

Uva Wellassa University

Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017

ENM 222 -3 Financial Accounting

Instructions to candidates:

No. of pages : Seven (07)
No. of questions : Six (06) Essay
Time : Three (03) hours
Marks allocated : 100 Marks

Index No:

Answer all 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. (03 Marks)
- iii) 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)
- iv) "Goodwill of a partnership would not be saleable in a piecemeal sale". Elaborate the above statement. Your answer should clearly state whether you agree on the given statement or not. (05 Marks)
- v) A, B and C are in partnership sharing profits and losses in the ratio of 5:3:2. They wound up their business on 31st March 2017. The balance sheet as at that date was as follows.



Capital Account	A	450,000	Land and Building	400,000
	B	200,000	Motor vehicle	200,000
	C	150,000	Furniture and fittings	100,000
Current Account	A	30,000	Investment	150,000
	B	50,000	Debtors	80,000
	C	20,000	Cash	90,000
Creditors		120,000		
		1,020,000		1,020,000

Z Company limited agreed to buy this partnership business for Rs.900,000. Purchase consideration was settled by Rs.10 each ordinary shares and partners took the shares according to their profit sharing ratio.

You are required to prepare the following accounts to show how these accounts are finally closed.

- a. Realization Account (04 Marks)
- b. Partners' capital accounts (04 Marks)
- c. Cash book (04 Marks)

(Total Marks-30)

02.

- i) Name the three (03) sources that businesses obtaining assets (03 Marks)
- ii) Business events can be classified as asset source transactions, asset use transactions and asset exchange transactions. Briefly explain the meaning of three types of transactions mentioned above. You may state examples for each type. (06 Marks)
- iii) 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. (05 Marks)

(Total Marks - 14)

03. 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		6107
Purchases	3875	
Return inwards and outwards	170	15
Stock on 31/03/2016	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)	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.

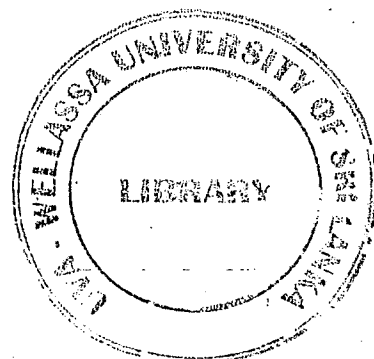
- Value of land Rs.900,000
- Rs.5,000 worth of debtors found to be bad. No any entry has been made to record this bad debts.
- Rs.10,000 paid as interest on bank loan. The amount paid has been included in the administrative expenses.
- A motor vehicle maintenance expenses of Rs.10,000 has been debited to the motor vehicle account.
- During the year ended 31 March 2017, inventory costing Rs.60,000 was destroyed by fire, but no entries were made in the books of account in respect of the stock destruction.

You are required to;

- i) Prepare profit and loss account for the year ended 31/03/2017 (07 Marks)
 - ii) Balance Sheet as at 31/03/2017 (07 Marks)
- (Total Marks-14)

04.

- i) Explain the rationale for recognizing the unrecorded assets and liabilities at an ownership change in a partnership business. (06 Marks)
- ii) Amal and Kamal are in partnership sharing profits in the ratio of 2:3. Bimal was admitted to the partnership on 01/09/2016. 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 31/03/2017.

- 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 to the capital accounts of Amal and Kamal during the year other than Rs.50,000 of additional capital introduced by Kamal on 1/10/2016.
- The drafted net profit for the year was Rs.875. This profit has calculated without making adjustments for following transactions and events
 - The closing inventory has been over valued by Rs.8,000
 - Building rent expenses payable Rs.10,000
 - Pre-paid insurance premium Rs.5,000
- The profit was generated evenly throughout the year.

You are required to prepare;

- a. The Profit and Loss Appropriation Account for the year ended 31/03/2017
(05 Marks)
 - b. Partners' current account. (03 Marks)
- (Total Marks-14)

05.

- i) Distinguish a "Share" from a "Debenture". (04 Marks)
- ii) A company can issue debentures at par value, at a premium or at a discount. State the accounting treatment for debenture premium and discount. (04 Marks)
- iii) Bimsara PLC. invited applications for, 17% Rs100 each 5000 debentures at Rs.130 on 1st January 2017. Applications closed on 30th January 2017 and the company has received applications for Rs.650,000 debentures. Company allotted debentures on 5th

February, 2017 and the excess cash returned duly on 6th February 2017. You are required to show the necessary journal entries to record this debenture issue.

(06 Marks)

(Total Marks-14)

06.

- i) Distinguish a Partnership Business from a Limited Liability Company. (04 Marks)
- ii) Unlike sole proprietorships and partnerships, a Limited Liability Companies can collect the capital by issuing different classes of shares to the general public. State the different classes of shares issued by a limited liability company as per the Sec.49 (3) of the Companies Act No.07 of 2017. (06 Marks)
- iii) Before issuing any shares, the board of directors of the company shall decide the consideration for which the shares will be issued and resolve that in its opinion that consideration is fair and reasonable to the company and to all existing shareholders. Identify the different forms of consideration for issue of shares. (04 Marks)

(Total Marks- 14)

