Financial Accounting in Management
2nd Year 1st Semester – 2015

(04 Marks)

(05 Marks)

(05 Marks)

1 – 14 Marks)

Part B- Essay Questions

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

01.

i) Amal and Kamal are in a partnership sharing profits in the ratio of 2:3. Bimal was admitted to the partnership on 01/09/2014. The new profit sharing ratio was 2:3:1. Their partnership agreement shows following terms and conditions.

- Each partner is entitled to a monthly salary of Rs.5000.
- 6% interest per annum should be paid on the partners' capital account balances prevailed at the beginning of the accounting period.
- No any interest to be charged on partners drawings.

The following information is extracted from the books of Amal Kamal and Bimal partnership on 31/03/2015.

- Capital Account Balances of Amal, Kamal and Bimal were, Rs.250,000, Rs.250,000 and Rs.150,000 respectively.
- There was no any transaction affected the capital accounts of Amal and Kamal during the year.
- The drafted net profit for the year was Rs.467,500. This profit has been calculated without accumulating Rs.12,000 of building rent expenses payable and Rs.5,000 pre paid insurance premium at the balance sheet date.
- The profit was generated evenly throughout the year.

You are required to prepare;

The profit and loss appropriation account of the Amal, Kamal and Bimal partnership for the year ended 31/03/2015. (05 Marks)

ii) Alpha, Beta and Gamma were partners of a Furniture business and sharing profits in the ratio of 3:2:1 respectively. On 31/03/2015 they decided to dissolve their partnership. The balance sheet of Alpha, Beta and Gamma partnership as at 31/03/2015 is given bellow.

02

Capital Accounts			Land and Building		150,000
Alpha	100,000		Motor Vehicles		40,000
Beta	60,000		Computer		30,000
Gamma	50,000	210,000	Goodwill		10,000
Current Accounts			Investments		15,000
Alpha	20,000		Inventory	30,000	
Beta	(16,000)		Trade debtors	10,000	
Gamma	26,000	30,000	Cash in hand	15,000	55,000
Loan Account - Alpha		20,000			
Creditors		24,000			
Bank Overdraft		16,000			
		300,000			**300,000**

You are provided the following additional information.

- The Computer purchased for Rs.50,000 which is appearing in the books as Rs.30,000 was taken over by Gamma at a valuation of Rs.25,000.
- The bank overdraft was settled in full and the creditors were settled subject to 10% discount.
- An item of inventory appeared in the books at Rs.15,000 was given to Alpha as the full settlement of his loan account and remaining inventories were sold for Rs. 18,000.
- Land and Building, Investments and Motor Vehicles were realized for Rs.200,000, Rs.20,000 and Rs.20,000 respectively.
- The realization expense was Rs.10,000 and it was paid.
- Beta has no any private assets to contribute towards any deficiency.

You are required to prepare the;

a) Realization Account (05 Marks)

b) Cash Book (05 Marks)

c) Partners' accounts in columnar form showing how these accounts will be finally closed. (05 Marks)

(Total Marks-20)

02.

i) State the advantages of keeping records in the books of original entry (02 Marks)

ii) The following details of credit sales were extracted from the books of Asela Enterprises for the month of August 2015.

Date August	Customer	Invoice No.	Amount (Rs)	Other information
04	Ashoka Traders	1568	50,000	Received Rs.49,500 on 07/08/2015. Discount allowed Rs.500
14	Shanuka Silva	1569	20,000	Not settled within the month of August
22	Bhathiya Perera	1570	35,000	All the goods were returned back due to poor quality on 28th August
25	Deshakthi Traders	1571	35,000	Paid by a cheque on 27th August. The cheque was returned dishonored on 29th August
28	Amila Dilshan	1572	25,000	50% of the amount receivable was settled on 30th August.
29	Thenuki Jayamaha	1573	45,000	Not settled within the month of August

You are required to Prepare

a) the sales journal for the month of August 2015 (04 Marks)

b) the Sales Account (02 Marks)

c) the customers' personal accounts (05 Marks)

d) the list of debtors along with the amount receivable as at 31/08/201 (02 Marks)

(Total Marks- 15)

02

03. The following trail balance was extracted from Dedunu Enterprises a sole proprietorship as at 31/03/2015.

Particulars	Debit (Rs.000)	Credit (Rs.000)
Gross profit		1,000
Stock on 31/03/2015	950	
Sundry debtors and creditors	452	262
Administrative Expenses	153	
Selling and Distribution Expenses	68	
Bad debts	8	
Provision for doubtful debt		40
Motor vehicle (At cost)	353	
Land and Building (At cost)	400	
Furniture and fittings (At cost)	325	
Advertising expenses	34	
Insurance	45	
12% Bank loan		100
Postage and telephone	8	
Drawings	20	
Capital Account		1,500
Cash at bank	50	
Cash in hand	36	
	2,902	**2,902**

The following adjustments are to be made as at 31/03/2015 before preparing final accounts.

