



Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management
Degree of Bachelor of Business Management in Hospitality, Tourism and Events Management

2nd YEAR 1st SEMESTER EXAMINATION – FEBRUARY / MARCH 2012

EMG 211-3 Financial Accounting in Management
HTE 211-3 / HTE 251-3 Financial Accounting



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Part C – Essay Questions

- Answer four (04) questions including question number 01 in this part.
- Show your all workings very clearly.
- Marks allocated for Part C is fifty (50).

01. Chandana and Vindana are in partnership together and trade under the name “Chavin”. They have just completed their second year of trading and have asked for your help in preparing their final accounts for the year ended 31.12.2011. The business has expanded rapidly throughout last two years. Consequently, the partners have not maintained the accounting records properly. However, they have provided you the following information.

The business had the following balances as at 01.01.2011.

| | Dr. (Rs.) | Cr. (Rs.) |
|------------------------------|----------------------------------|----------------------------------|
| Capital accounts – Chandana | | 80,000 |
| Vindana | | 50,000 |
| Current accounts – Chandana | | 23,000 |
| Vindana | | 21,000 |
| Vehicles at cost | 32,000 | |
| Equipment at cost | 60,000 | |
| Provisions for depreciation: | | |
| Vehicles | | 8,000 |
| Equipment | | 12,000 |
| Prepayments: | | |
| Advertising | 2,000 | |
| Insurance | 4,000 | |
| Accruals: | | |
| Heating and lighting | | 3,000 |
| Rent and rates | | 1,000 |
| Cash at bank | 10,000 | |
| Inventory | 25,000 | |
| Trade payables | | 15,000 |
| Trade receivables | 80,000 | |
| | ----- 213,000 ===== | ----- 213,000 ===== |

The business has made payments during the year for the followings:

| | Rs. |
|--------------------------|----------------|
| Carriage inwards | 4,500 |
| Vehicle running expenses | 13,500 |
| Insurance | 5,000 |
| Heating and lighting | 7,000 |
| Telephone | 3,500 |
| Advertising | 2,250 |
| Rent and rates | 15,000 |
| Office supplies | 1,250 |
| Supplies | 200,000 |
| Total | <u>252,000</u> |

Additional Information

- i) Inventory as at 31 March 2011 was valued at Rs.37,000.
- ii) The business owed Rs.10,000 to suppliers as at 31 March 2011.
- iii) Insurance expenses of Rs.1,000 was paid in advance at 31 March 2011.
- iv) During the year bad debts of Rs.15,000 were written off.
- v) Interest on capital account balances is to be allowed at 10%.
- vi) Receipts from customers were Rs.400,000 and there was Rs.55,000 outstanding from customers at 31 March 2011.
- vii) Settlement discounts of Rs.5,000 were given to customers.
- viii) Invoices totaling Rs.2,250 relating to heating and lighting were unpaid at 31 March 2011.
- ix) Depreciation on vehicles is to be provided at 25% of their written down value.
- x) Depreciation on equipment is to be provided at 20% on its original cost.
- xi) Cash drawings during the year were:

Chandana Rs.60,000;
Vindana Rs.30,000.



- xii) Interest on drawings is to be charged as follows:
- | | |
|----------|-----------|
| Chandana | Rs.2,000; |
| Vindana | Rs.1,000. |

xiii) Chandana and Vindana have an agreement to share the profits in the ratio 2:1.

You are required to prepare;

- the income statement and appropriation account of Charvin for the year ended 31 March 2011;
- the partners' current accounts for the year ended 31 March 2011; and
- the balance sheet of Charvin as at 31 March 2011.

02.

(20 Marks)

a)

Describe five (05) causes of difference between the balance as shown by the bank statement and the balance as shown by the firm's cash book bank column.

(05 marks)

b)

Bank balance had shown Susantha's books as at 31.12.2011 was different from the balance shown in the bank statement. Balance shown in the bank statement was Rs.300,000.

Followings are the reasons for the disagreements between two balances.

- Unrealised deposits value Rs.5,000
- Unpresented cheques value Rs. 20,000
- A direct deposit value Rs.30,000 made by a debtor was not recorded in the cash book.
- Rs.15,000 worth of returned Cheques deposit but dishonored, not recorded in the cash book value was Rs.15,000.
- Bank charges not recorded in the cash book Rs.5,000.

You are required to;

- Prepare bank reconciliation statement as at 31.12.2011.
- Calculate cash book bank column balance as at 31.12.2011 before adjusting.

(05 marks)

(Total – 10 Marks)

03. a)

Discuss the interest of any four (04) user groups of financial statements and explain why some of the Groups' interest may conflict.

(04 marks)

b)

Accountants are guided by a series of accounting concepts when they prepare financial statements.

You are required to;

Identify any three (03) such concepts and explain how each affects the content of the financial statements.

(06 marks)

(Total – 10 Marks)

04. At 01.04.2010, the following balances were brought forward in the ledger account of Mr.Kamal Silva's business.

| | | |
|---|----|--------|
| Rent expense account (Rs.) | Dr | 10,000 |
| Electricity account (Rs.) | Cr | 8,000 |
| Interest receivable account (Rs.) | Dr | 3,000 |
| Provision for doubtful debt account (Rs.) | Cr | 48,000 |

You are provided the following additional information.

i) Annual rent is Rs.60,000 and payable quarterly in advance on the last day of May, August, November and February.

ii) Electricity is paid as follows.

| <i>Date of Payment</i> | <i>Amount</i> | <i>Period Covered</i> |
|------------------------|---------------|-----------------------------|
| 05.05.2010 | Rs. 10,000 | (for the period 31.04.2010) |
| 10.08.2010 | Rs. 13,000 | (for the period 31.07.2010) |
| 08.11.2010 | Rs. 15,000 | (for the period 31.10.2010) |
| 07.02.2011 | Rs. 11,000 | (for the period 31.01.2011) |



At 31.03.2011, the electricity meter shows that Rs.9,000 worth of electricity has been consumed from the date of the previous bill.

iii) Interest income was received during the year as follows.

| | | |
|------------|----------|------------------------------------|
| 05.04.2010 | Rs.2,500 | (for the six months to 31.03.2010) |
| 03.10.2010 | Rs.6,000 | (for the six months to 31.09.2010) |

Mr. Kamal estimate that interest income of Rs.3,000 is accrued at 31.03.2011.

iv) At 31.03.2011, the balance of traded debtors amount to Rs.1,250,000. The provision for doubtful debts is to be amended to 5% of trade debtors.

You are required to;

Calculate the amounts that charge or credit to income statement for the year ended 31.03.2011.

(10 Marks)

05. Environmental accounting is a term with a variety of meanings. In many contexts, environmental accounting is taken to mean the identification and reporting of environment specific costs, such as liability costs or waste disposal costs.

You are required to:

Explain the reasons why businesses may consider adopting environmental accounting as a part of their accounting system.

(10 Marks)