

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Third Year First Semester Examination in Bachelor of Commerce/ Bachelor of
Commerce (Specialization in Accounting and Finance)-2016/2017

(July 2019)

(Proper/ Repeat / Re-Repeat)

DAF 3013 Advanced Financial Accounting

Answer All Questions.

Time: Three (03) hours.

Calculator Permitted.

Write your answers in full figures as given in questions.

Show all the workings clearly

01. The financial statements of CTB plc Trading Company are given below:

The Income statement for the year ended 30.06.2019

	Rs. '000	Rs. '000
Sales		8,000
Less : Cost of Sales:		4,400
Gross Profit		3,600
Add: Investment Income		200
		3,800
Less: Operating expenses:		
Administration	1,200	
Selling & Distribution	800	
Finance	120	2,120
Operating Profit Before Tax		1,680
Less: Taxation		480
Operating Profit After Tax		1,200

The Statement of Financial Position as at 30th June

Assets	2018		2019	
	Rs. '000	Rs. '000	Rs. '000	Rs.
Non- Current Assets:				
Property	3,900		4,400	
Plant and Machinery	1,800		1,600	
Motor Vehicles	800		600	
Furniture and Equipment	700	7,200	600	7
Current Assets:				
Stocks	800		1,200	
Debtors	1,240		1,760	
Cash & Cash Equivalent	460	2,500	840	3
Total		9,700		11
Liabilities				
Capital and Reserves				
Stated Ordinary Share Capital (352,000 shares)	3,520		3,520	
Stated 10% Preference Share Capital (6,000 shares)	1,200		1,200	
General Reserve	840		1,040	
Revaluation Reserve	100		600	
Accumulated Profits	1,200	6,860	1,600	7
Non-Current Liabilities				
15% Debentures		640		
Current Liabilities				
Creditors	1,100		1,120	
Tax Payable	440		480	
Dividends Payable	500		600	
Administrative expenses payable	160	2,200	200	2
Total		9,700		11

The Statement of Changes in Equity for the year ended 30.06.2019

Items	Ordinary Shares	General Reserve	Accumulated Profit	Revaluation Reserve	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1.7.2018	3,520	840	1,200	100	5,660
Profit for 2018 / 2019	-	-	1,200	-	1,200
General Reserve	-	200	(200)	-	-
Property Revaluation				500	500
Dividends (Ordinary & Preference)	-	-	(600)	-	(600)
Balance as at 30.06.2019	3,520	1,040	1,600	600	6,760

The Average Market price of an ordinary share of the company was Rs.12 for year ended 30.06.2019. 75% of total sales and purchases are on credit basis. The business operating days are 360. Total debenture interest is included in the finance expenses.

The ratios calculated for the previous financial years are as follows:

	2016/2017	2017/2018	2018/2019
Gross Profit Margin (%)	45.50	35.45	?
Net Profit Margin (After Tax) (%)	15.35	12.56	?
Return on Assets (%)	11.70	10.72	?
Return on Capital Employed (%)	16.58	14.35	?
Return on Equity (%)	15.25	15.25	?
Total Assets Turnover	0.85	0.75	?
Net Assets Turnover	1.78	1.92	?
Non-Current Assets Turnover	1.28	1.32	?
Current Assets Turnover	3.45	2.95	?
Stock Turnover (COS/AS)	4.80	5.20	?
Stock Holding Period (Days)	78	72	?
Debtor Turnover (CS/AD)	6.15	4.35	?
Debtor Collection Period (Days)	74	72	?
Creditor Turnover (CP/AC)	5.25	6.25	?

Creditors Payment Period (Days)	82	90	?
Current Ratio	1.60	1.82	?
Quick Ratio	1.12	1.23	?
Working Capital Ratio	0.45	0.56	?
Cash Ratio	0.25	0.28	?
Total Debt to Equity Ratio	0.70	0.65	?
Long Term Debt to Equity Ratio	0.31	0.42	?
Fixed Interest Coverage	19.52	20.52	?
Fixed Dividend Coverage	11.00	12.50	?
Gearing Ratio	0.25	0.35	?
Earnings Per Share (Rs.)	3.00	3.20	?
Dividend Per Share (Rs.)	1.32	1.35	?
Earnings Yield (%)	18.28	15.32	?
Dividend yield (%)	8.75	7.53	?
Price/Earnings ratio	4.50	4.20	?

Required:

Calculate the relevant ratios for CTB plc for the above the financial year 2018/2019 and write a report commenting on the company's relative operating performance and financial position by comparing the ratios calculated for the current year with previous years' ratios and pointing out the deficiencies and suggest improvements.

