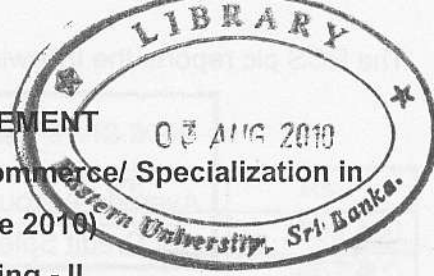


**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**

Third Year Second Semester Examination in Bachelor of Commerce/ Specialization in  
Accounting and Finance-2008/2009 (June 2010)

DAF 3243 Advanced Financial Accounting - II



Answer All Questions.

Time: Three (03) hours.

Calculator Permitted.

(I) The LG plc reported the following income statement items:

	2009	2008
	Rs.	Rs.
Net Sales	400000	250000
Cost of Goods Sold	280000	160000
Operating Expenses	75000	56000

**Required:**

- (a) Prepare a comparative income statement for 2009 and 2008 using vertical analysis  
(b) Evaluate the results

(05 Marks)

(II) The Balance Sheet of CAL plc as on 31.12.2009 shows the following extracts:

	Rs.		Rs.
<b>Current Liabilities:</b>		<b>Current Assets:</b>	
Trade Creditors	1500000	Stock in trade	1200000
Bills Payable	50000	Trade Debtors	1000000
Expenses Payable	200000	Prepaid Expenses	10000
Income Tax Payable	10000	Marketable Securities	80000
<b>Total</b>	<b>1760000</b>	Cash	40000
Long Term Liabilities	3400000	<b>Total</b>	<b>2330000</b>

**Required:**

- (i) Determine the following:  
(a) Net Working Capital (b) Current ratio (c) Quick ratio
- (ii) Based upon the answer to above (i) does the CAL plc have good or poor liquidity if industry average for current ratio is 1.29 and quick ratio is 1.07?

(05 Marks)

RCS plc reports the following data relative to accounts receivable:

	2009	2008
	Rs.	Rs.
Average Accounts Receivable	400000	416000
Net Credit Sales	2600000	3100000

Terms of sales are net 30 days.

**Required:**

Compute the Accounts Receivables Turnover and the Collection Period

Evaluate the results

(05 Marks)

On 01.01.2009, the opening stock in trade of FCM plc was Rs.400000. During the year 2009, the company purchased Rs.1900000 of additional goods for trading. On 31.12.2009, the closing stock in trade was Rs.500000.

**Required:**

(a) What are the Stock Turnover Ratio and the Average Age of the Stocks for the year 2009?

(b) If the Stock Turnover Ratio in the year 2008 was 3.3 and the Average Age of the Stocks was 100.6 days, evaluate the results for the year 2008

(05 Marks)

The followings are the information of CDS plc. for the financial year ended 31.12.2009:

Current ratio	2.5	Debtors Collection Period	40 days
Quick ratio	1.3	Sales	Rs.730000
Fixed Assets/ Equity	0.6	Working Capital	Rs.120000
Gross Margin	10%	Bank Overdraft	Rs.15000
Return on Equity	10%	Share Capital	Rs.250000
Closing Stock is 10% more than opening stock			

**Required:**

(a) Prepare the Trading, Profit and Loss Account for the year ended 31.12.2009

(b) Prepare the Balance Sheet as at 31.12.2009

(10 Marks)

(Total 30 Marks)

2. (I) The followings are the financial statements of the NDK plc.

**The income statement for the year ended 31.12.2009**

	Rs.	Rs.
Sales		1692,400
<b>Less : Cost of sales</b>		862,400
Gross profit		830,000
<b>Add : Other Operating Income :-</b>		
Investment income	25,600	
Profit on sales of motor vehicle	7,400	33,000
		863,000
<b>Less : Operating Expenses :</b>		
Administration	123,500	
Selling & Distribution	178,200	
Finance	26,100	328,800
Profit before Tax		534,200
<b>Less: Tax</b>		209,400
Profit after tax		324,800
<b>Less: Dividend</b>		120,000
Retained Profit		204,800
Balance b/f		138,200
Balance c/f		343,000

**The Balance Sheets as at**

	31.12.2008 Rs.	31.12.2009 Rs.
<b>Assets</b>		
Land & Building	728,000	985,000
Motor Vehicle	315,500	250,000
Furniture & Fitting	135,000	120,000
Investments	300,000	400,000
Stocks	165,500	185,000
Debtors	305,400	325,600
Cash & Bank	50,600	34,400
	<b>2000,000</b>	<b>2300,000</b>
<b>Liabilities</b>		
Share capital (Rs. 10 each)	850,000	900,000
Profit & Loss account	138,200	343,000
10% Debentures	400,000	350,000
Long term Bank loan	200,000	180,000
Creditors	140,500	165,600
Accrued salaries	25,500	32,000
Tax payable	155,800	209,400
Dividend payable	90,000	120,000
	<b>2000,000</b>	<b>2300,000</b>

**Additional Information:**

1. A new building was purchased during the year for Rs. 300,000 upon a payment of Rs. 250,000 in cash and the issue of 5,000 ordinary shares of Rs.10 each.
2. Part of 10% Debentures were redeemed at during the year paying by cash.
3. During the year motor vehicle with the book value of Rs. 30,000 was disposed at a profit of Rs. 7,400.

