Management /2016
2nd year 1st Semester
Financial Accounting

Part B- Essay Questions

Answer **three (03)** questions from part B **including question number one (01).**
Marks allocated for part B is 50.

01.

i) Amal,Kamal and Bimal are in a partnership, sharing profits in the ratio of 2:3:1. Their partnership agreement shows following terms and conditions.

- Each partner is entitled to a monthly salary of Rs.5,000.
- 6% interest per annum should be paid on the partners' capital account balances prevailed at the beginning of the accounting period.
- 4% interest to be charged on partners cash drawings.

The following information is extracted from the books of Amal, Kamal and Bimal partnership on 31/03/2016.

- Capital Account Balances of Amal, Kamal and Bimal as at 31/03/2016 were, Rs.250,000, Rs.250,000 and Rs.200,000 respectively.
- Bimal introduced Rs.50,000 extra capital on 1/1/2016. There was no any transactions affected the capital accounts of Amal and Kamal during the year.
- The drafted net profit for the year was Rs.750,000. This profit has been calculated without accumulating Rs.5,000 of electricity expenses payable and Rs.10,000 prepaid building rent at the balance sheet date.
- The cash drawings of the partners at the beginning of the year are as follows
    - Amal Rs.20,000
    - Kamal Rs.30,000
    - Bimal Rs.25,000

You are required to prepare;

The profit and loss appropriation account of the Amal, Kamal and Bimal partnership for the year ended 31/03/2016. (10 Marks)

ii) Ajith, Sajith and Rajith are in partnership sharing profits and losses in the ratio 2:2:1. They wound up their business on 31/03/2016. The balance sheet as at that date was as follows.

Capital Accounts	Ajith	150,000	Land and Building	160,000	
	Sajith	150,000	Motor vehicle	100,000	02.
	Rajith	50,000	Furniture and Fittings	110,000	
			Machineries	60,000	
Current Account	Ajith	50,000			
	Sajith	35,000	Stock	70,000	
	Rajith	(10,000)	Debtors	50,000	
Revaluation reserve		100,000	Cash	65,000	
Creditors		90,000			
		615,000		**615,000**	

A sum of Rs.10,000 was provided for dissolution expenses. The information regarding the asset realization is given bellow.

Date	**Description**	**Amount (Rs.)**
10/4/2016	Realization of Stock	60,000
25/4/2016	Realization of Land and Building	230,000
15/5/2016	Realization of Motor Vehicle	145,000
15/5/2016	Received from Debtors	45,000
10/6/2016	Realization of Furniture and Fittings and Machineries	230,000

The total creditors were settled for Rs.80,000 and Rs.45,000 received from debtors were considered as the full settlement of debtors balance. The realization activities were completed on 10/6/2016, and the actual realization expense of Rs.8,000 was paid on that day.

You are required to;

a) Show the priority order of distribution among partners using the surplus capital method

(10 Marks)

b) Prepare the realization account to ascertain the realization profit or loss (10 Marks)

(Total Marks-30)

02.

i) State the significance of preparing a bank reconciliation statement (02 Marks)

ii) Dumidu enterprise has a current account in a commercial bank. When they received the bank statement for the month of March 2016, they found that there was Rs.55,700 balance in his current account which is not similar to the balance shown in the cash book. The balance as per the cash book was Rs.45,055. They have identified following reasons for the difference between the two balances.

- A cheque received from a customer on 28th March amounting Rs.1150, was banked on the next day and was returned dishonored, charging Rs.5 by the bank.
- Cheques issued in the last week of March amounting Rs.3,570 were not yet presented for payment.
- Cheques deposited on 30th March amounting Rs.4120 had not yet been cleared.
- The bank has charged an interest of Rs.800 and bank charges Rs.50
- The total of one page in cash book (debit side) Rs.13,590 was carried forward as Rs.15, 390 to the next page
- A customer has deposited Rs.5,000 directly in the bank account.
- A cheque issued to a customer amounting to Rs.10,000 has been presented to the bank on 30th March and it was returned due to an error.

You are required to prepare the bank reconciliation statement. (08 Marks)

(Total Marks-10)

03. The following trail balance was extracted from Dedunu Enterprises a sole proprietorship as at 31/03/2016.

Particulars	Debit (Rs.000)	Credit (Rs.000)
Gross profit		990
Stock on 31/03/2016	950	
Sundry debtors and creditors	450	260
Administrative Expenses	155	
Selling and Distribution Expenses	112	
Provision for doubtful debt		40
Motor vehicle (At cost)	353	
Land and Building (At cost)	400	
Furniture and fittings (At cost)	325	
Insurance	45	
12% Bank loan		100
Capital Account		1,500
Cash in hand	100	
	2,890	**2,890**

The following adjustments are to be made as at 31/03/2016 before preparing final accounts.

- Rs.10,000 worth purchase return has not been considered in calculating the gross profit.
- A provision for doubtful debt is to be created to the extent of 5% on final debtor balance.
- Depreciate: Furniture and fittings by 12%, Motor vehicle by 25%
- The insurance expense paid consists of Rs.15,000 of prepaid insurance charges as at 31/03/2016.
- Purchase of furniture and fittings for a cost of Rs.75,000 at the beginning of the year has been omitted completely from the books

You are required to Prepare;

i) Profit and loss account for the year ended 31/03/2016 (05 Marks)

ii) Balance Sheet as at 31/03/2016. (05 Marks)

(Total Marks - 10)

04.

i) Distinguish a Partnership from a Limited Liability Company in terms of the Creation, Liability, Agency, Legal personality, Management and Accounting. (05 Marks)

ii) Limited liability companies collect the capital by issuing different types of shares. Distinguish equity shares from preference shares. (05 Marks)

(Total Marks- 10)