

**Higher National Diploma in Accountancy**  
**First Year, Second Semester Examination - 2018**  
**HNDA 1201 - Intermediate Financial Accounting**

Instructions for Candidates

Answer 5 (five) questions only including 1 & 2

No. of questions :06

No. of pages :08

Time : Three (03) hours

**Question 01**

- i. As per LKAS 02 – Inventory, what are the costs that are excluded from the costs of inventory? (01 Mark)
- ii. Give two examples for non-adjusting events after the reporting period as per LKAS 10. (02 Marks)
- iii. State the complete set of financial statements as per LKAS 01 – Presentation of Financial Statements. (03 Marks)
- iv. Define the following terms as per the LKAS;
  - a) Carrying amount (LKAS 16)
  - b) Net Realizable Value (LKAS 02)
  - c) Cash and cash equivalent (LKAS 07) (03 Marks)
- v. Both PLC purchased machine on 1<sup>st</sup> of January 2014 at a cost of Rs.420,000. The machine has a residual value of Rs. 40,000 and 8 years of estimated useful life. As at 31<sup>st</sup> December 2017, it was decided that the machine had a remaining useful life of two years and no residual value. The machine was sold for Rs. 120,000 on 31<sup>st</sup> December 2018. Compute the profit or loss on disposal of the machine. (03 Marks)
- vi. The following balances were extracted from Asia Company.  
Ordinary shares Rs. 600,000      Preference shares Rs. 300,000  
The company decided to redeem 7,500 Preference shares out of 30,000 shares issued. In order to finance this transaction, the company issued 10,000 ordinary shares at Rs. 10 each. Shows the relevant journal entries.
- vii. The following information was extracted from Plus Company Ltd. Calculate the inventory value using the “Item by item basis”.

Inventory item	Quantity (Unit)	Cost Per Unit (Rs.)	Net Realizable value Per Unit (Rs.)
AB	1,800	250	120
CD	2,600	320	340
EF	1,000	150	100
GH	650	200	240

(04 Marks)

**(Total 20 Marks)**

## Question 02

Sunset Company Ltd has the following Trial Balance as at 31<sup>st</sup> March 2018.

	Debit (000)	Credit (000)
Land and Building as at 01/04/2017	18,000	
Accumulated Depreciation – Building as at 01/04/2017		1,280
Motor vehicle as at 01/04/2017	6,800	
Accumulated Depreciation – Motor vehicle as at 01/04/2017		2,500
Plant and machinery as at 01/04/2017	8,500	
Accumulated Depreciation – Plat and Machinery as at 01/04/2017		1,570
Inventory as at 01/04/2017	7,800	
Trad Receivables/Trade Payables	14,220	
Purchases/Sales	65,000	
Building rent expense	900	
Salaries and wages	2,100	
Discount allowed	1,250	
Bad debt	700	
Provision for doubtful debt as at 01/04/2017		60
Insurance expenses	7,000	
Telephone expenses	890	
Advertising expenses	670	
Cash balance	24,900	
Bank balance	21,095	
Ordinary share capital (1,000,000 shares)		65,000
20% Preference share capital (150,000 shares)		6,000
General reserve		1,100
Retained earnings		2,210
Suspense account	100	
12% Debentures		4,000
Debenture interest paid	300	
Administrative expenses	19,000	
Other expenses	10,000	
Provision for taxation (2016/2017)		250
Income tax paid	1,400	
Interim dividend – Ordinary shares	1,500	
Preference shares	1,120	
	<b>213,245</b>	<b>213,245</b>

Additional information;

- a) Inventory cost as at 31<sup>st</sup> March 2018 was Rs. 1,280,000 and the net realizable value was Rs. 1,200,000.

- b) Accrued telephone expenses and advertising expenses were Rs. 120,000 and Rs. 70,000 respectively as at 31<sup>st</sup> March 2018.
- c) Amount due from a customer which values Rs. 20,000 is included in the trade receivables account. It has been decided to write off that amount as a bad debt. Sunset company decided to make a special provision of doubtful debt from Mr. Amal, a customer, for Rs. 40,000, and make a general provision of 5% on balance debtors.
- d) The income tax expense for the year of assessment 2017/18 is estimated to be Rs. 1,070,000, and income tax paid account is included in the final payment of Rs. 350,000 for the year of assessment 2016/17.
- e) The cost of land is Rs. 10,000,000 and it is revalued as Rs. 12,000,000 on 1<sup>st</sup> of January 2018 which had not been recorded in the books of accounts.
- f) Depreciation for the year is to be provided as Building 5% (Straight line method), Motor Vehicles 20% (Straight line method), and Plant and Machinery 10% (Diminishing balance method).
- g) A motor vehicle was bought on Rs. 400,000 on 01.04.2016, sold to Rs. 275,000 on 31.03.2018. Only the sales proceed for the transaction was credited to the sales account.
- h) The company was entered into a building rent agreement on 01.07.2017. The monthly building rent is Rs. 75,000.
- i) The salaries and wages account was under casted with the amount of Rs. 100,000.
- j) The board of directors resolved the followings:
  - Transfer Rs. 200,000 from retained earnings to general reserve account
  - The balance dividend has to be paid to Preference shareholders.