**Required:**

Prepare the cash-flow statement of the NDK plc for the year ended 31.12.2009, reporting the cash-flow from operating activities using the direct method.

**(22 Marks)**

- (II) The relevant extracts from the financial statements of JKG plc for the years of 2008 and 2009 are given below.

**The extracts of income statement for the year ended 31.12.2009**

	Rs.
Operating Profit before Interest and Tax	200000
Interest Paid	20000
Tax Paid	50000
Depreciation	40000
Profit on Disposal of a Motor vehicle	10000
Loss on Disposal of a Machinery	15000
Goodwill written off	5000

**Other Balances:**

	31.12.2008	31.12.2009
	Rs.	Rs.
Trade debtors	70000	80000
Provision for Doubtful Debt	5000	8000
Bills Receivable	40000	30000
Bills Payable	35000	40000
Trade Creditors	65000	45000
Stocks in Trade	50000	65000
Expenses Payable	12000	10000
Prepaid expenses	4000	6000
Sales Commission receivable	2000	3000

**Required:**

Compute the Net Cash Flow from Operating Activities for the year ended 31.12.2009.

**(08 Ma****(Total 30 Ma**

(I) RPC plc. manufactures and supplies the Raw material X using returnable drums which are charged at Rs.50 each. The customers returning the drums within a month are credited with Rs.40. The company's procedure is to retain Rs.40 in deposit account till the expiry of the option period from return of the drums.

The following particulars are available from the books:

Details of Transaction	Numbers
Returnable drums as at customer on 01-01-2009	10000
Drums in Stock as on 01-01-2009	20000
Drums purchased during the year 2009 at Rs.30 per drum	25000
Drums sent to customers in 2009	410000
Drums returned by the customers in 2009	390000
Drums returnable on 31-12-2009	22000
Drums scrapped in 2009 and sold for Rs.25000	5000

All the drums as on 01-01-2009 are to be valued at Rs.25 each. All the amounts due in respect of drums have been collected from the customers.

**Required:**

Show the following ledger accounts:

1. Drum Stock Account
2. Drum-Debtors Account
3. Drum Deposit Account
4. Drum Trading Account

(10 Marks)

(II) On 01.04.2009, CVP plc held Rs. Rs.300,000 (face value) 6% debentures at Rs. 940 (face value Rs. 1,000 each). Interest is payable half yearly on 31<sup>st</sup> March and 30<sup>th</sup> September. The company sold Rs. 90,000 (face value) of debentures at Rs. 950 per debentures ex-interest on 01.06.2009 and purchased Rs. 72,000 (face value) debentures at Rs. 970 per debenture cum interest, on 01.09.2009. A further purchase of Rs. 36,000 (face value) debentures was made on 01.12.2008 at Rs. 980 per debenture ex-interest. On 31.03.2010 a debenture was quoted at Rs. 960 at the stock exchanges.

**Required:**

Prepare the 6% debenture Account in the investment Ledger of the Company for the year ended 31.03.2010.

(10 Marks)

(Total 20 Marks)

4. (I) The followings are the information regarding inventories of JPL plc.

	Rs.
Inventories on 01.01.2009	240000
Purchases during 2009	2100000
Inventories on 31.12.2009	570000

The general price index was 100 when the beginning inventory was acquired. The ending inventory consists of purchases made when the general price index was 110. The general price index at the end of 2009 was 180. The purchases were made uniformly throughout the year.

**Required:**

Calculate the cost of goods sold under HCA and CPP methods presuming that the firm is following LIFO method for pricing its inventories.

(05 Marks)

(II) From the following data calculate "Cost of Sales Adjustment"

	HCA Rs.	Price Index
Stock as on 01.01.2009	100000	180
Purchases during 2009	300000	198
Stock as on 31.12.2009	125000	220

(05 Marks)

(III) From the data given below calculate the "Gearing Adjustment" required under CCA method:

Current Cost	Opening Rs.	Closing Rs.
Convertible Debentures	200,000	250,000
Bank Overdraft	90,000	100,000
Cash	50,000	80,000
Paid up Share Capital	300,000	400,000
Reserves	100,000	150,000

	Rs.
Cost of Sale Adjustment	50,000
Monetary Working Capital Adjustment	25,000
Depreciation Adjustment	<u>15,000</u>
	<u><b>90,000</b></u>

(05 Marks)

(IV) The Monetary Working Capital Items of VMA plc. and relevant price indices are given below:

Balances as at	31.12.2008	31.12.2009
	Rs.	Rs.
Debtors	300,000	400,000
Bills Receivable	200,000	300,000
Creditors	250,000	280,000
Bills Payable	150,000	180,000
Price Index	100	125
Average Index for the year	110	120

(05 Marks)

(Total 20 Marks)