

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

First Year First Semester Examination in Business Administration / Commerce

2007/2008 (Feb' 2009) (Proper / Repeat)

DAF 1014 Financial Accounting



Answer All Questions

Calculator Permitted

Time: Three (03) hours

01. The Trial Balance extracted from the books of BMC plc as on 31st of December 2008 is as follows:

Items	Debit	Credit
	Rs.	Rs.
Ordinary share capital - shares of Rs.10 each		2700000
10% Preference share capital - shares of Rs.10 each		1500000
Accumulated profit as at 01.01.2008		250000
General Reserve		450000
Goodwill	200000	
Value Added Tax	300000	
20% Debentures		1000000
Creditors		450000
Provision for income tax for the year 2006 /2007		200000
Sales		12000000
Sales Returns	500000	
Investment income received		30000
Bad Debts	50000	
Provision for doubtful debt as at 01.01.2008		40000
Provision for Depreciation on non-current assets as at 01.01.2008:		
Motor vehicles		800000
Furniture and fittings		500000
Stocks as at 31.12.2008	300000	
Cost of Sales	6500000	
Audit fees	250000	
Directors' Remunerations	1000000	
Insurance	330000	
Administrative expenses	800000	
Selling and Distribution expenses	350000	
Advertisement charges	150000	

Discounts received		80000
Debenture interest paid	100000	
Income tax paid: For 2006/2007	300000	
For 2007/2008	350000	
Interim dividend paid –Ordinary (Gross)	75000	
Preference (Gross)	75000	
Non Current assets at cost:		
Land property	3400000	
Motor vehicles	2400000	
Furniture and fittings	1000000	
12% investments	500000	
Debtors	850000	
Cash and bank	220000	
	20000000	20000000

Additional Information:

- i. The net realizable value of stocks as at 31.12.2008 was Rs.260000.
- ii. Expenses payable as at 31.12.2008: Audit fees Rs.50000, Employees Provident Fund Rs.30000, and Employee Trust Fund Rs.25000.
- iii. Pre-paid expenses as at 31.12.2008: Insurance Rs.30000, and Advertisement Rs.50000.
- iv. A bad debt of Rs.50000 is to be written off from the debtor, and a provision for doubtful debt is to be made at 6% on remaining debtors.
- v. One of the motor vehicles purchased on 1st of July 2006 at a cost of Rs.800000 was disposed on 1st of July 2008 at Rs.600000. The proceeds from the disposal was debited to cash account and credited to motor vehicle account. No other entries were made in the books of accounts in this regard.
- vi. The provisions for depreciation on Non current assets are to be made as follow:

Motor Vehicles	-	20% p.a at cost
Furniture and Fittings	-	10% p.a on reducing balance
- vii. The income tax for the current year (2007/2008) has been estimated at Rs.500000. The income tax for the previous year (2006/2007) was agreed paid off current year.
- viii. The whole 20% debentures were issued on 1st of January 2008.
- ix. On September 2008 a plot of land owned by the company was donated first time to a government approved Elders' Home. The cost of the land was Rs.500000. No entries were made in the books of accounts regarding this donation.

- x. The directors of the company have decided the following:
- To transfer Rs.50000 to General reserve
 - To write off 50% of Goodwill
 - To provide 10% final dividend to ordinary shareholders and the final dividend to Preference shareholders.

Required:

Prepare the following for BMC Plc in the format that can be published for shareholders. (Show the notes and workings clearly).

- The Income Statement for the year ended 31.12.2008
- The Statement of Changes in Equity for the year ended 31.12.2008
- The Balance sheet as at 31.12.2008

(30 Marks)

02. Following is the Balance Sheet of Mr.Mathavan, a sole trader, as at 31.12.2008

Liabilities	Rs.	Assets	Rs.
Capital	193000	Land and Building	120000
10% Bank Loan	60000	Furniture	24000
Creditors	124000	Motor vehicle	36000
		Stocks	80000
		Debtors	68000
		Cash at bank	34000
		Cash in hand	15000
	377000		377000

A fire occurred in the evening of 31st of December 2008 in the premises of the trader, destroying all books of accounts and records. The cashier absconded with the available cash in the cash drawer. However, Mr.Mathavan has given you the following information:

- His sales for the year 20% higher than the previous year's. He sells his goods at cost plus 25%, and 20% of the total sales were made for cash. There were no cash purchases.
- From 1st of January 2008, stock level was raised to Rs.100000 and maintained at that level all throughout the year.
- Collection from debtors amounted to Rs.520000 of which Rs.120000 was received in cash. Operating expenses amounted to Rs.84000 of which Rs.20000 was outstanding on 31st December 2008 and Rs.24000 was paid by cheques. Creditors were paid by cheque only.

