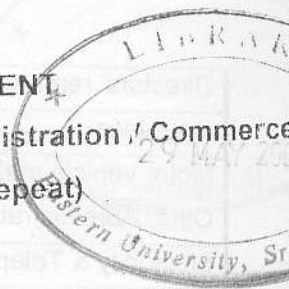


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

First Year Second Semester Examination in Business Administration / Commerce

2005/2006 & 2006/2007 (Jan'2008) (Proper / Repeat)

DAF 1214 Financial Accounting



Answer All Questions

Calculator Permitted

Time: Three (03) hours

01. AMW Plc has been incorporated with an authorized capital of Rs.2000000 consisting of 1500 ordinary shares of Rs.10 each and 50000 10% preference shares of Rs.10 each. The Trial Balance extracted from the books of the company as on 31.12.2007 is as follows.

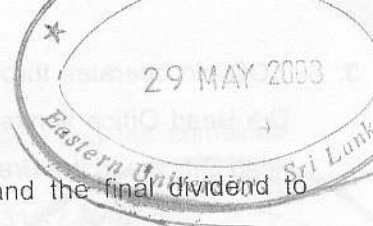
Items	Debit	Credit
	Rs.	Rs.
Ordinary share capital		1000000
10% Preference share capital		500000
Accumulate profit as at 01.01.2007		320000
General reserve		150000
Share premium		200000
10% Debentures		300000
Creditors		130000
Provision for income tax – for last quarter of 2006		100000
Electricity & Telephone charges payable as at 01.01.2007		100000
Sales		4500000
Investment income received		750000
Discount received		220000
Provision for doubtful debt as at 01.01.2007		180000
Returns outward		200000
Provision for Depreciation on non-current assets as at 01.01.2007:		
Land and Buildings		150000
Motor vehicles		200000
Furniture and fittings		125000
Stocks as at 01.01.2007	250000	
Preliminary expenses	50000	
Advertisement paid in advance as at 01.01.2007	10000	
Insurance paid in advance as at 01.01.2007	20000	
Value Added Tax	250000	
Purchases	1670000	
Carriage inward	150000	
Returns inward	130000	
Administrative Salaries	200000	

Directors' remunerations	150000	
Insurance	35000	
Motor vehicle maintenance	75000	
Other Administrative expenses	125000	
Electricity & Telephone charges	45000	
Carriage outward	150000	
Discounts allowed	20000	
Salesmen Salaries	115000	
Advertisement	70000	
Bad debts	50000	
Debenture interest	15000	
Bank Charges	15000	
Fire loss	110000	
Income tax paid	150000	
Interim dividend paid –Ordinary (Gross)	100000	
Preference (Gross)	25000	
Non Current assets at cost:		
Land and Buildings	1500000	
Motor vehicles	700000	
Furniture and fittings	275000	
15% investments	1000000	
Debtors	300000	
Cash and bank	245000	
	8000000	8000000

Additional Information:

- i. The cost value of stocks as at 31.12.2007 is Rs.300000. The market value of the stock is Rs.330000
- ii. Expenses payable as at 31.12.2007: Audit fees-Rs.75000, Directors' fees-Rs.100000, and Electricity and Telephone Charges- Rs.25000
- iii. Pre-paid expenses as at 31.12.2007: Insurance Rs.23000, and Advertisement Rs.15000
- iv. A bad debt of Rs.20000 is to be written off from the debtor, and a provision for doubtful debt is to be made at 10% on remaining debtors.
- v. The provisions for depreciation on Non current assets are to be made as follow:

Buildings (cost Rs.800000)	-	5% p.a at cost
Motor Vehicles	-	10% p.a at cost
Furniture and Fittings	-	10% p.a on reducing balance
- vi. The income tax for the last quarter of 2006 was agreed at Rs.90000 and paid off current year. The provision for income tax for the current year last quarter has been estimated at Rs.75000.



- vii. The directors of the company have decided the following:
- To transfer Rs.50000 to General reserve
 - To write off 20% of Preliminary expenses
 - To provide 10% final dividend to ordinary shareholders and the final dividend to Preference shareholders.

Required:

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

- The Income Statement for the year ended 31.12.2007
- The Statement of Changes in Equity for the year ended 31.12.2007
- The Balance sheet as at 31.12.2007

(30 Marks)

02. Following is a summary of bank account of a trader who did not keep proper books of accounts for the year ended 31.12.2007.

Particulars	Rs.	Particulars	Rs.
Balance b/d 01.01.2007	4050	Payments to creditors	294870
Receipts from debtors	379360	Administration Expenses	16500
Balance c/d 31.12.2007	6020	Selling and Distribution Expenses	8900
		Finance Expenses	3750
		Drawings	65410
	389430		389430

All of the business takings (sales) have been paid into the bank with the exception of Rs.96300. Out of this the trader has paid wages of Rs.54720, drawing of Rs.11640, and purchase of goods of Rs.29940. The following additional information is also available.

