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

(October 2018)

(Proper/ Repeat/ Re-Repeat)

DAF 3013 Advanced Financial Accounting

wer All Questions. **Time: 03 hours**

The following Comprehensive Income statement, statement of financial position and other extracted details of Pinky Manufacturing PLC for the year ending 31st December for years of 2015, 2016 and 2017 were given below.

Income Statement for the year ended 31st March			
	2017	**2016**	**2015**
	Rs 'Mn	**Rs 'Mn**	**Rs 'Mn**
Revenue	8,040	6,891	5139
Cost of sales	(5.940)	(5,141)	(4169)
Gross profit	**2,100**	**1,750**	**970**
Other income	690	443	330
Distribution expenses	(1.170)	(963)	(650)
Administrative expenses	(600)	(460)	(118)
Other expenses	(05)	(04)	(12)
Results from operating activities	**1,015**	**766**	**520**
Finance costs(Net)	(163)	(163)	(150)
Profit/(loss) before tax	**852**	**603**	**370**
Tax (expense)	(100)	(98)	(55)
Profit for the year	**752**	**505**	**315**
Additional Details			
Earnings per share (Rs.)	7.55	7.40	4.35
No. of Ordinary shares	72,900	72,900	60,000
Ordinary Dividends (Rs' Mn)	180	150	100
Market Price Per Share	95.50	76.00	54.50

2.

Statement of Financial Position as at 31st March

	2017	2016	20[illegible]
	Rs 'Mn	Rs 'Mn	Rs [illegible]
Non-current assets			
Property. plant and equipment	2,350	2,200	[illegible]
Other non-current assets	1,250	1,230	[illegible]
Total Non-current Assets	**3,600**	**3,430**	[illegible]
Current assets			
Inventories	2,000	1,500	[illegible]
Trade and other receivables	2,760	1,699	[illegible]
Other receivables	300	100	
Short Term investments	120	120	
Pre-paid expenses	167	80	[illegible]
Cash in hand and at bank	663	541	[illegible]
Total Current Assets	**5,290**	**4,040**	[illegible]
Total Assets	**9,610**	**7,470**	[illegible]
Equity and Liabilities			
Stated capital	1,210	1,210	[illegible]
Capital reserve	1,260	1,020	[illegible]
Revenue reserve	1,940	1,400	[illegible]
Total equity	**4,410**	**3,630**	[illegible]
Non-current liabilities			
Borrowings/Loans	45	125	[illegible]
Retirement benefit obligations	205	205	[illegible]
	250	**230**	[illegible]
Current Liabilities			
Trade and other payables	1,365	1,150	[illegible]
Short-Term borrowings	3,125	2,155	[illegible]
Other current liabilities	460	305	[illegible]
Total Current Liabilities	**4,950**	**3,610**	[illegible]
Total Equity and Liabilities	**9,610**	**7,470**	[illegible]

Using the above details, you are required to,

i. Prepare common size income statement and statement of financial positio[illegible] 2017 and 2016 and discuss the progress during last two years period.

ii. Compute the ratios relevant to the following categories and discuss the pro[illegible] company during the year 2017 and 2016.

a. Liquidity Ratios
b. Solvency/Leverage Ratios
c. Profitability Ratios
d. Activity/Efficiency Ratios
d. Market/Investors' Ratios

(Total[illegible]

A and B entered into a joint Venture to construct a building for a newly started Tools Sri Lanka Ltd. The Contract price was fixed at Rs.20 Lakhs to be settled as follows:

Rs.8 Lakhs in cash

Rs. 2 Lakhs in fully paid preference shares.

A joint bank account is opened in which A and B deposited Rs. 250,000 and Rs. 150,000 respectively. The profit or loss is to be shared in the ratio of 2:1 after providing for interest on Capital at 10%.

The details of their transaction are:

Plant Purchased	200,000
Wages Paid	100,000
Material Purchased	700,000
Material supplied by A from his own stock	50,000
Material supplied by B from his own stock	40,000
Architect's fees paid by A	20,000

The contract was completed and the price was received as stipulated. Half of the plant was taken over by A for Rs.80, 000 and half was sold for Rs. 110,000.

Joint Venture Account was closed by A taking up all the shares at an agreed valuation of Rs. 160,000 and B taking up the stock of material at an agreed valuation of Rs.30, 000. Separate books were maintained for the Joint Venture.

You are required to prepare the ledger accounts.

