University of Kelaniya - Sri Lanka

Centre for Open and Distance Learning

Faculty of Commerce and Management Studies

Bachelor of Business Management (General) Degree

Year I Examination (External) – 2008

BMGT E 1025/ BMGT 13025– Business Accounting

No of questions – 05 | **Time: 03 Hours**
Answer all questions

01. Answer the following questions based on your knowledge of Sri Lanka Accounting Standards (SLAS).

(I) What are the qualitative characteristics of financial statements?
(02 marks)

(II) Explain the concepts of "Consistency of Presentation' and "Materiality and Aggregation"
(04 marks)

(III) State two (02) main aspects that should consider in the selection and application of an accounting policy
(02 marks)

(IV) Define the following terms as per SLAS 18
(a) Depreciable amount
(b) Useful life
(04 marks)

(V) Explain the terms of "Operating Activities, Investment Activities and Financing Activities" of a cash flow statement.
(03 marks)

(VI) A company terminated 30 employees due to a closure of their business unit. These employees filed a case asking for a reasonable compensation. The decision was still pending at the end of the accounting period. How do you state this incident in the financial statements? What is the relevant Accounting Standard?
(03 marks)
(Total 18 marks)

02. (a) The cost of inventory as at 31/12/2007 of Nadun Pvt. Ltd. is Rs. 450,000/-. This had been sold for a net realizable value of Rs. 392,500/- on 02.02.2008. The company prepared its financial statements for the year ended 31/12/2007 and authorized by the Director Board on 28/03/2008. State the journal entry of the stock adjustment which should be shown in the financial statements for the year ended 31/12/2007.
(05 marks)

(b) The cost of the machinery belongs to Asitha Ltd. is Rs. 800,000/-as at 01.04.2007. On the same date provision for depreciation account shows a balance of Rs.300, 000/-. Annual depreciation policy is on straight line basis at 12.5%. This machinery has been revalued on 01.04.2007 as at Rs. 700,000/-

(a) Calculate the depreciation amount for 2007/2008

(b) Record this transaction in the relevant ledger accounts

(05 marks)

(Total 10 marks)

03. (a) I. How does the section 18 of the Prevention of Frauds Ordinance of 1844, is applicable to a partnership business?

(02 marks)

II. Why is it important to revalue assets whenever a new partner is admitted or an existing partner retires from a partnership?

(03 marks)

(b) Neela, Mala and Ama are partners in a partnership business and they share profits & losses in the ratio of 2:1:1 respectively. On 31st March 2008 Neela retired from the partnership. Mala and Ama decided to continue the partnership under the same name.

Neela, Mala and Ama Partnership

As at 31/03/2008 Balance Sheet is as follows:

Capital & Liabilities		**Assets**	
Capital:	(Rs.)		(Rs.)
Neela	150,000	Land & Building	30,000
Mala	75,000	Machinery	75,000
Ama	75,000	Furniture	10,000
Creditors	109,000	Investments	70,000
		Inventory	105,000
		Debtors	84,000
		Cash	35,000
	409,000		**409,000**

According to the partnership agreement at the retirement of a partner assets should be revalued to its present value. As at 31/03/2008 assets revaluations are as follows:

	(Rs.)
Land & Building	60,000
Machinery	70,000
Investments	75,000
Furniture	15,000
Inventory	120,000
Debtors after deducting the provision for bad debts	75,000

Following information is provided to you

1. Future profits & losses to be shared equally between Mala and Ama

2. The goodwill of the firm was valued at two years purchase based on the average of the last 04 years profits or losses. Last 04 years profits & losses were as follows:

			Rs.
i.	31/03/2007	Profit	140,000
ii.	31/03/2006	Profit	108,000
iii.	31/03/2005	Loss	(46,000)
iv.	31/03/2004	Profit	202,000

It was decided not to maintain a goodwill account in the books of the firm.

3. A provision is to be made for Rs. 15,000 for outstanding legal expenses.

4. Neela agreed to take the investments as a part payment of her share. Other partners agreed to keep the cash balance of Rs. 20,000/- in the partnership and agreed to bring the additional amount equally to be paid to Neela.

