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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Technician Stage September 2009 Examination

Examination Date : 12th September 2009
Examination Time: 9.30 a.m.- 12.30 p.m.

Number of Pages : 07
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>
Financial Accounting Fundamentals	(FAF / 501)

Question No. 1 (16 Marks)

- (a) State and briefly explain the three fundamental accounting assumptions followed in the preparation of financial statements. **(04 Marks)**
- (b) The basic objective of Accounting is to provide information to both Internal Users and External Users of the financial statements.

State three (3) Internal Users and four (4) External Users of Accounting Information of a business enterprise, stating at least one principle reason for being interested in the information. **(07 Marks)**

- (c) Give five (5) salient features of a good Internal Control System that seeks to prevent fraud and error. **(05 Marks)**
- (Total 16 Marks)**

Question No. 2 (18 Marks)

- (a) On 1st January 2008, the Colombo University received a donation of a sum of Rs.1,000,000/- for awarding a scholarship to a selected student who excels at the G.C.E (A/L) examination each year. The scholarship will be financed from income earned by investing this donation.

The University invested this sum on 1st January 2008 to earn 12% interest per annum and received Rs.120,000/- interest on 31st December , 2008. It awarded a scholarship of Rs.100,000/- and incurred Rs.1,000/- as incidental expenses.

- (i) Prepare Journal entries, with brief narratives, to record these transactions including cash, in the books of Colombo University. **(05 Marks)**
- (ii) Write up the relevant ledger accounts. **(05 Marks)**

- (b) From the following particulars relating to manufacture of plastic goods by Prime products Ltd., Prepare Manufacturing a/c for the year ended 31st December 2008.

	Rs.
Opening stocks	
Raw materials	3,200
Work in progress	1,700
Closing stock	
Raw materials	4,600
Work in progress	2,100
Carriage inwards	400
Wages	22,500
Raw materials purchased	36,350
Factory rent	8,100
Royalty on production	600
Cost of design	780
Materials returned	1,100
Depreciation of plant & machinery	750
Water, fuel and power	5,200
Salary of factory supervisor	9,300
Salary of gate keeper	1,400
Repairs to plant	3,000
Outstanding wages	700

(08 Marks)

(Total 18 Marks)

Question No. 3 (16 Marks)

- (a) Following particulars relate to the business of Piyasena, a sole proprietor. Find out adjusted cash book balance and prepare the bank reconciliation statement as on 31st December 2008.
- (i) His bank statement on 31/12/2008 showed an overdrawn balance of Rs.75,000/-.
 - (ii) Cheques received, but not sent to Bank amounted to Rs.10,500/-.
 - (iii) A credit balance of cash book, pg.19 was under-cast by Rs.1,200/-.
 - (iv) Life Insurance premium of Piyasena paid on a standing order was not entered in the cash book Rs.4,000/-.
 - (v) Cheques totaling Rs.15,800/- were deposited in the Bank a/c in December. Out of this sum, cheques totaling Rs.5,800/- were collected only in January 2009
 - (vi) Certain cheques amounting to Rs.8,000/- were deposited in December returned on 29th December. But no entry had been made in the cash book.
 - (vii) Cheques collected directly by the Bank, totaling Rs.25,000/- had not been entered in the Cash Book.
 - (viii) Cheques deposited in Bank a/c by Piyasena, without recording in the cash book was Rs.6,500/-.
 - (ix) Cheques issued, amounting to Rs.5,300/- had been inadvertently entered on debit side of cash book.
 - (x) Cheques issued during the month but not presented to the bank within the same month was Rs.30,500/-.

(08 Marks)

(b) Health Services Sports Club had the following Receipts and Payments during the year 2008.

Receipts	Rs.	Payments	Rs.
Cash in hand at 01/01/2008	7,130	Sports materials purchased	30,590
Subscriptions	47,996	Salaries of ground staff &	
Donations	14,500	part time watcher	27,500
Proceeds of charity show	10,450	Honorarium for coach	9,000
Interest on Fixed Deposits	12,000	Equipment purchased	15,000
		Expenses on charity show	3,750
		Petty Expenses	2,461
		Cash in hand at 31/12/2008	<u>3,775</u>
	<u>92,076</u>		<u>92,076</u>

Following additional information pertains to club's activities.

	1/1/2008	31/12/2008
	Rs.	Rs.
1) Subscriptions in arrears	240	280
2) Subscriptions received in advance	64	100
3) Stock of sports material	8,810	9,740
4) Value of sports equipment	21,200	31,600
5) Sports building (cost less depreciation)	40,000	38,000
6) Creditors for supplies	10,000	10,000

You are required to prepare:

- (i) Income & Expenditure statement of the club for the year ended 31/12/2008. **(03 Marks)**
- (ii) Balance Sheet as at 31/12/2008. **(05 Marks)**
- (Total 16 Marks)**

Question No. 4 (13 Marks)

Ranjith, a sole proprietor trader requests you to prepare his accounts for 2008. He has employed Somadasa, a novice, to keep a faithful record of transactions in subsidiary books in this first year of business. Somadasa assures arithmetical accuracy and produces a trial balances which happens to agree. However, you find certain errors in the following accounts presented to you.

