University of Kelaniya – Sri Lanka

External Examinations Branch

Faculty of Commerce & Management Studies

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

January 2011

BMGT E 1025 – Business Accounting

Index Number -

Time: 03 Hours

Answer all questions.

Instructions:

I. Answer all the questions in Part I and Part II. Marks allocation Part I: 30, Part II: 70
II. You must write answers for the Part I in the question paper itself and should be attached to the answer booklet. <u>Do not use any extra papers to write answers for questions in Part I.</u>
III. Use the provided answer booklet for Part II.
IV. Calculators are allowed.

Part I

All the questions in this section should be answered in the relevant space provided under each question.

1) State three qualitative characteristics of financial statements.

I. ....

II. ....

III. ....

2) What are the four (04) main accounting concepts need to be adhered to in preparation of financial statements as per SLAS 3?

I. ....

II. ....

III. ....

IV. ....

3) Define the term "Contingent Asset " and give an example

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4) Sudun Plc. suffered a loss from a fire occurred on 10th May 2010 in a part of the factory and loss was estimated Rs. 550,000/-. Financial Statements of the company for the year ended 31/03/2010 were authorized by directors on 01st July 2010. Explain how the above incident would impact on the prepared financial statements for the year ended 31/03/2010.

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<u>Underline the correct answer.</u>

5) A special machinery of Sadun Plc. amounting to Rs. 1,000,000/- as at 01/04/2009. On this date accumulated depreciation is Rs. 250,000/- and deprecated on the basis of straight line method annually at 12.5%. An evaluation on the fitness of the machinery revealed that it could be used only for 4 years. The depreciation amount for the year 2009/2010 is;

a. 200,000
b. 210,500
c. 187,500
d. 125,000

6) A manufacturing company adds a factory profit of 25% to its cost of production. The following information is available:

	Rs.
Finished goods as at 1st April 2009 (On Balance Sheet date 31/03/2009)	30,000
Cost of production (As per Manufacturing Account for the year ended 31/03/2010)	300,000
Closing stock of finished goods (As per Trading Account for the year end 31/03/2010)	60,000

How much should be credited as factory profit in the Profit and Loss Account for the year ended 31st March 2010?

a. Rs. 67,500
b. Rs. 69,000
c. Rs. 70, 500
d. Rs. 71,500

7) The summarized Balance Sheet of A and B in partnership is given below:

	Rs.		Rs.
Goodwill	12,000	Capital Accounts	
Net Assets	28,800	Partner - A	24,000
		Partner – B	16,800
	40,800		40,800

A and B have previously shared profits and losses in the ratio of 2:1 and have now decided to change the ratio to 3:2.

Goodwill is to be revalued and shown in the Balance Sheet at Rs. 30,000/-. What is the net balance on A's Capital Account?

a. 23,800
b. 24,000
c. 34,800
d. 36,000

8) The depreciable value of an asset is;

a. The cost of the asset
b. The cost of the asset or net realizable value
c. Deducting the residual value from the cost or revaluation value of the asset
d. The higher amount of the net sales value of the asset or useful value of the asset.

9) A company issues a bonus shares. How does this affect the cash flow statement?

a. It will increase the liquid assets.

b. It will increase financing assets.

c. It will increase cash flow from operating activities

d. It will not appear in the cash flow statement

10) A company paid Rs. 1.8 million to acquire the business of a sole trader. The sole traders assets and liabilities were valued as follows:

	Rs.
Fixed Assets	700,000
Current Assets	300,000
Current Liabilities	50,000
Long-term loan	100,000

How much paid as Goodwill?

a. Rs, 650,000

b. Rs. 750,000

c. Rs. 850,000

d. Rs, 950,000

(Marks 3*10 = 30)

Part II

(1) Amal, Vimal and Kamal are partners in a Textile business. They are carrying businesses in two Textile shops in Colombo and Gampaha sharing profits and losses equally. According to the Partnership agreement they are entitled to annual salaries of;

	Rs.
Amal	100,800
Viaml	67,200
Kamal	89,600

Partners are entitled to 5% of annual interest on loan provided to the business. Amal managed the Colombo shop while Vimal managed the Gampha shop. Kamal was responsible for delivery and obtaining special orders. It is agreed to pay 10% commission on net profits of the respective shops (before deducting the commission) to Amal and Vimal.

The Balance Sheet as at 31st December 2010 is shown below.

Amal, Vimal, Kamal Partnership Balance sheet as at 31.12.2010

Fixed Assets	Rs.	Rs.
Delivery Van	218,400	
Furniture and Fittings	42,000	
Machinery	105,000	365,400
Current Assets		
Stocks	168,000	
Trade Debtors	147,000	315,000
Current Liabilities		
Trade Creditors	252,000	
Bank Overdraft	134,000	(386,400)
		294,000
Capital		
Amal	168,000	
Viaml	84,000	
Kamal	42,000	294,000

Current Account- Kamal (Debit balance)		(84,000)
		210,000
Loan Account - Amal		84,000
		294,000

Additional Information

1. On 31st March 2011 partners decided to dissolve the partnership due to a problem occurred in the partnership.
2. Following is the summary of the transactions occurred in the partnership business from the period of 31st December 2010 to 31st March 2011.

