SLIATE

SRI LANKA INSTITUTE OF ADVANCED TECHNOLOGICAL EDUCATION

(Established in the Ministry of Higher Education, vide in Act No. 29 of 1995)

Higher National Diploma in Accountancy

First Year - First Semester Examination - 2017

HNDA 1101 – Fundamentals of Financial Accounting

Instructions for Candidates
Answer only five questions including No.01 and 02

No. of questions: 06
No. of pages : 09
Time : Three hours

Question No- 01 **(Total 25 marks)**

1. What are the Qualitative characteristics of financial statements as per LKAS-01? (02 Marks)
2. Name the components of financial statements. (02 marks)
3. State two types of errors that will not affect the agreement of the trial balance. (02 Marks)
4. State four possible causes for the difference between the bank statement balance and cash book bank balance? (02 Marks)
5. Name the main components of "Prime cost". (02 Marks)
6. State four transactions recorded in the general journal. (02 marks)
7. The ending balance of owner's equity is Rs; 420,000. During the accounting year the owner's additional contribution was Rs; 120,000 and withdrawals was Rs; 80,000. If the firm had Rs; 160,000 net income for the year, calculate the beginning balance of the owner's equity. (02 marks)
8. The value of an invoice received on credit purchase of Rs. 125,440 included 12% Value Added Tax (VAT). Enter the double entry to record this transaction. (02 Marks)
9. The following transactions are related to Sarah's Bakery. Identify the relevant source document and prime entry book used to record each of the following transactions.
   a) Purchased Rs.30, 500/- worth stock of flour from Silva & Sons on credit basis.
   b) Sold buns worth Rs. 25,500/- to Shan Traders on cash.
   c) Rs. 5,450/- worth of buns were returned by Shan Traders due to excess.

d) Purchase of delivery van for Rs. 650,000/- from David Pieris Motor Company (Pvt) Ltd. on credit. (4 Marks)

10. During the month of March 2017, the following transactions were extracted from the books of Namal's business, a sole proprietor.

Date	Description
01-01-2017	He introduced Rs.2,500,000/- in cash and Rs.325,000/- worth of goods for resale, to commence the business.
10-01-2017	Purchased goods for Rs.525,000/-, on credit basis.
18-01-2017	Stocks costing of Rs.250,000/- was sold on credit with a profit margin of 30% on cost.
23-01-2017	Goods costing of Rs.125,000/- were drawn by Namal for his personal use.
31-01-2017	Purchased a motor bicycle for Rs.250,000/- for office use by paying Rs.100,000/- in cash and the balance is to be settled within 2 months

You are required to:

Record the effect of each of the above transactions to the following accounting equation:

(Fixed assets + Inventories + Debtors + Cash = Capital + Liabilities) (5 Marks)

Question No- 02 **(Total 30 marks)**

Sujith, Janith and Rajith were in a partnership business sharing profits and losses in the ratio of 5:3:2 respectively.

The partnership agreement provides the following:

1. Interest on drawings is charged at 12% and interest on Capital at 6% per annum.
2. No interest is paid or charged on current account balances.
3. Sujith and Janith are entitled to a monthly salary of Rs. 4,000/- and Rs. 6,000/- respectively.

The following Trial Balance is extracted from the books of accounts in the business as at 31st March 2017.

Description	Debit Rs.	Credit Rs.
Capital Accounts as at 01.04.2016		
Sujith		375,000
Janith		255,000
Ranjith		175,000
Current Accounts as at 01.04.2016		
Sujith		27,500
Janith		34,500

Ranjith		21,255
Plant and Machinery at cost	750,000	
Motor Vehicle at cost	550,000	
Office equipment at cost	330,000	
Accumulated depreciation as at 01.04.2016		
Plant and Machinery		350,000
Motor Vehicle		285,000
Office equipment		125,000
Purchase	580,500	
Inventory as at 01.04.2016	75,000	
Sales		1,384,000
Other income		48,000
Administrative Expenses	125,000	
Selling and distribution Expenses	68,200	
Finance and other expenses	52,500	
Drawings of Janith (at 01/10/2016)	25,000	
Account receivables/payables	64,200	48,000
Investment	280,000	
12% Bank loan		150,000
Cash in hand	377,855	
	3,278,255	**3,278,255**

Additional Information:

1. Inventory as at 31st March 2017 was Rs. 65,000 valued at cost.
2. Income and expenses are distributed on periodic basis (not related to any other specific basis).
3. The company policy was to depreciate assets on straight-line basis using following rates.