(30 Marks)

02. (I) Following are the statements of financial position of RKB plc and SMG plc as at 30.06.2019:

Liabilities and Assets	RKB plc	SMG plc
	Rs.	Rs.
Share Capital: Ordinary shares of Rs.10 each fully paid up	400,000	200,000
General Reserve	50,000	40,000
Profit & Loss A/C	30,000	25,000
12% Debentures	200,000	-
Current Liabilities	320,000	235,000
	1,000,000	500,000
Non-Current Assets	500,000	240,000
Investment in 15,000 Ordinary shares in SMG plc on 1.7.2018	200,000	-
Current Assets (Including Rs.10,000 stock-in-trade purchased from RKB plc)	300,000	260,000
	1,000,000	500,000

Further information:

- (I) SMG plc's General reserve and Profit & Loss Account stood at Rs.25,000 and Rs.10,000 respectively on the data of acquisition by RKB plc.
- (II) RKG plc sells goods at a profit of 25% on cost.

Required:

Prepare the Consolidated statements of financial position as at 30.06.2019.

(10 Marks)

(II) The Statements of Financial Position of a Parent company, H Ltd, and its subsidiary, S Ltd, as at 31.12.2018 are as follows.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share Capital (Rs.10)	900,000	500,000	Land & Buildings	200,000	475,000
General Reserve	100,000	100,000	Plant & Machinery	300,000	150,000
Profit & Loss A/C	110,000	70,000	Investment	500,000	
Creditors	70,000	50,000	Stocks	75,000	35,000
Bills Payable	30,000	30,000	Debtors	50,000	80,000
Dividend Payable	90,000	50,000	Bills receivable	20,000	25,000
			Cash & Bank	115,000	35,000
			Dividend Receivable	40,000	
	1,30,000	800,000		1,300,000	800,000

Additional Information:

- (i) H Ltd acquired 40,000 ordinary shares of Rs.10 each in S Ltd on 01.07.2018 at a cost Rs.500,000.
- (ii) On 01.01.2018, S Ltd's Profit & Loss A/C showed a credit balance of Rs.30,000, and the General Reserve A/C showed a balance of Rs.50,000.
- (iii) Bills Receivable of H Ltd includes Rs.15,000 accepted by S Ltd.
- (iv) Debtors of H Ltd include Rs.25,000 due from S Ltd.
- (v) Stocks of H Ltd include goods purchased from S Ltd for Rs.25,000, which were invoiced by S Ltd at a profit of 25% plus cost.
- (vi) At the date of acquisition S Ltd's Land & buildings and Plant & Machinery were revalued at Rs.520,000 and Rs.156,000 respectively. The depreciation for Land and Buildings of both companies is being provided at 5% p.a on its book value, while they provide depreciation for the Plant & Machinery at 10% p.a on its book value.

Machinery, which were purchased on 01.01.2015, on straight line basis at 10% p.a.

- (vii) During the current year S Ltd paid ordinary shareholders a dividend of Rs.20,000 out of the profits earned before it was acquired by H Ltd and proposed 10% dividend out of the profits earned during the year ended 31.12.2018.

Required:

Prepare the Consolidated Statement of Financial Position as at 31.12.2018.

(25 Marks)

(Total 35 Marks)

- (i) EWQ plc purchased a machine on hire purchase system. As per terms they required to pay Rs.1,000,000 on signing of contract as down payment. The installments were as follows:

End of first year	:	Rs.660,000
End of second year	:	Rs.620,000
End of third year	:	Rs.580,000
End of fourth year	:	Rs.540,000

The interest is to be chargeable on outstanding balances at 8 % p.a.

Required:

Calculate the total cash price of the machine and interest paid with each installment.

(10 Marks)

(II) DSK Property Development purchased an Excavator from GSP Motors on 01.01.2014 on hire purchase agreement, which contains the terms as to a down payment of Rs.2,490,400 and a payment requiring four equal annual instalments of Rs.3,000,000 at the end of each year commencing from 31.12.2014. The Hire Purchase interest rate is 10% p.a. on dues. The Hire purchase interest is included in the annual instalments. The depreciation on the Excavator is provided at 25% per annum on the straight line method.

Required:

- (i) Calculate the Hire Purchase Total Interest and the interest paid with each instalment.
- (ii) Calculate the Cash Price of the Excavator.
- (iii) What is the Hire Purchase Price of the Excavator?
- (iv) Prepare the relevant ledger accounts in the Books of Hire Purchaser using the method of recording cash price in the hire vendor account for the four years ending 31st December.
- (v) Show the extracts of relevant ledger accounts in the statement of financial position as at 31st December for each of the four years.
- (vi) Prepare the relevant ledger accounts in the books of Hire Vendor according to the method of Recording the Hire Purchase Price to the Hire Purchaser's Account, assuming that the cost price of the Excavator is 25% less of the cash price, for the five years.

(25 Marks)

(Total 35 Marks)