

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

**PART II EXAMINATION IN BUSINESS ADMINISTRATION / COMMERCE 1998/99**  
**(MARCH 2005) (EXTERNAL)**

**COM 304 ADVANCED FINANCIAL ACCOUNTING – II**

Answer All Questions

Time: 03 Hours

01. The Financial Statements of Keen Ltd. are given below.

Balance Sheets

	30.06.2003		30.06.2004	
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Share capital &amp; Reserves</b>				
Ordinary shares of Rs.10 each	700		940	
Capital Reserves	130		70	
Revenue Reserves	370	1,200	574	1,584
<b>Long Term Liability</b>				
10% debentures		110		128
<b>Current Liabilities</b>				
Bank overdraft	42		40	
Trade creditors	194		264	
Other provisions	84	320	96	400
		<b>1,630</b>		<b>2,112</b>
<b>Fixed Assets at book values</b>				
Land & Building	572		762	
Plant & Equipment	436		684	
Motor Vehicle	118	1,126	124	1,570
<b>Current Assets</b>				
Stock	244		194	
Debtors	248		332	
Cash at Bank	12	504	16	542
		<b>1,630</b>		<b>2,112</b>

The Trading and Profit & Loss accounts for the year ended 30.06. 2003 and 30.06.2004.

	30.06.2003		30.06.2004	
Sales		1494		1,140
Less: cost of sales:				
Opening stock	204		184	
Purchases	1,176		762	
	1,380		946	
Closing stock	244	1,136	192	754
Gross profit		358		386
Less: Operating expenses:				
Selling & Distribution	128		120	
Administration	62		58	
Other expenses	18	208	16	194
Net profit before tax		150		192
Less: Taxation		74		90
Net Profit after tax		76		102
Dividend		48		74
Retained Profit		28		28

The market price of shares are as follows:

30.06.2003 - Rs. 20

30.06.2004 Rs. 30

**Required :**

Calculate three ratios under each of the categories and using the ratios compare and comment on the Operating Performance and Financial Position of Keen Ltd. between the above financial years.

- i. Profitability ratios
- ii. Efficiency ratios
- iii. Liquidity and short term Solvency ratios
- iv. Stability and Long term Solvency ratios
- v. Growth ratios

13 OCT 2005  
Eastern University, Sri Lanka

The balance sheets of Dulux Ltd. as at 30.06. 2003 and 30.06. 2004 are as follows.

	30.06.2003		30.06.2004	
Land		600000		600000
Plant and Machinery	350000		350,000	
Less: Provision for depreciation	70000	280000	105000	245000
Stock		225000		295000
Debtors		200000		390000
Cash		95000		270000
		<b>1400000</b>		<b>1800000</b>
Equity share capital (Rs.10 each)		500000		500000
Share premium		250000		250000
Reserve & Surplus		150000		250000
10% Debentures		300000		300000
Creditors		200000		250000
Dividend Proposed		-		120000
Tax Payable		-		130000
		<b>1400000</b>		<b>1800000</b>

The income statement of the company for the year ended 30.06.2004.

Net sales		1500000
Cost of sales: Opening stock (FIFO)	225000	
Purchases	750000	
Closing stock (FIFO)	975000	680000
Gross profit	295000	820000
Operating expenses	435000	
Depreciation	35000	470000
Profit before tax		350000
Less: income tax		130000
Profit after tax		220000
Dividend Proposed		120000
Retained profit		100000

**Additional information:**

- a. Land was acquired on 01.07.2000 when the general price index was 120. Plant and machinery was purchased on 30.6.2001 when the General price index was 175. The depreciation on Plant and Machinery is provided at 10% p.a on Straight line basis.
- b. Sales, purchase, and operating expenses (excluding depreciation) took place evenly throughout the year. Stocks are priced according to the FIFO method. Goods in closing stocks were acquired throughout the year. Income tax accrued through out the year.
- c. The general price indices are as follows.

On 30.06.2003	200
Average for the year 2003/2004	250
On 30.06.2004	300

**Required:**

Convert the historical cost based Trading and Profit & Loss account and the Balance sheets into the CPP method as at 30.06.2004

25 marks

The Financial Statements and other information of Nizan Ltd are given below.

