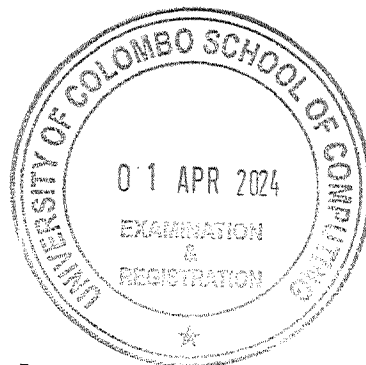




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University of Colombo, Sri Lanka

University of Colombo School of Computing BACHELOR OF SCIENCE IN INFORMATION SYSTEMS

First Year Examination — Semester II— UCSC AY20 [held in March/April 2024]

IS 1108 — Financial Accounting

(Two (2) Hours)

Answer All Questions

Number of Pages = 12

Number of Questions = 2

To be completed by the candidate

Index Number

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Important Instructions to candidates:

- Students should answer in the medium of English language only using the space provided in this question paper.
- Note that questions appear on both sides of the paper. If a page or a part of this question paper is not printed, please inform the supervisor immediately.
- Write your index number CLEARLY on each and every page of this Question paper.
- This paper consists of 2 questions in 12 pages (including the Cover Page).
- Answer ALL questions.
- Programmable Calculators and any electronic device capable of storing and retrieving text including electronic dictionaries, smart watches and mobile phones are not allowed.
- Non-Programmable calculators are allowed
- Do not tear off any part of this answer book. Under no circumstances may this book, used or unused, be removed from the Examination Hall by a candidate

To be completed by the examiners

1	
2	
Total	

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1. (a). You are given ten (10) transactions of a sole proprietor as follows:

- i. Invested Rs. 1,200/- in cash as initial capital to start a business.
- ii. Purchased an office furniture on credit for Rs. 100 /-
- iii. Purchased goods for Rs. 300/- on credit terms. These goods were purchased for resale.
- iv. Purchased goods for resale for cash worth Rs. 150/-.
- v. Purchase of furniture worth of Rs. 750/- by paying Rs. 150/- in cash.
- vi. Paid Rs. 450/- to Trade Creditors.
- vii. Sold Rs. 145/- worth of stocks for Rs. 180/- on credit terms.
- viii. Owner paid his personal mobile bill of Rs. 40/- from the business account
- ix. Collected Rs. 500/- from a debtor.
- x. Owner obtained Rs. 2,000/- from a bank as a personal loan.

You are required to: Analyze the impact of these transactions and record the impact based on the accounting equation and complete the table given below. Note - Use parenthesis () to record cash outflows and other deductions.

[10 marks]

Table 1: Answer to Question 1(a)

#	Furniture	Inventory	Trade Debtors	Cash	=	Capital	Creditors
1					=		
2					=		
3					=		
4					=		
5					=		
6					=		
7					=		
8					=		
9					=		
10					=		

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- (b). An asset was purchased on January 1, 2019, with a lifetime of 10 years and a scrap value of 2,000 LKR. After completing its 5th year, the asset was sold in May 2024 for 7,000 LKR. The full depreciation amount is charged for the selling year. If the asset was initially bought for 10,000 LKR, what is the profit from the sale? Use the straight line method.

[6 marks]

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- (c). Calculate the profit(loss) for the year ended 31st December 2023 based on the following information.

- Total assets as of December 31, 2023: Rs. 8,000,000
- Capital as of January 1, 2023: Rs. 6,000,000
- Capital introduced during the year: Rs. 4,000,000
- Drawings made during the year: Rs. 700,000
- Liabilities as of December 31, 2023: Rs. 2,000,000

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[4 marks]

- (d). Identify the correct term that describe cases given in the first column. You are required to write the correct term in the corresponding box in the second column.

[10 marks]

Terms	Going concern, accrual, prudence, consistency, financial, money, entity, historical cost, depreciation, business entity, materiality, realization, monetary measurement
Case	Term
The financial statements are prepared using the carrying amount of asset values instead of the purchase prices of asset.	
The identical depreciation formula and rate are consistently applied to depreciate the business's furniture.	
Although the market value exceeds both the carrying value and historical cost, assets are not reported at market value.	
A duster, intended for multiple years of use, was categorized as a stationary expense.	
Transactions are documented and accounted for despite the absence of direct cash disbursements.	

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- (e). State whether the following statements are TRUE or FALSE by stating "T" or "F".

Statement	T/F
It has been identified that the closing stock was undervalued. Rectifying this error would result in an increase in gross profit.	
The act of withdrawing the capital funds would lead to a reduction in profit.	
The revenue value will vary depending on whether the LIFO or FIFO method is employed.	
Both management accounts and financial accounts must undergo auditing by a certified auditor.	
The gross profit value will vary depending on whether the LIFO or FIFO method is employed.	

[5 marks]

- (f). State whether the following statements are TRUE or FALSE by stating "T" or "F".

Statement	T/F
To calculate the cash generated from operating activities, the depreciation amount should be added back to the operating profit.	
To calculate the cash generated from operating activities, the increment of trade receivable should be added back to the operating profit.	
To calculate the cash generated from operating activities, the increment of trade payable should be added back to the operating profit.	
To calculate the cash generated from operating activities, the increment of inventories should be added back to the operating profit.	
To calculate the cash generated from investing activities, the amount paid to purchase non-current assets should be added back to the net cash flow from operating activities.	