- A provision for doubtful debt is to be created to the extent of 4% on final debtor balance.
- Rs.2000 worth of debtors found to be bad on 30/03/2015. However no any entry was made to record it.
- 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 31/03/2015 and Rs.10,000 of proprietor's life insurance premium for the year 2014.
- Motor vehicle repair expenses of Rs.3,000 has been debited to motor vehicle account

You are required to Prepare;

i) Profit and loss account for the year ended 31/03/2015 (08 Marks)

ii) Balance Sheet as at 31/03/2015. (07 Marks)

(Total Marks - 15)

04.

i) Distinguish a Partnership from a Limited Liability Company in terms of the Creation, Liability, Agency, Legal personality, Management and Accounting. (06 Marks)

ii) Briefly explain the differences in recording the capital of owners and the division of profits among owners in Sole proprietorships, Partnerships and Limited liability company. (09 Marks)

(Total Marks- 15)

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Answer all Questions.
Total marks 50

Financial Accounting (2nd year 1st Semester)

PART C- Essay Questions

1. (a). Discuss valuation method for short-term investments and long term investments separately as per SLAS 22 : "Accounting for Investment"

(02 Marks)

(b). Following are the transactions in connection with Singhe Ltd investment holdings during the year 2007. Interest is paid half yearly on 30th of June and 31st of December.

28th February : Purchased Rs. 250,000/= 15% debentures of Rathna Ltd at a price of Rs. 104/= (cum-int) each for Rs. 100/= debenture.

30th June : Received due interest for half year.

31st August : Sold Rs. 100,000/= 15% debentures at a price of 107.50 (cum-int) each.

31st December : Received due interest for half year.

Prepare the Investment Account.

(08 Marks)
(Total10 Marks)

2. (a). What is goodwill arising on consolidation?. How is it computed?

(02 Marks)

(b). The following summarized balance sheets relates to P Ltd. and S Ltd. as at 31st March 2008.

	P Ltd. (Rs. 000)	**S Ltd. (Rs. 000)**
Fixed Assets	4,500	705
Investment – S Ltd.	650	-
Current Assets	1,315	135
Current Liabilities	(845)	(105)
	5,620	735
Ordinary Shares	4,950	600
Profit & Loss Account	670	135
	5,620	735

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Additional information.

I. P Ltd. purchased an 80% holding in S Ltd. on 01st April 2000 when S Ltd. profit & loss account balance was Rs. 75,000/=.

II. During the year to 31st March 2008, P Ltd. sold goods to S Ltd. for Rs. 90,000/=. P Ltd. invoiced these goods cost plus 50% profit margin. Half of the goods were in stock of S Ltd. at the year end.

You are required to prepare the consolidated balance sheet as at 31st March 2008.

(08 Marks)

(Total10 Marks)

3. Royal Ltd has an authorized share capital of Rs. 175,000,000 made up of Rs. 12,500,000 ordinary shares of Rs. 10/= each. The company prepares its accounts up to 31st March in each year under the historical cost convention in accordance with Sri Lanka Accounting Standards.

The provisions for depreciation are calculated on the cost on straight-line basis as follows.

Buildings	2.5% p.a.
Furniture & Fittings	10.0% p.a.
Motor Vehicles	20.0% p.a.
Equipments	12.5% p.a.

No depreciation is charged in the year of purchase, transfer/constructions and full depreciation is charged in the year of disposal.

Trading stocks are valued at the lower of cost or estimated net realizable value after making due allowance of obsolete and slow moving items.

The trial balance extracted on 31st March 2008 was as follows.

