

Uva Wellassa University of Sri Lanka
Faculty of Science and Technology
Department of Computer Science and Technology
200 level 1st Semester Examination – May/June 2017
IIT232-3 Financial Accounting



Instructions to candidates

Total time duration: Three (03) hours
Number of questions: Six (06) Essay questions
Mark allocation: 100
Answer all the questions.

1. The following trial balance has been extracted from the nominal ledger of 'Target' a sole proprietorship for the year ended 31 March 20X7.

Description	Rs Debit	Rs Credit
Sales		126,000
Returns	6,300	1,900
Receivables and payables	11,257	7900
Office equipment		
Cost	125,000	
Acc. Depreciation at 01 April 20X6		45,000
Motor vehicles		
Cost	200,000	
Acc. Depreciation at 1 April 20X6		70,000
Purchases	24,000	
Inventories at 1 April 20X6	5,000	
Carriage inwards	2,900	
Carriage outwards	300	
Vehicle expenses	1,349	
Electricity	1,800	
Wages and salaries	11,000	
Rent	8,800	
Stationery and postages	2,000	
Bank deposit account	10,000	
Bank	4,000	
Cash on vehicle disposal		8,000
Discount allowed and received	5,000	3,700
Packing materials at 1 April 20X6	500	
Packing material purchases	2,000	
Capital at 1 April 20X6		157,706
Drawings	15,000	
10% Loan		16,000
Total	436,206	436,206



Following the extraction of the above trial balance from the ledgers and an examination of the accounting records, the following additional information was obtained:

- i. The cost of the closing inventories as at 31 March 20x7 is Rs.12,500. The NRV is estimated to be Rs.11,000.
- ii. It was revealed that a stock worth of Rs.2,500 was reported to have been damaged after the year-end stock take.
- iii. The packing material inventory as at 31 March 20x7 is Rs.300.
- iv. Rs. 1,000 incurred on office equipment bought on 1 October 20X6 has been debited to carriage inwards account.
- v. Following a review of receivables at the year end, it is decided that a bad debt of Rs.1,207 should be written off, and an allowance for receivables of 2% to be made.
- vi. Vehicle expenses include annual vehicle license tax of Rs.300 per annum for a vehicle, which the license expires on 30 April 20X7, and vehicle insurance of Rs.360 per annum which was paid on 01 November 20X6(due date).
- vii. The bank deposit was made on 1 October 20X6. This account earns interest at 8% per annum. Interest is credited on 31 March annually.
- viii. Office equipment is to be depreciated at 10% per annum on cost, and motor vehicles are to be depreciated at 20% per annum on cost.
- ix. . On 31 January 20X7, a motor vehicle that had cost Rs.20,000 on 31 July 20X5 was disposed of for Rs.8,000. No entries have been made for the disposal (except for the cash receipt).
- x. On 1 October 20X6, Office equipment were purchased for Rs.40,000, which have not been entered in the books.

Required,

- a. Prepare the Income statement of 'Target' for the year ended 31 March 20X7. (15 mark)
 - b. Prepare the Statement of Financial Position (SOFP) as at 31 March 20X7. (15 mark)
(Total marks - 30)
2. A, B and C are partners. The following provisions were stipulated in the partnership deed.
- 10% interest per annum is allowed for partners on the opening balance of capital.
 - Interest on drawings is to be charged at 5% per annum.
 - A - Withdraws Rs.1000 at the beginning of each month

- C – Withdraws Rs.500 at the end of each month
- Annual wage of Rs.18,000 is payable to B.

Additional information:

- 'A' has provided a loan of Rs.10,000 to the business subject to 12% interest per annum.
- The business occupies a building own by B. The annual rent is Rs.12,000.
- The Net Profit reported for the year ended 31 March 20X7 is Rs.70,997.50.
- Opening balances of Capital accounts are as follows;
 - A – Rs.65,000
 - B – Rs.40,000
 - C – Rs.36,000

Required,

- Prepare the Profit and loss appropriation account' of 'ABC partnership' for the period ended 31 March 20X7. (4 mark)
Note: All the workings should be shown.
 - Prepare partners' Current and Capital accounts. (6 mark)
Note: All the workings should be shown.
 - Briefly explain the 'rights and responsibilities' of a partner. (4 mark)
- (Total marks - 14)

- The bank statement of ABC Ltd as at 31 March 20x7 showed an overdraft balance of Rs. 53,000, while the cash book of the company showed a debit balance of Rs. 400.

