

EASTERN UNIVERSITY, SRILANKA
FACULTY OF COMMERCE & MANAGEMENT

FIRST YEAR/FIRST SEMESTER EXAMINATION IN BBA /B.COM-2002/2003 & 2002/2003 (A)

(JUNE/JULY 2003) (REPEAT)

COM1014 FINANCIAL ACCOUNTING

Answer All Questions

Time : 03 Hours

Non-Programmable Calculator Permitted.

01.(i) M owned certain patent rights. He granted a license to N to use such rights on royalty basis. The following are the relevant particulars:

Years	1 st	2 nd	3 rd	4 th	5 th
Actual Royalties (Rs)	5,000	10,000	8,000	8,000	14,000
Minimum Rent (Rs)	8,000	9,000	10,000	12,000	13,000

The deficiency of any year is to be set off against royalties payable in excess of the minimum rent in two following years.

You are required to show the short workings account in the books of N.

- I. Royalty Payable Account
- II. M Account
- iii. Short working Account

(10 Marks)

(ii) Your book-keeper extracted a trial balance on 31 December, 2002 which failed to agree by Rs.330, shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2003 the following errors made in 2002 were found:

- i. Sales day book had been under cast by Rs.100.
- ii. Rent account had been under cast by Rs.70
- iii. Discounts Received account had been under cast by Rs.300.
- iv. The sale of a motor vehicle at book value had been credited in error to Sales account Rs.360.

You are required to:

- I. Show the journal entries necessary to correct the errors.
- II. Draw up the suspense account after the errors described have been corrected.

(10 marks)

The Company which banks with ABC Bank, Batticaloa Branch has received the following Statement of account from the bank:

K.P.R & Sons Ltd.

In account with ABC Bank, Batticaloa.

Date	Particulars	Debit	Credit	Balance
2003	Balance			
May 1	b/d			✓ 5400
	990	✓ 1670 ✓		3730
	939	✓ 3640 ✓		090
	cheque		✓ 18440 ✓	18530
	991	✓ 1980 ✓		16550
	cheque		✓ 8950 ✓	25500
	Dividend		900	26400
	cheque		✓ 10970 ✓	37370
	993	✓ 1340 ✓		36030
	997	✓ 13900 ✓		22130
	cheque		✓ 7840 ✓	29970
	Standing order	360		29610
	Bank Charges	1100		28510
	Cheque		✓ 3660 ✓	32170

Required:

- Prepare the Adjusted Cash book and,
- Bank Reconciliation Statement as at 31st May, 2003.

(10 marks)

(iv) Mohan and Rajah are the partners sharing profits in a business in the ratio of 2:1. Their balance sheet as at 31.12.2002 is as follows.

Liabilities	Rs.	Assets	Rs.
Capital- Mohan	50000	Land and Building	50000
- Rajah	25000	Furniture	25000
Current account- Mohan	7500	Stock	15000
- Rajah	2500	Trade debtors	12500
General Reserve	15000	Cash at bank	7500
Trade creditors	10000		
	<u>110000</u>		<u>110000</u>

Mohan and Rajah agreed to admit Kiruba in their partnership from 1.1.2003 for a 1/3 share of profit by contributing Rs.30000 cash as capital, the profit sharing ratio between Mohan and Rajah remaining unchanged. On the date of admission the goodwill was estimated at Rs.15000, and it was decided that no account would be raised for the goodwill and it should be adjusted through partners' capital account. And further the following assets and liabilities were also revalued as under.

	Rs.
Land and Building	60000
Furniture	22500
Stocks	12500
Debtors	12000
Creditors	9500

Required:

- i. Partners' Capital account
- ii. Partners' Current account
- iii. Assets Revaluation account
- iv. The balance sheet after the admission of the new partner

(10 Marks)

(Total 40 Marks)

02. The following is a summary of the receipts And payments of the Rotary Club during the year ended 31 July 2002.

Rotary Club

Receipts and Payments Account for the year ended 31 July 2002.

	Rs.		Rs.
Cash and bank balances b/d	210	Secretarial expenses	163
Sales of competition tickets	437	Rent	1,402
Members' subscriptions	1,987	Visiting speakers' expenses	1,275
Donations	177	Donations to charities	35
Balance c/d	513	Prizes for competitions	270
		Stationery and printing	179
	3,324		3,324

The following valuations are also available:

	2001	2002
	Rs.	Rs.
as at 31 July		
Equipment	975	780
(cost Rs.1,420)		
Subscriptions in arrears	65	85
Subscriptions in advance	10	37
Owing to suppliers of competition prizes	58	68
Stocks of competition prizes	38	46

Required:

- (a) Calculate the value of the accumulated fund of the Rotary Club as at the 1 August 2001.
- (b) Prepare an income and expenditure account for the Rotary Club for the year ended 31 July 2002 and a balance sheet as at that date.

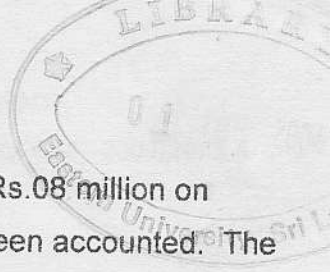
(20 marks)

03. John Keels Ltd. is a fast growing company involved in imports. Exports and the manufacturing sectors. The authorized capital of the company was 500,000 ordinary shares and 300,000 20% preference shares of Rs.10 each.

The trial balance of the company as at 31st March 2003 was as follows.

Particulars	Debit (Rs)	Credit (Rs)
Land and building	6000 000	
Bank loans		1000 000
Ordinary share capital		4000 000
Preference share capital		800 000
General reserve		600 000
Accounts receivable and payable	80 000	120 000
Administration Expenses	300 000	
Distribution cost	200 000	
Financial cost	150 000	
Bank loan payable in 2003		200 000
Treasury bill (03 months)	150 000	
Bank	300 000	
Gross profit		2000 000
Profit and loss account as on 01.04.2002		300 000
Stock as on 31.03.2003	350 000	
Preference share redemption account	120 000	
Interim dividend paid – ordinary shares	100 000	
Preference shares	70 000	
Good will	800 000	
Preliminary expenses	400 000	
	90,20,000	90,20,000

The following information is also available



1. The company had revalued its land and building at Rs.08 million on 31.03.2002. The effect of the revaluation has not yet been accounted. The company has not depreciated its building.
2. Income tax has been estimated at Rs.500 000 for the year.
3. Directors decided the following
 - a. To transfer Rs.200 000 to general reserve.
 - b. To provide the dividend of Rs.02 each for ordinary share holders.
 - c. To write – off 10% of preliminary expenses and Rs.25000 of good will.
4. The closing stock was valued at historical cost at 31.03.2003 but Rs.50 000 cost of stock can be sold at Rs30 000 and the selling cost is 10%.
5. 01.10.2002 company redeemed 10000 preference shares at 10% premium. The preference shares redemption account includes dividend due up to redemption date. There were no entries regarding the transaction.
6. The directors require to keep the general reserves at a maximum.

You are required to prepare for publication purpose :

1. The Profit and Loss account for the year ended 31.03.2003.
2. The balance sheet as at 31.03.2003
(Show your workings clearly).

(40 Marks)