Eastern University, Sri Lanka

Faculty of Commerce and Management

Second Year Second Semester Examination in Bachelor of Business Administration Honours/ Bachelor of Commerce Honours 2021/2022 (February/March 2024)

Proper/Repeat

DAF 2043 Advanced Accounting

Answer all questions. **No. of pages: 08**

Answer the Question 01 in this paper. **Time: 03 Hours**

Index No:..................

01 Underline the appropriate answer for the following multiple-choice questions.

I. The cost of goods sold can differ from the cost of goods manufactured because of changes in the level of
   A. Finished goods inventory.
   B. Total manufacturing costs.
   C. Raw materials inventory.
   D. Work in process inventory.

II. What is the prime cost? Direct labor 99,000, Direct material 195,000, Light, heat and power of factory 6,000, General factory expense 12,000, Electricity of shop 30000 and Depreciation of plant 25,000
   A. 43000
   B. 294000
   C. 367000
   D. 337000

III. A firm had Rs.200,000 in sales; Rs.120,000 in goods available for sale; ending finished goods inventory of Rs.20,000; and selling and administrative expenses of Rs.55,000. Which of the following is true?
   A. the beginning finished goods inventory is not determinable
   B. the cost of goods sold was Rs.140,000
   C. net income was 25.0% of sales
   D. the gross profit was Rs.80,000

IV. What the formula is for works cost?
   A. direct labor + direct material
   B. prime cost + overheads
   C. direct material + overheads
   D. direct labor + overheads

V. All of the following are examples of adjusting entries that might be recorded by a manufacturer except
   A. Debit the Insurance—Factory account and credit the Administrative Expense account.
   B. Debit the Income Tax Expense account and credit the Income Tax Payable account.
   C. Debit the Supplies Expense account and credit the Supplies on Hand account.
   D. Debit the Administrative Expense account and credit the Allowance for Doubtful Accounts account.

VI. Which of the following costs is not capitalized as inventory?
A. insurance of factory building and equipment
B. costs of delivering finished goods
C. factory (manufacturing) overhead
D. factory amortization

VII. What is the cost of raw materials consumed? Opening inventory Rs.17000, purchase Rs.95000 Closing inventory Rs.13000
A. Rs.99000
B. Rs.88000
C. Rs.77000
D. Rs.100000

VIII. If the WIP of closing inventory is greater than the WIP of opening inventory, which of these is true? Direct labor 99000, Direct material 195000, Light, heat and power of factory 6000, General factory expense 12000, Electricity of shop 30000 and Depreciation of plant 25000
A. cost of production is greater than work's cost
B. none of the above
C. cost of production is equal to work's cost
D. work's cost is greater than cost of production

IX. The three basic elements of the cost of a manufactured product are:
A. indirect materials, indirect labor, and manufacturing overhead
B. direct materials, direct labor, and manufacturing overhead
C. merchandise inventory, work in process, and finished goods inventory
D. direct materials, work in process, and finished goods inventory

X. What is the main difference between direct costs and indirect costs in a manufacturing account?
A. Direct costs are variable, while indirect costs are fixed.
B. Direct costs can be traced to specific products, while indirect costs cannot.
C. Indirect costs are always higher than direct costs.
D. Direct costs include overhead expenses, while indirect costs do not.

XI. How is the Bank Reconciliation Statement prepared?
A. By matching entries in the passbook with entries in the bank and cash column of the cash book
B. By matching the entries in the passbook with entries in the bank column of the cash book
C. By matching the entries in the passbook with entries in the cash column of the cash book
D. None of the above

XII. Which amount of the following does not need to be adjusted into the cash book balance?
A. Cheques mistakenly credited by the bank
B. Cheques deposited but not cleared
C. cheques issued but not showing
D. All of these

XIII. A Bank Reconciliation Statement is made up using the .... from following which?
A. The bank column of the Cashbook and the Bank Statement
B. The Cash column of the Cashbook and Bank statement
C. Bank column of the cash book and cash column of the Cashbook
D. None of all of the above

XIV. A check written by the company for Rs. 167 is incorrectly recorded by a company as Rs. 176. On the bank reconciliation, the Rs. 9 error should be
A. Added to the balance per books.
B. Deducted from the balance per books.
C. Added to the balance per bank.
D. Deducted from the balance per bank.

