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East University, Sri Lanka

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Third Year Second Semester Examination in Bachelor of Commerce/ Specialization in Sri Lanka

Enterprise Development 2007/2008 (March/April 2009)

DAF 3243 Advanced Financial Accounting - II

Answer All Questions.

Time: Three (03) hours.

Calculator Permitted.

(I) The following financial data were taken from the annual financial statements of the SLT plc:

	2006	2007	2008
	Rs.	Rs.	Rs.
Current Assets	450000	400000	500000
Current Liabilities	390000	300000	340000
Sales	1450000	1500000	1400000
Cost of Goods Sold	1180000	1020000	1120000
Inventory	280000	200000	250000
Accounts Receivable	120000	110000	105000

Required:

(a) Based on these data, calculate the following for 2007 and 2008:

- (i) Working Capital
- (ii) Current Ratio
- (iii) Acid-Test Ratio
- (iv) Accounts Receivable Turnover
- (v) Merchandise Inventory Turnover
- (vi) Inventory Turnover in days

(b) Evaluate the results of your computations in regard to the Short-Term Liquidity of the firm

(10 Marks)

(II) The Income statement data for SCC plc are as follows:

	2008	2007
	Rs.	Rs.
Sales	1400000	1200000
Cost of Goods Sold	850000	730000
Selling and Distribution Expenses	205000	240000
Administration Expenses	140000	100000
Income Tax	82000	50000

Required:

- (a) Prepare an Income Statement in comparative form, starting each item for both years as percentage of sales (Vertical common-Size Analysis)
- (b) Comment on the findings in (a)

(10 Marks)

(Total 20 Marks)

02. The financial statements of BMC plc for the year 2008 are as follows:

The Income Statement for the year ended 31.12.2008

	Rs.
Net Sales	1450000
Less: Cost of Sales	1080000
Gross Profit	370000
Less: Operating expenses	60000
Profit before taxes	310000
Less: Taxes	120000
Profit after taxes	190000

Balance sheet as at 31.12.2008 and 31.12.2007

Liabilities	2008	2007	Assets	2008	2007
	Rs.	Rs.		Rs.	Rs.
Ordinary share capital	1800000	1740000	Plant & Machinery	1950000	1800000
Retained Earnings	380000	400000	Acc. Depreciation	(450000)	(350000)
Long term loan	110000	-	Inventory	980000	850000
Accounts Payable	850000	800000	Net Receivables	720000	650000
Accrued Liabilities	440000	610000	Cash & Bank	380000	600000
	3580000	3550000		3580000	3550000



Other data:

- (i) Dividends paid in cash during the year 2008 were Rs.210000
- (ii) Depreciation is included in the cost of sales
- (iii) Accrued Liabilities are related to cost of sales

Required:

- a. Prepare the Cash flow statement of BMC plc for the year ended 31.12.2008 reporting the cash flow from operation in the direct method.
- b. Determine the cash flow from operating activities in the indirect method
- c. Comment on significant items disclosed in the above cash flow statement

(20 Marks)

(I) Tip Top Chemicals Ltd. delivers goods to customers in drums (which are valued in books at Rs.60) charging them out at Rs.120 each. Customers are credited with Rs.80 if the drums are returned within six weeks. The following information is supplied to you:

Stock in hand on 1st January, 2008	1,000
Drums with customers on 1st January, 2008 (still returnable)	2,100
Purchases at Rs.100 each	1,500
Drums sent out to customers	3,200
Drums returned by customers	2,300
Drums destroyed in an accident	30
Drums sold as scrap for Rs.1,000	50
Repairs carried out to drums Rs.2,500	

On 31st December 2008, 1,900 drums were with customers and may be returned within the following week.

Required:

Show the relevant accounts in the books of the company to show profit or loss on this part of the company's business.

(10 Marks)

(II) Following transactions of RQP Investment Ltd. took place during the year ended 31st Mar 2008.

2007

- 1st April Purchased Rs.1,200,000 8% bonds @ Rs.80.50 cum-interest. Interest payable on 1st November and 1st May.
- 12th April Purchased 100,000 equity shares of Rs.10 each in X Ltd. for Rs.4,000,000
- 1st May Received half Year's interest on 8% bonds.
- 15th May X Ltd. made a bonus issue of three equity shares for every two held. Invest Ltd. sold 125,000 bonus shares @ Rs.20 each.
- 1st July Purchased 50,000 equity shares of Rs.10 each in C Ltd. @ Rs.7.75 each.
- 1 October Sold Rs.300,000 8% bonds @ Rs.81 ex-interest.
- 1st Nov. Received half year's bond interest.
- 1st Dec. Received 18% dividend on equity shares in X Ltd.
- 2008 1st March Received 12.5% dividend on equity shares in C Ltd.

Required:

Prepare the relevant investment accounts in the books of Investor Ltd. for the year ended 31st March 2008.

(10 Marks)

(Total 20 Marks)

4. (I) Discuss the shortcomings of conventional accounting based on historical cost during inflation.

(04 Marks)

(II) A summary of Balance Sheet of Sun Ltd is given below:

	Rs.
Cash and Accounts Receivable	1,300,000
Plant and machinery (Net of Depreciation)	<u>1,400,000</u>
	<u>2,700,000</u>
Current Debts	600,000
Long-term Debts	10,00,000
Owner's Equity	<u>11,00,000</u>
	<u>27,00,000</u>

The current price index is 280. The plant and machinery and Long-term debt were acquired when the price index was at 180.

You are required to revise the summary Balance sheet to restate assets and equities in terms of current rupees.

(06 Marks)

III) From the data given below calculate the gearing adjustment required under CCA method:

Current Cost	Opening Rs.	Closing Rs.
Convertible Debentures	100,000	120,000
Bank Overdraft	60,000	80,000
Cash	10,000	20,000
Paid up Share Capital	150,000	200,000
Reserves	30,000	50,000
	Rs.	
COSA	20,000	
MWCA	15,000	
Depreciation	<u>5,000</u>	
	<u>40,000</u>	

(10 Marks)

(Total 20 Marks)

5. (I) Compute the net monetary result of X Company Ltd. under CPP method as at 31st December 2008. The relevant data are given below:

	01.01.2008 Rs.	31.12.2008 Rs.
Cash	5,000	10,000
Book Debts	20,000	25,000
Creditors	15,000	20,000
Loan	20,000	20,000
Retail price index numbers:		
1 st January	200	
31 st December	300	
Average for the year	240	

(06 Marks)

(II). A Ltd. had the following fixed assets on 31 December 2008.

Assets	Cost (Rs.)	Depreciation (Rs.)	Net (Rs.)
Land	30,000		30,000
Building	80,000	24,000	56,000
Plant	260,000	96,000	164,000
	370,000	120,000	250,000

Plant includes Rs.60,000 installed on 1st January 2008, depreciation was charged at 5% on building, 10% on plant according to straight line method. Replacement cost indices are as follows.

Assets	On the date of Acquisition	As on 01.01.2008	As on 31.12.2008
Land	100	250	300
Building	100	200	220
Plant	100	180	225

You are required to show how the balance sheet items will be affected by the changes according to CCA method.

(12 Mark)

(III) What is the purpose of doing Gearing Adjustment in CCA method?

(02 Mark)

(Total 20 Mark)