



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) – 2022

April - 2024

BMGT E1025 - Business Accounting

No. of Questions: Four (04)

Time: 03 hours

Answer all questions.

Only non programmed calculators are permitted.

Question No. 01

- I. Janahitha Stores is a sole proprietorship owned by Samanala. Trial Balance of Janahitha Stores as at 31st March 2020 was not agreed, and the difference of Rs. 49,500/- was debited to a suspense account. Then the draft financial statements were prepared and net profit of Rs. 1,350,000/- was recorded as per draft financial statements for the year ended 31st March 2020.

The following errors were identified subsequently:

- (1) Purchase of a computer on 31st March 2020 at a cost Rs. 95,000/- on credit, has been debited to computer account as Rs. 9,500/-. However, credit entry has been correctly recorded in the relevant creditor's account.
- (2) Cash purchases of Rs. 76,000/- have been correctly credited to the cash book. However, the corresponding debit entry has not been posted.
- (3) Office maintenance of Rs. 66,000/- incurred on 31st March 2020 has been debited to office equipment account, while it was recorded in the cash book correctly.

- (4) Depreciation of motor vehicle of Rs. 112,000/- has been debited twice to the respective depreciation expenses account and the credit entry has been correctly recorded in the relevant ledger account.
- (5) Total of the sales journal was understated by Rs. 225,000/-.

You are required to:

- (a) Prepare Journal Entries to correct the above errors. (08 marks)
- (b) Compute the adjusted/corrected net profit for the year ended 31st March 2020. (04 marks)

II. Write the answers for following question in your answer booklet with the number assigned to the question.

- a) Nimalsiri Hardware acquired a machinery for Rs. 400,000/- on 01st April 2018. The entity's policy is to depreciate the machinery using the diminishing balance method. If the applicable depreciation rate is 25% per annum, calculate the depreciation charge for the year ended 31st March 2020.
- b) Briefly explain the "Consistency Concept".
- c) State two (02) types of transactions recorded in the General Journal.
- d) The following information is extracted from the books of accounts of Chathura Traders for the month of March 2020:

	Rs.
Creditors' Control Account balance as at 01 st March 2020	875,000
Purchases Journal total for the month of March	2,350,000
Sales Journal total for the month of March	3,450,000
Return Outwards Journal total for the month of March	575,000
Payments to creditors during the month of March	1,450,000

Considering the above information, Calculate the Creditors' Control Account balance as at 31st March 2020.

(02* 4 = 08 marks)

(Total 20 Marks)

Question No. 02

- a) Liyanage started a sole proprietorship on 01st April 2019 by opening a bank account with a deposit of Rs.1,500,000/- as the capital introduction in cash apart from a motor lorry. The following journal entry was extracted from the General Journal of the Business:

	Dr.	Cr.
Motor Lorry	1,740,000	
Capital Account		1,740,000
Owner of the business Transferred a motor vehicle to the business on 01 st April 2019	1,740,000	1,740,000

Cash Control Account (cash book) for the year ended 31st March 2020 is as follows:

	Rs.		Rs.
Capital	1,500,000	Payments for trade creditors	3,850,000
Receipts from Trade Debtors	3,200,000	Rent	864,000
Cash Sales	4,118,000	Electricity and water	258,000
		Salaries and wages	1,810,000
		Balance C/F	2,036,000
	8,818,000		8,818,000

The following additional information is also provided:

1. The following balances were appeared in the books of accounts as at 31st March 2020

	Rs.
Trade Debtors	975,000
Trade Creditors	1,240,000
Electricity and water Payable	15,000

2. Motor lorry is depreciated at the rate of 20% per annum on the straight-line basis at cost.
3. Rent has been paid on 01st June 2019 for the period of 12 months, ending 31st May 2020.
4. There were no stocks as at 31st March 2020.

You are required to:

Prepare the Trial Balance of Liyanage's Business as at 31st March 2020.

(10 marks)

- b) The following information relates to AMW, a company manufacturing school bags for the year ended 31st March 2020.