(Total 15 Marks)

ABC Collieries Co. Ltd. took from XYZ Ltd. a lease of coal field for a period of 25 years from 1st April, 2010 on a royalty of Rs. 25 per tonne of coal extracted with a Dead Rent of Rs. 220,000 a year with power to recoup short workings during the first five years of the lease.

The company closes its books of account on 31st March every year.

The output in the first five years of the lease was as follows: -

Year ended 31st March, 2011	2,000 tonnes
Year ended 31st March, 2012	3,600 tonnes
Year ended 31st March, 2013	9,000 tonnes
Year ended 31st March, 2014	15,000 tonnes
Year ended 31st March, 2015	20,000 tonnes

You are required to give journal entries for all the transactions relating to royalties for the five years in the books of ABC Collieries Co. Ltd.

(Total 15Marks)

04. a. Heller Company Ltd acquired a pick-up Van as on 1st January, 2013 on hire pur system from Fanta Company Ltd The terms of the contract were as follows:

a. The cash price of the van was Rs. 100,000.
b. Rs. 40,000 were to be paid on signing of the contract.
c. The balance was to be paid annual instalments of Rs. 20,000 plus intere
d. Interest chargeable on the outstanding balance was 6%p. a.
e. Depreciation at 10% per annum is to be written-off using the straight-line

You are required to:

i. Give Journal Entries and show the relevant accounts in the books of Fanta Ltd from January 2013 to December 2015;

ii. Show the relevant items in the statement of financial position of the purcha December 2013 to 2015.

b. A machine costing Rs. 50,000 was purchased on hire purchase basis. Rs. paid on signing the agreement and the balance in four equal instalments of each annually with interest at 5%. Calculate interest and show the amount each instalment.

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1. Following statements of financial position were taken from the books of 'Aqua' Ltd and 'Bqua' Ltd as at 31st December 2017.

Assets	**Aqua Ltd**	**Bqua Ltd**
Non-current assets		
Property, plant and equipment	3,800	3,000
Less: Accumulated Depreciation	(500)	(1,200)
Written down value	3,300	1,800
Investments	6,000	1,500
Receivable from Aqua Ltd		5,000
Trade Receivable	3,000	
Current Assets	3,700	4,200
Total Assets	**16,000**	**12,500**
Equity and Liabilities		
Equity-Ordinary shares	4,000	2,500
Retained Earnings	3,500	4,700
Non-Current Liabilities	4,000	-
Owned to Bqua Ltd	3,000	
Trade Payable	1,000	2,000
Current Liabilities	500	3,300
Total Liabilities	**16,000**	**12,500**

Following information is available.

a. Aqua Ltd acquired 60% of the ordinary share capital in Bqua Ltd on 1st January 2017.

b. As of the acquisition date, fair values of Bqua Ltd.'s PPE were Rs. 3,200 and that of investments was Rs2,000. Retained earnings on the acquisition date were Rs. 1,000. Fair values of the non-controlling interest were Rs. 2,500.

c. Both 'Aqua' Ltd and 'Bqua' Ltd depreciate their assets by 10% per annum on cost.

d. There was an intangible asset of Rs. 4,000 as of the acquisition date and it was not recorded in the books of Bqua Ltd. Life time of the intangible asset is 4 years.

e. Total receivable of Bqua Ltd is from Aqua Ltd and balance represent the cash in transit.

You are required to prepare consolidate statement of financial position as at 31st December 2017.

(15 Marks)

b. The following income statements were taken from 'A' Ltd and 'B' Ltd for the
31st December 2016.

	A Ltd	B Ltd
Turnover	375,000	275,000
Cost of Sales	(125,000)	(110,000)
Gross Profit	250,000	165,000
Other income	31,250	11,000
Administration Expenses	(37,500)	(66,000)
Distribution Expenses	(56,250)	(33,000)
Finance Cost	(25,000)	(11,000)
Profit before tax	162,500	66,000
Taxation	(37,500)	(22,000)
Profit after tax	125,000	44,000
Retained Profit B/F	150,000	99,000
Retained Profit C/F	275,000	143,000

a. A Ltd acquired 80% of ordinary shares on 1st January 2013 when
Earnings of B Ltd were Rs. 56,000/-

b. A Ltd sold Rs. 120,000 worth of goods to 'B' Ltd during the year and
value includes a mark-up of 25% on cost. However, 'B' Ltd's c
includes 30% of the goods sold.

You are required to prepare the consolidated income statement for the
31st December 2016.

(Total