XV. Which of the following items on bank reconciliation would require an adjusting entry on the company's books?
A. An error by the bank.
B. Outstanding checks.
C. A bank service charge.
D. A deposit in transit

XVI. Bank reconciliation is prepared to reconcile which two sets of records?
A. Accounts payable and accounts receivable
B. Cash receipts and cash disbursements
C. Company's records and bank statement
D. General ledger and trial balance

XVII. In cash book, bank charges of Rs.5,000 was not recorded. Name the correct cash book adjustment
A. It will be credited in cash book
B. It will be debited in cash book
C. No adjustment needed in the cash book
D. Charges will be added to the cash book balance

XVIII. If the cheque is not presented for the payment up to the date of the preparation of the Bank Reconciliation Statement, then the balance as per Pass Book will be
A. Higher than the balance shown by the cashbook by the amount of unpresented cheque.
B. Lower than the balance shown by the cashbook by the amount of unpresented cheque.
C. Same as shown by the cashbook.
D. None of the above

XIX. Farkhanda Jabeen Ltd. receives a check for Rs. 100 records it in cash book and deposits it on the same day. A statement sent by the bank that day does not show this Rs. 100. How is this shown on the bank reconciliation statement?
A. As an uncredited deposits added to the bank statement balance
B. As an uncredited deposits deducted from the bank statement balance
C. As an Unpresented check added to the bank statement balance
D. As an Unpresented check deducted from the bank statement balance

XX. What is the primary purpose of bank reconciliation?
A. To detect errors made by the bank
B. To adjust the bank's records to match the company's records
C. To identify discrepancies between the company's records and the bank statement
D. To reconcile differences in interest earned and fees charged

(Total 1.5 x 20 = 30 Marks)

02 i. Adoni Furniture is a manufacturer of dining tables & chairs and the following informatio
was extracted from the books of Adoni Furniture for the year ended 31st March 2023:

Description	Rs.
Raw Material Stock as at 01st April 2022	600,000
Raw Material purchases	4,700,000
Carriage Inwards of Raw Material	185,000
Factory Manager's Salary	680,000
Direct Wages	600,000
Rent	800,000
Insurance on Factory Building	200,000
Electricity	720,000
Water	300,000
Depreciation on Plant & Machinery	350,000
Depreciation on Motor Lorry	600,000

The following additional information is also provided:

1. Closing inventory balances as at 31st March 2023 were valued as follows:

Description	Rs.
Raw Material Stock (At cost)	650,000
Work -in -Progress (Valued at Prime Cost)	250,000

2. The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Water	40%	60%
Rent	60%	40%

3. The manufactured furniture are transferred to the trading division at a profit marg of 25% on cost of production.

You are required to prepare the Manufacturing Cost Statement (Manufacturing Account Adoni Furniture for the year ended 31st March 2023.

(Total 10 Ma

03 Following is the incomplete information of Adam Traders: The following balances are availab on 31.03.2022 and 31.03.2023

Balances	31.3.2022	31.3.2023
Land and Building	500,000	500,000
Plant and Machinery	220,000	330,000
Office equipment	105,000	85,000
Debtors (before charging for Bad debts)	?	225,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long-term loan @ 12%.	160,000	100,000
Bank	25,000	?

The following other Information for the period.

	Rs.
Collection from debtors	925,000
Payment to creditors for purchases	525,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	250,000
Credit sales (80% of total sales)	
Credit purchases	540,000
Cash purchases (40% of total purchases)	
Gross Profit Margin at cost plus	25%
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

1. On 01.10.2022 they sold machine having Book Value of Rs. 40,000 (as on 31.03.2022) at a loss of Rs. 15,000. New machine was purchased on 01.01.2023.
2. Office equipment was sold at its book value on 01.04.2022.
3. Loan was partly repaid on 31.03.2023 together with interest for the year.

You are required to prepare

a. Statement of Profit or Loss for the year ended 31st March 2023. **(10 marks)**

b. Statement of Financial Position as at 31st March 2023. **(10 marks)**

(Total 20 Marks)

04 I. Chandra and Manoch are the partners of C&M Hardware, a hardware shop sharing profits/losses equally. On 01/04/2022, Niro admitted as a new partner with an initial capital investment of Rs.3,000,000.

1. The partnership agreement provides the following:
   - 5% of interest is entitled on the opening balance of the capital accounts.
   - Chandra is entitled for a salary of Rs.50,000 per month for his involvement in administration of the business.
   - Profits and losses are shared among Chandra, Manoch and Niro in the ratio of 2:3:1 respectively.
   - Interest of 10% per annum is payable on loans given by partners to the partnership.

2. Goodwill of the partnership was valued at Rs.2,400,000 as at 01/04/2022 and it was decided to adjust the goodwill through partners' capital accounts without creating a goodwill account.