Plant and Machinery (at cost or revaluation value)	15%
Motor Vehicle (at cost)	12.5%
Office equipment (at cost)	10%

4. The bank loan was obtained on 1st January 2017 and interest payment is included in the finance and other expenses.
5. Prepaid expenses as at 31/03/2017 were Insurance Rs. 7,500 and Advertising Rs. 2,500.
6. Debtors value of Rs. 10,200 have to be written off as bad debt for the first 6 months and 5% provision has to be made as doubtful debts as at 30/09/2016 and 31/03/2017 on debtors' balance. (The debtors balance as at 30/09/2016 was Rs: 37,200 before writing off bad debts).

The partners have realized that their capital account balances do not reflect the following matters.

i. Interest has not been charged on the drawing of Janith.

ii. When Ranjith retired on 30th September 2016, the partnership agreed on the following terms.

   a) The plant and machinery are to be revalued at Rs. 800,000

   b) Goodwill to be valued at 3 years purchase of the average profits of the last Four years, which were: 2013- Rs. 45,000; 2014 Rs. 80,000; 2015- Rs. 42,000 and 2016- Rs. 53,000. It was decided to write off goodwill through capital accounts.

   c) Amount due to Ranjith on his retirement is to be transferred to a loan account which will bear interest at 20% per annum.

iii. Remaining partners decided to continue the partnership by sharing profits equally.

iv. Interest on capital is not allowed for partners and salary of Sujith and Janith as on previous agreement.

v. Other contractual matters are remaining as earlier.

You are required to;

a) Prepare the comprehensive income statement and appropriation account for the year ended 31st March 2017. (14 marks)

b) Partner's Capital and Current Accounts for the year ended 31st March 2017. (08 marks)

c) Prepare the statement of financial position as at 31st March 2017. (08 marks)

Question No- 03 **(Total 15 marks)**

In preparing the trial balance as at 31st March 2017, the book-keeper of Saraswathy Traders has discovered a difference and it was transferred to the debit side in the suspense account. The following errors were identified later.

1. Cash withdrawn by the owner of the business for his personal use was Rs. 75,000/- and it was only recorded in the cash book.
2. The total of the return inward day book amounting to Rs. 9,500/- for March 2017 had been credited to the returns outwards account.

3. Purchase of an office equipment for office use on 01st October 2016 for Rs. 150,000/- had been debited to repair account. The business depreciates its equipment at 12% per annum on the straight-line basis at cost.
4. A cash of Rs. 38,000/- received from Sunil a debtor had been correctly entered in the cash book, but no entry was made in debtor Sunil's account.
5. Discount allowed to a customer amounting to Rs. 2,540/- has been correctly recorded in the trade Receivables' account. However, it has been debited to discount received account as Rs.2, 450/-.
6. The balance of Rent Expense account of Rs. 22,500/- has been taken to trail balance as Rs. 2,500/-.

You are required to,

(a) Prepare journal entries to rectify the above errors. (13 marks)

(b) Prepare the suspense account (02 Marks)

Question No- 04 **(Total 15 marks)**

A. Bank balance as per the cash book of Amal's "business as at 31 March 2017was different from the balance in the bank statement. However, his bank balance as per the cash book showed a debit balance of Rs. 23,000. The followings were identified as the reasons for differences.

1. A cheque received from a customer amounting Rs. 15,000 had been recorded in the cash book, but the bank statement was not credited in the month of March.
2. Cheques drawn amounting Rs. 25,500 which were entered in the cash book, had been debited by bank on 15th April 2017.
3. During the period bank has paid standing order payment of Rs. 3,650 as insurance premium to Sri Lanka Insurance.
4. A bank charges of Rs. 800 and the interest of Rs.320 charged by the bank were not recorded in the cash book.
5. A cheque issued to a supplier amounting Rs. 5,000 had been cancelled as it was expired. Amal was then issued a new cheque. Amal credited his cash book with cheques issued but no other entry was made. Both cheques were included in the un-presented Cheques in 2 above.
6. A deposit by a customer amounting to Rs. 1,000 made directly to the bank account has not been recorded in the cash book.

7. The bank has erroneously debited the account of the firm by Rs. 2,000.

You are required:

a) To make the relevant adjustments in the cash book. (04 Marks)

b) To prepare a reconciliation statement adjusted cash book balance with the bank statement balance. (05 Marks)

B. Details of the petty cash transactions of Shanthi Traders for the month of March 2017 are given below. Shanthi Traders maintains a petty cash float (petty cash impress) of Rs. 2,000/-.