[15 marks]

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2. Use the following information to answer part (a) and (b).

ASM Traders is a sole proprietorship. The Trial Balance of the ASM Traders as at 31st December 2023 is as follow:

ASM Traders
Trial Balance as at 31st December 2023

Description		
Item	Dr.	Cr.
Property, Plant and Equipment at Cost:		
Land	6600	
Building	11000	
Motor Vehicle	3080	
Office Equipment	990	
Accumulated Depreciation as at 31st December 2022		
Building		2200
Motor Vehicle		660
Office Equipment		495
Sales		137500
Purchases	83600	
Trade Receivables	7920	
Trade Payables		3520
Cash in hand	990	
Bank Overdraft		1925
Inventory as at 1st April 2022	7590	
Electricity	3520	
Salaries and Wages	33000	
Telephone Charges	2200	
Advertising	4400	
Showroom rent paid	605	
Printing and Stationary	1320	
Interest on Bank Overdraft	330	
Carriage inwards	1100	
Return Inwards	2200	
Return Outwards		3300
Bank Charges	55	
Capital Account as at 1st January 2023		20900

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The following additional information is also provided:

1. The closing inventory as at 31st December 2023 was valued at cost of Rs.3,500/-.
2. ASM Traders purchased a Motor Bike for Rs.200,000/- on 01st January 2023 on credit from City Riders Ltd. This was not recorded in the books of accounts of ASM Traders for the year ended 31st December 2023.
3. The policy of the business is to provide depreciation on straight-line basis at cost as follows:
Building : 03% per annum
Motor Vehicles : 10% per annum
Office Equipment : 15% per annum
4. The rent agreement of the showroom was entered into on 01st April 2023 for a period of one year. Monthly showroom rent is Rs.25,000/-.
5. The following expenses for the December 2023 has not been accrued in the books of accounts:
Electricity bill : Rs.75,000/-
Advertising : Rs.2,000/-
6. After evaluating the trade receivables balance as at 31st December 2023, the owner of ASM Traders has decided to write off a balance of Rs.8000/- as bad debt.

You are required to prepare the

- (a). Statement of Comprehensive Income for the year ended 31st December 2023.

[15 marks]

- (b). Statement of Financial Position as at 31st December 2023.

[10 marks]

Note

- In preparing the above-mentioned statements, you are required to use the tables given on Page 7-10. You need to fill in some boxes and keep some boxes empty.
- Some entries were done for you.
- The last column indicates the marks allocated for the correct answers.

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ASM Limited
Statement of Profit and Loss and other Comprehensive Income
For the year ended 31st December 2023

#	Item	Rs.	Rs.	Rs	Marks
1	Sales				
2	Sales inwards				
3					1
4	Less - Cost of Sales				
5	Opening Stock				
6					1
7					1
8					1
9					1
10					
11					
12					
13	Cost of Sales				1
14	Gross Profit				2
15	Other Income				
16					

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17	Less - Expenses				
18	Depreciation Motor Vehicle				1
19	Depreciation Building				1
20	Depreciation Office Equipment				1
21	Advertising				1
22	Bad Debts				1
23	Rent				1
24	Electricity				1
25	Salaries and Wages				
26	Telephone				
27	Printing and Stationary				
28	Bank Overdraft Interest				
29	Bank Charges				
30					
31	Profit for the year				4

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ASM Limited
Statement of Financial Position
As at 31st December 2023

#	Item	Cost	Accumulated Depreciation	Carrying Value	Marks
1	Non-Current Assets				
2	Land				
3	Building				
4	Motor Vesicle				
5					
6					3
7					
8	Current Assets				
9	Inventory				
10	Trade Receivable				
11					
12	Total Assets				3
13					
14	Equity and Liability				
15	Capital at the beginning				

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16	Profit for the year				1
17					
18	Current Liabilities				
19	Trade payable				
20					
21					
22					
23					
24					
25	Bank overdraft				
26	Total Equity and Liability				3

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- (c). Assume that you been hired to interpret the financial performance and position of an organization and advise the chairman and board of directors. Your answers should be in a layman's language since some board members are not familiar with financial terms. Furthermore, your answers should be short and direct. Your assistant has prepared the following data for you.

Table 4: Financial Ratios

Ratio	2023	2022	2021	2023-Industry Average
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days Sales Outstanding (DSO)	113	98	94	130.25
Accounts Payable Turnover Ratio	10	8	6	8
Account Receivable Turnover	-	-	-	6.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.02	1.02	1.029	1.031
Current Ratio	1.0	1.21	1.15	1.25
Times Interest Earned	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

- i. Compare the liquidity ratio for the year 2023 and 2022 and state the possible reasons.

[7 marks]

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- ii. Calculate the account receivable turn over ratio for the year 2023 and compare with the industry average for the same year.

[7 marks]

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- iii. What is your opinion on cash flow of the company?

[7 marks]

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- iv. For the year 2023, the cost of production of one unit is 60.00 LKR. What is the selling price of one unit. Only the final answer is required.

[4 marks]

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