



University of Kelaniya - Sri Lanka
Centre for Distance and Continuing Education
Faculty of Commerce & Management Studies

Bachelor of Business Management (General) Degree First Examination (External) – 2019
April - 2023

BMGT E1025 - Business Accounting

No. of Questions: Four (04)

Time: 03 hours

Answer all questions.

Only non programmed calculators are permitted.

Question No. 01

The summarized trial balance of Vinuga PLC as at 31.03.2022 is given below.

Description	Dr (Rs.'000)	Cr (Rs.'000)
Property plant and equipment – carrying amount	49500	
Right of use asset	12600	
Sales		79500
Cost of sales	51300	
Trade receivables	5300	
Trade payables		14920
Inventory as at 31.03.2022	6488	
Cash and cash equivalents	780	
Provision for warranty		580
Warranty expense	470	
Provision for claims		800

Stated capital – ordinary shares		25000
Land revaluation reserve as at 01.04.2021		3500
Retained earnings as at 01.04.2021		5650
Administration expenses payable		300
Administration expenses	6462	
Distribution cost	6070	
Finance cost	1900	
Other expenses	1030	
Lease liability		12600
Income tax paid	1250	
Provision for income tax as at 01.04.2021		400
Paid EPF	100	
	143250	143250

Additional Information:

Before preparing the financial statements for the year ending 31.03.2022, adjustments must be made for the following.

- I. The company's policy is to measure inventory cost using the first-in-first-out (FIFO) method. However, the cost of inventory as at 31.03.2022 has been measured at the weighted average cost method due to a mistake and that value has been accounted for. And also inventory cost of goods sent to customers on a sale or return basis that have not yet sold is Rs. 120 000 and a selling value of Rs. 130 000 was identified as current-year credit sales (The time period that allowed the sale of these goods is yet not ended).

The inventory cost of 31.03.2022 measured at the FIFO method was Rs. 6 750 000.

The net realizable value of the inventory was Rs. 6 700 000.

- II. The administrative expenses for the year consisted of the following items.

Item	Rs.'000
Directors' remuneration	1250
Staff salaries	1800
Depreciation expenses	2225
Audit fees	275
Other administrative expenses	912
Total	<u>6462</u>

- III. Staff salary which was included in administration expenses was calculated after deducting the employee's contribution of EPF. The contribution of Employer and employee for EPF is 15% and 10% respectively. However, the company has paid Rs. 100 000 to the central bank of Sri Lanka as EPF and recorded it in their accounts.
- IV. The advertising fee of Rs. 350 000 of the company has been paid by a director from his personal bank account. This amount has been reimbursed by the company and accounted in the directors remuneration by a mistake.
- V. The company has entered into a contract with a customer on 31.03.2022 to sell goods and provide maintenance services during the first 6 months after sales. The total consideration of the contract was Rs. 1 500 000 and of which, Rs. 1 000 000 relates to the sale of goods and the balance for the provision of maintenance services. The company sold all goods agreed in the contract on 31.03.2022 and the total consideration of the contract was received in cash. This total amount has been accounted in the sales.
- VI. The following information relates to property, plant and equipment. (All figures are given in Rs. 000)

Description	Cost/value as at 01.04.2021	Purchases during the current year	Depreciation for the current year	Accumulated depreciation as at 31.03.2022	Carrying amount as at 31.03.2022
Land	22500				22500
Building	9500	5000	725	4500	9500
Motor vehicles	9500	6000	1550	3500	12000
Office equipment	7500		1500	2500	5000
Total	49000	11000	3775	10500	49500

The land of the business was revalued for the first time on 31.03.2018. The surplus resulted from this revaluation is represented by the land revaluation reserve. The land was revalued for the second time on 31.03.2022 for Rs. 18000000. However, it is not yet accounted for.

The building and motor vehicles have been purchased during the year on 01.10.2021 and 01.01.2022 respectively. However, the current year depreciation has been calculated erroneously based on the year-end cost of assets without considering the dates of purchase.

Office equipment (cost was Rs. 1 500 000) was sold on 31.03.2022 for Rs. 1 000 000. Those things were bought on 01.10.2019. The amount that was received by selling was recorded as sales account credited and cash account debited only.

