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Serial No.....

## Society of Certified Management Accountants of Sri Lanka

### Technician Stage March 2007 Examination

Examination Date : 17<sup>th</sup> March 2007

Number of Pages : 06

Examination Time: 9.30a.m.- 12.30p.m.

Number of Questions: 06

#### Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Answer **all** questions.
3. The answers should be given in the **English Language**.

<u>Subject</u>	<u>Subject Code</u>
<b>Financial Accounting Fundamentals</b>	<b>(FAF)</b>

#### Question No. 01 (12 Marks)

- (a) State briefly what is meant by an Accounting System. **(4 Marks)**
- (b) Explain briefly **two** of the following Generally Accepted Accounting Principles, stating principal reasons for their importance
- (i) Time Principle
  - (ii) Matching Principle
  - (iii) Consistency Principle
- (8 Marks)**  
**(Total 12 Marks)**

#### Question No. 02 (12 Marks)

- (a) Give four salient features of financial control which are part of a sound internal control system, in a business entity or an organization. **(6 Marks)**
- (b) Explain what is a Control or Total Account and give advantages of using a Total account. **(6 Marks)**  
**(Total 12 Marks)**

**Question No. 03 (16 Marks)**

As the newly appointed Treasurer of your football club you have been asked to prepare the financial statements for the year ended 31<sup>st</sup> December 2006.

Your inquiries reveal the following position.

- (i) The club has 150 members, each subscribing Rs.50 annually.
- (ii) The club also operated a bar in the evenings. Its stocks on 1<sup>st</sup> January 2006 were valued at Rs. 2,100/- and on 31<sup>st</sup> December 2006 at Rs. 1,900/-. Year 2006 purchase invoices totaled Rs. 51,200/- of which Rs. 1,600/- invoices has not been settled.

Wages of the bar keeper had been paid out of bar takings and balance credited to the club's current A/C.

- (iii) Other receipts of the club had also been paid into the club's current a/c. The balance of this a/c on 31<sup>st</sup> December 2006 was Rs. 3,050/-. Payments other than the bar keeper's wages, all paid by cheque, were as follows.

	<b>Rs.</b>
Electricity charges	3,600
Telephone bills	1,300
Insurance	750
Interest on loan	5,000
Loan repayments	2,000
Sports equipment	2,500
Hire of grounds & Referee's fees	2,300

- (iv) Receipts and payments of the annual Dinner and Dance held by the club on 31<sup>st</sup> October 2006 were as follows.

<b>Receipts-</b>	Sale of 300 tickets	Rs. 8,400/-
<b>Payments-</b>	Printing of tickets	Rs. 100/-
	Prizes and gifts	Rs. 250/-
	Catering services	Rs. 6,600/-
	Hire of hall & rooms	Rs. 250/-
	Hire of band	Rs. 500/-

- (v) Balance Sheet of the club as at 31<sup>st</sup> December 2005

<b>Equities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Accumulated Fund	171,600	Premises	200,000
Bank loan 8% p.a. interest	50,000	Equipment	3,000
Creditors for Bar purchases	300	Van (WDV)	17,000
Unpaid Electricity bill	100	Prepaid insurance	100
		Subscriptions in arrears	150
		Cash at bank	1,750
	222,000		222,000

**You are required to prepare:**

- (a) Receipts and Payments A/C of the club's activities for the year 2006 **(6 Marks)**
- (b) Bar Trading Account for the year 2006. **(4 Marks)**
- (c) Income & Expenditure A/C for the year 2006.(show receipts and payments of the Dinner and Dance , as workings) **(6 Marks)**

**(Total 16Marks)**

**Question No. 04 (20 Marks)**

Jayalal and Manilal commenced a grocery business two years ago, Jayalal contributing Rs. 200,000/- as capital and Manilal Rs. 100,000/- as capital. They agreed to share profits and losses in proportion to their originally contributed capital.

The agreement provided for Jayalal 1% of net profits for managing the business. Interest on Capital a/c balance would be 5% p.a., and on current a/c balance at the end of year at 8% p.a. Interest at 10% would be charged on the balance of drawings a/c of partners, at year's end.

The book keeper had prepared accounts showing a trading profit of Rs. 346,000/- for the year 2006.

Following were to be provided.

1.
  - i. Interest at 10% on a loan of Rs. 30,000/- provided by Manilal to the business on 1<sup>st</sup> January 2006.
  - ii. Audit fees Rs. 10,000/-
  - iii. Depreciation @ 10% p.a. on Equipment valued at Rs. 60,000/-  
@ 10% on Fixtures & Fittings valued at Rs. 20,000/-  
@ 25% on written down value of Delivery van which is Rs. 168,000/-
2. Partners capital a/cs, current a/cs and drawings a/cs position at December 31<sup>st</sup> 2006 stood at

	<b>Jayalal (Rs.)</b>	<b>Manilal (Rs.)</b>
Capital a/cs	200,000	150,000
Current a/cs	20,000	5,000
Drawings	80,000	60,000

**You are required to prepare:**

- (a) The Profit & Loss a/c of the Partnership for the year ended 31<sup>st</sup> December 2006 **(8 Marks)**
  - (b) The Profit & Loss Appropriation a/c for the year 2006. **(6 Marks)**
  - (c) The Partners' current a/cs **(6 Marks)**
- (Total 20 Marks)**

**Question No. 05 (20 Marks)**

Consumer Marketing (Pvt) Ltd had the following balances in their accounts as at 31/12/2006.