The following reasons were identified for the difference:

- The following cheques deposited have not been realized by 31 March 20x7.

Cheque no.	Amount (Rs.)
100822	150,000
100860	24,000

- The following cheques issued by the company have not been presented for payments by 31 March 20x7.

Cheque no.	Amount (Rs.)
600121	3,000
600122	110,000



- The book-keeper has erroneously entered the value of the issued cheque no. 600123 as Rs. 69,800 in the cash book, whereas the correct value of the cheque was Rs. 68,900.
- The bank charges for the month amounted to Rs. 2,500.
- A cheque deposit worth of Rs.7,500 has been entered in the wrong side of the business cash book.
- The bank has erroneously debited(reduction) an amount of Rs. 6,000 to the bank account on 29 March 20x7.

Required,

- Adjusted cash book as at 31 March 20x7. (6 mark)
 - Bank reconciliation statement as at 31 March 20x7. (5 mark)
 - What is the bank balance to be shown in the Statement of Financial Position (SOFP). (3 mark)
- (Total marks - 14)
4. Sumanadasa, started his own business on 01 April 20x7 with the help of his father. The following transactions have been extracted from the books of his business for the month of April 20x7.
- On 01 April 20x7 He introduced Rs.750,000/- in cash and Rs.325,000/- worth of vehicle, to commence the business.
- On 02 April 20x7 Purchased goods worth of Rs. 400,000 paying cash upfront from ABC Company.
- On 03 April 20x7 Sold goods costing Rs.75,000/- for Rs.100,000/- on cash basis .
- On 15 April 20x7 Sold goods costing Rs.200,000/- for Rs.250,000/- on credit basis.
- On 19 April 20x7 Purchased goods for Rs.525,000/- from XYZ, on credit basis.
- On 25 April 20x7 Collected Rs.10,000/- from a customer.
- On 25 April 20x7 Paid Rs. 100,000 to XYZ by a cheque
- On 25 April 20x7 His shopping bill at 'Cargills' was Rs.12,000.
- On 25 April 20x7 The cupboard of the business was repaired.

On 30 April 20x7 Purchased a motor bicycle for Rs.250,000/- for office use by paying Rs.100,000/- in cash. The balance is to be settled within 2 months.

You are required to;

- a. Record the effects of each of the above transactions to the accounting equation. (Assets = Capital + Liabilities + Income - Expenses) (9 mark)
 - b. Calculate the Profit/loss of Sumanadasa's business for the month of April 20x7. (1 mark)
 - c. Briefly explain the 'Separate legal entity concept' with the aid of the information carried in the question above. (4 mark)
- (Total marks - 14)

5.

- a. "Accounting is a part of the Management Information System (MIS) of an organization". Discuss the validity of the above statement. (5 mark)
 - b. Briefly explain the characteristics of accounting information. (2 mark)
 - c. Briefly explain the term 'Fair presentation' or 'True and fair view' of financial statements. (3 mark)
 - d. Briefly explain the 'Realization concept' with reference to 'LKAS 18 - Revenue'. (4 mark)
- (Total marks - 14)

6.

- a. The following information is extracted from the books of B PLC, an electrical appliances retailer.

Purchases goods worth of Rs. 15,000 from P PLC subject to a 5% trade discount.

Sold goods worth of Rs. 22,000 to S PLC subject to a 5% trade discount.

Returned goods worth of Rs.10,000 to P PLC as it was faulty.

S PLC returned goods worth of Rs.12,000 as it was faulty.

Prepare the 'Original entry books' and journalize the transaction. (8 mark)

Note: All the workings should be shown.

- b. Distinguish between "Revenue expenditure vs. Capital expenditure". Use appropriate examples to support your answer. (6 mark)

(Total marks - 14)

