



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) – 2015

September - 2020

BMGT E 1025 - Business Accounting

Time: 03 hours

Instructions :

- i. Answer all the questions in Part A and Part B.
- ii. No. of Questions
Part A - 10 questions
Part B - 04 questions
- iii. Answers for the Part A should be written on the question paper itself and should be attached to the answer booklet.
- iv. You are strickly advised NOT to take Part A of the question paper out of the examination hall.
- v. You are allowed to use calculators.

Part - A

Answer the question 1 - 10 in this part by clearly underlining the correct answer.

1. Which of these forms of business organizations protect the personal assets of the owners from creditors of the business?
 - a) Proprietorship
 - b) Limited company
 - c) Limited company and partnership
 - d) Partnership

2. The distinction between a current asset and other assets:
 - a) is based on when the asset is expected to be converted to cash.
 - b) is based upon whether the asset is tangible or intangible.
 - c) is based on the ability to determine the current fair market value of the asset.
 - d) is based on amounts that will be paid to other entities within a year.

3. Which of the following characteristics is a fundamental qualitative characteristic of financial statements as per the conceptual framework for preparation and presenting the financial statements.
 - a) Comparability
 - b) Relevance
 - c) Going concern
 - d) Confidentiality

4. Which of the following characteristics is an enhancing qualitative characteristic of financial statements as per the conceptual framework for preparation and presenting the financial statements.
 - a) Faithfull representation
 - b) Comparability
 - c) Relevance
 - d) Confidentiality

5. Which of the following accounting concept or principle require the calculation of depreciation of Property, Plant & Equipment?
 - a) Realization concept
 - b) Accrual concept
 - c) Matching concept
 - d) Business entity concept

6. ABC limited is manufacturing and exporting textiles to European countries and it was performed over the last five years. However, due to the COVID – 19 pandemics situation, the demand of company's products is expected to erode in the future. Assume that you are the Accountant of the ABC limited and now you are in the process of finalizing the quarterly financial statements for the quarter ended 30th June 2020. What is the underling accounting concept that you need to ensure before preparing quarterly financial statements?
- a) Comparability
 - b) Going concern
 - c) Relevance
 - d) Prudence
7. Assume that you are the owner of Moto Private Limited which manufactures Polythene bags for local market. Currently you are in the view of expanding the business by issuing shares to the general public. Can Moto Private Limited issue shares to the general public?
- a) Yes. Mota Limited can perform this shares issue
 - b) No. Mota Limited cannot perform this shares issue
 - c) Yes. But 50% should be issued shares to the employees of the company
 - d) Yes. But can issue shares only for 50% of the approved amount
8. Listing rules are applicable to,
- a) All Private companies
 - b) All Public limited companies
 - c) All Public listed companies
 - d) All multinational companies

9. What measurement bases can be used to measure the elements of financial statements as per Sri Lanka Accounting Standards?

- A - Historical cost B - Fair value
C - Realizable value D - Present Value

- a) A & B only
b) A & C only
c) A, B & D only
d) A, B, C, & D only

10. Following information is extracted from the books of DD Limited.

| | Rs. |
|---------------|--------|
| Gross Profit | 9,600 |
| Cost of sales | 14,400 |
| Other income | 3,000 |

The Gross Profit ratio of the DD Limited is

- a) 66.66 % b) 40%
c) 55.17% d) 31.25%

(10 x 02 = Total 20 Marks)

Part B

Question No 01

The drafted trial balance of Pabalu PLC as at 31st March 2020, is as follows.

| | Rs. | Rs. |
|---|-----------|------------|
| | Dr. | Cr. |
| Land | 4,100,000 | - |
| Machinery | 181,260 | - |
| Motor vehicles | 2,370,440 | - |
| Buildings | 5,100,000 | - |
| Provision for depreciation (as at 01/04/2019) | | |
| Machinery | | 27,190 |
| Motor vehicles | | 74,088 |
| Buildings | | 2,550,000 |
| Patent | 273,600 | |
| Sales | | 14,535,000 |
| Inventories (as at 01/04/2019) | 525,800 | |
| Purchases | 7,612,760 | |
| Trade and Other Receivables | 1,476,860 | |
| Bank | 60,056 | |
| Distribution expenses | 1,374,860 | |
| Administrative expenses | 2,102,640 | |
| Other income | | 539,000 |
| Finance costs | 1,090,800 | |
| Rent income | | 730,000 |
| Stated capital (at Rs. 10 each) | | 2,000,000 |
| Retained earning | | 3,733,606 |
| Investments | 3,120,640 | |
| Provision for income tax (as at 01/04/2019) | | 144,000 |
| Income tax payments | | |