(d) Analysis of the bank statement revealed the following:

	Rs.
Payment to creditors	550000
Personal Drawings	30000
Cash deposited in bank	267400
Cash withdrawn from bank for office use	48000

(e) Gross profit as per last year's audited account was Rs.120000.

(f) Depreciation on Land and Building, Furniture, and Motor Vehicle is provided at 5%, 10% and 15% per annum on book values respectively

Required:

- (i) Ascertain the amount defalcated by the cashier
- (ii) Prepare the Trading and Profit and Loss Account for the year ended 31st of December 2008, and the Balance Sheet as at that date assuming that 40% of the defalcated amount is recoverable fro the cashier. (Working note must form part of your answer)

(15 marks)

3. Following is the Receipt and Payment Account of ROSARY Club for the year ending 31st of December 2008:

Receipts	Rs.	Payments	Rs.
Balance b/d - Cash	20000	Salaries	15000
- Bank	50000	Electricity Bills	20000
Subscription - 2007	10000	Foodstuff for Restaurant	40000
- 2008	80000	Telephone Bills	25000
-2009	8000	18% Investments	78000
Donation to Sports Fund	20000	Sports expenses	40000
Sale of old Periodicals	2000	Subscription for Periodicals	10000
Sale of foodstuff	80000	Balance c/d - Cash	17000
Rent of ground for weddings	10000	- Bank	43000
Disposal of furniture (Book Value Rs.5000)	8000		
	288000		288000

Additional Information:

1. During the year 2008, the club had 90 members, each paying an annual subscription of Rs.1000. Out of twelve members, who had not paid the annual subscription during the year 2007, ten members cleared their arrears in 2008 and the arrears of subscription of remaining two members who left the club on 1st of January 2008 were treated as irrecoverable.
2. During the year 2008, Rs.25000 was deposited with the Telephone Company for adjustment of telephone bills. On 31.12.2008 the following statement was received from the Telephone Company:

	Rs.
Amount Deposited	25000
Interest on Deposit	2000
	27000
Less: Telephone Rent and Bills for 2008	15000
Balance of Deposit on 31.12.2008	12000

3. Advance payment of subscription for periodicals magazines, newspapers etc. amounted to Rs.2000 and Rs.4000 at the end of 2007 and 2008 respectively
4. Stock of foodstuffs for restaurant run by the club amounted to Rs.12000 and Rs.15000 at the end of 2007 and 2008 respectively.
5. On 01.01.2008 other balances were as follows:

	Rs.
Building	500000
Furniture	80000
Sports Fund	10000

6. The 18% investments was made on 1st of July 2008

Required: Prepare the following:

- i. The Income and Expenditure Account for the year ended 31.12.2008
- ii. The Balance Sheet as at 31.12.2008
(Show the Workings Clearly)

(15 Marks)

4. (I) The cash book of a trader showed an overdraft balance of Rs.12100 as at 31.12.2008 on his No.1 Current Account in a bank. But his bank statement for the month showed a different balance as at that date. On scrutiny he found the following discrepancies:

- (a) Cheques drawn amounting to Rs.42000 had not been presented in the bank for payment
- (b) Cheques, Rs.36000, entered in the cash book as paid into bank had not been credited by the bank
- (c) The receipts side of the cash book had been undercast by Rs.1000
- (d) Bank chargers of Rs.500 entered on the bank statement had not been entered in the cash book
- (e) A cheque for Rs.5200 drawn on the No.1 Account had been charged by the bank in error to the NO.2 Account
- (f) A dividend of Rs.3000 paid direct to the bank had not been entered in the cash book
- (g) A cheque for Rs.7000 received from a debtor paid into the bank had been dishonoured and shown as such by the bank but no entry of dishonour had been made in the cash book
- (h) A cheque for Rs.4200, drawn by bank's another customer of the same name, had been charged to the trader's bank account in error

