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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Technician Stage March 2008 Examination

Examination Date : 1st March 2008

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

Subject	Subject Code
Financial Accounting Fundamentals	(FAF)

Question No. 1 (14 Marks)

- (a) State briefly what Financial Accounting is? Distinguish it from Management accounting. **(5 Marks)**
 - (b) A proper grasp of certain fundamental Accounting Principles is crucial to higher learning in the accountancy profession. Explain briefly the following.
 - (i) Entity principle, mentioning the different forms, a business entity can take.
 - (ii) Objectivity principle
 - (iii) Time principle**(9 Marks)**
- (Total 14 Marks)**

Question No. 2 (15 Marks)

- (a) Give five of the important rules, relating to Partnership accounts, that apply to businesses conducted in partnership, in the absence of a partnership agreement. **(5 Marks)**
- (b) Herbert and Oliver are partners of Globe PC House, a computer parts trading concern, which earned a net profit of Rs.785,950 in the year 2006.

After 5 years of business activity, on 1/1/2006 their capital account balances were, Herbert's Rs. 450,000 and Oliver's Rs.400,000. Interest on capital is credited at 12% on balance at the beginning of a year. Interest on drawings is charged at 10% on the balance at the end of a year. Their monthly salaries were, Herbert's Rs.12,000 and Oliver's Rs.10,000 and drawings during the year, Herbert's was Rs. 280,000 and Oliver's Rs.230,000. Balance of the net profit was to be shared in proportion of Herbert $\frac{2}{3}$ and Oliver $\frac{1}{3}$.

You are required to:

- (i) Show Profit and Loss appropriation between the partners. **(4 Marks)**
 - (ii) Prepare partners' current accounts **(6 Marks)**
- (Total 15 Marks)**

Question No.3 (15 Marks)

Little Care, a retail trader, carried on a business for two years, at his freehold premises which cost him Rs. 500,000. His business owned a motor vehicle that cost of Rs.500,000 on 1/7/2005.

He had not kept proper books of account and was unable to produce a Trail Balance.

However his records give the following information for the year ended 30th June 2007.

He wishes to prepare accounts for the year, in order to obtain a loan from the bank. His business receipts and payments had been as follows.

Receipts	Rs.'000	Payments	Rs.'000
Cash Sales, in cash	804	Sundry Expenses in cash	10
From sales debtors , by cheque	875	Telephone bills	75
		Electricity	40
		Vehicle expenses	15
		Insurance	15
		For Cash purchases	170
		For Salaries & wages	440
		His drawings in cash	50
		Cheques made to suppliers	472
		Loan repayment by cheque	1100
		Drawings by cheque	175

Following additional information is available.

	As at 01/07/2006 Rs.'000	As at 30/06/2007 Rs.'000
Motor vehicle (written down value)	375	250
Stock, at cost	350	200
Trade Debtors	500	600
Trade Creditors	350	425
Prepayment - Insurance	50	5
Cash in hand	75	19
Cash at Bank	1,550	678
Loan from Bank	1,000	-
Accruals - Electricity	3	5
- Wages	40	40

For the trader you are required to:

- Write up his cash book. **(3 Marks)**
 - Calculate his capital on 1st July 2006. **(2 Marks)**
 - Prepare his Trading, and Profit & Loss A/c for the year ended 30th June 2007 and Balance sheet as at 30th June, 2007 **(10 Marks)**
- (Total 15 Marks)**

Question No.4 (15 Marks)

- (a) Prepare Journal entries, with narratives, to record the following transactions, that took place in Jinadasa's business, in April, 2007.
- (i) 3rd April, Goods were purchased from Bastianz at the listed price of Rs. 100,000. A trade discount of 10% is available for this bulk purchase. When settlement was made Bastianz allowed a further cash discount of 5 % of the invoiced price.
- (ii) A motor car costing Rs.800,000 bought on 10th April,2005 and depreciated at 25% p.a. on cost, was sold on 10th April.2007 to a car sales company .for Rs.350,000. A new car was purchased from the same company for Rs. 900,000 ,using the proceeds of sale and paying the balance in cash.
- (iii) Goods worth Rs. 7,000 in the hands of a customer on a sale or return basis. On 31st March had been erroneously treated as sales. Gross profit for the year was Rs. 210,000.

(6 Marks)

- (b) Produced below are the Bank Statement and the Bank columns of the Cash Book of Simple Simon for the month of January 2006.

Bank Statement (January 2007)

Date	Particulars	Amount	Date	Particulars	Amount
	Cheque No.	Rs.		Cheque No.	Rs.
2007			2007		
Jan 02	GL Percy	950	Jan 1	Balance b/d	8,000
06	R. Lakshman 501	2,000	2	Cash	4,000
14	V. Adithya 502	1,500	3	L. Peiris	2,400
14	Cash 503	800	10	Wijerama	350
22	Cash 505	300	19	W. Percy	450
22	S. Silva 506	1,500	24	A. Perera	380
23	P. Gunasena 507	600		L. Peiris	560
25	Bank charges	200			
30	Cost of cheque book	10			
31	Balance c/d	<u>8,280</u>			
31		<u>16,240</u>			<u>16,240</u>

Cash Book (Bank column)