Property, plant and equipment are depreciated annually on a straight-line method as follows.

Buildings 5%

Motor vehicles 10%

Office equipment 20%

Motor vehicles are used in the distribution of goods and other assets are used for administrative activities.

- VII. The verdict of a filed by a customer against the company was declared on 15.05.2022 and accordingly, Rs. 550 000 was paid on this date the full settlement of the claim. This case was filed on 01.12.2021 and the provision recognized in this regard as at 31.03.2022 based on company lawyers' opinion is shown in the trial balance. The financial statements of the company were authorized for issue by the board of director on 15.06.2022.
- VIII. Company has sold goods with one year warranty and paid warranty expenses of Rs. 470 000 relevant to last year's sales. That amount was shown in the trial balance. Provision for warranties of Rs. 650 000 was estimated as at 31.03.2022.
- IX. The company entered into a lease agreement on 01.03.2022 to obtain the right of use of a building for a period of 4 years. However, this building was available for use from 31.03.2022 after spending Rs. 500 000 for renovation. This renovation is expected to generate benefits to the company over the entire lease period. However, this amount has been accounted in the other administrative expenses. Lease interest is not charged during the renovation period. According to the agreement, an annual lease rental of Rs. 4 413 000 is payable from 31.03.2023. The lease interest applicable for the year ending 31.03.2023 is Rs. 1 890 000.
- X. Income tax paid during the year includes Rs. 520 000 paid with respect to the previous year. Total income tax liability for the year ending 31.03.2022 has been estimated as Rs. 650 000.
- XI. Rs. 500 000 interim dividend Payment is included within distribution expenses. The director board proposed Rs. 1 000 000 dividends on 30.05.2022.

Required:

The following financial statements (including notes) of Vinuga PLC for publication as per LKAS 1 (Presentation of Financial Statements):

- a) Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2022
- b) Statement of Changes in equity for the year ending 31.03.2022
- c) Statement of Financial Position as at 31.03.2022

(Total 40 marks)

Question No. 02

- a) Hello Company, which is in the business of providing telephone network facilities, has entered into an agreement with a customer to provide a headset and telephone network facilities for 12 months for a monthly payment of 1250 rupees. The market value of a separate headset is 3600 rupees and the monthly fee for telephone network facilities is 1200 rupees. Explain how the revenue of Hello Company should be recognized in accordance with **SLFRS 15** in relation to the above transaction.

(05 Marks)

- b) Mashi company's stock value as at 31.12.2022 was Rs. 300 000. A sudden fire destroyed 40% of the stock. No compensation has been received for that till now. Accordingly, state the values of the stock to be shown in the profit and loss statement and the statement of financial position.

(05 Marks)

- c) On January 1, 2021, ABC company purchased a machine worth Rs.300,000 and on January 1, 2022, sold the machine to another party for Rs.250,000. The useful life of this machine is six years. What is the figure to be shown in the income statement as at 31 December 2021 in relation to the above transaction?

(05 Marks)

- d) Anuradha Company Limited manufactures and sells electronic products. Case pending as on 31.03.2021 regarding defective goods sold to a customer. A provision of Rs.50,000 was made by the company on 31.03.2021 for this as per legal instructions. On 05.04.2021 the

court ordered the company to pay a compensation of Rs.75000 to the customer. On 15.05.2021 the Directors of the Company authorized the issue of financial statements for the year ended 31.03. 2021.

- i. State whether this judgment gives rise to an adjusting case or a non-adjusting case according to the LKAS 10 (Event after the reporting period) standard.
- ii. Compute the recognized liability for this judgment as at 31.03.2021 according to the LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets) standard.

(05 Marks)

(Total 20 marks)

Question No. 03

Thamara, Ranga & Ranidu have been in a partnership sharing profits and losses in the proportion of 2:2:1. Their partnership agreement includes the following:

- I. Thamara and Ranga are entitled to salaries of Rs. 60,000 & Rs. 72,000 per annum, respectively.
- II. All partners are entitled to interest on capital of 10% per annum.
- III. Interest is to be charged on drawings at the rate of 5% per annum.
- IV. Partners are entitled to interest on any advances or loans given to the partnership at the rate of 5% per annum.