Required:

- (i) Show the necessary adjustments to be made in the cash book
- (ii) Prepare the Bank Reconciliation Statement for the No.1 Account as at 31.12.2008, starting with the bank balance as per the adjusted cash book

(10 Marks)

- (II) The Trial Balance of Ameen Traders did not agree. The difference was put in the suspense account and the following trial balance was drafted:

Trial Balance as at 31.12.2008

	Dr. (Rs.)	Cr. (Rs.)
Capital		45000
Drawings	6500	
Purchases / Sales	92750	107200
Salaries and Wages	12250	
Furniture and Fittings	17500	
Sundry Debtors / Sundry Creditors	30250	21250
Stationery	1250	
Cash at bank	5700	
Cash in hand	2300	
Bills Receivable	15750	
Bills Payable		9000
Rent and Rates	3200	
Suspense Account		5000
	187450	187450

On scrutiny the following errors were subsequently detected:

- Goods drawn by Mr. Ameen, the proprietor, for personal consumption of Rs.1500 have not at all been recorded.
- Goods sold to Ram for Rs.1250 on credit was debited to Rahim account for Rs.250 only. Both Ram and Rahim are debtors.
- Wages paid for fittings Rs.500 was debited to salaries and wages account.
- Goods purchased from Arul for Rs.2500 on credit was wrongly debited to his account.
- Bill received from Arun, a debtor, for Rs.500 was debited to Ajay account, another debtor.
- A credit sale of Rs.1500 was recorded in the Purchase Day Book and a credit purchase of Rs.2000 was entered in the Sales Day Book.

Required:

- Pass the journal entries to rectify the accounting errors
- Open and post into the Suspense Account
- Redraft the Trial Balance

(10 Marks)

(Total 20 Marks)

5. Ramesh and Ganesh are the partners sharing profits in a business in the ratio of 2:1. On 1st of July 2008 a new partner, Mr.Dinesh, was admitted to their partnership with the capital of Rs.30000. Then, the new profit and loss sharing ratio among the partners was 2:1:1 respectively. From 1st of July 2008 all the partners were entitled to 10% annual interest on their capital balances, and Ganesh was entitled to an annual salary of Rs.15000. Their Balance Sheet as at 31.12.2007 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital A/C - Ramesh	160000	Furniture and Fittings	56000
- Ganesh	120000	Motor vehicles	84000
		Stocks	80000
Current Account - Ramesh	16000	Trade Debtors	140000
- Ganesh	4000	Less:Provision for Doubtful Debt	<u>14000</u>
Trade Creditors	100000	Cash and Bank	54000
	400000		400000

Additional Information:

- (i) The summary of transactions is:

Transactions	1 st Jan 2008 - 30 th June 2008	1 st July 2008 - 31 st Dec 2008
	Rs.	Rs.
Sales	200000	240000
Purchases	120000	140000
Bad debts	4000	2000
Cash received from debtors	240000	160000
Cash paid to creditors	170000	150000
Expenses paid	60000	40000
Cash drawings:- Ramesh	12000	16000
- Ganesh	16000	20000
- Dinesh	-	10000

- (ii) It was agreed among the partners that following the admission of the new partner the assets are to be revalued as under and shown in the books at such new values:

	Rs.
Furniture and Fittings	84000
Motor Vehicles	102000

(III) Depreciation on fixed assets is to be provided at 20% per annum on the book values for the first six month period and on the amounts revalued for the next six month period of the financial year ending 31st of December 2008.

(IV) The stocks as at 30th of June 2008 and 31st of December 2008 were Rs.70000 and Rs.90000 respectively.

(V) A provision for doubtful debt at 10% on Debtors at the end of each period

Required:

Prepare the following:

(a) The Profit and Loss Appropriation Account for the year ended 31.12.2008 (in Columnar form)

(b) The Partners' Capital Accounts and Current Accounts (In Columnar form)

(c) The Balance Sheet as at 31.12.2008

(Show the workings clearly)

(20 Marks)