Description	Rs.
Inventory as at 01 st April 2019:	
Raw material	810,000
Work-In-Progress (at prime cost)	445,000
Raw material purchased.	2,850,000
Electricity expenses	275,000
Water expenses	200,000
Rent of factory	225,000
Insurance expenses	300,000
Direct wages	1,270,000
Fuel for factory's machinery	130,000
Factory Manager's salary	860,000
Depreciation on factory's machinery	270,000

The following additional information is also provided:

- (1) Inventories as at 31st March 2020 were valued as follows:

Description	Cost (Rs.)
Raw material	900,000
Work-In-Progress (valued at Prime Cost)	690,000

- (2) The following expenses are to be allocated between factory and office as follows:

Expenses	Factory	Office
Electricity	80%	80%
Water	75%	25%
Insurance	90%	100%

- (3) The completed school bags are transferred to the trading division at a profit margin of 20% on cost.

You are required to:

Prepare the Manufacturing Account of AMW for the year ended 31st March 2020.

(10 marks)

(Total 20 Marks)

Question No. 03

- a) Damith and Udith are in a partnership DU Passion sharing profits and losses in the ratio of 4:2 respectively. On 01st January 2023, Meena was admitted as a new partner to the partnership with an initial cash investment of Rs. 8,000,000/-.

- I. The following balances were extracted from the books of accounts of the partnership.

(Rs. '000)

	Dr.	Cr.
Capital accounts as at 01 st January 2023:		
Damith		12,000
Udith		8,000
Capital introduced by Meena on 01 st January 2023		8,000
Current accounts as at 01 st January 2023:		
Damith		1,500
Udith	800	
Drawings made during the year ended 31 st December 2023:		
Damith	900	

II. Goodwill of the partnership was valued at Rs.2,400,000/- as at 01st January 2023 and it was decided to adjust through the partners' capital accounts without creating a goodwill account.

III. Non-current assets of the partnership were revalued on 01st January 2023 as follows.

(Rs. '000)

	Revalued Amount as at 01 st January 2023	Cost	Accumulated Depreciation as at 01 st January 2023
Land and Buildings	6,000	4,000	600
Motor Vehicles	1,400	2,000	1,000

The non-current assets were agreed to be maintained in the accounts of the partnership at revalued amount.

IV. The new partnership agreement provides the following:

- Interest on capital at 10% per annum is to be paid on the capital account balances as at 01st January 2023.
- Udith is entitled to receive a monthly salary of Rs. 80,000/-.
- Profits and losses are to be shared among Damith, Udith and Meena in the ratio of 8: 6 : 6 respectively.

V. The net profit of the partnership for the year ended 31st December 2023 was Rs.6,480,000/-.

You are required to:

a) Prepare the following for the year ended 31st December 2023:

(i) Partners' current accounts.

(05 marks)

(ii) Partners' capital accounts.

(05 marks)

b) Complete each of the following statements by filling the blanks, using partnership

accounting knowledge.

- I. If the partnership agreement does not specify a profit-and-loss ratio, profits and losses are allocated _____.
- II. The five characteristics of a partnership are a). _____, b). _____, c). _____, d). _____, and e). _____.
- III. _____ refers to the ability of any partner to contract on behalf of the partnership.
- IV. A _____ occurs when a new partner is admitted, or an existing partner leaves a partnership.
- V. A debit balance in a partner's Capital account is called _____.

(02*5=10 marks)

(Total 20 marks)

Question No. 04

The summarized trial balance of Nimal PLC as at 31.03.2023 is given below.

Description	Dr. (Rs:000)	Cr. (Rs:000)
Property, plant and equipment	80,000	
Accumulated depreciation as at 01.04.2022 - Property, plant and equipment		11,000
Sales		72,200
Cost of sales	43,000	
Inventory	3,250	
Other income		1,800
Trade receivables	9,100	
Trade payables		5,250
Cash and cash equivalents	500	
Stated capital - ordinary shares		40,000
Retained earnings as at 01.04.2022		17,700

Revaluation reserve – buildings		5,000
Administrative expenses	8,800	
Distribution cost	6,200	
Finance cost	1,500	
Other expenses	600	
Income tax paid	900	
Provision for income tax as at 01.04.2022		400
Provision for compensation		500
	153,850	153,850

Additional information:

Before preparing the financial statements for the year ending 31.03.2023, adjustments must be made for the following.