	Dr. **Rs. '000**	**Cr.** **Rs. '000**
Ordinary share capital		100,000
Preference share capital		25,000
General reserve		29,700
Profit and loss account (as at 31st March 2007)		11,650
Opening stocks	52,000	
Purchases and gross sales	650,000	902,500
VAT on sales	128,000	

iii) The cash book of Mr. Sumedha Gamage showed a balance of Rs.57,000 in hand on 31st May 2014. The bank statement balance at the same date was Rs.44,600 overdrawn. The reasons for the difference between two balances were given below.

A. Cheques amounting to Rs. 155,500 sent to creditors on 30th May 2014 were not paid by the bank until 8th June 2014.

B. Cheques amounting to Rs.252,000 deposited in the bank on 31st May 2014 were not credited by the bank until 2nd June 2014.

C. A standing order for a charitable subscription of Rs.6,000 had been paid by the bank on 25th May 2014 but no entry had been made in the cash book.

D. A cheque paid by Mr. Sumedha Gamage for building rent on 20th May for Rs. 34,500 had been entered in his cash book as Rs. 35400.

You are required to prepare the bank reconciliation statement.

(06 Marks)

(Total – 14 Marks)

4.

i) State the advantages of keeping records in the books of original entry

(02 Marks)

ii) Name any five (05) original entry books

(03 Marks)

iii) The following details of credit purchases were extracted from the books of Gunawardhana enterprises for the month of June 2014.

Date	Supplier	Invoice No	Amount (Rs)	Other information
04	Asoka PLC	16271	25,000	Fully settle on 15th June 2014
14	Sachithra PLC	16987	35,750	Not settled within the month of June
22	Bhathiya (PVT) LTD	17823	20,000	All the goods were returned to the supplier on 23rd June due to defects
25	Deshakthi PLC	31211	35,000	Paid by a cheque on 27th June. The cheque was returned dishonored on 29th June
28	Nileka PLC	31874	25,000	50% of the amount due was settled on 30th June 2014.

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You are required to prepare

a. Purchase journal for the month of June 2014 (03 Marks)

b. Purchase account (01 Marks)

c. Suppliers personal accounts (05 Marks)

(Total – 14 marks)

05.

i) Use of prudence concept results in under state profits and gains and over state expenses and losses, therefore present a value of equity that could be lower than it should be'. Do you agree with this view? Justify your answer

(08 Marks)

ii) Identify the accounting concepts to be used in dealing with following problems

a. Electricity consumed in the year 2013 and paid in the year 2014

b. A land originally purchased for Rs.50,000 which would now cost Rs. 100,000

c. The proprietor has withdrawn money from his private bank account and introduced as additional capital to the business

d. Good were sold to a customer in the year 2013. But the cash was only received in the year 2014

(1.5 x 4= 06 Marks)

(Total – 14 Marks)

06. The Balance sheet of Razak enterprises as at 01 January 2014 is given below

(Rs.'000)

Capital	20,000	Machinery	15,00
Bank Loan	5,000	Stock	5,00
Creditors	1,500	Debtors	4,00
		Cash	2,50
	26,500		**26,50**

Transactions occurred during the month of January 2014 are given below.

1. Purchase goods for Rs.50,000
2. Obtain a bank loan of Rs.1,500,000

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Financial Accounting

Part B- Essay Questions

Answer **three (03)** questions from part B **including question number one (01).**
Marks allocation for part B is sixty (60).

01.

i) Asitha and Thusitha are partners in a business sharing profits and losses in the ratio of 3:2. Their partnership agreement shows following terms and conditions.

- Each partner is entitled to a monthly salary of Rs.5000
- The partners are entitled to 6% interest on their capital account balances prevailed at the beginning of the year
- Interest on partners' drawings should be charged at the rate of 4% per annum.

The following balances were extracted from the books of Asitha Thusitha partnership as at 31/03/2016.

Particulars	Dr.	Cr.
Capital Accounts		
Asitha		250,000
Thusitha		375,000
Current Accounts		
Asitha		185,000
Thusitha		175,000
Drawings		
Asitha	16,800	
Thusitha	28,600	
Net profits for the year		375,400
Land and Building	400,000	
Machinery	255,000	
Motor Vehicle	350,000	

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Furniture and Fittings	280,000	
Stock as at 31/03/2016	150,000	
12% Bank Loan		150,000
Debtors and Creditors	54,500	84,500
Prepayments and Accruals	13,600	5,800
Cash in Hand	52,200	
Total	**1,600,700**	**1,600,700**

