



UNIVERSITY OF MORATUWA
Faculty of Information Technology

Bachelor of Information Technology (BIT)
Level 3 – Semester 1 Examination

ITE 3622 - BUSINESS PROCESSES & ACCOUNTING SYSTEMS

Time Allowed: 3 hours

August 2020

INSTRUCTIONS TO CANDIDATES

1. This paper contains 6 questions on 8 Pages.
2. The total marks obtainable for this examination is 100. The marks assigned for each question are included in square brackets.
3. This examination accounts for 70% of the module assessment.
4. Non-programmable calculators can be used.
5. This is a closed book examination.
6. Answer **the** question in section A and any **four (4)** questions in section B.

ADDITIONAL MATERIAL

None

Continued...

SECTION A [Total Marks allocated: 40 Marks]**Question 01**

ABC Enterprises is a sole proprietorship which does buying and selling of televisions. The following trial balance was extracted from the books of accounts as at 31st March 2020.

	Dr. Rs.	Cr. Rs.
Inventory (As at 01 st April 2019)	500,000	
Sales		2,500,000
Purchase	825,000	
Carriage inwards	40,000	
Property Plant and Equipment – Cost As at 31 st March 2020		
- Lands	1,500,000	
- Buildings	1,000,000	
- Motor Vehicles	900,000	
- Furniture	800,000	
Property Plant and Equipment – Accumulated Depreciation - As at 01 st April 2019		
- Buildings		300,000
- Motor Vehicles		400,000
- Furniture		80,000
Carriage outwards	50,000	
Electricity	12,000	
Telephone	8,200	
Rent	50,000	
Rates	8,000	
Return inwards	15,000	
Debtors	35,000	
Creditors		30,000
Bank Loan		600,000
Return outwards		4,000
Discount received		800
Discount allowed	600	
Bank loan interest	15,000	
Salary	60,000	
Provision for doubtful debt as at 01 st April 2019		2,000
Sundry expenses	400	
Commission income		1,000
Capital		2,686,400
Promotional expenses	8,000	
Cash in hand	5,000	
Cash at bank	772,000	
	6,604,200	6,604,200

Additional Information.

1. Physically counted cost of inventories as at 31st March 2020, Rs. 400,000.
2. ABC Enterprises has taken a bank loan of Rs. 600,000 on 1st October 2019 and it was recorded in the ledger. The interest rate per annum is 12%.
3. Rates were paid for 20 months. Paid rates were recorded in the ledger.
4. Unpaid electricity and telephone bills for the month of March 2020 were Rs. 4,000 and Rs. 2,000 respectively.
5. An amount of Rs. 5,000 is due from a bankrupt customer and it was decided to write it off as bad debt.
6. The owner has taken Rs. 4,000 worth (cost) goods for his personal use and it has not been recorded in the ledger.
7. ABC Enterprises has carried out a physical count of cash in hand on 31st March 2020 night after closing for business, and ended up with a balance of Rs. 3,000. The entity's investigation into the reasons for the physical balance not being in agreement with the book balance, revealed that none of the cash drawings have been recorded in the books of accounts.
8. Rs. 500,000 worth (cost) land was sold for Rs. 750,000. Sales proceed was recorded as sales. Rest of the entries was not recorded in the ledger.
9. The entity has purchased Rs. 200,000 worth (cost) furniture on 1st July 2019 and it was recorded in the ledger.
10. The entity has decided to provide 10% provision for doubtful debt at the end of the period.
11. Depreciation on Property Plant & Equipment is provided on the straight line basis at cost as follows;

Building	- 5%
Motor vehicle	- 12.5%
Furniture	- 10%

You are required to prepare;

- (a) Statement of Profit and Loss and Other Comprehensive Income (Trading, Profit and loss account) for the year ended on 31st March 2020. **[15 Marks]**
- (b) Statement of Financial Position as at 31st March 2020. **[15 Marks]**
- (c) What are the general components of Accounting Information System **[5 Marks]**

- (d) "Manual accounting system is more effective than computerized accounting system" Discuss. **[5 Marks]**

SECTION B [Total Marks allocated: 60 Marks]

Answer any four (4) questions

Question 02

- i. Namal Printing Ltd operates its petty cash account on the imprest system. Petty cash float is Rs. 5,000. During April 2020, the following petty cash transactions arose:

April	1	Cash received from main cash controller	
	1	Bus fare	40
	2	Stationery	60
	4	Bus fare	120
	7	Postage stamps	60
	7	Paid to creditor Naleen	200
	8	Bus fare	80
	11	Tippex	50
	12	Typewriter ribbons	90
	14	Parcel postage	120
	15	Paper-clips	15
	15	Newspapers	70
	16	Photocopier repair	130
	19	Postage stamps	76
	20	Drawing pins	70
	21	Train fare	65
	22	Photocopier paper	175
	23	Display decorations	80
	23	Tippex	50
	25	Wrapping paper	89
	27	Sellotape	40
	30	Pens	60

You are required to;

Record the above transactions in the petty cash book and post the balances in the ledger at the end of the month.

[9 Marks]

- ii. As per the conceptual framework of financial reporting, list the fundamental qualitative characteristics and enhancing qualitative characteristics of financial statements.