**The Profit and Loss Account for the year ended 30.06.2004**

	Rs.000	Rs.000
Sales		2000
Less: Cost of sales:		
Opening stock	200	
Purchases	1200	
	1400	
Closing stocks	300	1100
Gross Profit		900
Add: Investment income		40
Profit on Disposal of a Motor vehicle		10
		950
Less: Operating Expenses:		
Administration	300	
Selling and Distribution	200	
Finance	30	530
Operating profit Before Tax		420
Less: Taxation		120
Operating profit After Tax		300
Less: Distribution:		
General Reserve	50	
Dividend	150	200
		100
Profit and Loss A/C b/f		300
Profit and Loss A/C c/f		400





ii. Balance sheets as at

	30.06.2003	30.06.2004
	Rs.000	Rs.000
Land and Buildings	800	950
Furniture and Fittings	160	140
Motor vehicles	240	150
Investments	200	300
Goodwill	150	100
Stocks	200	300
Debtors	400	440
Cash and Bank	150	200
	<b>2300</b>	<b>2580</b>
Ordinary shares of Rs.10 each	800	880
10% Preference shares of Rs.10 each	400	300
Share Premium	70	90
General Reserve	120	170
Profit and Loss Account	300	400
15% Debentures	200	160
Creditors	180	280
Tax Payable	80	120
Dividend Payable	90	150
Administrative expenses payable	60	30
	<b>2300</b>	<b>2580</b>

**Other Information:**

- i. During the year furniture was purchased at Rs.10000 by cash.
- ii. A motor vehicle purchased on 01.07.1999 for Rs.100000, and valued at Rs.60000 at the date of disposal was disposed at Rs.70000 during the current year.

- iii. Rs.50000 of Goodwill was written off against the profit for the current year. It was included in the administration expenses.
- iv. During the current year a land costing Rs.150000 was acquired by issuing 8000 ordinary shares of Rs.10 each at Rs.15 per share and paying the balance by cash.
- v. During the current year 10000 10% Redeemable Preference Shares of Rs.10 each were redeemed at Rs.12 per share. The premium on redemption was written off against the share premium account.
- vi. At the end of the current year, a part of the 15% Debentures were redeemed at par.

Required:



Prepare the Cash flow Statement of Nizan Ltd for the year ended 30.06.2004, reporting the cash flow from operating activities in the Direct method as per the requirement of S.L.A.S. 09.

25 Marks

04. The historical cost based Financial Statements and other information of James Ltd are given below.

**The Balance Sheets**

	31.12.2002	31.12.2003
	Rs.000	Rs.000
Plant and Machinery	1500	2000
Less: Accumulated Depreciation	(450)	(650)
	1050	1350
Stocks	190	240
Debtors	150	275
Cash in Hand	95	170
	<b>1485</b>	<b>2035</b>
Ordinary Shares (Rs.10 each)	1000	1200
Reserves and Surplus	200	500
10% Debentures	50	75
Trade Creditors	125	90
Dividend Payable	10	20
Tax Payable	100	150
	<b>1485</b>	<b>2035</b>

**Income Statements for the year ended 31.12.2003**

	Rs.000	Rs.000
Sales		1670
Less: Cost of sales:		
Opening Stock	190	
Purchases	850	
	1040	
Less; Closing Stock	240	800
Gross Profit		870
Less: Depreciation	200	
Interest	10	
Other Expenses	190	400
Profit Before Tax		470



## Other Information

1. The Plant and Machinery costing Rs.1500000 were purchased in 2000 when the Price Index was 100. Another machinery costing Rs.500000 was purchased in 2003 when the price index was 125. Company depreciates all the plant and machinery at 10% p.a on Straight line basis. On 31.12.2003 its price index stood at 150.
2. The Average age of Stocks and monetary working capital items such as Cash in hand, Debtors, and Creditors was three months.
3. The relevant Price Indexes are:

Mid month 2002	October	120
	November	125
	December	130
Mid month 2003	October	175
	November	180
	December	185
Mid month 2004	January	195
Average for 2003		160



### Required:

Determine the Following under the Current Cost Accounting (CCA) system.

1. The Net book value of Plant and Machinery as at 31.12.2003.
2. The Plant and Machinery Revaluation Surplus
3. Plant and Machinery Depreciation Adjustment
4. Cost of Sale Adjustment
5. The Value of Closing Stocks as at 31.12.2003
6. Closing Stock Revaluation Surplus
7. The Monetary Working Capital Adjustment

25 Marks