- I. The inventory as at 31.03.2023 consisted of three items and their cost and net realizable value were as follows.

Item	Cost (Rs.'000)	Net Realizable (RS:000)
A	1,250	1,600
B	1,200	1,100
C	900	550
	3,350	3,250

It is the company's policy to apply an item-by-item basis in measuring inventory at cost and net realizable value, whichever is lower. However, the inventory as at 31.03.2023 has been measured by comparing the total cost and the total net realizable value of all three items contrary to this policy. Accordingly, the cost of the inventory has been written off by Rs. 100,000 and it has been included in other expenses.

- II. The provision for compensation shown in the trial balance has been made about a case filed by a customer against the company. The court decision was

given on 01.05.2023 and the company paid a compensation of Rs. 700,000 accordingly. The financial statements were authorized for issue by the directors of the company on 01.06.2023.

III. The composition of property, plant, and equipment and their accumulated depreciation are as follows.

Description	Cost/Value as at 31.03.2023 (Rs.'000)	Accumulated Depreciation as at 01.04.2022 (Rs.'000)
Land	30,000	-
Buildings	25,000	2,000
Motor vehicles	15,000	5,000
Office equipment	10,000	4,000
	80,000	11,000

All property, plant and equipment are used for administrative purposes. Depreciation should be provided for the year ending 31.03.2023. There is no residual value for these assets. (The additional information (IV), (V) and (VI) should also be considered in calculating depreciation.)

IV. The buildings and motor vehicles were revalued for the first time on 31.03.2020 and it is recorded correctly in the books. The details in this respect are given below.

	Buildings	Motor Vehicles
Revaluation surplus (Rs.'000)	5,000	-
Revaluation deficit (Rs.'000)	-	1,000
Remaining useful life from the date of first-time revaluation (Years)	25	6

The buildings and motor vehicles were revalued for the second time on 31.03.2023 as follows.

	Buildings	Motor Vehicles
Revalued amount (Rs.' 000)	20,000	7,000

However, no accounting entry has been made with respect to the second time revaluation of buildings and motor vehicles. There were no purchases or disposals of buildings and motor vehicles after 31.03.2020.

V. Few office computers were sold on 01.10.2022 for Rs.1 600 000 and they were purchased on 01.10.2021 for Rs.2,000,000. The company depreciates office equipment at 20% per annum on cost using a straight-line method. The cash received by selling these computers has been debited to the cash account and credited to other income accounts. No other accounting entry has been made for this sale.

VI. The following items of property, plant and equipment were purchased during the current year and they have been properly accounted.

Date of Purchase	Item	Cost (Rs.'000)
01.07.2022	Land	8,000
01.10.2022	Photocopy machine	1,500

VII. Directors' fee of Rs.1,900,000 and the interim dividend paid for ordinary shareholders of Rs. 1,100,000 has been included in the administrative expenses.

VIII. The company obtained the right -of-use of a building on 01.04.2022 under a lease agreement. The details of this lease are as follows.

Lease period	5 years
The useful life of the building	25 years
Initial cost of the right-of-use assets (Rs.'000)	2,750
Initial amount of the lease liability (Rs.'000)	2,750
Annual lease installment (Rs.'000)	820

Lease interest for the year ending 31.03.2023 (Rs.'000)	412
Lease interest for the year ending 31.03.2024 (Rs.'000)	350

The ownership of the right-of-use asset is not transferred to the company at the end of the lease term. The lease installment should be paid on 31' March of each year. Accordingly, the first annual lease installment was paid on 31.03.2023 and it was erroneously included in -the distribution costs. No other accounting entry has been made as to this lease. The right-of-use assets are presented as a separate item on the face of the statement of financial position of the company.

- IX. Income tax paid shown in the trial balance consisted of Rs. 320,000 and the previous year and the tax paid for the first three quarters of the current year. The total income tax liability for the year ending 31.03.2023 was estimated as Rs. 1,200,000.

You are required:

The following financial statements (including notes) of Nimal PLC for the publication purpose as per 'LKAS 1- Presentation of Financial Statements':

- a) Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2023
- b) Statement of Financial Position as at 31.03.2023
- c) Statement of Changes in Equity for the year ending 31.03.2023

(Total 40 marks)