The trial balance of the partnership as of 31st March 2022 was as follows:

Description	Dr	Cr
Capital Account - Thamara		350,000
Ranga		250,000
Ranidu		100,000
Current Account - Thamara		56,000
Ranga		48,000
Ranidu	6,000	
Loan from Thamara		50,000

Land	550,000	
Building	350,000	
Furniture	92,000	
Office equipment	40,000	
Depreciation as at 01.04.2021		
Building		12,000
Furniture		8,000
Office equipment		14,000
Inventory as at 01.04.2021	180,000	
Debtors/Creditors	150,000	90,000
Provision for doubtful debt		3,000
Cash at bank	75,000	
Purchases/Sales	630,000	1400,000
Purchases returns		5,000
Sales returns	12,000	
Discount received		10,000
Salaries & wages	210,000	
Advertising Expenses	15,000	
Telephone charges	16,000	
Electricity bill	25,000	
Discount allowed	5,000	
Bank charges	2,000	
Miscellaneous expenses	38,000	
Total	2,396,000	2,396,000

The following additional information is also available.

1. Inventory on 31st March 2022 was valued at Rs. 110,000.
2. Rs. 8,000 has to be written off from debtors as bad debts & provision for doubtful debts on remaining debtors is 5%.
3. Depreciation for office equipment on cost 20% & furniture on cost 10% and building on cost 5%.

4. Partners' drawings are as follows: No entries have been made for the drawings.
 - a. Thamara: At the middle of the month fixed sum of Rs. 500/- per month
 - b. Ranga: At the beginning of every month fixed sum of Rs. 1,200/- per month
 - c. Ranidu: At the end of each month fixed sum of Rs. 1,000/- per month
5. Accrued telephone & electricity charges for December are estimated to be Rs. 1,500 & Rs. 2,500 respectively.

You are required to prepare:

- a) The Comprehensive Income Statement and the Appropriation Account for the year ended 31st March 2022.
- b) Partners' Current accounts for the year ended 31st March 2022.
- c) Statement of Financial Position as of 31st March 2022.

(Total 20 Marks)

Question No. 04

- a) JKJ Ltd is considering a new project having an initial cost of Rs. 2,000,000. Following are the details of the project cash flows. Assume the cost of capital of the project is 10%.

	Cash Inflows	Cash Outflows
Year 1	1200	600
Year 2	1300	820
Year 3	1420	910
Year 4	1500	1050
Year 5	1745	1105

You are required to:

- i. Calculate the Net Present Value (NPV) of the above project and briefly comment on the viability of the project based on your NPV calculation.

(06 Marks)

- ii. Calculate the Internal Rate of Return of the above project.

(04 Marks)

(Note: If required, use only **10% and 20% discount factors** appropriately)

- b) Wishmitha Fashion sells clothing through several outlets around the country. In the factory, the operations are done under four product lines.

The following cost items are provided for the four product lines.

	Casual Clothing Men and Women	Luxury Clothing Men and Women	Kids Clothing	Footwear	Total
	Rs.				
Direct Material	390,000	295,000	270,000	135,000	600,000
Direct Labour	120,000	96,000	195,000	69,000	480,000
Indirect Labour	16,750	12,250	12,050	7,450	48,500
Electricity					50,000
Rent and Rates					70,000
Personnel Costs					35,000
Depreciation of assets					18,000
Insurance of assets					45,000

Other Information

	Casual Clothing Men and Women	Luxury Clothing Men and Women	Kids Clothing	Footwear	Total
Floor area (Square Meters)	600	1,500	600	300	3,000
Number of staff members	11	9	7	8	35
Fixed asset value	Rs. 1.5M	Rs. 3.5M	Rs. 0.9 M	Rs. 0.1 M	Rs. 6 M

You are required to prepare and overhead absorption statement each production line.

(10 Marks)

(Total 20 Marks)

PRESENT VALUE TABLE

Present value of \$1, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026