3. The following balances were extracted from the partnership:

		Dr.	Cr.
Capital Accounts as at 01/04/2022	- Chandra		3,200
	- Manoch		4,800
Current Account as at 01/04/2022	- Chanka	1,200	
	- Manoch	2,300	
Capital introduced by Niro		3,000	
Drawings	- Chanka		200
	- Manoch		150
Loan given by Manoch on 01/04/2022			200

4. Net profit of the partnership before charging loan interest on loan given by Manoch Rs.4,770,000.

5. No repayments on Manoch's loan were made during the year.

You are required to prepare the following of C & M Hardware for the year ended 31/03/2

a. Partners' Capital Accounts. **(04 ma**

b. Partners' Current Accounts. **(06 ma**

(Total 10 ma

05 The following trial balance was extracted from the books of Smart PLC as at 31st March 20

Smart PLC Trial Balance as at 31st March 2023

	Dr. Rs. "000"	Cr. Rs. "000"
Stated Capital (900,000 ordinary shares)		90,000
Retained Earnings as at 01st April 2022		17,000
Property Plant and Equipment at Cost:		
Land	55,000	
Buildings	32,000	
Plant and Machinery	14,000	
Motor Vehicles	10,000	
Office Equipment	7,200	
Capital work-In-Progress	16,000	
Accumulated Depreciation as at 01st April 2022:		
Buildings		15,000
Plant and Machinery		6,000
Motor Vehicles		5,500
Office Equipment		3,500
Pre-payments	1,500	
Payments made to Medi Research Ltd.	2,500	
Inventory as at 31st March 2023	32,500	
Trade Receivables / Trade Payables	41,000	36,850
Gratuity Provision		20,500
Cash in Hand and Cash at Bank	16,500	
Income Tax Paid	2,750	
Interim Dividend Paid - Ordinary Shares	9,000	
Cost of Sales / Sales	269,400	378,500
Administration Expenses	46,000	
Distribution Expenses	29,500	
Finance Expenses	500	
Allowance for Trade Receivables as at 31st March 2022	500	
Bank Loan		12,000
	585,350	**585,350**

The following additional information is also provided:

1. Inventory held as at 31st March 2023 included obsolete stock of Rs.700,000 at cost. This was sold for Rs.250,000 on 05th April 2023 to a buyer incurring Rs.20,000 for transporting these stocks to the buyer's location. No entries were made in this regard.

2. The company has revalued its land to Rs.60 million on 31st March 2023. This has not been recorded in the books of accounts

3. On 01st July 2022, the company acquired a new machinery and purchase cost of Rs.3,500,000 has been recorded under the purchase account. In addition to that the company has incurred further Rs.500,000 on the same date for installation and testing the machine and this was recorded under the administration Expenses.

4. During the year, a research was done for a new product and the company has paid Rs.2,500,000 to Medi Research Ltd. for that purpose. This has been debited to payments to Medi Research Ltd. account. The company started commercial operation of the new product in April 2023.

5. The company obtained Rs. 12 million bank loan at an interest rate of 12% per annum on 01st January 2023 to construct a new factory building. No capital repayments were made during the year and interest for the year has been accounted under the finance expenses of the bank loan should be settled in 2023/2024. Construction of the factory building was commenced on 01st January 2023 and it is expected to complete by 30th September 2024. Cost incurred on construction was recorded under the capital work-in-progress account.

6. Depreciation of Property, Plant and Equipment is calculated on the straight-line basis at cost. The useful life of Property, Plant and Equipment is as follows:
    - Buildings : 20 years
    - Plant and Machinery : 10 years
    - Motor Vehicles : 05 years
    - Office Equipment : 10 years

7. The income Tax Liability of the company for the year of assessment 2022/2023 has been estimated to Rs.2,950,000.

8. On 31st March 2023, it was noticed that a customer owing Rs. 2 million has been missing. The company is not in a position to recover the amount due from him and it has become irrecoverable. Further, a general provision has to be made at 2% of the remaining trade receivable balance as at 31st March 2023.

9. Electricity bill for March 2023 of Rs.700,000 has not been recorded in the books of accounts.

10. The Board of Directors of the company decided to pay Rs.5 per share as the final dividend for ordinary shares held on 31st March 2023 at the board meeting held on 02nd May 2023 and the Financial Statements were authorized for issue by the Board of Directors on 20th June 2023.

You are required to prepare the following, for Smart PLC in a form suitable for publication:

a. Statement of Profit or Loss and Other Comprehensive Income (Statement of Comprehensive Income) for the year ended 31st March 2023. **(10 marks)**

b. Statement of Financial Position as at 31st March 2023. **(10 marks)**

c. Statement of Changes in Equity for the year ended 31st March 2023. **(04 marks)**

d. Statement showing movement of Property, Plant and Equipment for the year ended 31st March 2023. **(06 marks)**

(Total 30 marks)