EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
Second Year / First Semester Examination in Business Administration / Commerce
2008/2009 (April / May 2010) (Proper)
DAF 2023 Advanced Accounting

Answer All Questions

Calculator Permitted **Time: Three (03) hours**

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01. AMC plc company issued a prospectus inviting applications for 20000 shares of Rs 10 each payable follows:

On application	-	Rs.2
On allotment	-	Rs.3
On first call	-	Rs.3
On second and final call	-	Rs.2

Applications were received for 30000 shares and pro-rata allotment was made on the applications for 24000 shares. Money overpaid on applications was employed on account of sum due on allotment. Ramesh, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan, the holder of 600 shares, failed to pay the two calls, and his shares were forfeited after the second call. Of the shares forfeited, 800 shares were sold to Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included.

Required:

Write journal entries to record the above transactions.

(10 Marks)

02. The balance sheet of MTK plc as on 31st March, 2009 was as follows:

Liabilities	Amounts	Assets	Amounts
Equity shares of Rs. 50 each fully paid	450000	Fixed assets	690000
Preference shares of Rs.100 each fully paid	130000	Investments	37000
Profit and Loss account	96000	Bank Balance	62000
Creditors	113000		
	789000		**789000**

In order to facilitate the redemption of preference shares at a premium of 10%, the company decided

(a) To sell all the investments for Rs.30000

(b) To finance part of redemption from company funds, subject to, leaving a bank balance of Rs.24000

(c) To issue minimum equity shares of Rs.50 each at a premium of Rs.10 per share to raise the balance of funds required.

The company also decided to issue 1000 equity shares of Rs.50 each as bonus to the existing shareholders.

Required:

Prepare the necessary journal entries to record the above transactions and prepare the balance sheet as on completion of the above transactions.

(10 Marks)

03. (I) The following relevant balances are extracted from the books of LPG plc for year ended 31 December 2009.

	31.12.2009	01.01.2009
Cash	10000	15000
Marketable securities	8000	4000
Debtors	50000	30000
Provision for doubtful debts	2000	1500
Stock	47000	35000
Prepaid Expenses	4000	1000
creditors	40000	55000
Provision for Taxation	65000	40000
Provision for depreciation	60000	50000

Operating profit after tax for the year ended 31st of December 2009 before interest received (Rs 5000) and claim received for disputed land (Rs 10000) was Rs 180000. Tax paid for the year amounted to Rs 45000 and interest paid Rs.8000.

Required:

Calculate cash flow generated by operations for year

(05 Marks)

(II) The Balance Sheets of DFC plc as at 31st December, 2008 and 2009 are given below:

Liabilities	2008	2009	Assets	2008	2009
Share Capital	500000	500000	Fixed assets	930000	1100000
Profit & Loss A/C	425000	500000	Stock	340000	350000
Long term loans	500000	530000	Debtors	360000	330000
Creditors	175000	200000	Cash	130000	135000
Tax Payable	95000	110000	Bills Receivable	20000	15000
Dividend Payable	85000	90000			
	1780000	**1930000**		**1780000**	**1930000**

The Income Statement of DFC plc for the year ended 31st December, 2009 is as follows:

	Rs.	Rs.
Sales		2040000
Less: Cost sales		1360000
Gross profit		680000
Less: Operating Expenses:		
Administrative Expenses	230000	
Interest	70000	
Depreciation	110000	410000
Operating profit		270000
Add: Non operating Income (Dividend Received)		25000
Profit Before Tax		295000
Less: Taxation		130000
Profit After Tax		165000

Statement of Retained Earnings

	Rs.
Opening Balance	425000
Add: Profit After Tax	165000
	590000
Less: Dividend	90000
Closing Balance	500000

Required:

Prepare the Cash Flow Statement of DFC plc for the year ended 31.12.2009, reporting cash flow from operating activities in the direct method.

(15 Marks)

(Total 20 Marks)

04. (i) DMG plc has been approached by a customer who would like a special job to be done for hi[m]
and who is willing to pay Rs.22,000 for it. The job would require the following materials:

Material	Total units required	Units already in stock	Book value of units in stock Rs./unit	Realizable value Rs./unit	Replacement cost Rs./unit
A	1,000	0	-	-	6
B	1,000	600	2	2.5	5
C	1,000	700	3	2.5	4
D	200	200	4	6.0	9

(a) Material B is used regularly by DMG plc and if units of B are required for this job, the[y] would need to be replaced to meet other production demand.

(b) Material C and D are in stock as the result of previous over buying, and they have restricted use. No other use could be found for material C, but the units of material [D] could be used in another job as substitute for 300 units material E, which currently co[sts] of Rs.5 per unit (of which the company has no units in stock at the moment).

Required:

What are the relevant costs of material, in deciding whether or not to accept the contract?

