

EASTERN UNIVERSITY, SRI LANKA
 FACULTY OF COMMERCE AND MANAGEMENT
 THIRD YEAR / SECOND SEMESTER EXAMINATION IN COMMERCE –2004/2005
 (PROPER/REPEAT)
Special Examination

COM 3024 ADVANCED FINANCIAL ACCOUNTING - II

Answer All Questions

Time: Three Hours

1. The following are the financial statement of XYZ Ltd for the year 2006:

The Profit and Loss Account for the year ended 31.12.2006

	Rs.	Rs.
Sales: Cash	280000	
Credit	1120000	1400000
Less: Cost of Sales		840000
Gross Profit		560000
Less: Operating expenses	140000	
Depreciation	98000	
Interest on Long term Debt	42000	280000
Profit before taxes		280000
Less: Taxes		140000
Profit after taxes		140000
Less: Preference Dividend	17000	
Ordinary Dividend	25000	42000
Retained profit for the year		98000
Profit & Loss b/f		182000
		280000

Balance sheet as at 31.12.2005

Liabilities	Rs.	Assets	Rs.
Ordinary share capital (Rs.10 each)	140000	Fixed assets	1050000
Preference share capital	280000	Goodwill	140000
Profit & Loss account	280000	Stock	490000
Long term debt	840000	Debtors	350000
Creditors	280000	Cash	70000
Bills payables	140000		
Taxes payable	100000		
Outstanding expenses	40000		
	2100000		2100000

The ratios for the years 2003 and 2004 for XYZ Ltd and their industry ratios are given below:

	2003	2004	Industry
Current ratio	2.54	2.10	2.30
Acid test ratio	1.10	0.96	1.20
Debtor turnover	6.00	4.80	7.00
Stock turnover	3.80	3.05	3.85
Long term debt to total capital	0.38	0.41	0.4
Gross profit margin	38%	41%	40%
Net profit margin	18%	16%	15%
Return on equity	24%	29%	19%
Return on total assets	7%	6.8%	8%
Total assets turnover	0.5	0.6	0.7
Interest coverage	10	9	10
Earning Per Share (Rs.)	9	8.50	6
Dividend Per share (Rs.)	2.	1.5	1.8

Required:

Calculate the ratios for 2006 and evaluate the company's operating performance and financial position.

(25 Marks)

2. The financial statements of ABC Ltd for the year 2006 are as follows:

The Profit and Loss Account for the year ended 31.12.2006

	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 31.12.2005 and 31.12.2006

Liabilities	2005	2006	Assets	2005	2006
	Rs.	Rs.		Rs.	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 ABC Ltd for the year 2006 reporting the cash flow from operation in the direct method. (Show your workings and assumptions (if any) under notes)

(25 Marks)

3. (I) 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

(12 Marks)

(II) The following historic cost figures are available for the Monetary Working Capital items of a company for the year 2005:

	Opening balance (Rs.)	Closing balance (Rs.)
Debtors	250000	300000
Bills Receivable	150000	140000
Prepaid expenses	50000	60000
Creditors	180000	200000
Bills payable	100000	90000
Expenses payable	40000	50000

The average age of each of these items is two months

The price indices are:

2004 November	200
December	220
2005 November	300
December	325
Average for 2005	250

Required:

Calculate the Monetary Working Capital Adjustment (MWCA) under CCA

(13 Marks)

(Total 25 Marks)

4. (I) ASP investment Ltd held 1000 15% debentures of Rs.100 each in KVS Ltd as on 1.04.2005 at a cost of Rs.105000. interest is payable 30 June and 31 December each year. On 1.05.2005, 500 debentures were purchased *cum- interest* at Rs.53500. on 1.11.2005, 600 debentures was sold *ex-interest* at Rs.57300. 30.11.2005, 400 debentures were purchased *ex-interest* at Rs.38400. On 31.12.2005 400 debentures were sold *cum-interest* for Rs.55000.

Required:

Prepare the Investment account valuing the stock on 31.12.2005 at cost applying FIFO method.

(15 Marks)

- (II) Prepare a trading, and profit and loss account from the following information

Opening stock	Rs.9200
Closing stock	Rs.10000
Gross Profit ratio	36%
Stock Turnover	20
Net Profit ratio	12%
Income tax rate	40%

(10 Marks)

(Total 25 Marks)