Additional information

- The drafted net profit (Rs.375,400) for the year has been calculated without accumulating the following items.
  - Rs.15,000 of administrative expenses payable
  - Rs.10,000 Distribution expenses payable,
  - Rs.5,000 pre paid insurance premium
  - Interest to be paid on 12% bank loan
- Thusitha has introduced Rs. 50,000 as additional capital on 31/03/2016 which was not recorded so far.
- Partners drawings during the year are as follows
  - Asitha has taken Rs.2,500 at the beginning of each month
  - Thusitha has taken Rs.5,000 on 1/6/2015 and Rs.2,000 at the end of the each month

You are required to;

a) Calculate the correct net profit for the year ended 31/03/2016 (02 Marks)

b) Prepare the profit and loss appropriation account for the year ended 31/03/2016 (04 Marks)

c) Prepare the balance sheet as at 31/03/2016 (04 Marks)

ii) The following trial balance was extracted from the books of Dulan PLC as at 31/03/2016.

	Dr. (Rs.'000)	**Cr. (Rs.'000)**
Cost of sales and Sales	97,200	153,400
Stated Capital		24,000
Retained Earnings (01/04/2015)		22,515
Land at cost	28,000	
Buildings at cost	15,600	
Motor vehicles at cost	9,600	
Plant and machinery	14,400	
Provision for Depreciation (01/04/2015)		
Building		3,255
Motor Vehicle		3,630
Plant and Machinery		4,560
Provision for doubtful debts (01/04/2015)		285
Other Income		795
Distribution Cost	7,920	
Administration Expenses	12,585	
Interim Dividend Paid	2,400	
Income Tax	6,930	
Inventory (31/3/2016)	12,780	
Trade Receivables / Trade Payables	9,600	11,520
Other Receivables / Other Payables	2,580	1,860
Cash & Cash Equivalents	6,225	
	225,820	**225,820**

Following additional information is available:

- It has now been detected that the closing inventory as at 31 March 2015 was overstated by Rs.825,000 due to a double count. This error is to be rectified in the financial statements for the year ended 31 March 2016.
- During the year ended 31 March 2016, inventory costing Rs. 660,000 was destroyed by fire, but no entries were made in the books of account in respect of the stock destruction or insurance receivables. Insurance company has agreed but is yet to pay Rs. 600,000 in this respect.
- Some stock items at a cost of Rs. 405,000 sold during the year and awaiting delivery was erroneously included under the closing stock as on 31 March 2016.
- The only addition to the property plant and equipment during the year was a motor vehicle purchased on 1st January 2016 at a cost of Rs.1,800,000.
- Depreciation is to be provided for on straight line method at following rates:
  - Buildings - 5% per annum
  - Plant & machinery - 10% per annum
  - Office equipment - 20% per annum
- The income tax provision for the year 2014/2015 was Rs.2,500,000 and the Income Tax for the year 2015/2016 has been estimated at Rs. 8,400,000. The income tax payable for the year 2014/2015 was fully settled during the year.
- Previous year tax has been overprovided by Rs. 640,000.

You are required to prepare the following statements for publication purpose.

a) Statement of Comprehensive Income for the year ended 31/03/2016 (08 Marks)

b) Statement of Financial Position as at 31/03/2016 (08 Marks)

c) Statement of Changes in Equity for the year ended 31/03/2016 (04 Marks)

(Total Marks-30)

02. 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 31/03/2015	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 the final accounts.

- Rs.10,000 worth purchase return and Rs.5,000 goods damages were not 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%

- 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.
- 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 (08 Marks)

ii) Balance Sheet as at 31/03/2016. (07 Marks)

(Total Marks - 15)

03.

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'. (04 Marks)

iii) State the difference in recording the capital of owners and the division of profits among them in Sole proprietorships, Partnerships and a Limited liability company

(06 Marks)

(Total Marks- 15)

04. Alpha PLC has published a prospectus inviting applications for 1000,000 shares to collect a proceed of Rs.15 million. The company expects to collect the proceed per share as follows.

Rs.10 with application

Rs.5 on allotment

The company has entered into an agreement with Beta PLC, an underwriting company to underwrite 80% of the share issue at a commission of 12%.

At the closing date of subscription list the company has received applications for 600,000 shares. The company allotted all the shares applied by the general public and on the same day the company allotted the shares to Beta PLC and collected the entire amount receivable after deducting the commission payable to the Beta PLC.

You are required to show the necessary journal entries to record the issue of shares.

(Total Marks- 15)