	Rs.	Rs.
Issued and fully paid Share Capital		
15,000 8% Preference shares of Rs.10/- each		150,000
25,000 Ordinary shares of Rs. 10/- each		250,000
Land & Buildings (Cost)	260,000	
Furniture, Fixtures & Fittings (Cost)	75,000	
Delivery Van (Cost)	215,000	
General Reserve		30,000
Provision for Depreciation - Buildings		60,000
- Furniture, Fixtures & Fittings		30,000
- Delivery Van		55,000
Prepayments	36,000	
Director's Fees	30,000	
Profit & Loss A/C as at 1/1/2006		23,500
Investments in shares of other companies	80,000	
Fixed Deposits	60,000	
Stock – Trading as at 1/1/2006	30,000	
- Packing materials as at 1/1/2006	8,000	
Rates	6,000	
Carriage Inwards	20,000	
Salaries & Wages	150,000	
Postage & Communication	31,000	
Advertising	7,000	
Sales Commissions	9,000	
Electricity Charges	36,000	
Discounts Received		23,500
Bad Debts	6,300	
Bank Charges	4,500	
Bank Balance	30,000	
Cash in Hand	7,200	
Trade Creditors		140,000
Delivery Expenses	12,000	
Trade Debtors	160,000	
10% Debentures		120,000
Debenture Interest	6,000	
Provision for Bad Debts		3,000
Purchases- Trading Stock	350,000	
- Packing material	16,000	
Sales (exclusive of VAT)		760,000
	1,645,000	1,645,000

Following matters are to be taken into account:

- i. Trading stocks at 31/12/2006 was valued at Rs. 40,000/- and Packing materials valued at Rs. 4,000/-
- ii. Depreciation to be provided at
  - 10% on Buildings (cost Rs. 120,000/-) ,
  - 10% on Furniture, fixtures & fittings and
  - 12 ½% on Delivery van on its written down value.
- iii. Expenses accrued:
  - Electricity charges Rs. 4,000/- and
  - Telephone charges Rs. 6,000/-
- iv. Provision to be made for bad and doubtful debts at 5% on Trade debtors.
- v. Directors propose to;
  - Transfer Rs. 20,000/- from net profits to General Reserve
  - Pay the 8% Preference dividend, and
  - A dividend of 10% on paid up Ordinary share capital

**You are required to prepare, for internal purposes only**

- (a) Trading, Profit & Loss A/C for the year ended 31<sup>st</sup> December, 2006 **(10 Marks)**
  - (b) The Profit & Loss Appropriation A/C for the year 2006, and **(3 Marks)**
  - (c) Balance Sheet as at 31<sup>st</sup> December, 2006 **(7 Marks)**
- (Total 20 Marks)**

**Question No. 06 (20 Marks)**

- (a) Com Print (Pvt) Ltd. is engaged in the manufacture and sale of computer forms.

Details of its transactions for the year 2006 were as follows.

	<b>Rs.</b>
Imports of raw material	2,700,000
Import expenses & clearing charges	300,000
Carriage inwards	200,000
Factory wages	715,000
Factory labour EPF & ETF	85,000
Machinery repairs	33,000
Power electricity	54,000
Factory rates & insurance	33,000
Factory buildings (cost)	850,000
Factory Machinery & Equipment (cost)	370,000
Factory tools & implements (cost)	70,000
Factory Manager's salary (cost)	96,000

- i. Depreciation is provided at
  - 4% on Factory buildings,
  - 10% on factory machinery & equipment and
  - 8% on tools and implements
- ii. On 1<sup>st</sup> January, 2006, work in progress was valued at Rs. 28,000/- and finished goods at Rs. 24,000/-, Physical stock taken at 31<sup>st</sup> December, 2006 showed work in progress at a value of Rs. 34,000/- and the finished goods at a value of Rs. 24,000/-
- iii. Raw material stock on 1<sup>st</sup> January, 2006 was Rs.300,000/- and on 31<sup>st</sup> December, 2006 was valued at Rs. 200,000/-
- iv. Art work costing Rs. 10,000/- has been provided by a related company staff.  
It has been decided to pay the Factory manager an incentive allowance of Rs. 10,000/- for achieving the budgeted target with due economy.

**You are required to** prepare the Manufacturing account for the year ended 31<sup>st</sup> December 2006 **(10 Marks)**

- (b) State briefly, the records or registers that a company should maintain in respect of a fixed asset and state the items of information the records or registers should contain. **(6 Marks)**
- (c) Following information is extracted for the Purchase Day book and Sales Day Book of a VAT Registered business for the 1<sup>st</sup> week of February 2007.

**Purchase Day Book**

Date	Supplier	Goods value Rs.	VAT Rs.	Gross Rs.
Feb. 1	J. Perera	2,400	360	2,760
4	K. Silva	3,200	480	3,680
7	L. Peiris	6,100	915	7,015
		11,700	1,755	13,455

**Sales Day Book**

Date	Customer	Gross value Rs.	VAT Rs.	Net amount Rs.
Feb. 2	B. Soysa	1,700	255	1,445
3	C. Fernando	2,300	315	1,985
6	D. Ananda	4,200	630	3,570
		8,200	1,200	7,000

The Credit balance brought forward on February 1<sup>st</sup> on the VAT a/c was Rs. 800/-

**You are required to** write up the VAT a/c in the Ledger of the business, for the 1<sup>st</sup> week of February **(4 Marks)**

**(Total 20 Marks)**

*End of question Paper*