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**SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME 2014/15**

**YEAR I SEMESTER I (Group A)
END SEMESTER EXAMINATION – JUNE 2014**

AFM 10130 Fundamentals of Financial Accounting

Date : 23rd June 2014
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) Hours

Instructions to Candidates:

- Answer ALL questions
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly

Question No.01

- i. Briefly explain the following accounting concepts.
a. Going Concern
b. Business Entity
(4 marks)
- ii. State the principal steps of the accounting process.
(3 marks)
- iii. State the most suitable prime entry books required to record each of the following transactions.
a. A machine purchased for Rs.1,000,000 on credit.
b. Goods sold for Rs. 75,000 on credit were returned by a customer.
c. Rs.15/= was paid for postage expenses.
(3 marks)
- iv. Briefly explain the difference between contingent assets and contingent liabilities?
(4 marks)
- v. What do you understand by an “accounting policy”?
(3 marks)
- vi. State the main differences between finance lease and operating lease.
(4 marks)
- vii. What do you understand by “conceptual framework of accounting”?
(4 marks)
- (Total 25 marks)**

Question No.02

Kamal started a small business of producing and selling biscuits of different flavours on 1st April 2013. He introduced Rs. 1,000,000 as the initial capital and also obtained a loan of Rs. 1,500,000 at an interest rate of 12% per annum on 1st April 2013.

You are given following information in relation to the financial year ended 31st March 2014.

- i. Summary of the cash receipts and payments for the year.

Receipts

Capital	1,000,000	
Loan	1,500,000	
Sales	<u>4,500,000</u>	7,000,000

Payments

Wheat flour purchases	1,700,000	
Manufacturing wages	300,000	
Packing materials	250,000	
Salary of the office clerk	150,000	
Equipment – Manufacturing	175,000	
Furniture – office	125,000	
Distribution expenses	85,000	
Electricity charges	40,000	
Water charges	15,000	
Telephone charges	75,000	
Bank charges	10,000	
Building rent	120,000	
Drawings	100,000	
Repair and maintenance	15,000	
Insurance	25,000	
Income tax - Mr. Kamal	<u>10,000</u>	<u>3,195,000</u>
Balance at 31/03/2014		<u>3,805,000</u>

- ii. Following expenses should be shared between factory and office as per the given proportions.

	Factory	Office
Repair and Maintenance	1/2	1/2
Electricity	4/5	1/5
Insurance	2/3	1/3
Rent	2/3	1/3
Water	3/4	1/4

- iii. Small biscuit packets with a total cost of Rs. 50,000 were given free during the year as a sales promotion campaign.
- iv. The cost of biscuit packets that Kamal had taken for his personal use amounted to Rs.10,000.
- v. Sales returns during the year amounted to Rs. 75,000.
- vi. Equipment and furniture were purchased on 1st April 2013. It was estimated that the useful life of equipment is 5 years and furniture is 4 years. Depreciation is to be made on straight line basis.
- vii. Stock balances as at 31st March 2014 were:

	Rs.
Packing materials	50,000
Wheat flour	100,000
Packed biscuits	70,000

- viii. Unpaid bills as at 31st March 2014 were:

	Rs.
Electricity	5,000
Water	3,000
Telephone	4,000

Distribution expenses	15,000
Salaries and wages – Office	20,000
– Factory	40,000

- ix. A building belongs to Kamal is used for the business for which a monthly rent of Rs. 15,000 is payable to Kamal. However, Kamal had not drawn the rent for the last 4 months.
- x. Bank loan is repayable after 1st April 2014.
- xi. Amount payable to the suppliers of wheat flour as at 31st March 2014 was Rs. 200,000.
- xii. Amount due from trade debtors as at 31st March 2014 was Rs. 700,000.

You are required to prepare;

- Manufacturing account for the year ended 31.03.2014.
- Trading and profit and loss account for the year ended 31.03.2014.
- Balance sheet as at 31.03.2014.

(Total 35 Marks)

Question No.03

The following opening balances and transactions were extracted from the accounting records of Ravi Enterprises for the month of March 2014.

Opening balances as of 1st March 2014:		<u>Rs.</u>
Debtors' control account	Debit balance	245,000
"	Credit balance	2,000
Creditors' control account	Debit balance	3,000
"	Credit balance	321,000
Bills receivables		58,000

Transactions during the month:

Credit sales	130,000
Cash sales	50,000
Cash paid to creditors	160,000
Returns inwards	3,500
Returns outwards	4,000
Credit purchases	90,000
Bills received from debtors	30,000
Discount received	4,300
Discount allowed	3,200
Cash purchases	12,000
Cash received from debtors	75,000
Bad debts written off	1,500
Bad debts previously written off now received	600
Provision for doubtful debts	5,300
Dishonored customer cheques	2,000
Transfer from debtors to creditors ledger	7,500
Bills receivable discounted	22,000
Bills receivable dishonored	6,000

You are required to prepare **Debtors' control account** and **Creditors' control account** of Ravi Enterprise for the month of March 2014.

(Total 15 Marks)

Question No.04

Amal and Kamal entered in to a joint venture for buying and selling toys and agreed to share profit and losses in the ratio of 3:2 respectively.

On 1st October, 2012 Amal purchased goods at a cost of Rs.100,000 and half of the goods were handed over to Kamal. On 15th October Amal again purchased goods worth Rs.35,000 and incurred expenses of Rs.8,000.

On 15th October, Kamal also made a purchase of Rs.55,000 and on the same day he sent goods worth Rs.25,000 to Amal incurring expenses of Rs.6000. On 20th October Amal remitted Rs.16,000 to Kamal.

Both Amal and Kamal sold goods at a profit of 25% on sales.

On 31st December 2012 Amal had unsold stock of Rs.15,000 and he agreed to take over it at the same value. Kamal was able to sell away all the goods he had except goods costing Rs.3,000 which were badly damaged and were treated as unsalable. Rs. 4,000 owing to Amal from customers was unrecoverable and treated as a joint loss.

On 31st December 2012 parties decided to close the joint venture.

You are required to show,

- a. The Memorandum Joint Venture Account to calculate the profit or (loss).
- b. Joint Venture with Kamal Account as it would appear in the books of Amal.

(Total 15 Marks)

Question No.05

Distinguish the following.

- a) Current Assets and Non-current assets
- b) Current liabilities and Non-current liabilities.
- c) Equity Capital and Debt capital.
- d) Tangible assets and Intangible assets.
- e) Cash basis accounting and Accrual basis accounting

(Total 10 Marks)