

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES PROGRAMME
LEVEL 03
FINAL EXAMINATION-2009
FINANCIAL AND COST ACCOUNTING-MCU 1206
DURATION: THREE (03) HOURS



186

DATE: 28-02-2009

TIME: 9.30 am to 12.30 pm

INSTRUCTIONS

Answer any four (4) Questions including question number One (1). Show all workings.

Use of non-programmable calculators is allowed.

Q1) compulsory question

The authorized capital of Gama Ltd is Rs. 80,000,000/- which consists of 600,000, 5% redeemable preference shares of Rs. 50/-each and 1,000,000 ordinary shares of Rs.50/- each. Company has issued only 400,000 redeemable preference shares and 600,000 ordinary shares to the public.

The Trail balance of Gama Company Ltd as at 31st March 2008 was as follows

Balances	Dr(000)	Cr(000)
Employees' Salaries	3,500	
Directors' salaries	2,000	
Trading profit		128,000
Bad debts	3,000	
Advertising	6,500	
Commission paid/ Received	1,250	2,100
Stock as at 31.03.2008	7,800	
Insurance	7,600	
Cash & Bank	11,000	
Land & Building/ Accumulated Deprecation as at 1.4.2007	75,000	25,000
Furniture and Fittings/ Accumulated Deprecation as at 1.4.2007	50,000	20,000
Packaging	6,500	
Audit fees	1,250	
Debtor/ creditor	43,000	33,000
15% Debentures		22,000
Bank charges	1,230	
General reserve		13,000
Interest paid on Debentures	1,800	
Discount paid/ Received	670	1,100
Patent and right	4,500	
Preliminary expenses	1,500	
Telephone	5,000	
Legal Charges	800	
Good will	13,200	
13% Unquoted investment	25,000	
15% Quoted investment	30,000	
Investment income received-Unquoted		2,500



Investment income received-quoted		3,000
call in arrears	15	
Ordinary share capital		30000
Preference share capital of 5%		20000
Tax paid for the assessment year 07/08	2500	
P&L balance as at 1/4/2007		4,915
	304,615	304,615

The following information is also available

- Telephone bill of Rs45000/= due for the month of March, 2008 was not paid till 31st March 2008.
- Among the total debtors in the trial balance, Rs.500,000/= became bad debts and in the remaining amount 10 % was to be reserved as provision for doubtful debts.
- The company depreciates their non current assets as follows.
 - Land & Building at 5% on the straight line method.
 - Furniture and fittings at 10% on reducing Balance Method.
- In packaging materials, materials worth Rs.125000/= can be used for next financial year.
- There were areas and advance payments in advertising and insurance at the amounts of Rs.500,000/= and Rs.275,000/= respectively on 31/03/2008.
- Income tax totally payable for the year of assessment 2007/2008 was estimated as Rs.3,500,000/=.
- There were call in arrears for 1500 ordinary shares. For these shares, call amount of Rs10/= per share was not paid when the call was made. Company decided to forfeit these shares and reissue immediately at a price of Rs.45/=. These entries were not made.
- Board of directors decided to make the following adjustments at the end of the financial year.
 - 1) To write off 50% in patent and right.
 - 2) To increase the value of General reserve by 25%.
 - 3) To declare the dividend of 5% on ordinary share capital and dividend for preference shares as determined earlier.

You are required to prepare the following to be submitted to the Board of Directors.

- Profit and loss account of Gama Company Ltd for the year ending 31st March 2008.
- Balance Sheet of Gama Company Ltd as at 31st March 2008. (40 Marks)

Q2.

Suresh and Ramesh formed a joint venture to sell decorative items during the month of December, 2008. Accordingly Suresh made all purchases from Colombo and sent the items to Ramesh who was in Trincomalee. Further Suresh and Ramesh agreed to share profit and losses equally.

The following transactions took place in their business.

01/12/2008- Suresh purchased decorative items at Rs. 32000/= from Colombo and sent it to Ramesh. Suresh incurred a transportation cost of Rs.3500/= to send items to Ramesh.

