



SOUTH EASTERN UNIVERSITY OF SRI LANKA  
CENTRE FOR EXTERNAL DEGREES AND PROFESSIONAL LEARNING

**FIRST YEAR EXAMINATIONS IN BACHILOR OF BUSINESS ADMINISTRATION  
(EXTERNAL) – 2011/2012  
HELD IN APRIL / MAY 2013**

**BBA 16(I) – FINANCIAL ACCOUNTING - I**

**Calculator is allowed .**

**Answer all the questions.**

**Time: 02 Hours**

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(1)

i. What is accounting? What are the characteristics of good Accounting Information?

Explain them.

(5 marks)

ii. "Accounting concepts and policies are basics of Accounting". Briefly explain this statement.

(4 marks)

iii. Differentiate the following statements.

- a) Accrual concepts and matching concepts.
- b) Direct method and indirect method in cash flow statement.
- c) Cum Div/Int and Ex Div/Int in investment accounts.
- d) Sum of digit method and actuarial method.
- e) Actual profit and apparent profit stated in the contract account.
- f) Descriptive method and published method.
- g) Work certified and work not certified in the contract account.

(7 x 3 = 21 marks)

(Total 30 marks)

(2) The following are the comparative balance sheets for two years and the income statement for the year ended 31.03.2012 of Eastern Company Ltd.

**Income statement for the year ended 31.03.2012**

|  |                 |  |
|--|-----------------|--|
| Sales  | 925,000         |  |
| Interest income                                    | 7,000           |  |
| Gain on sale of plant and machinery                | <u>6,000</u>    |  |
|  | <u>938,000</u>  |  |
| Cost and goods sold                                | 669,000         |  |
| Depreciation expenses                              | 98,000          |  |
| Selling and administrative expenses                | 70,000          |  |
| Interest expenses                                  | 22,000          |  |
| Loss on sale of investment                         | <u>9,000</u>    |  |
|  | <u>868,000</u>  |  |
| Profit before tax and extraordinary item           | 70,000          |  |
| Tax  | <u>(30,000)</u> |  |
| Profit before extraordinary item                   | 40,000          |  |
| Extraordinary item:                                |                 |  |
| Insurance proceeds for natural disaster loss claim | <u>3,000</u>    |  |
|  | <u>43,000</u>   |  |

**Balance sheet as at 31. 03. 2011 and 31.03.2012**

| Shareholders Fund:   | <u>2011</u>    | <u>2012</u>    |
|----------------------|----------------|----------------|
| Equity share capital | 200,000        | 350,000        |
| Profit and loss A/C  | <u>53,000</u>  | <u>71,000</u>  |
|                      | <u>253,000</u> | <u>421,000</u> |

**Loan Fund:**

|  |                  |                  |
|--|------------------|------------------|
| Secured laods                              | 137,000          | 60,000           |
| Unsecured loans                            | 119,000          | 167,000          |
|  | 256,000          | 227,000          |
| Current liabilities:                       |                  |                  |
| Bills payable                              | 73,000           | 81,000           |
| Creditors                                  | 126,000          | 98,000           |
| Income tax payable                         | <u>20,000</u>    | <u>35,000</u>    |
|  | <u>231,000</u>   | <u>214,000</u>   |
| Total sources and funds                    | <u>722,000</u>   | <u>862,000</u>   |
| Fixed assets:                              |                  |                  |
| Plant and machinery cost                   | 818,000          | 973,000          |
| Less: Accumulated depreciation             | <u>(505,000)</u> | <u>(552,000)</u> |
|  | <u>313,000</u>   | <u>421,000</u>   |
| Investments                                | 142,000          | 117,000          |
| Current Assets:                            |                  |                  |
| Inventories                                | 118,000          | 176,000          |
| Debtors(less provisions for doubtful debts | 93,000           | 125,000          |
| Rs.9000 and Rs. 7000                       |                  |                  |
| Prepaid expenses                           | 5,000            | 3,000            |
| Cash and cash equivalent                   | <u>51,000</u>    | <u>20,000</u>    |
|  | <u>267,000</u>   | <u>324,000</u>   |
| Total application of funds                 | <u>722,000</u>   | <u>862,000</u>   |

**Additional information on transaction during the period:**

1. Purchased machinery costing Rs. 173,000
2. Sold machinery with cost of Rs. 67,000 and accumulated depreciation of Rs. 51,000 for Rs. 22,000.

3. Purchased investments for Rs. 26,000
4. Sold investments costing Rs. 51,000 for Rs. 42,000
5. Purchased machinery for Rs. 49,000 on unsecured credit.
6. Issued at par shares for Rs. 100,000.
7. Converted secured debentures of Rs. 50,000 to equity shares of Rs.10 at par.
8. Paid dividend of Rs. 25,000
9. Repaid unsecured loan of Rs.1000
10. Redeemed secured debentures of Rs. 27,000 at par
11. Wrote off Rs. 10,000 of debtors when a customer insolvent and provided Rs. 12,000 for doubtful debts, including in selling and administrative expenses.
12. Received Rs. 3000 for an insurance claim for loss suffered in an earthquake.

You are required to:

**Prepare a cash flow statement using indirect method.**

(30 marks)

(3) Ali Ltd sells its goods in containers. The containers are invoiced to customers at Rs. 125 each and a credit Rs. 110 each given on the return of containers in good condition. During the year following transactions have been made:

4000 containers were purchased for Rs. 360,000

|                                     |   |        |
|-------------------------------------|---|--------|
| Containers issued to customers      | – | 15,000 |
| Containers returned by customers    | – | 14,000 |
| Containers damaged during the year  | - | 100    |
| Containers scrapped during the year | - | 200    |

At the end of the year 600 containers with customers returnable.

Containers repairing expenses and other expenses Rs. 6000 and Rs. 8000 respectively.

Containers are valued at Rs.80 each for stock valuation purposes.

Scrapped containers were sold Rs. 50 each.

Prepare:

- i. Container stock A/C
- ii. Container suspense A/C
- iii. Container trading A/C
- iv. Container customer A/C

(20 marks)

(4)

The following information relates to a building contract for Rs. 1,000,000 for which 80% of the value of work in progress as certified architect is being paid by the contractee. The building construction is three years.

|                   | 1 <sup>st</sup> Year Rs. | 2 <sup>nd</sup> Year Rs. | 3 <sup>rd</sup> Year Rs. |
|-------------------|--------------------------|--------------------------|--------------------------|
| Material issued   | 120,000                  | 145,000                  | 84,600                   |
| Direct wages      | 110,000                  | 155,000                  | 110,000                  |
| Direct expenses   | 5,000                    | 17,000                   | 6,000                    |
| Indirect expenses | 2,000                    | 2,600                    | 5,000                    |
| Work certified    | 235,000                  | 750,000                  | 1,000,000                |
| Uncertified work  | 2,800                    | 8,000                    | -                        |
| Plant issued      | 14,000                   | Nil                      | -                        |
| Material at site  | 2,000                    | 5,000                    | 8,000                    |

The value of the plant at the end of 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> years was Rs. 11,200, Rs. 7,000, Rs. 3,000 respectively. Prepare contract account for these three years taking into account such profit as you think proper on incomplete contract.

(20 marks)