Higher National Diploma in Accountancy
First Year - First Semester Examination - 2019
HNDA 1101 - Fundamentals of Financial Accounting

Instructions for Candidates: **No. of questions: 06**
Answer five (05) questions including 1 and 2 **No. of pages: 08**
Time : 3 hours

Question No-01 (25 Marks)

1. List the key elements of the financial statements as per the Framework for Preparation and Presentation of Financial Statements. (02 Marks)
2. What is the qualitative characteristics of accounting information complied in each of the following situation by an entity?
   a. Equipment is depreciated on the straight —line method each year
   b. financial statements are prepared on historical cost basis while the general price level is continuously increasing. (02 Marks)
3. Errors in accounting can be divided in two categories based on the impact of such errors to the trial balance. Give two examples to each of these categories. (02 Marks)
4. State the difference between Financial Accounting and Management Accounting reports on the following aspects. User of reports, Frequency of preparation, and nature of information reported. (03 Marks)
5. State two types of transactions recorded in the General journal of a firm. (02 Marks)
6. State the relevant prime entry book and source of document used to record each of the following transactions
   a) Introduction of cash as capital by the owner
   b) Returning of goods purchased on credit to the supplier
   c) Purchase of stationery on credit
   g) Provision for doubt debts (04 Marks)
7. Thilak started a retail business by investing Rs. 1,000,000 on 01.04.2018. During the month of April, purchased stock Rs. 240,000 and sold them all on credit basis to Rs. 360,000. Sales and returned inward from the buyer the goods that invoiced price is Rs. 60000. Out of the above transaction what is the amount of increasing the equity on 30.04.2018

   (02 Marks)
8. Write the similarities and a difference between "Equity" and "Liabilities". (03 Marks)

9. ABC ltd is a VAT registered company and the summary of the VAT control account for the year ended 31/03/2018 is given below. All purchases and sales are on cash.

	Dr (Rs.000)	Cr (Rs.000)
Balance as at 1/04/2017		150
Cash (Collected in sales)		2500
Cash (paid for purchase)	650	
Cash (paid to Inland Revenue Department)	1700	

Compute the VAT liability as at 31.03.2018 assuming that all VAT Paid on Purchase can be deducted. (02 Marks)

10. State whether each of the following statements is True or False. Write True or False in your answer booklet with the number assigned to the question.

a) 5Realization Concept is the accounting concept which suggests to value inventories at the lower of cost or net realizable value.

b) Equity is the residual interest in the assets of an entity after deducting all its liabilities.

c) When the residual value of depreciable assets exceeds its depreciable amount, it is not necessary to depreciate the assets. (3 Marks)

Question No- 02 (30 Marks)

Mala and Geetha were partners of a partnership and following have been extracted from their partnership agreement.

a. Profit and losses should be shared in the ratio of 3:2 between Mala and Geetha respectively.

b. Mala and Geetha are entitled to receive a monthly salary of Rs. 8,000/- and Rs. 5,000/- respectively.

c. Partners are entitled to receive 10% interest Per annum on capital.

On 1st January 2019 Seetha joined to the partnership with a profit share of ¼ and old partners agreed to share the balance profit in line with their old profit sharing ratio. Seetha bought Rs.290,000 being his capital and share of goodwill. According to the new partnership agreement, partner is not entitled to receive salaries. And other terms were:

a. Interest on Capital 12% per annum and loans provided by partners are entitled to an annual interest rate 10% per annum on balance.

b. Interest on Drawing 6% per annum.

The trial balance of the Mala, Geetha and Seetha partnership as at 31st March 2019 is given below.

	Dr. (Rs.)	Cr. (Rs.)
Land and Building at cost (land at cost 400,000)	1,000,000	
Motor vehicles - cost	400,000	
Office equipment - cost	450,000	
Provision for depreciation as at 1/4/2018 - Building		200,000
- Motor Vehicles		140,000
- Office equipment		75,000
Electricity	17,500	
Telephone	4,500	
10% Fixed deposit	200,000	
Rent	30,000	
Distributing expenses	33,000	
Interest income		6,000
Other expenses	13,000	
Provision for doubtful debts as at 1/4/2018		10,000
Debtors / Creditors	275,000	171,250
Staff salaries	31,000	
Inventory as at 01. 04.2018	45,00	
Purchases/Sales	375,000	970,000
Return inwards / Return outwards	5,000	4,500
Capital accounts as at 1/4/2018 - Mala		300,000
- Geetha		260,000
Capital of Seetha		290,000
Current accounts as at 1/4/2018 - Mala	15,000	
- Geetha		20,000
12% Bank Loan (was obtained at 1/10/2018)		340,000
Seetha's Loan (from 1/1/2019)		240,000
Loan interest (including Seetha's Loan interest Rs.2000)	17,000	
Sales commission	27,000	
Finance expenses	21,000	
Cash at Bank	67,750	
	3,026,750	**3,026,750**

The following additional information is also available.

