5,000 worth of debtors found to be bad. No any entry has been made to record this bad debts.
- Rs.10,000 paid as interest on bank loan. The amount paid has been included in the administrative expenses.
- A motor vehicle maintenance expenses of Rs.10,000 has been debited to the motor vehicle account.

You are required to;

- a. Prepare Trading Profit and Loss Account for the year ended 31/03/2017 (09 Marks)
- b. Balance Sheet as at 31/03/2017 (08 Marks)

(Total Marks-25)

03. A partnership is a relationship which subsists between persons to carry on a business in common with a view of profit.

- i) List the elements of a Partnership (04 Marks)
- ii) State the three (03) methods of creation of a partnership business (03 Marks)
- iii) Ramani, Kamani and Pawani are in a partnership, sharing profits equally. Their partnership agreement shows following terms and conditions.

- Each partner is entitled to a monthly salary of Rs.10,000.
- 5% interest per annum should be paid on the partners' capital account balances prevailed at the beginning of the accounting period.
- 5% interest to be charged on partners cash drawings.
- 8% annual interest should be paid to the partners for any loan granted to the business other than the capital introduced.

and returned the application money back to the applicants and remaining shares were allotted among the applicants proportionately.

You are required to show the journal entries to record the issue of shares (10 Marks)

(Total Marks -25)

05.

i) What is the requirement for having a set of rules applicable in financial accounting which are accepted by everybody. (05 Marks)

ii) Briefly describe any five (05) accounting concepts given below.

- a. Business Entity Concept
- b. Historical Cost Concept
- c. Money Measurement Concept
- d. Realization Concept
- e. Prudence Concept
- f. Consistency Concept

(4 x 5= 20 Marks)

(Total Marks - 25)