[3 Marks]

- iii. What is the underlying assumption of financial statements in accordance with the

conceptual framework of financial reporting?

[1 Mark]

- iv. *“Reliability of an accounting information system is very crucial for a business”*
Discuss.

[2 Marks]

Question 03

- i. Following overhead costs are relevant to the two production departments and two service departments of PQR Ltd for its recent costing period.

	Production Department A	Production Department B	Stores	Maintenance
Overhead Costs (Rs.)	20,060	17,940	2,750	1,650
Production Units	10,000	8,000	-	-
# of Material Requisitions	500	1,000	-	500
# of Maintenance Hours	3,000	1,000	1,000	-

Following table shows the service departments' overhead allocation.

	Production Department I	Production Department II	Stores	Maintenance
Stores	25%	50%	-	25%
Maintenance	60%	20%	20%	-

- a) Find out the total overhead costs apportioned to the production departments based on Simultaneous equation (Algebraic Method).

[4 Marks]

- b) Show the statement of overhead-reapportionment as per the above (part a) calculation.

[3 Marks]

- c) Calculate the Overhead Absorption Rate (OHAR) for Production Department A and Production Department B.

[2 Marks]

- ii. What is meant by “Single or Blanket Overhead Absorption?”

[2 Marks]

- iii. What are the factors to be considered on sales forecast of a company?

[2 Marks]

- iv. *Repeated distribution method and Simultaneous equation (Algebraic Method) generate same total overhead cost for the production departments” Comment.*

[2 Marks]

Question 04

- i. ABC Ltd will make an initial investment of Rs. 8,320,000 on plant and machinery which is expected to generate cash inflows of Rs. 3,411,000, Rs. 4,070,000, Rs. 5,824,000 and Rs. 2,065,000 at the end of first, second, third and fourth year respectively. At the end of the fourth year, the machinery will be sold for Rs. 900,000.

- a) Calculate the net present value of the investment if the discount rate is 18% and advise the management on making the investment decision.

Discounting factors for 18% rate are given below:

Year	0	1	2	3	4	5
Discounting factor	1.000	0.847	0.718	0.609	0.516	0.437

[5 Marks]

- b) Calculate the payback period.

[2 Marks]

- ii. An investment is expected to yield a cash flow of Rs.20,000 annually for the next 5 years. The initial cost of the investment is Rs. 45,000. Total profit thereof is: Rs. 62,500.

Calculate the Accounting Rate of Return (ARR).

[3 Marks]

- iii. *“Non discounting methods are more appropriate than discounting methods when appraising a project” Discuss.*

[3 Marks]

- iv. *“Accounting software is broader than Enterprise Resource Planning (ERP) system” Comment.*

[2 Marks]

Question 05

- i. The following information is relevant to the ABC Pvt Ltd, which is engaged in the toys manufacturing industry. You are required to prepare the cash budget of the company from January 2020 to June 2020. Amounts are in Rupees.

Month	Sales Value	Cash Purchase	Credit Purchase	Rent Income	Administration expenses (Excluding depreciation)
2019-Nov	300,000	160,000	60,000	20,000	10,000
2019-Dec	350,000	300,000	60,000	18,000	8,000
2020-Jan	200,000	150,000	15,000	20,000	25,000
2020-Feb	300,000	200,000	75,000	16,000	40,000
2020-Mar	600,000	300,000	60,000	14,000	30,000
2020-Apr	400,000	250,000	150,000	30,000	25,000
2020-May	500,000	200,000	45,000	36,000	15,000
2020 -Jun	360,000	300,000	30,000	24,000	35,000

Additional information:

1. Cash at hand on 1st of January 2020 is Rs. 200,000
2. 50% of the sales value of every month is based on the credit terms.
3. Customers' due amounts will be received by the business the following month.
4. Suppliers will allow a period of 2 months in order to settle the credit amounts due.
5. Administration expenses will be settled with two months time lag.
6. The company wishes to purchase furniture worth of Rs. 32,000 at the end of June.
7. Depreciation Rs.5000 per month.

[7 Marks]

- ii. What are the advantages and disadvantages of time rate system of labour costing?

[2 Marks]

- iii. What are the limitations of ratio analysis?

[3 Marks]

- iv. "Generally accepted current ratio is 1:1 while generally accepted quick asset ratio is 2:1. Discuss

[3 Marks]

Question 06

- i. Araliya Enterprise is a manufacturing entity. And it has imported a Plant on 1st January 2020 and following expenses have been incurred.

	Rs. 000
Invoice value of the Plant	4,500
Consultancy charge paid to external lawyer	200
Freight charges	90

Custom duties and VAT (Rs. 200,000/- are recoverable)	500
General overhead expenses	25
Installation charges	175
Staff training cost	20
Operating losses	1,200

(a) State with reasons whether above expenses shall be capitalized or not in accordance with LKAS 16 – Property, Plant and Equipment.

[6 Marks]

(b) Show the double entry to record the above transaction.

[2 Marks]

ii. *“Internal control in Accounting Information System (AIS) is important to ensure reliability of information generate from AIS and promote operational efficiency of organization”*. Comment **[3 Marks]**

iii. What are the core modules and noncore modules in accounting software?

[2 Marks]

iv. List two (2) advantages and two (2) disadvantages of accounting software?

[2 Marks]

END OF PAPER