**You are required to prepare;**

- I. Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2018,
- II. Statement of Financial Position as at 31<sup>st</sup> March 2018,
- III. Changes in Equity Statement for the year ended 31<sup>st</sup> March 2018 of Sunset Company Ltd. **(Total 26 Marks)**

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### Question 03

(A) The details are given from Thina enterprise which has not maintained accounts property.

	<b>31.03.2017 Rs.</b>	<b>31.03.2018 Rs.</b>
Building	250,000	?
Office equipment	210,000	?
Inventory	80,000	125,000
Debtor	345,000	560,000
Cash	45,000	67,000
Creditor	149,000	98,000
Accrued expenses	32,000	17,300

Additional Information;

- Depreciation for Property, Plant and Equipment is 10% on book value.
- Additional capital introduced during the period is Rs.100,000.
- The owner paid his personal income tax of Rs. 20,000 by using business cash.

You are required to compute the profit for the year ended 31<sup>st</sup> March 2018. (08 Marks)

(B) Rotary sports club charges Rs.200 from each member as entrance fee, and Rs. 100 per annum as subscription. Those who wish to obtain life membership, there can be a life member by paying the entrance fee and 10 years annual subscription at once. There were 22 life members at the beginning of the year 2017 with the balance of Rs.8,760. A bar is also in operation and all sales are treated as being on credit. The receipt and payment account is given below as at 31<sup>st</sup> December 2017.

**Receipt and payment account**

Receipt		Payment	
Balance B/F – 01/01/2017	21,400	Salary - General	6,000
Entrance fee (200*20)	4,000	Bar	10,000
Life membership (1000*10)	10,000	Electricity	6,790
Membership fee		Bar purchase	54,000
2016	1,200	Rent club house (April-Dec)	9,900
2017	40,000	Fixed deposit made on 31.12.2017	250,000
2018	800	Stationary	3,000
Receipt from Carnival	200,000	Purchase of Furniture 31.06.2017	10,000
Bar receipt	168,000	Balance C/D 31/12/2017	95,710
	<b>445,400</b>		<b>445,400</b>

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Additional information is given below:

a.

	01/01/2017	31/12/2017
Subscription-Advance	700	-
Subscription-Arrears	1,500	1,200
Electricity-Accrued	400	550
Stock	28,500	30,050

- The amount due from the bar purchases 01/2017 Rs. 10,000 and 31/12/2017 Rs. 14,000 were respectively.
- Receivables from the bar sales as at 01/01/2017 Rs. 3,450 and 31/12/2017 Rs. 3,800 were respectively.
- Non-current assets at the beginning of the year as follows:  

Club Furniture Cost	Rs. 50,000	Accumulated depreciation	Rs. 5,000
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e. It is the policy of the club to depreciate the fixed assets on 10% cost per year.

You are required to prepare an **Income and expenditure account** for the club for the year ended 31<sup>st</sup> December 2017.

(10 Marks)

**(Total 18 Marks)**

#### Question 04

The Statement of Financial Position of partnership business as at 31<sup>st</sup> March 2018 of X, Y, and Z partners who share the profit and losses in the ratio of 2.1.1 is given below.

Capital Account		Land	100,000
X	120,000	Building	80,000
Y	80,000	Plant	30,000
Z	60,000	Furniture	39,000
Current Account		Investment	150,000
X	12,000		
Y	9,000	Inventory	36,000
Z	8,000	Receivable	34,000
Bank loan		Bills receivable	5,000
Creditors		Cash	26,000
Accrued expenses	1,000		
	500,000		500,000

On 01<sup>st</sup> of April 2018, partners decided to convert the partnership business into a Limited Liability Company. For this purpose the company was incorporated as KING Ltd and agreed to the followings;

- Partner Y takes over the furniture for Rs.40,000
- All investments were handed over to the bank to recover the part of the bank loan.  
The balance of the bank loan was taken over by KING Ltd company.
- Other assets and liabilities were taken over by KING Ltd company except cash with the value of Land Rs. 120,000, Building Rs. 70,000, Plant Rs. 26,000, Inventory Rs.38,000 and Debtors subject to the provision of 5% as doubtful debts.
- The purchase consideration payable by the company was Rs. 440,000 by issuing 40,000 ordinary shares valued at Rs.10 each, which was distributed among the partners in the profit sharing ratio and balance in cash.
- The company issued 12,000 ordinary shares at Rs.10 each to the public and collected all money with application itself.