Date	Receipts	Folio	Amount	Date	Payments	Folio	Amount
	Cheque. No.		Rs.		Cheque No.		Rs.
2007				2007			
Jan 1	Bal b/d		8,000	Jan			
2	Cash		4,000	5	R. Lakshman 501		2,000
7	W. Percy 0107		450	9	V. Adithyas 502		1,500
15	A. Perera 768		380	14	Cash (Wages) 503		800
18	L. Peiris 1362		560	19	L. Jayasooriya 504		750
26	C. Dasa 1465		890	22	Cash(Drawings) 505		300
29	M. Mendis 0237		360	25	S. Silva 506		1,500
				27	Gunasena 507		600
				30	R. Lakshman 508		1,000
				31	Balance c/f		<u>6,190</u>
			<u>14,640</u>				<u>14,640</u>

You are required to:

- (i) Bank Reconciliation Statement for January 2007. **(5 Marks)**
- (i) Show Cash Book adjustment , necessary for the purpose. **(4 Marks)**
- (Total 15 Marks)**

Question No.5 (26 Marks)

- (a) Following information of Quality Products Ltd. relates to the year ended 31st December, 2006. Information relating to the factory and the manufacturing process is as follows.

	Rs.	Rs.
Raw material stock 1/1/2006	12,000	
Packing material 1/1/2006	5,000	
Work in progress	5,000	
Purchase of materials	200,000	
Purchase of packing materials	15,000	
Factory Rates	16,000	
Factory Electricity	30,000	
Factory buildings, at cost	100,000	
Plant & machinery (WDV)	140,000	
Repairs & maintenance –Factory buildings	11,000	
Repairs & maintenance-Plant & machinery	16,000	
Welding charges - for welding outside the factory	6,000	
Year-end information-Raw materials stock		20,000
Packing materials stock		5,000
Work in progress		15,000

Packing is done in the factory and is a direct expense.

Depreciation is to be provided on Plant & machinery at 10% on the written down value.

You are required to prepare the company's manufacturing account, for the year ended 31st December, 2006. (8 Marks)

- (b) Given below is the Trial Balance concerning trading activities of this company as at 31st Dec. 2006.

	Rs.	Rs.
Share capital		
10% Preference shares, (Rs.10 each)		50,000
25,000 Ordinary shares of Rs.10 each		250,000
General Reserve		10,000
P&L a/c balance 1/1/2006		25,000
Bank Loan		80,000
Trade Creditors		65,000
Opening stock-Finished goods	8,000	
Freehold Land	181,000	
Buildings, at cost	100,000	
Office equipment	60,000	
Furniture & Fittings	15,000	
Investments	100,000	
Trade Debtors	140,000	
Sales		660,000
Income from Investments		10,000
Finished goods transferred from factory, at cost	350,000	
Director's fees	60,000	
Salaries	82,000	
Electricity	60,000	
Communication expenses	14,000	
Printing & Stationery	6,000	
Insurance	10,000	
Bank charges	3,000	
Loan interest	5,000	
Provision for Depreciation		
Buildings		10,000
Office equipment		15,000
Furniture & fittings		10,000
Accrued expenses		23,000
Cash at Bank	10,000	
Cash in hand	4,000	
	1,208,000	1,208,000

Following information should be taken into account.

- Company's authorized capital was 10,000 10% Preference shares of Rs.10 each, and 50,000 Ordinary shares of Rs.10 each.
- Stock of finished goods on 31/12/2006 was 32,000
- Provide for audit fees at Rs.15,000 and Sales commission Rs.5,000
- Depreciation of Buildings at 4%; Office equipment at 10% Furniture & Fittings at 10%.
- Provision for bad debts at 5% on Trade debtors

You are required to:

- (i) Prepare, for internal purposes, the Trading, Profit & Loss Account and P&L Appropriation a/c, for the year ended 31st December, 2006.
- (ii) Balance Sheet as at 31st December, 2006.

(18 Marks)
(Total 26 Marks)

Question No.6 (15 Marks)

The assets and liabilities of New Stars Cricket club as at 1/7/2006 were as follows

	Rs.
Cash in hand	3,000
Savings A/c	115,000
Sports equipment –written down value	65,000
Office equipment and furniture – written down value	35,000
Electricity bills payable	5,000
Building fund	25,000
Subscriptions due	30,000

The summarized receipts and payments of the year prepared by the treasurer of the club are given below.

Receipts	Rs.	Payments	Rs.
Balance of cash in hand	3,000	Salaries Office	30,000
Subscriptions received	100,000	Ground staff wages	15,000
Sale of tickets - Exhibition matches	190,000	Electricity bills	10,000
Sale of souvenir - Silver Jubilee	13,000	Savings a/c - deposits	75,000
		Telephone bills	8,000
		Other expenses	15,000
		Printing of souvenir	3,000
		Exhibition matches expenses	45,000
		Balance c/f	105,000
	306,000		306,000

Following is the position of the club on 30th June, 2007.

- The club had 100 members paying an annual membership fee of Rs.1,000.
- 30 members were in arrears while no member had paid in advance.
- Office equipment and Sports equipment were to be depreciated at 10 %.
- Savings A/c balance on 30/6/2007, according to the Bank statement was Rs.200,000. Any difference compared with deposits was due to interest credited periodically.
- Accrued expenses as at 30th June 2007 were Wages Rs.40,000 and Electricity bills Rs.5,000.
- To commemorate the 25 year silver Jubilee of the club, special Exhibition matches, with invited players had been arranged and net proceeds of ticket collections were for the Pavilion Building Fund.

You are required to:

- (a) Write up the summarized Cash Book.
- (b) Show computation of Accumulated fund as at 1/7/2006.
- (c) Prepare Income and expenditure account of the club for the year ended 30th June,2007.
Balance sheet as at 30th June 2007 may be drawn up as workings.

(Total 15 Marks)
End of Question Paper