(10 Mark[s])

(II) Micro Ltd. manufactures and sells three products, X, Y and Z, for which budgeted sale[s] demand, unit selling prices and unit variable costs are as follows.

	X		Y		Z	
Budgeted sales demand	550 units		500 units		400 units	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Unit sales price		16		18		14
Variable costs: materials	8		6		2	
labour	4	12	6	12	9	11
Unit contribution		4		6		3

The company has existing stocks of 250 units of X and 200 units of Z, which it is quite willin[g] to use up to meet sales demand. All three products use the same direct materials and th[e] same type of direct labour. In the next year, the available supply of materials will b[e] restricted to Rs.4,800 (at cost) and the available supply of labour to Rs.6,600 (at cost).

Required:

Determine the Production Mix and Sales Mix which would maximize the company's profits i[n] the next year.

(15 Marks

(Total 25 Marks

05. (I) MJC plc manufactures two products, known as Alpha and Sigma. Alpha is produced in department 1 and Sigma in department 2. The following information is available for 2010 - 2011.

Standard material and labour costs:

	Rs.
Material X	7.20 per unit
Material B	16.00 per unit
Direct labour	12.00 per hour

Overhead is recovered on a direct labour hour basis.

The standard material and labour usage for each product is as follows:

	Model Alpha	**Model Sigma**
Material X	10 units	8 units
Material B	5 units	9 units
Direct labour	10 hours	15 hours

The Balance sheet for the year ended 31 March 2010 was as follows:

	Rs.	Rs.	Rs.
Fixed assets:			
Land		170,000	
Building and equipment	1,292,000		
Less: Depreciation	255,000	1,037,000	1,207,000
Current assets:			
Stocks: Finished goods	99,076		
Raw material	189,200		
Debtors	289,000		
Cash	34,000		
	611,276		
Less: Current liabilities			
Creditors	248,800		362,476
Net assets			1,569,476
Stated Capital:			
120,000 Ordinary shares		1200,000	
Reserves		369,476	
			1,569,476

Other relevant data is as follows for the year 2010 - 2011:

	Finished product	
	Model alpha	Model sigma
Forecast sales (units)	8,500	1,600
Selling price per unit (Rs.)	400	560
Ending inventory required (units)	1,870	90
Beginning inventory (units)	170	85

	Direct material	
	Material X	Material Y
Beginning inventory (units)	8,500	8,000
Ending inventory required (units)	10,200	1,700

Required:

Prepare the following budgets:

(a) Sales budget
(b) Production budget
(c) Direct materials usage budget
(d) Direct materials purchase budget
(e) Direct labour budget

(12 Mark

(II) The annual demand for an item of inventory is 24000 units. Whose price is Rs10 per unit, ordering cost per order is Rs. 350 and inventory holding cost are 24% per annum.

Required:

(a) Find best order quantity which minimizes inventory cost, number of orders to be place in a year and inventory cycle time.

(b) Suppose the supplier offers a discount of 7.5% on selling price if the quantity ordere is 400 units or more. The rate of discount will increase to 12.5% if the order is for 300 units or more. As a cost accountant suggest management regarding minimizin inventory cost.

(08 Marks

(III) During the month of April 2009, two worker of A and B produced 2100 units and 2880 units respectively. The standard production per month per worker is 3200 units. The piece rate is paid at Rs. 5.00 per unit. In addition production bonus is Rs. 25 paid for each percentage of actual production exceeding 70% over standard production. Further monthly dearness payment of fixed Rs. 7000 was paid to each worker.

Required:

Calculate the payment for each worker for the month.

(05 marks)

(IV) Harri Industry has two production departments and two service departments. The actual expenses of the factory for the month of January 2010 are as follows.

	Rs.
Rent	8000
Lighting	4000
Depreciation of Machinery	5000

The following expenses and further details are given as follows.

Expenses and Details	Total	Production Departments		Service Departments	
		L	M	X	Y
Direct Material and Labour cost (Rs.)	17604	4200	6400	3500	3504
Indirect Material and Labour Cost (Rs.)	8500	2100	4000	1100	1300
Area (Sq.ft)	2500	600	1200	500	200
Light points	80	16	40	14	10
Value of machinery (Rs.)	50000	25000	16000	5000	4000
Working Hours	2945	1000	1945	-	-

Expenses of service departments X and Y are appointed as follows.

Service Departments	L	M	X	Y
X	40%	40%	-	20%
Y	50%	30%	20%	-

Required:

(I) Calculate the Overhead Absorption Rate per working hours in respect of two production departments.

(II) And what will be cost of an item with a direct material cost of Rs.100 and direct labour cost of Rs.50 which consumes 02 working hours form each production department.

(10 marks)

(Total 35 marks)