



**SABARAGAMUWA UNIVERSITY OF SRI LANKA**  
**FACULTY OF MANAGEMENT STUDIES**

**BSc DEGREE PROGRAMME IN ECOBUSINESS MANAGEMENT**  
**YEAR I SEMESTER II EXAMINATION – MARCH/APRIL 2017**

**FINANCIAL ACCOUNTING – EBM 1273**

75

Time allowed: **THREE (3) hours**

Answer all questions.

- 1 Following Trial balance is extracted from Wedaberi Ltd as at 31st March 2016

	Dr (Rs 000')	Cr (Rs 000')
Stated Capital - Ordinary shares		4,130
Preference shares		1,000
General Reserves		420
Revaluation Reserve		150
Retain profit 01/04/2015		565
15 % Bank loan		1,400
Sales		15,675
Inventory	1,260	
Purchases	9,270	
Carriage inward	470	
Property, Plant & Equipment	8,250	
Accumulated Depreciation 01/04/2015		1,420
Trade Debtors & Creditors	800	750
Distribution costs	635	
Administration costs	815	
Other operational costs	138	
Interest	120	
Bank charges	145	
Bank overdraft interest	55	
Interim dividend - Ordinary shares	200	
Preference shares	70	
Provision for taxation 01/04/2015		135
Tax payment	225	
Other operational income		15
Investments	1,934	
Dividend income		32
Provision for doubtful debtors 01/04/2015		65
Insurance	122	
Prepayments and accruals	153	33
Electricity	66	
Cash in hand	2,100	
Bank overdraft		1,038
	26,828	26,828

Following additional information are also provided

- i Inventory as at 31st March 2016 was Rs 500,000 at cost.
- ii Prepaid insurance Rs 30,000 and accrued electricity Rs 14,000 has not been accounted.
- iii Actual tax liability 2014/2015 has been agreed at Rs 160,000 and settle during the year and the tax liability for the year 2015/2016 has been estimated as Rs 150,000.
- iv Out of debtors Rs 80,000 has to be written off as bad , and 10% of the balance should be provided as doubtful debts.
- v Information pertaining to Property , Plant & Equipment as at 01/04/2015 as follows

	Cost/ Revaluation	Accumulated Depreciation
Freehold Land	1,500,000	
Buildings	2,500,000	625,000
Motor vehicles	800,000	380,000
Plant & Machinery	1,200,000	300,000
Furniture & fittings	1,000,000	115,000
	7,000,000	1,420,000

- vi Lands were revalued at the year end for Rs 2,000,000. It was decided to reflect this figure in the books. but no action had been taken.
- vii On 01st April 2015 Motor vehicles for Rs 850,000 and furniture and fittings for Rs 400,000 had been purchased. In addition Plant and machinery cost Rs 200,000 had been sold for Rs 175,000. The carrying value was Rs 150,000.
- viii Depreciation should be provided on straight line basis as follows
  - Buildings 5 %
  - Motor vehicles 20%
  - Plant & Machinery 25%
  - Furniture & fittings 15%
- ix During the year 50,000 shares had been issued at Rs 12 each and proceeds had been credited to stated capital account.
- x A customer has filled a case against the company for its failure to deliver the goods as per the agreement, claiming Rs 500,000. The company lawyers are of the view that definite opinion can not be expressed with regard to the outcome of the case.
- xi 15% Bank loan is settled in bi-annually with installment of Rs 200,000 along with interest. 1st installment and interest was duly paid on 30th September 2015. Second installment is payable on 31st March 2016, but not paid so far.
- xii Number of shares issued is as follows
  - Ordinary shares 280,000
  - Preference shares 100,000

- xiii Following decision were taken by the directors at the directors meeting on 20/04/2016  
Transfer Rs 180,000 to General reserve  
Declare balance dividend to preference share holders. They are entitled to an annual dividend of Rs 1.50 per share.  
Declare dividend of Rs 1.25 per ordinary share.

- xiv Financial statements were authorized for publication on 20/06/2016.

You are required to prepare following for publication.

( Presentation should be in line with LKAS 01)

- i Comprehensive Income Statement for the year ended 31st March 2016
- ii Statement of Financial Position as at 31st March 2016.
- iii Statement of Changes in Equity for the year ended 31st March 2016
- iv Notes to the accounts.