| | | |
|---------------------------------------|-------------------|-------------------|
| For the year of assessment 2018/2019 | 135,000 | |
| For the year of assessment 2019/2020 | 63,000 | |
| Interest bearing long term borrowings | | 1,508,400 |
| Retirement benefit obligations | | 1,950,120 |
| Short term borrowings | | 610,992 |
| Interim dividend paid (net) | 172,000 | |
| Trade and other payables | | 891,600 |
| Bank overdrafts | | 465,720 |
| Total | 29,759,716 | 29,759,716 |

Additional Information:

- (i) The cost of inventories as at 31st March 2020 is Rs. 426,000 while its' net realizable value is amounted to Rs. 416,000.
- (ii) On 30th September 2019, Company purchased computers worth of Rs. 2 Million and operating systems worth of Rs. 1 Million. The expected useful life time of these computers and operating systems is 5 years. No entries were made in this regard.
- (iii) A dismissed employee has filed a case against the company, requiring a compensation of Rs. 500,000. The lawyers of the company are on the opinion that; the company will have to pay this compensation.
- (iv) Depreciation should be done using straight line method based on following rates.

| Asset | Depreciation rate |
|----------------|-------------------|
| Machinery | 12.5% |
| Motor vehicles | 20% |
| Buildings | 5% |

- (v) As part of customer service, the company provides a warranty certificate for customers to repair or replace its products within one year after the sale. These repairs cost is estimated as 2% of sales. No entries were made in this regard.
- (vi) Patent should be amortized over 6 years from its acquiring date of 01st April 2018. However, no adjustment has been done in this regard.
- (vii) A right issue has been done during the year by giving one share for every four shares held at 31st March 2020, at a price of Rs. 40. No entries were made in this regard.
- (viii) Estimated income tax liability for the Y/A 2019/2020 amounts to Rs. 120,000 & total income tax liability for the Y/A 2018/2019 has been fully paid.
- (ix) Interest bearing long term borrowings was taken 30th June 2019 at rate of 10% per annum. However, no interest was adjusted in this respect.
- (x) Lands have been revalued at Rs 4,500,000 on 31st March 2020 and revaluation has not been entered in the books of accounts.
- (xi) Directors have proposed a final dividend of Rs 0.50 cents per share on 1st April 2020 and decided to transfer Rs. 330,000 to general reserve and to capitalize Rs. 200,000.
- (xii) Dividend tax is at 14% and Company has not accounted for dividend tax on interim payment.

You are required to prepare the following for the purpose of publication of Pabalu PLC,

- a) Statement of Profit or Loss and other Comprehensive Income for the year ended 31st March 2020.
- b) Statement of Changes in Equity for the year ended 31st March 2020.
- c) Statement of Financial Position as at 31st March 2020.

(Total 35 Marks)

Question No 02

- a) BC Limited is importing a machine for their business purposes from India. The CIF value of the machinery is INR 1,250,000 (Indian Rupees). Other information related to machinery is given below.

| | LKR |
|---|---------|
| Initial delivery and handling expenses | 549,200 |
| Refundable tax | 50,500 |
| Cost related to consultation | 550,000 |
| Operating losses before commercial operations | 120,250 |
| Dismantling cost to be incurred after 4 years | 400,800 |

INR 1 = LKR 2.32

You are required to calculate the cost of the machine in accordance with LKAS 16. (Cost of capital of the entity is 15%). (05 Marks)

- b) Sirilak has a small scale business which manufactures shoes to distribute locally. The following information has been extracted from the books of Sirilak's business for the year ended 31st March 2020.

| | (Rs.000) |
|------------------------------------|----------|
| Stock as at 01/04/2019 | |
| Raw material | 1,500 |
| Work in progress (at prime cost) | 8,900 |
| Finished goods | 12,500 |
| Purchases of raw materials | 32,600 |
| Direct wages | 45,000 |
| Carriage inwards - Raw materials | 1,800 |
| Carriage outwards - Finished goods | 800 |
| Shoes purchased from outsiders | 17,200 |
| Other direct cost | 3,000 |
| Sales | 120,000 |

| | |
|-------------------------------|--------|
| Manufacturing wages | 600 |
| Other production overheads | 1,500 |
| Other administration expenses | 610 |
| Electricity | 3,000 |
| Equipment maintenance | 1,200 |
| Depreciation - Motor vehicles | 15,000 |
| Factory rent | 5,000 |
| Bank charges | 220 |
| Common expenses | 1,000 |

Following additional information was provided.