1. Cost of the closing inventory of the business is valued at Rs.175.000/- and the net realizable value of these stocks was estimated as Rs.150,000/-.
2. As at 1st January 2019 goodwill of the partnership was valued at Rs. 360,000/- and it was decided to write off goodwill through Capital account.
3. Two-Third of sales is relevant to the first 9months.
4. All income and expenses are distributed on time basis (excepts to any other Specific basis)
5. Accrued expenses as at 31st March 2019 were Electricity Rs. 6,500/- and Telephone Rs. 8,500/-
6. On the day Seetha was admitted, the Motor Vehicle was revalued at Rs. 300,000.
7. Fixed assets are depreciated on following method as follows.

   Building 12% on reducing balance method

   Motor vehicle 10% on Straight line method

   Office equipment 15% on cost
8. It was decided to write off Rs. 5,000/- as bad debts for first 9months. The general provision for the doubtful debts should be made as 10% of the remaining balance of debtors. (The debtors balance as at 1st January 2019 was Rs. 95,000/-).
9. The following goods drawings made by the partners have not been accounted.

   Gectha — Rs.1,500/- per month at the beginning of each month

   Seetha — Rs.1,000/- per month at the end of each month

You are required to:

(a) Trading, profit and loss appropriation account for the year ended 31st March 2019.

(b) Partners' capital account and the current account.

(c) Statement of financial position as at 31st March 2019. (30 Marks)

Question No- 03 (15 Marks)

1. The following transactions were extracted for the month of March 2019 from the books of the business of Ananda, a sole proprietor:

Date	Transaction
01.03.2019	Ananda commenced the business is by investing Rs.500,000/- in cash
10.03.2019	Purchased goods for resale for Rs.750,000/- on credit.
17.03.2019	Stocks costing of Rs. 300,000/- were sold for cash with a profit margin of 10% on cost.

22.03.2019	The balance of Rs.100,000 payable to a creditor was settled by Ananda and creditor allowed a discount of Rs.5,000.
31.03.2019	Purchased a computer for Rs.100,000/- on cash for sole traders' personal use

You are required to:

Record the effect of each of the above transactions to the following accounting equation:

[Non-Current Assets + Inventories + Debtors + Cash = Equity + Liabilities] (05 marks)

2. The following information was extracted from the books of crown ltd.

i. Following balances are shown in debtors control Account as at 31.03.2018

	Rs.		Rs.
As at 01.04.2017 – Debit balance	425,000	Return inwards	5,450
Credit balance	42,000	Credit sales	825,000
Cash received from debtors	468,750	Claim from debtors	7,250
Discount allowed	7,250	Bills receivable from customers	25,000
Credit balance as at 31.03.2018	3,450	Balances transferred from creditors ledger	11,250

ii. The balance of the debtors control account was not equal with the total of the sales ledger balances. Subsequently following mistakes were revealed.

a. Sales invoice Rs. 7,250 was completely omitted form the hooks.

b. Cash received from a debtor Rs. 3,450 has been recorded twice in the receipts journal.

c. Acash sale of Rs. 12,000 was wrongly entered in the debtor's personal account

d. The total of the discount allowed column Rs. 2,450 has been under cast.

e. Return inward form a debtor Rs. 17,450 has been recorded in the prime entry book as Rs. 7,540.

f. Cash received Rs. 3,450 from a debtor which is written off as bad debt.

Required

1. The debtors control account before rectifying above errors.
2. Adjusted debtors control account.
3. Prepare the statement of reconciliation for Debtors Control Account balance with the balance obtained from debtors' ledger. (10 Marks)

Question No- 04 (15 Marks)

Janaka is the newly appointed bookkeeper Nilmini Traders and the trial balance prepared by him as at 31st March 2019 did not agree. The difference has been transferred to the suspense account and prepared the draft financial statements. A. profit of Rs. 452,750 was shown as per the draft financial statements for the year ended 31st March 2019.