You are required to prepare;

- Relevant ledger accounts to close the partnership business, and,
- The statement of financial position in the books of KING Ltd as at 1<sup>st</sup> April 2018.

**(Total 18 Marks)**

**Question 05**

(A) Given below is the Statement of Financial Position of SKD Ltd as at 31.03.2017 and 31.03.2018.

	2018	2017		2018	2017
<b>Equity and Liabilities</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Non-current Assets</b>	<b>Rs.</b>	<b>Rs.</b>
Share capital (Rs. 10 O/S)	78,000	73,500	Motor Vehicle	28,000	40,000
Retained profit	27,565	6,755	Acc. Dep	-21,000	-18,000
	<b>105,565</b>	<b>80,255</b>		7,000	22,000
			Office equipment	10,000	9,500
<b>Non-current liability</b>			Acc. Dep	-7,200	-4,100
Bank loan	10,000	10,700		2,800	5,400
			Furniture	12,000	4,500
<b>Current liability</b>			Acc. Dep	-2,500	-1,200
Creditor	17,560	21,830		9,500	3,300
Accrued expenses	1,400	2,000	Investment	39,000	34,000
Provision for tax	1,020	970	<b>Current assets</b>		
			Inventory	8,100	5,400
			Receivable	67,570	44,570
			Short term investment	765	385
			Cash	810	700
<b>Total Equity and Liabilities</b>	<b>135,545</b>	<b>115,755</b>	<b>Total Assets</b>	<b>135,545</b>	<b>115,755</b>

**Income statement for the year ended 31.03.2018**

Sales		260,000
Cost of sales		(172,000)
Gross profit		88,000
Other income		
Investment		5,300
Expenses		
Administration	45,800	
Distribution	14,000	
Finance	4,200	
Loss from Motor vehicle	800	(64,800)
Profit before taxation		28,500
Tax		(7,690)
Profit for the year		20,810

A motor vehicle costs of Rs.12,000 of Rs.12,000 was sold in this year. Accumulated depreciation of this vehicle is Rs.6,000.

You are required to prepare the cash flow statement of SDK Ltd for the year ended 31<sup>st</sup> March 2018 using the **indirect method**. (10 Marks)

(B) Calculate the following ratios for the year 2017/2018 by using the information in part A.

- i. Gearing Ratio
- iii. Return on Capital Employed
- ii. Current Assets Ratio
- iv. Earnings Per Share

(08 Marks)  
(Total 18 Marks)

### Question 06

(A) A company offered the public subscription of 10,000 ordinary shares at Rs.10 each. Money is payable as follows: Rs.3 on application, Rs.4 on allotment, Rs.3 on first and final call. Applications were received for 12,000 shares. Having rejected the excess application, the rest was allotted. "B" a holder of 200 shares failed to pay the call money. All these shares were forfeited. Out of the forfeited shares, 150 shares were issued at Rs.9 each. Pass the journal entries for the above transactions.

(08 Marks)

(B) The following is the statement of financial position of Saru Ltd as at 31 March 2018.

Liabilities	Rs.	Assets	Rs.
20,000 Ordinary Shares of Rs.100 each	2,000,000	Goodwill	25,000
12% Debentures	500,000	Land and Buildings	150,000
Outstanding debenture interest	120,000	Plant and machinery	300,000
Creditors	300,000	Furniture	80,000
		Stock	270,000
		Debtors	60,000
		Cash of bank	35,000
		Preliminary expenses	20,000
		Profit and loss A/C	1,980,000
	2,920,000		2,920,000

The following scheme of reconstruction is executed as at 31<sup>st</sup> March 2008.

- a. Ordinary Shares are reduced by Rs.95 per share and converted into 10,000 Ordinary shares of Rs.10 each.
- b. Debenture holders agreed with forego outstanding debenture interest. As compensation of 12% Debentures were converted into 14% Debentures, the amount remaining was Rs.400,000.
- c. Land and Buildings are revalued at Rs.250,000 whereas Plant Machinery is to be written down to Rs.210,000. A provision amount of Rs.5,000 is to be made for doubtful debts.

You are required to pass journal entries and draft the Company's statement of financial position immediately after the reconstruction.

(10 Marks)

**(Total 18 Marks)**