- (i) Stock as at 31/03/2020 is as follows,
- | | |
|----------------------------------|----------------|
| Raw materials | Rs. 2,100,000 |
| Work in progress (at prime cost) | Rs. 10,500,000 |
| Finished goods | Rs. 8,500,000 |
- (ii) As at 31/03/2020 accrued electricity amounted to Rs. 600,000 and 80% of the bank charges related to import materials
- (iii) Expenses should be allocated to the factory as follows.
- | | |
|------------------------------------|-----|
| Electricity | 80% |
| Depreciation for the motor vehicle | 75% |
| Equipment maintenance | 50% |
| Common expenses | 60% |

You are required to prepare the manufacturing account for the Sirilak's business, for the year ended 31st March 2020.

(10 Marks)

(Total 15 Marks)

Question No 03

- a) Explain when the Sec. 44 of Partnership Act 1890 is to be applied to a partnership business and how it is to be applied?

(03 Marks)

- b) X,Y and Z are equal partners in XYZ & Company. Extracted Statement of Financial Position of that partnership as at December 31st, 2019 is as follows.

| Liabilities | Rs. | Assets | Rs. |
|--------------------|-----------------|---------------------|-----------------|
| Capital | 150, 000 | Land and Building | 120, 000 |
| X 50, 000 | | Plant and Machinery | 200, 000 |
| Y 100, 000 | | Stock | 300, 000 |
| Loan | 500, 000 | Debtors | 100, 000 |
| Creditors | 100, 000 | Z' s Capital | <u>30, 000</u> |
| | <u>750, 000</u> | | <u>750, 000</u> |

On 01st of January 2020, it was decided to convert the firm into a limited liability company on the following terms.

- i. Land and Building be valued at Rs. 200,000.
- ii. Plant and Machinery be valued at Rs. 250,000.
- iii. 10% of book value of stock to be written off for obsolete stock.
- iv. A reserve of bad debts to be made at 10% of the debtors.
- v. A reserve for discount on creditors at 6% to be made.
- vi. The new Company would issue 10,000 equity shares of Rs. 15 each and 660, 8% debentures of Rs. 100 each. Shares and Debentures of the company are to be distributed by partners in their profit sharing ratio.

You are required to prepare the realization account, partners' capital account and the Statement of Financial Position of the new company.

(12 Marks)

(Total 15 Marks)

Question No. 04

- a) The statement of financial position of the TST Ltd as at 31st March 2020 is as follows.

| | | Rs. |
|--|---------|------------------|
| Non-current assets | | |
| Property, plant & equipment | | 1,800,000 |
| long-term investment | | 600,000 |
| Total non-current assets | | 2,400,000 |
| Current assets | | |
| Inventories | 180,000 | |
| Trade & other receivables | 276,000 | |
| Short-term investments | 324,000 | |
| Cash and cash equivalents | 240,000 | |
| Total current assets | | 1,020,000 |
| Total assets | | 3,420,000 |
| Equity and liabilities | | |
| Equity | | |
| Equity shares | | 1,080,000 |
| 8% Redeemable cumulative preference shares (Rs. 10 each) | | 1,080,000 |
| General reserve | | 464,400 |
| Retained earnings | | 648,000 |
| Total equity | | 3,272,400 |
| Current liabilities | | |
| Trade and other payables | | 147,600 |
| Total equity and liabilities | | 3,420,000 |

Company has decided to redeem half of its 8% cumulative preference shares on 01st April 2020 at a premium of 10% per share. For this purpose, company has sold its short term investments for Rs. 344,000 and successfully issued Rs. 12.50 ordinary shares for the balance amount. But as a condition to the share issue only 80% of the shares can be utilized for the purpose of redemption and therefore, balance has paid through existing cash of the business.

You are required to prepare the Statement of Financial Position of LST Ltd after completion of redemption.

(09 Marks)

- b) Define the following terms.
- (i) Stated capital
 - (ii) Serious loss of capital
 - (iii) Solvency test

(06 Marks)

(Total 15 Marks)