

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

SECOND YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017

EMG 211 -3 Financial Accounting in Management

HTE 211-3 Financial Accounting

Instructions to candidates:

No. of pages : Eight (08)
No. of questions : Six (06) Essay
Time : Three (03) hours
Marks allocated : 100 Marks
Answer **all** questions. Show all the working clearly.

Index No:

01.

- i) State the prime objective of Accounting (02 Marks)
- ii) Accounting information users can be categorized mainly into two categories.
Distinguish the two (02) major user groups of Accounting Information. (04 Marks)
- iii) Briefly explain the underline assumption used by the entities in preparing financial statements. (04 Marks)
- iv) The conceptual framework for financial reporting identifies qualitative characteristics of financial information as fundamental qualitative characteristics and enhancing qualitative characteristics. List the 'fundamental qualitative characteristics' and 'enhancing qualitative characteristics' of financial information as mentioned in the framework. (06 Marks)

(Total Marks-16)



02.

i) 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 bank current account in a commercial bank initially 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 goods to Raheem enterprises for Rs.7,000. The cost of goods sold was Rs.4,000
- 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 goods to Mr. Gamunu Parackrama for Rs. 9, 500. The cost of goods sold was Rs.10,000.

You are required to;

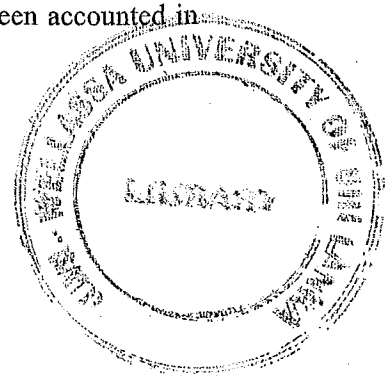
Record the above transactions in the Basic Accounting Equation. (06 Marks)

- ii) The following trail balance was extracted from Parakum Traders, a sole proprietorship as at 31/03/2017.

Particulars	Debit (Rs.000)	Credit (Rs.000)
Gross profit		2077
Stock on 31/03/2017	1050	
Sundry debtors and creditors	560	573
Administrative Expenses	258	
Selling and Distribution Expenses	206	
Provision for doubtful debt		44
Motor vehicle (At cost)	450	
Land and Building (At cost)	1400	
Office equipment (At cost)	525	
Advertising expenses	49	
12% Bank loan		250
Drawings	20	
Capital Account		1,675
Cash at bank	81	
Cash in hand	20	
	4619	4619

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

- Salaries payable for the year is Rs.5,000. The amount paid has been accounted in administrative expenses.



- 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. The amount paid is included in the administrative expenses.
- Value of land Rs.900,000

You are required to;

- a. Prepare profit and loss account for the year ended 31/03/2017 (05 Marks)
 - b. Balance Sheet as at 31/03/2017 (05 Marks)
- (Total Marks-16)

03. Ramani, Kamani and Pawani are in a partnership, sharing profits equally. Their partnership agreement shows following terms and conditions.

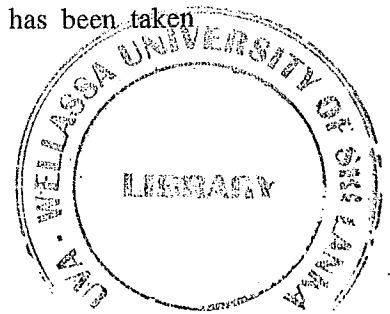
- Each partner is entitled to a monthly salary of Rs.10,000.
- 5% interest per annum should be paid on the partners' capital account balances prevailed at the beginning of the accounting period.
- 5% interest to be charged on partners cash drawings.
- 8% annual interest should be paid to the partners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

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



are required to prepare;

i) The profit and loss appropriation account of the Ramani, Kamani and Pawani partnership for the year ended 31/03/2017. (08 Marks)

ii) The balance sheet of Ramani, Kamani and Pawani partnership as at 31/03/2017 (08 Marks)

(Total Marks-16)

04. Alpha, Beta and Gamma were partners of a Furniture business and sharing profits in the ratio of 3:2:1 respectively. On 31/03/2017 they decided to dissolve their partnership. The balance sheet of Alpha, Beta and Gamma partnership as at 31/03/2017 is given bellow.

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 and 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;

- i) the realization account (06 Marks)
- ii) the cash book (06 Marks)
- iii) partners' accounts in columnar form showing how these accounts will be finally closed. (08 Marks)

(Total Marks-20)

05.

- i) Distinguish a Partnership from a Limited Liability Company in terms of the Creation, Liability, Agency, Legal personality, Management, and Accounting. (06 Marks)
- ii) The stated capital account balance of Himasha PLC as at 31/03/2017 was Rs.10,000,000. To improve the existing balance Himasha PLC issued 300,000 new ordinary shares at Rs.30 each to general public. The proceed is to be collected as follows.

Rs.20 with application

Rs.5 on allotment

Rs.5 on call



The company received applications for 300,000 shares and duly allotted on 30/05/2017. Allotment money for 50,000 shares was not received and the company did not ask the call money yet.

You are required to;

- a. Show the necessary journal entries to record the above share issue including cash (06 Marks)
- b. Calculate the stated capital as at 30/05/2017. (04 Marks)

(Total Marks- 16)

06. Financial Accounting seeks objectivity and it seeks consistency in how information is prepared and presented in financial statements. To Achieve this, there are set of Assumptions, working rules, and Conventions used in recording business transactions which are long been known as Accounting Concepts. Briefly describe any four (04) Accounting Concepts given below.

- i) Business Entity Concept
- ii) Historical Cost Concept
- iii) Money Measurement Concept
- iv) Realization Concept
- v) Prudence Concept
- vi) Consistency Concept

(4 x 4= 16 Marks)