

Higher National Diploma in Accountancy
First Year, Second Semester Examination - 2016
HNDA 1201- Intermediate Financial Accounting

Instructions for candidates:

Answer five (5) questions (including 1 and 2)

Time : 3 hours

No of Pages : 08

No of Questions : 06

Question 01

(Total 20 marks)

- 1) What is the purpose of financial statements as per LKAS 02? (02 marks)
- 2) What are the two main parts of total comprehensive income according to the LKAS 01? (02 marks)
- 3) Define the following terms as per LKAS.
 - a. Depreciation (LKAS 16)
 - b. Cash flows (LKAS 07)
 - c. Net realizable value (LKAS 02) (03 marks)
- 4) As per the LKAS 02, total cost of the firm's stock is consisted of three types of costs. What are those three types of cost? (1.5 marks)
- 5) What are the three types of activities that cash flows can be generated? (1.5 marks)
- 6) Perera's company's value of machinery and provision for depreciation on 31st March 2016 were Rs: 1520,000 and Rs: 520,000 respectively. On that date the revaluation value of machinery was Rs: 1400,000.
This asset was revalued at 31st March 2014 at Rs: 280,000 and it was debited to the retained profit. State accounting entries for this transaction. (03 marks)
- 7) State two main differences between shares and debentures. (02 marks)
- 8) As per LKAS 10, there are two types of events occurring after the balance sheet date. What are those two types of events? (02 marks)
- 9) Using these information calculate the stock value based on item by item basis according to LKAS 02.

Item	units	unit cost	NRV
A	150	80	70
B	50	100	110
C	80	105	90
D	120	120	110
E	200	96	102
F	100	85	95

(02 marks)

10) Name the elements of financial statements.

(01 marks)

Question 02

(Total marks 26)

The following trial balance is extracted from the books of Nadeesh Ltd as at 31st March 2016.

	DR	Cr
	Rs: '000	Rs:'000
Land (at cost)	5,250	
Building (at cost)	3,500	
Furniture (at cost)	2,000	
Delivery vehicle (at cost)	4,200	
Provision for depreciation at 31/03/2015		
Building		1,225
Furniture		800
Delivery vehicle		1,260
Stated capital		
Ordinary shares (Rs:10 each)		7,500
Preference shares (Rs: 10 each)		3,000
General reserve		1,355
Retained profit (01/04/2015)		1,200
12% Debentures		1,800
Trade receivables/trade payables	1,200	960
Provision for doubtful debts as at 01/04/2015		100
Inventory at 01/04/2015	800	
Purchase/ Sales	4,400	9,200
Bills receivable/bills payable	90	70
Income tax paid 14/15	400	
15/16	800	
Provision for taxation (01/04/2015)		375
Preliminary expenses	960	
Suspense a/c		750

Interim dividend -for preference shares	150	
Cash balance	1,800	
Bank over draft		1,000
Long term investment	1,800	
Preference share redemption a/c	1,800	
Administration expenses	800	
Interest on debentures	60	
Selling expenses	500	
Audit and director fees	100	
Investment income		200
Advertisement	75	
Insurance	60	
Rent and rates	50	
	30,795	30795

The following additional information is available.

- 1) Inventory cost as on 31/03/2016 was Rs: 1500,000.
- 2) Suspense account represents cash received for sale of some of the furniture on 01/04/2015. The cost of the furniture was Rs: 1000,000 and the accumulate depreciation there on being Rs: 400,000.
- 3) The company on the advice of independent valuer wish to revalue the land at Rs: 6500,000. But it had not been still recorded in the accounts. So, directors have decided to record the revalued amount.
- 4) On 31/03/2016 the company issued bonus shares to the shareholders on 1:10 basis. Bonus issue is funded by general reserve. (One share for existing ten shares.) But still it is not recorded. Price per bonus share is Rs: 10.
- 5) 150,000 preference shares were redeemed on 31/03/2016 with a 20% premium, but no entries were passed for giving effect thereto, except payment standing to the debit of preference share redemption account.
- 6) Provision for doubtful debts is to be adjusted to 5% on the amount of debtors.
- 7) Depreciation is to be charged on the cost of assets at the following rates.
 - Buildings 5%
 - Furniture 10%
 - Delivery vehicles 20%
- 8) Accrued and prepaid expenses as at 31/03/2016 were

	Accrued	Prepaid
Rent & rates	25,000	
Advertising		30,000
- 9) Income tax liability for the year 2015/2016 has been estimated as Rs: 950,000. Income tax for the year 2014/15 has been paid in full.
- 10) The board of directors has taken the following decisions.
 - Transfer Rs: 100.000 to general reserve.

- Proposed final dividend of Rs: 1.50 per share for ordinary shares and balance dividends for preference shares. (Dividend per preference share is Rs: 2.00).
- To write – off preliminary expenses.

You are required to prepare followings.

- The comprehensive income statement for the year ended 31/03/2016
- The statement of financial position as at 31/03/2016
- The statement of changes in equity for the year ended 31/03/2016
- Notes to the financial statement.

Question 03

(18 marks)

Nuwan and Ruwan are partners of a partnership business sharing profit and losses equally. Wasana limited agreed to take over the partnership business at an agreed consideration.

The statement of financial position of the partnership business as at 31st March 2016 is given bellow.

Capital accounts		Land and building	600,000
Nuwan	500,000	Plant & machinery	160,000
Ruwan	400,000	Furniture	80,000
Current accounts		Stock	260,000
Nuwan	100,000	Sundry debtors	160,000
Ruwan	80,000	Bills receivable	100,000
General reserve	120,000	Cash & bank balance	120,000
Bank loan A/c	200,000		
Creditors	80,000		
	1,480,000		1,480,000

Following were the transaction on dissolution.

