



# University of Kelaniya – Sri Lanka

## External Examinations Branch

### Faculty of Commerce and Management

#### Bachelor of Business Management (General) Degree First Examination – (External) 2009 October 2010

#### BMGTE 1025 – Business Accounting

No. of Questions: 05

Time: 03 hours

#### Answer all the questions

Calculators are allowed.

(1)

- i. “It is important to look at the factors of liquidity and solvency in order to get an understanding of the financial status of the business” Do you agree with this statement? Explain.  
(04 marks)
- ii. What is the compulsory information to be presented on the face of the financial statement of a company?  
(02 marks)
- iii. What are the two methods of reporting Cash Flows?  
(02 marks)
- iv. According to the Sri Lanka Accounting Standards 10, define the term “Accounting Policy” and state one instance where an Accounting Policy could be changed.  
(02 marks)
- v. Explain what contingent liability is and give an example of contingent liability.  
(03 marks)
- vi. According to the Sri Lanka Accounting Standards 18, define the following terms:
  - a. Carrying Amount
  - b. Depreciable Value

(02 marks)

(Total 15 marks)

- (2) Sadun Plc. prepares its financial statements for the year ended 31/03/2009 and following incidents needs to be considered. These financial statements were authorized by the Director Board on 07<sup>th</sup> June 2009.

- i. The cost of the stocks as at 31/03/2009 was Rs. 750,000/- which was realized on 07<sup>th</sup> May 2009 for Rs.700,000/-
- ii. The cost of the investment as at 31/03/2009 was Rs.350, 000/-, and it was revealed that the market value was less than 20% of the cost on the valuation done on 30<sup>th</sup> May 2009.
- iii. Due to the construction project of Sadun Plc. caused destruction of forestry. The Sadun Plc. published a policy in 2008 April stating that the company will take necessary steps to plant trees in order to protect environment in every year.
- iv. The Road Development Authority acquired a part of land which belongs to the Sadun Limited. The Sadun Limited files a case requiring a compensation of Rs. 20 lacks.
- v. The information relating to Motor vehicles of the company as follows:
 

31/ 03/2008 Cost	Rs. 600,000/-
31/ 03/2008 Accumulated Depreciation	Rs. 120,000/-
31/ 03/2008 Revaluation	Rs. 800,000/-

Annual depreciation on straight line basis at 10%  
No residual value of the motor vehicles.

- (a) Calculate the depreciation amount for year ended 31.03.2009 and prepare the revaluation account. State the motor vehicle value which should be shown in the Balance Sheet as at 31/03/2009.
- (b) State the accounting standards relevant to above **i, ii, iii and iv** incidents and clearly explain what is the impact of these incidents in the year ended financial statements of 31/03/2009.

(15 marks)

- (03) The following Trial Balance has been extracted from the accounting records of Manel Ltd. as at 31 March 2009.

Details	Dr	Cr
	Rs. '000	Rs. '000
Sales		85,000
Purchase	35,000	
Return Inwards	600	
Return Outwards		800
Telephone Expenses	300	
Rates	900	
Provision for bad debts (01.04.2008)		600
Trade Debtors	15,000	
Administration Expenses	5,400	
Motor Vehicle on cost (01.04. 2008)	40,000	
Furniture Equipment (01.04. 2008)	25,000	
Land (01.04. 2008)	80,000	
Leased Buildings (01.04.2008)	18,000	
Accumulated Depreciation as at 01.04.2008		18,000

Motor Vehicle		10,000
Furniture & Equipment		
Sales Expenses	6,300	
Provision for income tax 2007/2008		1,500
Income Tax paid		
Year 2007/ 2008	1200	
Year 2008/2009	700	
20% Debentures		12,000
Ordinary Shares		62,000
12% Preference Shares		25,000
Revaluation Reserve		6,000
General Reserve		18,000
Retained profit		15,200
Interim Dividend paid		
Ordinary Shares (net)	900	
Preference Shares (net)	2,000	
Trade creditors		5,620
Salaries and wages	10,500	
Advertising Expenses	1,200	
Stocks 01/04/2008	9,300	
Debit Tax	20	
Bank and Cash Balance	4,900	
Directors Expenses	1,700	
Auditors Expenses	800	
<b>Total</b>	<b>259,720</b>	<b>259,720</b>

The following additional information is provided to you:

