EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Third Year/ Second Semester Examination in Business Administration / Commerce 2004/2005 (Nov/Dec' 2006) (Proper/Repeat)

COM 3013 Advanced Financial Accounting- II

Answer All Questions. **Time: Three (03) hours.**

Calculator Permitted.

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1 (I) Following are the Balance sheets of Vikas Ltd. for the year ending 31st March 2005, 2006.

	2005 Rs.	2006 Rs.
Assets		
Fixed Assets (net)	2,64,000	3,85,000
Stock	44,000	55,000
Debtors	110,000	137,500
Bills Receivable	22,000	66,000
Prepaid expenses	11,000	33,000
Cash in hand	44,000	38,500
Cash at bank	11,000	33,000
	506,000	**748,000**
Liabilities		
Ordinary share capital	220,000	363,000
Preference share capital	110,000	165,000
Reserves	22,000	33,000
Profit & Loss A/C	16,500	22,000
Bank overdraft	55,000	55,000
Creditors	44,000	55,000
Provision for taxation	22,000	27,500
Proposed dividend	16,500	27,500
	506,000	**748,000**

You are required to analyse financial position of Vikas Ltd. by preparing Comparative analysis of the Balance sheets

(10 Marks)

(II) Summarized Balance Sheet and income statement of Alpha Ltd. For the year ended 31st March 2006 are as under:

Income statement for the year ended 31st March , 2006

	Rs.000
Sales	1,600
Less: Cost of goods sold	1,310
Gross margin	290
Less: Selling and Administrative expenses	40
EBIT	250
Less: Interest expenses	45
Earnings before tax	205
Less: Tax	82
Net profit	123

Balance Sheet as on 31st March, 2006

	Rs.000
Liabilities	
Paid up capital (40,000 equity shares of Rs.10 each, fully paid up)	400
Retained earnings	120
Debentures	700
Creditors	180
Bills payable	20
Other current liabilities	80
	1,500
Assets	
Net fixed assets	800
Inventory	400
Debtors	175
Marketable securities	75
Cash	50
	1,500

The Market Price per share: Rs.15.

Industry's average ratios are:

Current ratio	2.4
Quick ratio	1.5
Sales to inventory	8.0 time
Average collection period	36 days
Debt to assets	40%
Debt equity ratio	2:1
Times interest earned	6
Net profit margin	7%
Price to earnings ratio	15
Return to total assets	11%

From the above facts & figures, you are required to calculate the relevant ratios and interpret them to identify the problems areas and giving suggestions to solve them.

(15 Marks)

(Total 25 Marks)

2. (I) Cristal Ltd. had the following fixed assets on 31.12.2005

Assets	Cost	Depreciation	Net Value
	Rs.	Rs.	Rs.
Land	30,000	-	30,000
Building	80,000	24,000	56,000
Plant & Machinery	260,000	96,000	164,000
	370,000	**120,000**	**250,000**

Plants & Machinery includes Rs.60,000 installed on 1.1.2005, depreciation was charged at 5% on building, 10% on Plants & Machinery according to straight line method. Replacement cost indices are as follows. .

Assets	On the date of acquisition	As on 1.1.2005	As on 31.12.2005
Land	100	250	300
Building	100	200	220
Plant & Machinery	100	180	225

You are required to show in the Balance Sheet how the fixed assets items will be affected by the Price changes according to CCA.

(10 Marks)

(II) From the following calculate the "Monitory Working Capital Adjustment" as required under Current Cost Accounting system.

Items	31 March 2005 Rs.	31 March 2006 Rs.
Inventory	275,000	305,000
Accounts Receivable	225,000	275,000
Cash Balances	30,000	40,000
Advances for supply of materials	50,000	63,250
Accounts Payable	125,000	161,000

The price of materials increased by 15% and those of finished goods by 10% during the years ending 31 March 2005 and 31 March 2006.

(08 Marks)

(III) The data regarding historic cost of sales of a company for the year 2005 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:

2004 October	250
November	252
December	255
2005 October	300
November	304
December	306
2006 January	310
Average for 2005	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

(07 Marks)

(Total 25 Marks)

03 (I) Lankam Ltd. Sells its goods in special packages costing Rs.25 each. Packages are charged out at Rs.40 each and credited at Rs.30 in case returned in good condition within 3 months. For stock taking purposes all the packages in factory and in the hands of the customers are valued at Rs.20 each. On 1st January 2005, there were 4,500 packages in the factory and 7,800 in the hands of the customers for less than 3 months. During the year end 31.12.2005, 13,000 packages were purchased by Lankem Ltd. Some of packages were charged out to the customers and they had retained 5,500 packages. The customers had been given credit of Rs.2,37,000 on account of returns within the stipulated period. 200 packages were sold for Rs.2,000 as scrap. 300 packages were destroyed and had been damaged beyond repairs. Some packages were repaired for Rs.1,000. As on 31.12.2005 there were 12,700 packages in factory.

You are required to prepare

(a) Packages stock Account.

(b) Packages Trading Account.

(09 Marks)

(II) On 01.04.2005, Cilinco Ltd. held Rs. Rs.300,000 (face value) 6% debentures at Rs. 940 (face value Rs. 1,000 each). Interest is payable half yearly on 31st March and 30th September. The company sold Rs. 90,000 (face value) of debentures at Rs. 950 per debentures ex-interest on 01.06.2005 and purchased Rs. 72,000 (face value) debentures at Rs. 970 per debenture cum interest, on 01.09.2005. A further purchase of Rs. 36,000 (face value) debentures was made on 01.12.2005 at Rs. 980 per debenture ex-interest. On 31.03.2006 a debentures was quoted at Rs. 960 at the stock exchanges.

You are requited to prepare the 6% debenture Account in the investment Ledger of the Company for the year ended 31.03.2006.

(08 Marks)

(III) From the following ratios extracted from the books of a company as at 31st December 2005, draw up the Balance sheet of the company.

Current ratio	2.5
Working Capital	Rs.300000
Liquidity ratio	1.5
Stock Turnover ratio (Cost of sale / Closing Stock)	6
Gross Profit ratio	20%
Debtor Collection Period	2 Months
Shareholders' Funds (Share capital plus Reserves)	Rs.750000
Reserves and Surplus / Share Capital	0.5
Fixed Asset Turnover(Cost of sale / Fixed Assets)	2
Long Term Debt / Equity	0.2

(08 Marks)

(Total 25 Marks)

4. (I) The following are the extracts form the financial statements of a company for the year 2005:

Extracts from the Profit and Loss Account:

	Rs.
Profit after taxes and interests	250000
Depreciation	20000
Amortization of goodwill	5000
Profit on disposal of a machine	15000
Taxes	75000
Interest	25000

Extracts from the Balance Sheets:

	Opening balance (Rs.)	Closing balance (Rs.)
Debtors	25000	30000
Bills Receivable	15000	12000
Prepaid expenses	5000	6000
Creditors	28000	32000
Bills payable	10000	8000
Tax payable	80000	75000
Expenses payable	4000	5000
Interest payable	5000	10000

Required:

Calculate the cash flow from operating activities of the company for the year 2005

(10 Marks)

(II) The financial statements of XYZ Ltd for the year 2005 are as follows:

The Profit and Loss Account for the year ended 31.12.2005

	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 31.12.2004 and 31.12.2005

Liabilities	2004 Rs.	2005 Rs.	Assets	2004 Rs.	2005 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 2005 reporting the cash flow from operation in the direct method. (Show your workings and assumptions (if any) under notes)

(15 Marks)

(Total 25 Marks)