- 05/12/2008- Ramesh sold items at Rs.45000/= and made an advance payment of Rs. 20000/= to Suresh in the form of a cheque.
- 06/12/2008-Ramesh incurred a selling expenses of Rs.3000/=.
- 09/12/2008-Suresh made another purchase of decorative items at a cost of Rs. 45000/= and immediately transported to Ramesh spending Rs.4200/=.
- 10/12/2008-Ramesh sold the decorative items at of Rs.70000/=. In total sales made by Ramesh, items invoiced at Rs.3500/= were returned by consumer as it did not confirm to specifications.
- 11/12/2008- Ramesh sold decorative items at Rs. 15000/= to customers on credit and he could collect only Rs.13000/= from debtors. Rest of the amount became bad debts.
- 12/12/2008-Ramesh drew some items worth of Rs. 3500/= for his own use.

They decided to wind up their business. Ramesh deducted all his expenses and share of profit and then sent all remaining amount to Suresh.

Based on the above information, prepare the following accounts for the joint venture between Suresh and Ramesh.

- Joint venture memorandum Account
- Joint venture Account with Suresh in the books of Ramesh
- Joint venture Account with Ramesh in the books of Suresh. (20 Marks)

Q3.

Sheela Traders imports and sells bicycles all over Sri Lanka. They have appointed Manoj Traders as their agent to make their sales in Kandy. The following information relates to their sales that took place during the year ending 31/12/2008.

Sheela Traders sent 125 bicycles, each of which costs Rs.6500/= to Manoj for sale.

Sheela Traders asked Manoj Traders to sell each bicycle at the quoted price of Rs. 8500/=. Sheela Traders incurred the following expenses for dispatching bicycles to Manoj Traders.

- Packaging cost of Rs 200/= for each bicycle.
- Transportation cost of Rs. 18750/= (in total)

Soon after receiving the consignment, Manoj returned 10 bicycles at a transportation cost of Rs.2500/=: as these bicycles did not confirm to specifications. Transportation cost incurred in this connection was accepted by Sheela Traders.

After accepting the consignment, Manoj incurred following expenses

- Storage and maintenance of Rs.170/= for each bicycle
- Selling and distribution of Rs7500/= in total.

Manoj is entitled for a sales commission of 7% of total sales.

At the end of the financial year, he could sell only 100 bicycles at the quoted price and rest of the bicycles were found to be in the stores of Manog Traders.

From the given information prepare the following a/c in the books of Sheela Traders.

- Consignment Account
- Consignee (Manoj Traders) Account (20 Marks)

Q4)

Amal, Bala and Camel have been running a partnership business that share profits and losses equally. Partners agreed to dissolve their partnership business with effect from 30th September 2008. On 30th September 2008 their balance sheet was as follows.

Capital Accounts

	Rs.
Amal	300,000
Bala	300,000
Camel	<u>300,000</u>
	900,000
General reserve	30,000

Current Accounts

	Rs.
Amal	25,000
Bala	32,000
Camal	<u>(12,000)</u>
	45,000
10% Bank Loan	120,000

Current Liabilities

Trade Creditors	30,000
Bills payable	22,000

1,147,000

Non Current Assets

	Rs.
Land & Buildings	680,000
Furniture & Fittings	<u>250,000</u>
	930,000
Goodwill	120,000

Current Assets

Stock	30,000
Trade Debtors	42,000
Cash	25,000

1,147,000

Further information is given below

1. The non current assets were realized as follows.

Land and Buildings	Rs. 800,000
Furniture and fittings	Rs. 180,000 (partly sold)

2. Stocks were realized 10% below than the value mentioned in the balance sheet.
3. In trade debtors Rs.2000/= became irrecoverable and the rest of the debtors settled their dues.
4. Bank loan was fully settled with the interest due for three months from 1st July 2008 to 30th September 2008.
5. Creditors were settled with 10% discount and bills payable were settled at its nominal value.
6. Bala accepted some furniture at an estimated value of Rs100,000 as part of his settlement.
7. Dissolution expenses incurred was Rs.15,000/=
8. All the settlements with partners were made through cash.

Show the following accounts for the dissolution of the partnership.,

- Realization Account
- Partners capital Account
- Cash Account

(20 Marks)

Q5) Costing is considered to be important for managerial decision making. Using your knowledge of cost accounting answer the following questions

- I. Describe two (2) stock valuation methods widely used.
- II. Discuss any two (2) over head absorption rates
- III. Briefly explain one incentive payment scheme.
- IV. Differentiate job costing from process costing

(20 Marks)