

EASTERN UNIVERSITY, SRI LANKA
 FACULTY OF COMMERCE AND MANAGEMENT
 EXTERNAL DEGREE
 PART II EXAMINATION IN COMMERCE – 2000/2001
 (JUNE/ JULY 2007) (REPEAT)
 COM 304 ADVANCED FINANCIAL ACCOUNTING - II

Answer All Questions

Non – Programmable Calculators are Permitted

Time: Three Hours

01. The financial statements of ABC Trading Company are given below.

The Profit & Loss Account for the year ended 31.12.2006

	Rs. '000	Rs. '000
Sales		2,000
Less : Cost of Sales		
Opening Stock	200	
Purchases	1,200	
	1,400	
Closing stock	300	1,100
Gross Profit		900
Investment income		50
		950
Operating expenses		
Administration	300	
Selling & distribution	200	
Finance	30	530
Operating Profit Before Tax		420
Taxation		120
Operating Profit After Tax		300
General Reserve	50	
Dividend	150	200
		100
Balance b/f		300
Balance c/f		400

The Balance Sheet as at 31.12.2006

	Rs. '000
Fixed Assets:	
Land & Building	950
Furniture & Fitting	140
Motor vehicle	150
Investment	300
Goodwill	100
Current Assets :	
Stocks	300
Debtors	440
Cash & Bank	200
	2,580
Share Capital:	
Ordinary shares of Rs. 10 each	880
10% Preference shares of Rs. 10 each	300
Reserves:	
Share premium	90
General Reserve	170
Profit & loss account	400
Non current Liabilities:	
15% Debentures	160
Current Liabilities:	
Creditors	280
Tax Payable	120
Dividend Payable	150
Administrative expenses payable	30
	2,580
•Market price of an ordinary share	Rs. 16

Required:

Evaluate the company's operating performance and financial position for the year 2006 by calculating the following ratios:

- a. Gross Profit Margin
- b. Net Profit Margin (After Tax)
- c. Return on Equity

- d. Return on Total Assets
- e. Stock Turnover
- f. Debtor Turnover
- g. Debtor Collection Period
- h. Total Assets Turnover
- i. Current ratio
- j. Acid test ratio
- k. Long Term Debt to Equity
- l. Interest Coverage
- m. Earning Per Share
- n. Dividend Per share
- o. Price / Earning share

(40 Marks)

2. The financial statements of XYZ Ltd for the year 2006 are as follows:

The Profit and Loss Account for the year ended 31.12.2006

	Rs.	Rs.
Sales		2040000
Less: Cost of Sales		1360000
Gross Profit		680000
Add: Investment income		25000
		705000
Less: Operating expenses	230000	
Depreciation	110000	
Interest	70000	410000
Profit before taxes		295000
Less: Taxes		130000
Profit after taxes		165000
Less: Dividend		90000
Retained profit for the year		75000
Profit & Loss b/f		425000
Profit & Loss c/f		500000

Balance sheet as at 31.12.2005 and 31.12.2006

Liabilities	2005	2006	Assets	2005	2006
	Rs.	Rs.		Rs.	Rs.
Ordinary share capital	500000	500000	Fixed assets	850000	1000000
Profit & Loss account	425000	500000	Stock	340000	350000
Long term loan	500000	530000	Debtors	360000	330000
Creditors	175000	200000	Cash	230000	250000
Taxes payable	125000	130000			
Outstanding expenses	15000	25000			
Dividend payable	40000	45000			
	1780000	1930000		1780000	1930000

Required:

Prepare the Cash flow statement of XYZ Ltd for the year ended 31.12.2006 reporting the cash flow from operating activities in the direct method. (Show your workings and assumptions (if any) under notes)

(40 Marks)

3. The data regarding historic cost of sales of a company for the year 2006 are given below:

	Rs.
Opening stock	145000
Purchases	650000
Closing stock	115000

An average of 3 months sales is held in stocks

The price indices (for mid months) are as follows:

2005	October	250
	November	252
	December	255
2006	October	300
	November	304
	December	306
2007	January	310
	Average for 2006	280

Required:

Calculate the following under CCA

- (i) Cost of sales adjustment
- (ii) Revaluation surplus of stock to be transferred to Current Cost Reserve
- (iii) Value of closing stock to be shown in the current cost balance sheet

(20 Marks)