The following errors were identified subsequently:

1. Net Realizable value of stock as at 31st March 2019 was less than the cost Rs. 12,500. However, in computing, the profit for the year, closing stocks have been valued at cost.
2. Rent Income of Rs. 1,200/- has been recorded as Rs. 2,100/- in Rent expenses account. This was correctly recorded in the cash book.
3. A cash sales amounting to Rs. 115,000/- Including VAT of Rs. 15,000 have been credited to the sales account.
4. Rs. 6,500 had been received as discount when settling cash to suppliers. This discount was erroneously recorded in the credit side of the bank column as Rs. 8,500.
5. Total of debit and credit discount columns of the cash book had been set off against each other and taken the net amount as debit balance of Rs. 15,000. This had been transferred to the creditors account. The total of the discount column in the payment side of the cash book is Rs. 82,000.
6. The company has entered into a purchase agreement for the next year for the value of Rs. 350,000 and had paid an advance of Rs. 50,000. When recording this transaction Rs. 350,000 had been debited to purchase account and Rs. 50,000 and Rs. 300,000 had been credited to cash book and creditors account respectively.
7. As at 31st March 2018 prepayment of electricity bill was Rs. 9,000. When passing the adjusting entry, only entry passed was debiting the electricity prepayment account.

You are required to:

(a) Prepare Journal Entries to rectify the above errors and Suspense Account. (10 masks)

(b) Calculate adjusted Profit (Loss) for the year ended 31st March 2018 of Nilmini Traders (05 masks)

Question No- 05 (15 Marks)

1. "Bank Reconciliation Statements are prepared by Organizations to correct mistakes being done by the bank and by the organization in the bank column of the cash book." Do you agree with this statement? Give reasons for your answer. (3 marks)
2. The following details are relevant to Yamuna Ltd. for the month ended 30^{th} April, 2019.
   i. On 1 April 2019 the cash book's bank column had a debit balance of Rs. 90,000. However, the bank statement balance as at that date was a credit balance of Rs. 75,000. Reasons for this difference were:
      a) A cheque of Rs. 25,000 being deposited in March 2019 in the bank account but not realized by the date
      b) A cheque of Rs. 10,000 being issued to a creditor but dishonored by the bank in March 2019 due to an error in cheque writing.

   ii. On 30 April 2019 the bank statement had a credit balance of Rs. 150,000, but balance in the bank column of the cash book was different from the statement's balance.

   iii. The Accountant of Yamuna Ltd. reported the following information.
      a) Cheques deposited in April 2019 but unrealized by 30 April were amounted to Rs. 65,000.
      b) Cheques for Rs. 120,000 issued to the supplier in April but the Cheques were presented to the bank on May 2019.
      c) Direct bank remittances by debtors of Yamuna amounted to Rs. 50,000.
      d) The cheque which was dishonored by the bank in March 2019 was represented by the creditor and it was honoured by the bank in April.
      e) Payments on standing orders during the month amounted to Rs. 25,000. However, in the cash book only Rs. 15,000 had been recorded.
      f) The cheque for Rs. 25,000, which was deposited in March 2019 had not been realized even by 30 April 2019.
      g) Bank had mistakenly credited another company's cheque amounting Rs. 12,000 to Yamuna's account.

You are required to

i. Prepare the adjusted cash book for the month of April, 2019

ii. Prepare a bank reconciliation statement as at 30^{th} April, 2019 (12 Marks)

Question No- 06 (15 Marks)

The following information were extracted from the books of Maanal JPK (Pvt) Ltd, a Glass Bottles Manufacturer for the year ended 31st March 2018:

	Rs.
Raw material purchases	1,750,000
Salaries - production manager	250,000
Carriage inwards - raw material	950,000
Direct wages- production workers	250,000
Building rent	300,000
Sales commission	120,000
Security expenses	276,000
Insurance	120,000
Other In-direct expenses	284,000
Electricity	175,000
Power and fuel	1,750,000

The following additional information is also provided:

1. Inventories are valued as follows:

	As at 1st April 2017	As at 31st March 2018
Raw material	2,300,000	1,800,000
Work-in-progress (valued at total production cost)	1,050,000	710,000

2. Office premises occupy 1/4 of total area of Building. Lighting and insurance, is to be charged as to 2/3 to factory and 1/3 to office.
3. Depreciation charge for Machinery and Building per quarter are Rs.23,500 and 12,000 respectively.
4. Raw Materials amount of Rs. 27,500 were damaged due to improper storage arrangement.
5. Accmued electricity and Rent as at 31/04/2018 were Rs. 7,600 and Rs. 4,000 respectively.
6. The production workers are entitled to get an Additional wage of Rs.7.50 for each bottle produced during the year. Total number of bottles produced during the year was 10,000.
7. The company has obtained the rights to manufacture the bottles under the licensing agreement for which the company has to pay Rs.75 per each bottle produced.
8. Manufactured goods are transferred to sales division with a mark-up of 25% on cost.

You are required to:

a). Prepare the manufacturing Account of JPK (Pvt) Ltd for the year ended 31st March 2018.

b). Compute the value of the goods that are transferred to the sales division.

c). calculate the selling price of a bottle. (15 Marks)