



Eastern University, Sri Lanka
Faculty of Commerce and Management

Third Year Second Semester Examination in Bachelor of Commerce
(Specialization in Accounting and Finance) 2009/2010 (January / February 2012)

(Proper)

DAF 3092 Accounting Standards

Answer all questions

Time: Two Hours

1. Select the most appropriate answer for the questions (I) – (V)

(I) Which is not considered as the cost of a property, plant and equipment out of the following?

- (A) Cost of employee benefits. (C) Cost of site preparation.
(B) Cost of introducing a new product/services. (D) Cost of testing.

(II) A and B undertook jointly to construct a building for a new joint stock company for a contract price of Rs 1000,000 payable as to Rs 800,000 by installments in cash and Rs 200,000 in fully paid share of the company. A bank account was opened in their joint names A and B paying in cash Rs 250,000 and Rs 150,000 respectively. They are to share profit or loss in the proportion of 2/3 and 1/3 respectively. Their transactions were as follows:

	Rs.
Paid wages	330,000
Bought materials	670,000
Material supplied by A	45,000
Material supplied by B	24,000
Architect fee paid by A	20,000

The contract was completed and the price dully received. The joint venture was closed by A taking up all the shares of the company at an agreed valuation of Rs 170,000 and B taking up the stock of material at an agreed valuation of Rs 17,000.

What will be the amount of profit/loss transferred to their capital account?

- (A) A- 68000, B- 34000 profit (C) A- 68000, B- 34000 loss
(B) A- 48000, B- 24000 loss (D) A- 48000, B- 24000 profit

(III) From the following which one is the non theoretical approach?

- (A) Ethical approach (C) Economic approach
(B) Practical approach (D) Mathematical approach

(IV) From the following information, what will be the amount of net profit?

	2009/12/31	2010/12/31
	Rs	Rs
Profit and loss account	30000	35000
General reserve	10000	15000
Provision for depreciation	30000	35000
Goodwill	20000	10000

During the period dividend proposed Rs 5000

- (A) Net profit Rs10000 (C) Net profit Rs15000
(B) Net profit Rs 5000 (D) Net profit Rs 35000

(V) Which one of the following statements is incorrect?

- (A) Duality means every business transaction has two- fold effect.
(B) The money measurement concept is that only items capable of being measured in monetary terms can be recognized in financial statement.
(C) Materiality means that only items having a physical existence may be recognized as assets.

(4 x 5 =20 Marks)

2.

- (I) Briefly explain the roots of accounting theory, and state the stages of decision theory.
(II) State major approaches to the formulation of accounting theories and briefly explain inductive and deductive approach.
(III) What is the relationship between accounting theory and accounting practices?
(IV) Discuss the similarities between "Matching Concept and Realization Concept"

(20 Marks)

3.

(I) Mr. Andrew enters into a lease as lessee on 1st January 2006. The lease is for a minimum period of four years and requires payments to be made as follows:

31.12.2006	Rs 8,700
31.12.2007	Rs 8,700
31.12.2008	Rs 8,700
31.12.2009	Rs 8,700



In addition to this, Mr. Andrew is required to guarantee the value of the asset at the end of its life. This is expected to result in a further payment of Rs 1,600 on 31.12.2009 by Mr. Andrew to the lessor. The implicit rate in the lease has been calculated at 8% and the net present value of the obligation at this rate at 1st January 2006 is Rs 29,991.

Required:

Justify the above lease whether as Finance or Operating lease, and show how this will be reported in the financial statements of Mr. Andrew for the year ended 31st December 2006.

(15 Marks)

(II) Contrast and briefly explain "Gross investment in the lease" and "Net investment in lease".

(05 Marks)

(Total 20 Marks)

4.

(I) What are the items that shall comprise the cost of inventories? Briefly explain it according to LKAS 2.

(II) Define the term "Other Comprehensive Income" and point out its components according to LKAS 1.

(III) What is explained by LKAS 23, define it and briefly explain its recognition?

(IV) According to LKAS 28, what do you understand by "Significant Influence" and list out the ways that the existence of influences is evidenced by an investor.

(20 Marks)

5.

- (I) MAC plc operates with 1000,000 ordinary shares issued at Rs1.00 on 01st 2009, raising ordinary share capital to Rs 4000,000. Profit Before Interest and (PBIT) amounted to Rs 7000,000 and tax rate is 30%. The Balance sheet extracted at 31st March 2010:

	Rs
10% Preference shares	1000,000
8% Loan	400,000

Required:

Calculate the Earning Per Share (EPS)

(05 Marks)

- (II) Robins Company is a stock market listed company that manufactures consumer products and it is planning to expand its existing business. The investment cost of 5 million will be met by a 1 for 4 right issue. The current share price of Robins Company is Rs 2.50 per share and the right issue price will be at a 20% discount to this.

Required:

Calculate the theoretical ex rights fair value per share prior to investing in the proposed business expansion.

(10 Marks)

- (III) What do you understand by the term "Dilution"? And state the need for calculation of "Diluted Earnings Per Share."

(05 Marks)

(Total 20 Marks)