( 30 Marks)

- 2 Suneth and Priyath were carrying a partnership business under the following agreements

- i Monthly salary of Rs 20,000 and Rs 15,000 are paid to Suneth and Priyath respectively
- ii Monthly interest on capital Rs 5000 and Rs 10,000 on capital are paid to Suneth and Priyath
- iii Profit and loss should be shared equally between Priyath and Suneth
- iv All expenses are incurred by the partners on behalf of the partnership business are reimbursed.
- v Personal expenses of partners paid by the partnership should be borne by the partners.

Dineth was admitted to the partnership on 31st March 2016. He brought Rs 1,200,000 in cash and a motor vehicle agreed amount of Rs 800,000 on his admission. All partners agreed to share profit and loss equally there after .Goodwill of the partnership as at 31st March 2016 valued as Rs 1,500,000 and decided not to maintain goodwill account in the ledger.

Summary of the cash book for the year 31st March 2016 is as follows.

	( Rs 000 )	( Rs 000)
Cash book balance 01/04/2015		400
<b>Receipts</b>		
Collection from debtors	6,100	
Capital introduced by Dineth	1,200	
Bank loan	1,300	8,600
		<hr/> 9,000
<b>Payments</b>		
Payments to creditors	4,200	
Expenses	2,350	
Equipments	500	

Salaries - Suneth	200	
Priyath	150	
Interest on capital - Suneth	40	
Priyath	100	
Drawings - Priyath	125	
Reimbursement of expenses incurred by Suneth	50	
Electricity bills of Priyath's house	40	
Tuition fees for Suneth's children	25	
Fuel bills reimbursed - Suneth	150	
Priyath	70	(8,000)
Balance as at 31st March 2016		<u>1,000</u>

You are given the additional information as follows.

- i Total equity and capital balances as at 01st April 2015 is as follows
 

	Suneth (Rs 000)	Priyath (Rs 000)
Total Equity	2,800	2,600
Capital Accounts	2,000	2,500
- ii The interest on bank loan as at 31st March 2016 amounting Rs 10,000 should be accrued.
- iii Depreciation Property Plant and Equipment for the year was Rs 175,000
- iv Liabilities and current assets ( except cash ) as at 01st April 2015 is as follows.
 

	(Rs 000)
Creditors	300
Accrued expenses	40
Inventories	225
Debtors	360
Prepaid expenses	15
- v Net increase / ( Decrease) in liabilities and current assets ( except cash and accrued interest ) during the year ending 31st March 2016 is as follows
 

	(Rs 000)
Bank loan	1300
Creditors	(20)
Accrued expenses	25
Inventories	(15)
Debtors	40
Pre paid expenses	5

You are required to prepare

- i Income statement for the year ending 31st March 2016
- ii Profit and loss appropriation account of the partner ship
- iii Partners capital accounts and current accounts
- iv Statement of Financial position at 31st March 2016

( 25 Marks)

- 3 The summarized financial statements of Kumudu PLC are as follows.

Kumudu PLC

Income Statement for the year ending 31st March 2016.

	Rs 000'	Rs 000'
Sale		7200
Cost of sale		(4,200)
Gross profit		3000
Profit from sale of land		300
Depreciation - Buildings	500	
Office equipments	800	
Other expenses	1000	(2,300)
Profit before Tax		1,000
Income tax		(300)
Profit after tax		700

Kumudu PLC

Statement of Financial Position as at 31st March 2016.

	2015/2016 Rs 000'	2014/2015 Rs 000'
Land	5,000	9,000
Building at cost	10,000	10,000
Accumulated depreciation - Buildings	(5,000)	(4,500)
Office equipment at cost	8,000	4,000
Accumulated depreciation - office equipments	(2,400)	(1,600)
Inventory	1,400	1,000
Trade debtors	1,500	1,200
Cash at Bank	1,500	500
	<u>20,000</u>	<u>19,600</u>
Stated ordinary share capital	14,000	13,000
Retained earnings	4,200	4,000
Trade creditors	1,500	2,000
Income tax payables	300	600
	<u>20,000</u>	<u>19,600</u>

Additional informations

- All purchases and sales were on credit basis.
- On 01/04/2015 the company issued 10,000 shares for Rs 1,000,000
- Part of the land was sold for Rs 4,300,000 on cash
- On 31st March 2016 office equipments of Rs 4,000,000 were bought on cash
- An interim dividend of Rs 500,000 was paid during the year.