	Dr. Rs.	Cr. Rs.
Stock		10,000
Debtors	8,000	
Sales		94,000
Purchases	48,000	
Bank Overdraft	14,000	
Loan from Lalith	14,000	
Carriage Inwards	1,000	
Income from Investments		1,000
Establishment expenses	12,000	
Purchase returns	4,000	
Wages	8,000	
Motor vehicle	30,000	
Equipment		20,000
Sales returns		8,000
Carriage outward		2,000
Discount received	1,200	
Commission received	800	
Creditors		12,000
Selling expenses		14,000
Capital	22,000	
Cash in hand		2,000
	<u>163,000</u>	<u>163,000</u>

Ranjith wishes to depreciate his motor vehicle to write off in 3 years, and depreciate equipment at 10% p.a. on cost on the straight line method. Value of closing stock was Rs. 3,000.

You are required to:

- (a) State four (4) types of errors not disclosed by a Trial Balance **(04 Marks)**
- (b) As the above trial balance is incorrect for accounting purposes, prepare a correct Trial balance. **(03 Marks)**
- (c) Prepare the Trading and Profit & Loss account for the year 2008. **(06 Marks)**
- (Total 13 Marks)**

Question No. 5 (15 Marks)

P & Q commenced a business in partnership sharing profits & losses in proportion of 3 :2.

P was entitled to a salary of Rs.5,000 for overall management.

Interest on capital would be 6% p.a. and on current A/c balances would be 8% p.a.

Loans from partners will earn 10% p.a. Interest and drawings a/c balances attract 10% p.a. interest.

P and Q had contributed Capitals of Rs.100,000/- and Rs.60,000/- respectively.

At 31st December their current a/cs balances were

- P current a/c balance – Rs.7,000 CR and
- Q Current a/c balance – Rs.3,000 CR

Their drawings were

- P – Rs.4,000 and
- Q – Rs.3,000 as at 31st December 2008

The partnership business made a net profit of Rs.38,000 for the year 2008

From the above information

- (a) Prepare (i) Profit & Loss Appropriation account for the year 2008. **(06 Marks)**
(ii) Partners' Current accounts, **(06 Marks)**
- (b) Show how the Partners' interest will appear in the Balance Sheet prepared as at 31st December 2008. **(03 Marks)**
(Total 15 Marks)

Question No. 6 (15 Marks)

Given below is the Trial balance of Aptech Apparels (Pvt) Ltd. as at 31st December 2008.

	Debit Rs.'000	Credit Rs.'000
<u>Share capital --Issued and fully paid</u>		
10% Rs.10 Pref. shares		500
Rs. 10 Ordinary shares		1,500
General reserve		100
P & L a/c Balance		230
10 % Debentures		50
Cash Sales		1,500
Credit sales		2,500
Stock1/1/2008	400	
Purchases	2,800	
Goodwill	50	
Freehold premises, at cost	500	
Furniture & Fittings, at cost	40	
Motor vehicles, at cost	200	
Machinery & Equipment, at cost	300	
Investments in Fixed Deposits	600	
Provision for depreciation –Buildings		60
–Machinery & equipment		50
–Furniture & fittings		35
Bank Loan		50
Provision for bad debts		30
Salaries & wages	340	
EPF & ETF	48	
Electricity	32	
Communication expenses	50	
Other administrative expenses	100	
Selling & Distribution expenses	220	
Delivery expenses	60	
Bank charges	20	
Legal expenses	120	
Trade Creditors		975
Trade debtors	1,300	
Loan interest	35	
Carriage inwards	200	
Prepayments	205	
Interest on Fixed deposits		60
Bank overdraft		40
Cash in hand	<u>60</u>	
	<u>7,680</u>	<u>7,680</u>

Following additional information was available:

- 1) Stocks of finished garments as at 31/12/2008 were valued at Rs.600,000.
- 2) Other administrative expenses included prepaid insurance premium of Rs.15,000.
- 3) Selling expenses include advertising contract, prepaid, amounting to Rs.25,000.
- 4) Cost of Buildings included in cost of Premises was Rs.320,000.
- 5) Motor vehicles are not depreciated at 20% p.a. as this is the first year of purchase.
- 6) Depreciation is to be provided on Buildings –at 5% p.a. on cost
On Machinery & Equipment –at 10% p.a. on cost
On Furniture & fittings –at 12 ½% p.a. on cost
- 7) Salaries & wages accrued for 2008 was Rs.35,000, and Electricity charges, Rs.15,000
- 8) Directors propose – to transfer to General reserve of Rs.50,000 out of profits
– pay Preference Dividend
– pay an Ordinary dividend of 10 %.

You are required to prepare, in good form ,for internal purposes,

- (i) The Company's Trading Profit & Loss a/c for the year ended 31st December 2008. **(08 Marks)**
 - (ii) The Profit & Loss Appropriation a/c **(04 Marks)**
 - (iii) The Balance Sheet as at 31st December 2008 **(10 Marks)**
- (Total 22 Marks)**
End of Question Paper
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