- The goodwill of the firm was to be valued at two years purchase of the average profit of the previous three years. The past three years net profits were

2014/15	Rs: 420,000
2013/14	Rs: 380,000
2012/13	Rs : 280,000
- Nuwan take over furniture for Rs:75,000
- Bank loan is to be settled by the partnership firm.
- Other assets and liabilities are taken over by the company including goodwill and excluding cash & bank under following values.

	Rs
Land and buildings	650,000
Plant and machinery	150,000

Stock 250,000

Debtors at 5% less

Other assets and liabilities at their book values

- 5) Purchase consideration is to be settled by issuing 130,000 ordinary shares at Rs: 10 each and balance in cash. Ordinary shares are to be distributed among the partners based on their profit sharing ratio.
- 6) The partnership firm has to be paid Rs: 20,000 as dissolution expenses.

You are required to prepare

- I. Relevant ledger accounts to close the books of the partnership
- II. The statement of financial position in the books of new company after the reconstruction.

Question 04

(Total 18 marks)

(A) The following are the summarized balance sheets of Ram Ltd.

property plat and equipment		31/03/2015		31/03/2016
Land and building		360,000		720,000
Motor vehicles	600,000		1220,000	
Less - provision for depreciation	(180,000)	420,000	(388,000)	832,000
		780,000		1,552,000
Investment		32,000		
Current assets				
Stock		206,000		202,000
Debtors		170,000		200,000
Cash		62,000		14,000
		1,250,000		1,968,000
Share capital				
Ordinary shares of Rs: 10 each		900,000		1,560,000
Profit and loss A/c		140,000		200,000
Current liabilities				
Creditors		78,000		44,000
Proposed dividend		80,000		100,000
Provision for taxation		52,000		64,000
		1,250,000		1,968,000

Following additional information also are provided.

- 1) Summarized statement of income for the year ended 31/03/2016

	Rs:
Profit before taxation	224,000
Taxation	(64,000)
	160,000

Dividends (100,000)

Retained profit for the year 60,000

- 2) Motor vehicles which had cost Rs: 90,000 and write down value of Rs: 12,000 was sold during the year for Rs: 16,000
- 3) Investment were sold for Rs: 38,000.

Prepare a cash flow statement according to the LKAS 07 by using indirect method
(12 marks)

(B) By using the information in the part (A) calculate the following ratios for the year 2016.

- a. Earnings per share (EPS)
- b. Current ratio
- c. Return on Capital Employed (ROCE) (08 marks)

Question 05

18 marks

(A) The treasure of the Samagi sports club has prepared the following summary of the receipts and payments for the year ended 31st March 2016.

Samagi sports club

Receipts and payment account for the year ended 31st March 2016

Receipts		Payments	
Opening cash & bank balance	81,000	Stationary & postage	3,800
Subscriptions	252,400	Food fare expenses	60,400
Life membership fees	160,000	Salaries	7,700
Food fare revenue	112,500	miscellaneous expenses	9,120
bank interest	12,600	rent expenses	40,000
		closing cash & bank balance	497,480
	618,500		618,500

The following additional information has also been provided.

	1/4/2015	31/03/2016
Subscription in arrears	6,500	8,640
Subscription in advance	1,500	3,920
Food fare expenses accrued	-	2,500

Furniture	80,000	70,000
Vehicles	1,000,000	900,000

The life membership scheme was introduced on 1st April 2015. It is expected that on average a member would stay with the association for about 20 years.

Required

- I. Income and expenditure account for the year ended 31st March 2016
- II. Balance sheet as at 31 March 2016. (10 marks)

(B) The balance sheet of Anuj Company Ltd as at 31st March 2016 is given below.

Noncurrent assets	24000,000
Current assets	<u>18750,000</u>
Total assets	<u>42,750,000</u>

Ordinary share capital	30,000,000
General reserve	1500,000
Retained profit	6,000,000
Long term liabilities	
10% debentures	3,000,000
Current liabilities	<u>2,250,000</u>
	<u>42,750,000</u>

The firm has taken following decisions.

- I. Issue of 250,000 ordinary shares was made at a price of Rs: 10 per share payable as follows.

With application	Rs: 3.00
On allotment	Rs: 4.00
On call	Rs: 3.00

Applications were received for 275,000 shares and excess application money was retained as part payment of allotment money. The balance of cash on allotment and call money was received duly.

- II. 30th June 2015 the debentures were redeemed in cash at a 10% premium.

Prepare relevant ledger accounts to record the above transactions. (08 marks)

Question 06**18 marks**

Following is the balance sheet of Ramesh Ltd. as on 31st March 2016

200000 Equity shares of Rs.10/-each fully paid up	2000000	Machinery	1740000
6000 12% preference shares of Rs. 100/- each fully paid	600000	Furniture	200000
11% Debentures	600000	Patents and copy rights	80000
interest outstand on debentures	66000	Investment(Market value Rs. 55000/-)	65000
Loan from bank (including interest due)	172800	stock	600000
Creditors	109000	Debtors	439000
		cash at bank	15800
		profit loss A/C	408000
	3547800		3547800

The following scheme of reconstruction has been agreed upon and duly approved by the court.

1. The existing equity shares are converted into equal number of fully paid equity shares of Rs.7 each . The equity shareholders also agree to take up 100000 new equity shares of Rs.7/- each. The total amount being paid by them immediately.
2. Debenture holders agree to forego outstanding debenture interest .As a compensation, 11% debentures are converted into 12% debentures, the amount remaining Rs.600000.
3. Investments are to appear at market value.
4. Patents and copy rights are to be written at completely.
5. Machinery is to be written down to the extent possible after writing off all other losses.

Pass journal entries to implement the above mention scheme and prepare the balance sheet of the reconstructed company.