You are required to prepare cash flow statement for the year ending 31st March 2016 according to LKAS 07 ( Use indirect method )

(15 Marks)

4 The following informations relates to Southern Hotel for the month of June 2016.

Cheques issued not yet presented to the bank

Cheque No	Payee	Amount
100100	Saliya	20,000
100110	Sunimal	50,000

Cheques deposited not yet realised

Cheque No	Received from	Amount
456371	Senaka	20,000
900200	Sunil	60,000

The bank account of the business for the month of July 2016 is as follows.

Date	Description	Dr	Date	Description	Cr
01/07	Balance B/F	30,000	06/07	Thilak ( 100120 )	8,000
02/07	Nimal ( Che No 124500 )	50,000	20/07	Saliya ( 100121 )	30,000
04/07	Lal ( Che No 480222 )	10,000	30/07	Silva ( 100122 )	2000
08/07	Allen ( Che No 750200 )	12,000	30/07	Sanath ( 100125 )	20,000
12/07	Cash	50,000	30/07	Sri Lanka insurance	50,000
26/07	Sarath ( Che No 500500 )	18,000			
28/07	Rajan ( Che No 123451 )	100,000			
		270,000		Balance C/F	160,000
					270,000

An extracted of the bank statement for the month of July 2016 is as follows

Date	Description	Dr	Cr	Balance
01/07	Balance B/F			20,000
02/07	Cheques ( 124500 )		50,000	70,000
03/07	100110	50,000		20,000
04/07	Cheques ( 900200 )		60,000	80,000
06/07	Cheques (480222)		10,000	90,000
06/07	Return (480222)	10,000		80,000
08/07	Cheques ( 750200 )		12,000	92,000
10/07	100120	8,000		84,000
12/07	Cash		50,000	134,000
22/07	100121	30,000		104,000
31/07	Transfer from saving A/C		100,000	204,000
31/07	Sri Lanka Insurance	50,000		154,000
31/07	Bank changes	4,000		150,000

You are requested to prepare

- Adjusted bank account to show the bank balance in the balance sheet as at 31st July 2016.
- Prepare the bank reconciliation statement for the month of July 2016 base on adjusted bank account balance.

( 10 Marks )

- 5 The statement of Financial position of Emit Enterprises as at 31st March 2016 is as follows.

(Rs 000 ')			
<b>Non Current Assets</b>	Cost	Acc Dep	Net value
Land & Buildings	4,600	800	3,800
Motor Vehicles	3,240	1,860	1,380
Office Equipments	1,430	328	1,102
	9,270	2,988	6,282
10% Fixed deposit			1,000
<b><u>Current Assets</u></b>			
Trade stocks		1,422	
Trade debtors		360	
Cash & bank balance		316	2,098
			9,380
<b><u>Capital &amp; Liabilities</u></b>			
Capital			7,150
Net profit		1,607	
Less - drawings		(120)	1,487
<b><u>Non current liabilities</u></b>			
Bank loan			100
<b><u>Current liabilities</u></b>			
Trade creditors		462	
Accrued Rent & Rates		38	
Suspense account		143	643
			9,380

- During the audit of accounts the following errors and omissions were discovered
- Office equipments costing Rs 320,000 acquired on 30th June 2015 had been debited to purchase account.( The firm depreciate office equipment at 5% per annum on straight line basis )
  - The total discount allowed column of Rs 34,000 had been posted in credit of discount received account.
  - Sales journal total on a page was carried forward as 26,000 instead of Rs 62,000 ( The business not using control accounts )
  - The loan account balance of Rs 230,000 on 31st March 2016 had been omitted from trial balance. This omission had not been revealed until the preparation of draft financial statements.

- v The annual fixed deposit interest has not been made in the accounts.
- vi Cash payment for transport charges amounting to Rs 23,000 had been credited to the transport charges account as Rs 32,000.
- vii Owners income tax payment of Rs 50,000 had been debited to operating expenses account.

You are required to prepare

- i Suspense account
- ii The statement showing the correct net profit
- iii The statement of financial position as at 31st March 2016 after rectifying the errors.

**( 10 Marks)**

- 6 i List down two differences between Financial accounting and Management Accounting ( 2 Marks)
- ii Briefly describe the following accounting concepts
  - Money measurement concept
  - Going concern concept ( 2 Marks)
- iii What do you mean by Impairment loss ( 2 Marks)
- iv What are the Prime entry books use to record following transactions
  - Creditors payments
  - Credit purchase of fixed assets. ( 2 Marks)
- v Write two criterias to be satisfied to make a provision in the financial statements as per LKAS 37 ( 2 Marks)

**( 10 Marks)**