	Rs.
Purchases	198,800
Sales	327,600
Salaries of Employees in the shop	50,400
Sundry Expenses	32,000
Rent and rates (Annual)	5,400
Drawings- Amal	21,000
Vimal	8,400
Kamal	4,200

3. Balances as at 31st March 2011.

   Debtors Rs. 134,400

   Creditors Rs. 315,000

   Stocks Rs. 142,800

4. Division of sales are as follows:

   Shops – Amal -- 5/9

   Viaml --- 3/9

   Kamal --- 1/9
5. The gross profits of the shops were 40% of the sales of the respective shop.
6. Sundry expenses include Rs. 10,000 incurred on van and the balance should be allocated among shops on sales ratio.
7. Rent and rates are divided as Amla's shop 60% and Vimal's shop 40%
8. In computing commissions, expenses related to delivery van have been divided equally between shops.

9. At dissolution of partnership the realization of assets are as follows:

Details	Rs.
Machinery	102,000
Furniture and Fittings	16,800
Delivery Van	158,800
Debtors	128,100
Stocks	105,000

Creditors were fully settled. The dissolution of partnership expenses were Rs. 10,500. The delivery van was taken by Amal for Rs. 105,000.

Using above information you are required to prepare the following:

I. Trading, Profit and Loss account for the 03 months ended 31st March 2011
II. Revaluation Account
III. Cash book (Bank Account) of the partnership
IV. Capital account of the partners in columnar form

(Total 30 marks)

(2) On 01 March 2010, Ayesha Limited issued 50,000 ordinary shares of Rs. 100 per share, payable as follows:

Rs. 20 per share on application
Rs. 40 per share on allotment
Rs. 40 per share on first call
Rs. 100/-

Applications were received for 90,000 shares and refund the application money for 20,000 shares. The company employees requested 20,000 shares were fully allocated and remaining applications were allotted on pro-rata basis.
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. Another applicant failed to pay for call money for 5000 shares. The directors resolved to forfeit all these shares and reissued as fully paid shares at Rs. 80 per share.

Required:
Show the journal entries for recording the above transactions

(10 marks)

(3) The following Trial Balance has been extracted from the accounting records of Kalu Ltd., as at 31 March 2011.

Details	**Dr**	**Cr**
	Rs. '000	Rs. '000
Ordinary Shares		3000
8% Preference Shares		1500
Balance as at 01/04/2010		
Raw Material	100	
Work-in-progress	75	
Finished Goods	200	
Royalty paid as per manufacturing	180	
Direct wages	340	
Raw material Purchase	2630	
Sales		8570
Return Inward / Return outwards	170	30
Debtors/ Creditors	570	300
Maintenance of machinery	280	
Rates	60	
Electricity	220	
Office Salaries	290	
Sales Expenses	210	
Bank Interest paid	64	
Telephone charges	65	
Debit tax and Bank charges	20	
Bad debts	50	
Provision for bad debts as at 01/04/2010		70
Directors remuneration	300	
Audit Fees	110	
Carriage Inward- Raw material	190	
Discount allowed	100	
Debenture interest paid	60	
Income tax paid	140	
Provision for income tax 2009/2010		120
Distribution expenses	170	
Property, Plant & Equipment as at 01/04/2010		
Land	2000	
Building	2400	160
Machinery	2300	460
Motor Vehicle	1800	600
Furniture & Fittings	900	180
15% debentures		600
Cash & Bank	106	
Retained Profits		360
General Reserves		150
Total	**16,100**	**16,100**

The following additional information is provided to you:

1. The stocks as at 31/03/2011 are as follows:

	Rs.
Raw material (at cost)	210,000
Work-in-progress (at Prime cost)	330,000
Finished Goods (at cost)	170,000

2. Electricity and rates need to be distributed among factory and office as per the rate 3:2.

3. As at 03/31/2011 accrued rates Rs. 40,000/- and prepaid electricity Rs. 10,000/-

4. On 2007/09/10 a motor vehicle was bought at a cost Rs. 800,000/- and this was sold for Rs. 500,000/- on 2010/08/01. A new motor vehicle was purchased to the company on 2010.08.15 by utilizing the sale proceeds of the motor vehicle and Rs. 300,000/= was funded through a bank loan. This has not been recorded in the books of account. Depreciation of the 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

5. Property Plant & equipment to be depreciated annually on cost as per straight-line basis as per following rates:

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

6. The cost of the factory building was Rs. 1200,000/-. All the machinery were used in the factory. A lorry at a cost of Rs. 800,000/- was used in the factory. 80% of furniture was used for office use.

7. The income tax paid include tax payment for the last quarter of 2009/2010, Rs. 40,000/- and remaining is for the current year. The current year tax liability (2010/2011) is estimated as Rs, 400,000/-.
8. Provision for bad & doubtful debts is 10% on remaining debtors.

9. Director board has approved the following:
   - To Pay final dividend for preference share holders
   - To Propose a final dividend of 10% for ordinary shares
   - To Transfer Rs. 200,000/- to general reserve.

Required:

Prepare the company's Income Statement for the year ended 31 March 2011 and the balance sheet as at that date for the purpose of publication and <u>including notes to accounts</u>.

(30 marks)