Date	Voucher No.	Description
01-03-2017		Received petty cash imprest of Rs.2,000/- from the main cashier.
05-03-2017	0001	Purchase of Stationary for Rs. 225.
12-03-2017	0002	Payments for Stamps and Envelops Rs.125.
18-03-2017	0003	Paid Rs.330 for Travelling charges.
23-03-2017	0004	Rs. 175 paid for Telegrams charges.
28-03-2017	0005	Advance paid to Suman Rs.300.
31-03-2017	0006	Paid Rs.150 as vehicle parking charges.

You are required to,

Record the above transactions in the petty cash book of Shanti Traders with classified petty cash expense on stationery expenses, traveling expenses, postage, and Ledger accounts.

(06 Marks)

Question No- 05 **(Total 15 marks)**

The following data were extracted from debtor's ledger control account of Rama's business for the year ended 31/03/2016.

01st April 2016 balance of debtor's ledger control account

	Debit balance	856,985
	credit balance	15,200
credit sales		2,857,500
sales return		22,450
cash and cheques received from debtors		2,987,540
discount allowed		44,200

bad debts	56,250
accepted bills of exchange by the debtors	245,000
dishonored cheques received from debtors	32,200
charges for dishonored cheques	250
contra entries against the creditors	1,000
credit balance of debtors as at 31/03/2017	9,870

According to the subsequent investigation revealed that, debtor's ledger control account balance as at 31/03/2017 of Rama's business did not agree with the total of individual ledger accounts balances as at that date.

The following matters were revealed as the reasons for not tallying total of individual ledger accounts balances with the balance in the control account.

1. An invoice of Rs. 6,900 was entered as Rs. 9,600 in the personal ledger account.
2. Amal has paid Rs. 72,000 as the total settlement for his debt after deducting 10% discount. These entries were correctly recorded in the cash book and the personal ledger account but not recorded in the debtors control account (both cash payment and discount).
3. Contra entries transferred from debtor's ledger to creditors ledger, an amount of Rs. 18,350 was recorded only in the debtor's personal account.
4. A credit sale of Rs. 24,400 was entered in the sales day book as Rs. 42,400, but correctly entered in the sub-ledger account.
5. A sale of Rs. 21,000 made to Nimal was recorded only in the sales journal but not recorded in personal account.

You are required to,

a) Prepare debtors control account for the Year ended 31st March 2017. (07 Marks)

b) Make the appropriate adjustments in the debtor's control account. (04 Marks)

c) Prepare a reconciliation statement by comparing the adjusted balance in the debtors control account with the total of individual ledger accounts balances as at 31st March 2017. (04 Marks)

Question No- 06 **(Total 15 marks)**

Samsons is a small scale shoe manufacturing company engaged in the business of manufacturing Shoes. The following information relates to Samsons for the year ended 31st March 2017:

1) Details of Inventory held as at 01st April 2016 and 31st March 2017 are given below:

Type of Inventory	01/04/2016 (Rs.)	31/03/2017 (Rs.)
Raw Materials	55,500	32,500
Work in Progress	22,600	13,750
Finished goods held for Resale	45,000	72,500

2) Details of expenses incurred during the year are given below:

	Rs.
Purchase of Raw Materials	1,452,000
Carriage Inwards	17,250
Custom duty	12,500
Factory electricity	252,500
Direct expenses	77,500
Factory maintenance	27,000
Indirect materials	18,000
Depreciation:	
Building	12,000
Machinery at factory	8,500
Factory Insurance Expenses	23,100
Factory Building Rent Expenses	16,000
Sales Commission	52,000
Advertising	34,750

3) Salaries, wages and related expenses are as follows:
   a) Factory Manager's salary is Rs.105 000 per year.
   b) Other production staffs' total salaries amounting to Rs.132, 000 per year.
   c) Direct wages are paid based on the pair of shoes produced. During the year 1,500 pair of shoes were produced and payments were made at the rate of Rs. 115 per pair of shoes produced.

4) The following accrued expenses have to be accounted for the year ended 31st March 2017:

Expenses	Rs.
Factory Insurance	4,300
Factory Electricity	22,500

Following additional information is also provided:

1. Work in Progress (WIP) is valued at prime cost.
2. 25% of the factory building area is used for the Samsons sales outlet.
3. Manufactured goods are transferred to the sales division with a mark-up of 25% on its selling price.

You are required to:

a) Prepare Manufacturing Account of Samsons for the year ended 31st March 2017. (13 Marks)

b) Calculate the manufacturing cost per pair Shoes. (01 Marks)

c) Compute the value at which the goods are transferred to the sales division. (01 Marks)