Balances as at	31.12.2006	31.12.2007
	Rs.	Rs.
Stocks in trade	138620	151440
Trade Creditors	56240	73890
Trade Debtors	90310	86240
Advertisement prepaid	2100	2250
Rent payable	1500	3000
Furniture (Book Value)	25000	22500

Required:

Draw up a set of final accounts for the year ended 31.12.2007 (show your workings clearly)

(15 marks)

3. LOC plc operates through a Head Office in Colombo and an independent branch in Kurunagala. The Head Office sends goods to the branch at the price cost plus 25%. The Trial balances of the Head Office and the Branch as at 31.12.2007 are as follows.

Items	Head Office		Branch	
	Dr. (Rs.)	Cr. (Rs.)	Dr. (Rs.)	Cr. (Rs.)
Purchases / Sales	528000	500000	60000	300000
Goods sent to branch		140000	132000	
Stocks as at 1.1.2007	36000		16000	
Provision for unrealized profit as at 1.1.2007		3200		
Wages and salaries	48000		36000	
Rates and insurance	16000			
Electricity	2600		1800	
Fixed assets at cost / Provision for depreciation as at 1.1.2007	160000	70000	100000	44000
Debtors / Creditors	36000	54800	13000	
Bank	11000		5080	
Share Capital		80000		
Profit and Loss account as at 1.1.2007		18980		
Current Accounts	29380			19880
	866980	866980	363880	363880

Additional Information:

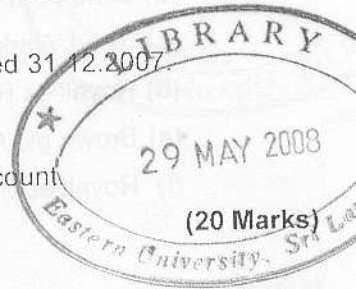
- Stocks as at 31.12.2007: Head Office (at cost) – Rs. 44000.
Branch – Rs. 32000, which includes 20 % of the goods purchased locally by the branch
- Stocks in transit (at Invoice price) – Rs. 8000.
Cash in transit – Rs. 1500.
- All bills for rates and insurance are directed to the Head Office. At the end of the year, the Head Office has decided to charge 25% of these expenses to the branch.
- Fixed assets are to be depreciated at 20% p.a using reducing balance method.
- The Branch manager is entitled to a bonus of 2% of the net profit made by the branch before the calculation of the bonus.

Required:

I. Prepare the following in the columnar form for the Head Office, Branch, and the combined business.

- i. The Trading and Profit and Loss account for the year ended 31.12.2007.
- ii. The Balance sheet as at 31.12.2007.

ii. Prepare the Head Office Current Account and The Branch Current Account.



(20 Marks)

4. (I) For the year of 2007 the following data of a business firm having three departments are available:

Department	Opening Stock (Units)	Purchases (Units)	Sales (Units)	Selling price per Unit (Rs.)
A	1000	2000	1800	150
B	4000	14000	15000	180
C	600	4000	4500	60

The total cost of purchase is Rs.510000

The Gross profit margin is the same in each department.

Required:

Prepare the Departmental Trading Account in the columnar form for the year 2007

(08 Marks)

(II) On 01.01.2003, Ram plc obtained a mining lease from a land lord, Hurry, and from that date it subleased a part of the mine to Brown plc. The amount of coal extracted (in tons) and other information are as follows:

Particulars	Ram plc	Brown plc
Coal extracted : 2003	1000	1000
2004	3000	2000
2005	12000	5000
2006	9000	2000 (due to strike)
2007	5000	12000
Royalty per ton	Rs.20	Rs.30
Dead rent per annum	Rs.150000	Rs.100000
Short working recoverable	3 years	2 years

In case of strike, royalty earned will discharge all liabilities for the year only

Required:

Prepare the following accounts in the books of Ram plc for the above 5 years

- (a) Royalties Payable Account
- (b) Land Lord Account
- (c) Short Working Account
- (d) Royalties Receivable Account
- (e) Brown plc Account
- (f) Royalties Suspense Account

(12 Marks)

(Total 20 Marks)

5. Rani, Veni, and Devi are the partners sharing profits in a business in the ratio of 2:2:1. Their Balance Sheet as at 31.12.2006 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital - Rani	250000	Land and Buildings	350000
- Veni	150000	Furniture	150000
- Devi	100000	Stocks	50000
Current Account - Rani	30000	Trade Debtors	65000
- Veni	20000	Cash and Bank	35000
- Devi	10000		
General Reserve	50000		
Trade Creditors	40000		
	650000		650000

The partners agreed to dissolve their partnership from 01.01.2007. The assets were realized in piece meal as under:

		Rs.
January	Stock (part)	20000
	Furniture (part)	25000
February	Stocks (Balance)	25000
	Debtors (part)	40000
	Furniture (Part)	90000
March	Land & Building	400000
	Debtor (Balance)	20000
	Furniture (Balance)	30000

The creditors were paid fully. Liquidation expenses of Rs.5000 were paid in March 2007. Payments were made to the partners on the proportionate capital basis.

Required:

Prepare the following:

- (a) Statement showing Piecemeal Distribution of Cash (Proportionate Capital Method)
- (b) Partners' Capital Account
- (c) Cash and Bank Account
- (d) Realization Account

(Show the workings clearly)

(15 Marks)