You are required to prepare the following ;

I. Calculate the goodwill and show the necessary journal entries in recording the goodwill.
II. Revaluation Account
III. Capital account of the partners
IV. Balance Sheet of the partnership after retirement of Neela

(20 marks)
(Total 25 marks)

04. Mr. Sampath is a manufacturer and following information is extracted from his books of accounts.

Stocks as at 01/04/2007	Rs.
Material	200
Work-in Progress	150
Finished Goods	400
Royalty paid for manufacturing	360
Direct wages	680
Purchase of raw material	5,260
Raw material return outwords	60
Maintenance of Machinery	560
Rates	200
Electricity	420
Sales	16,400
Duty	240
Carriage inwards-Material	380
Machinery (cost)	4,600
Buildings (cost)	2,400

The following additional information is provided to you:

I. The stocks as at 31/03/2008 are as follows:

Material (at cost)	420,000
Work-in-progress (at cost)	660,000
Finished goods (at cost)	340,000

II. Annual depreciation on straight line basis on cost: Buildings 5% and Machinery 20%

III. Rates and electricity should be apportioned in the ratio of 3:2 between factory and office.

IV. All the machinery is used in the factory and 80% of the building space is occupied by the factory and remaining used for office and sales outlet
Using the above data calculate the prime cost, cost of the manufactured goods and gross profit of the business.

(12 marks)

05. The Trail Balance as at 31/12/2008 of the Upeksha Pvt. Ltd. was as follows:

Details	(Rs.') Dr	(Rs.') Cr
Ordinary Shares as at 01.01.2008 (600,000 shares)		6,000
Preference Shares as at 01.01.2008 (300,000 shares)		3,000
Application & Allotment		2,160
Sales		20,140
Return Inwards	340	
Purchase	7,000	
Return Outwards		60
Stocks 01.01.2008	860	
Trade Debtors	1,140	
Trade creditors		540
Rates	560	
Electricity	120	
Salaries- Office	440	
Sales Expenses	420	
Telephone Expenses	130	
Bank loan interest	128	
Debit Tax & Bank Charges	32	
Bad debts	100	
Provision for bad debts 01.01.2008		140
Directors Expenses	680	
Auditors Expenses	474	
Carriage Inwards	380	
Discount Allowed	200	
Debenture Interest paid	120	
Income Tax paid	280	
Provision for income tax 2007/2008		120
Property Plan & Equipment & accumulated Depreciation as at 01.01.2008		
Land	9,400	
Building	2,400	320
Motor Vehicles	7,600	1,200
Furniture & Fittings	6,400	1,280
Interim Dividend paid		
Ordinary Shares (net)	306	
Preference Shares (net)	360	
12% Debentures as at 1/1/2008		2,000
Cash on hand	50	
Cash at Bank	80	
Retained profit		1,400
General Reserve		800
Bank Loan		840
Total	**40,000**	**40,000**

The following additional information is provided to you:

1. The stock as at 31/12/2008 Rs. 340,000/-

2. On 2008.07.01 company issued 60,000 ordinary shares, Rs. 24/- per share and 40,000 preference shares, Rs. 18/- per share to shareholders. The total amount received is credited to application & allotment account.

3. As at 31/12/2008 accrued rates Rs. 80,000/- and prepaid rental Rs. 20,000/-

4. A motor vehicle with a original cost of Rs. 1200,000 had been sold on 01/09/2008 for Rs. 400,000/- . This was purchased on 30.08.2005. The amount received from sales has been credited to Sales.

5. As per SLAS 18, Property Plant & Equipment to be depreciated annually on cost as per straight-line basis on following rates:

Building	5%
Machinery	20%
Motor Vehicle	20%
Furniture & Fittings	10%

6. From the debtors Rs. 80,000/- bad debts to be written off & provision for bad & doubtful debts is 5% on remaining debtors.

7. Income tax paid during the year included an amount of Rs. 80,000/- paid as final payment of 2007. The remaining belongs to the current year. The current year tax liability estimate is Rs, 1,200,000/-

8. Interim dividend shown net figure excluding tax at 10%

9. During the year Land has been revalued for Rs. 12,000,000/-

10. Director board has approved the following decisions:
    - Proposed a annual dividend of Rs. 2.50 per share for preference share holders and pay the remaining amount.
    - Proposed a final dividend of Rs. 1.80 per share for ordinary shares
    - Transfer Rs. 200,000/- to general reserve.

Required:
Prepare the company's Income Statement for the year ended 31 December 2008 and the balance sheet as at that date for the purpose of publication and show the relevant notes to accounts.

(35 marks)