1. The stock as at 31/03/2009 Rs. 9,800,000/-
2. As at 31/03/2009 accrued telephone charges Rs. 10,000/- and prepaid rates Rs. 20,000/-
3. On 2008/10/01 a Furniture was bought at a cost Rs. 500,000/- for office use. This has been debited to administration account and credited to cash account.
4. A motor vehicle which was purchased on 10/04/2004 with an original cost of Rs.1800,000 had been sold on 10/12/2008 for Rs. 800,000/- . Short term loans Rs. 700,000/- obtained from Bank and the sale proceeds of the motor vehicle have been used to buy a new motor vehicle to the company on 2009/01/15. This has not been recorded in the books of the accounts.
5. As per SLAS 18, Property Plant & Equipment to be depreciated annually on cost as per straight-line basis as per following rates:

Motor Vehicle	15%
Furniture and Equipment	20%

Depreciation policy of the company is to provide full depreciation of the year of purchase and do not provide any depreciation in the year of sale.

6. During the year Land has been revalued for Rs. 91,000,000/-
7. The leased building was used for office purpose and the rent agreement is for 10 years from 01/04/2006. The trail balance as at 01/04/2008 shows the net remaining amount of the rent agreement.

8. From the debtors Rs. 100,000/- bad debts to be written off & Provision for bad & doubtful debts is 5% on remaining debtors.
9. The current year tax liability for 2008/2009 estimate was Rs, 1,600,000/-. 2007/2008 tax liability has been fully paid.
10. Director board has approved the following decisions:
- Pay final dividend for preference share holders
  - Transfer Rs. 500,000/- to general reserve.
11. Ignore Withholding Tax of Dividends

**Required:**

Prepare the company's Financial Statements for the year ended 31 March 2009 for the purpose of publication and show the relevant notes to account.

(30 marks)

- (4) On 01 March 2009, Chathuri Limited issued 50,000 ordinary shares of Rs. 40 per share, payable as follows:

Rs. 12 per share on application

Rs. 14 per share on allotment

Rs. 14 per share on call

Applications received for 90,000 shares and refund the application money for 20,000 shares. The company employees requested 20,000 shares which were fully allocated and remaining applications were allotted on pro-rata basis. All the allotted applicants are requested to pay allotment money and call money.

The information regarding the non-payment of allotment and call money as follows:

One member who applied 6000 shares was failed to pay the allotment and call money. The directors resolved to forfeit these shares and reissued as fully paid shares at Rs. 30 per share.

**Required:**

- 1) Show the journal entries for recording the above transactions

(15 marks)

- (05) i) What are the Laws relating to partnership?

(03 marks)

- ii) Asha and Nirasha are partners and share profit and loss in the ratio of 4:1. Their Balance Sheet as at 31.03.2009 follows:

Asha and Nirasha Partnership  
Balance Sheet as at 31/03/2009

Capital	Rs.	Fixed Assets	Cost Rs.	Depre-ciation Rs.	Net Value Rs.
Asha	240,000	Land	117,000	-	117,000
Nirasha	60,000	Machinery	20,000	4,000	16,000
		Motor Vehicles	55,000	8,000	47,000
<b>Current Liabilities</b>		<b>Current Assets</b>			
Creditors	72,000	Stocks			70,500
Bank overdraft	18,000	Debtors		144,000	
		Provision for bad debts		(7,500)	136,500
		Cash			3,000
	<b>390,000</b>				<b>390,000</b>

Masha joined to the partnership on 31.03.2009 by accepting  $\frac{1}{6}^{\text{th}}$  of the profit share. It was agreed to have the following adjustments in the business.

- i. Write of bad debts Rs. 4000 and provide for provision for bad debts 5% from the remaining debtors
- ii. Asha agreed to take over the motor vehicle at the net value of Rs. 24,000/- which cost at Rs. 27,000/-. The remaining motor vehicles revalued at Rs. 30,000/-.
- iii. Land was revalued at Rs.150,000, stocks revalued at Rs. 62,500/- and machinery rived at Rs. 14,500/-
- iv. Goodwill was calculated at Rs.24, 000/- and agreed not to maintained a goodwill account in the books of the firm.
- v. It was agreed that the goodwill portion of the money bought by Masha is distributed to old partners in the business.
- vi. It was agreed to keep the total capital of the business as at Rs.360,000/-. The total capital should be contributed by the partners according to their profit sharing ratio. The excess money required taking back and any shortage required to bring in to the business.

You are required to prepare the following:

- I. State the new profit sharing ratio
- II. The required amount of money need to brought in by Masha
- III. Revaluation Account
- IV. Capital account of the partners in columnar form
- V. Balance Sheet as at 01.04.2009 of the new partnership of Asha, Nirasha and Masha.

(22 marks)

(Total 25 marks)