

04 March 2010
Eastern University, Sri Lanka

EASTERN UNIVERSITY, SRI LANKA
Eastern University, Sri Lanka
Faculty of Commerce and Management

Special Repeat Examination in Business Administration / Commerce 2007/2008
(March 2010)

DAF2114 Advanced Financial Accounting I

Answer All Questions

Calculator Permitted

Time: Three (03) hours

1. The summarized Balance Sheet of GNP plc as on 31st March, 2009 was as follows:

Liabilities	Rs	Assets	Rs
Ordinary Shares of Rs.10 fully paid	6,00,000	Land, Building and plant	6,40,000
General Reserve	1,70,000	Goodwill	1,00,000
Profit and loss Account	1,10,000	Stock	1,68,000
12% Debentures	1,00,000	Debtors	36,000
Creditors	20,000	Cash	56,000
	10,00,000		10,00,000

KML plc agreed to absorb the business of GNP plc, with effect from April 1st, 2009. The purchase consideration payable by KML plc was agreed as follows:

- A cash payment equivalent to Rs. 2.50 for share in GNP plc.
- The issue of 90,000 equity shares of Rs.10 each fully paid in KML plc having an agreed value of Rs.15 per share
- The issue of such an amount of fully paid 10% Debentures in KML plc at 96 percent as it is sufficient to discharge 12% Debentures in GNP plc at a premium of 20 percent.

When computing purchase consideration, KML plc valued Land, Building and Plant at Rs.12,00,000, Stock at Rs.1,42,000 and Debtors at their face value subject to a provision of 5 percent for doubtful debts. The cost of liquidation of GNP plc was Rs.5,000.

Assume that GNP plc retains sufficient cash, out of cash taken over to meet realization expenses.

Required:

- Close the books of GNP plc
- Pass journal entries in the books of KML plc regarding absorption of business of GNP plc.

(25 Marks)

2. The Balance sheet of CDK plc on 30-06-2009 is as follows:

Liabilities	Rs	Assets	Rs
Equity share capital (Rs. 10)	40,00,000	Plant	25,00,000
Preference share capital (Rs. 20)	12,00,000	Furniture	9,00,000
Securities Premium	20,000	Investment	3,50,000
Profit and loss Account	6,80,000	Stock	15,00,000
Creditors	11,00,000	Debtors	14,00,000
		Bank	3,50,000
	70,00,000		70,00,000

Following additional information is available to you:

1. Preference shares are redeemed on 1-7-2009, at a premium of 10%
2. To provide cash for redemption, investments are sold for Rs.3,00,000
3. Minimum balance of Rs.2,10,000 is required in profit and loss account after redemption of preference shares
4. Minimum numbers of equity shares of Rs.10 each are issued at 10% premium for the purpose of redemption.

Required:

1. Prepare the relevant ledger accounts redemption of preference shares.
2. Prepare the Balance Sheet after the redemption of preference shares.

(25 Marks)

3. The Balance sheets of A Ltd and its subsidiary B Ltd as on 31.12.2009 are as follows.

Liabilities and Assets	A Ltd	B Ltd
Ordinary shares of Rs.10 each	1000000	400000
General Reserve	100000	200000
Profit and Loss A/C	150000	600000
Creditors	150000	600000
	1400000	5400000
Freehold Property at cost	200000	1000000
Plant & machinery	250000	1000000
Investment in 30000 shares of B Ltd.	400000	-----
Stocks	150000	200000
Debtors	200000	200000
Bank	200000	1200000
	1400000	5400000

Further information:

1. A Ltd. acquired ordinary shares in B Ltd on 1.1.2009 when B Ltd had a balance of Rs.20000 in General reserve account and a credit balance of Rs.10000 in the Profit and Loss account.
2. Debtors of B Ltd include Rs.10000 due from A Ltd.

Required:

Prepare the Consolidated Balance sheet as at 31.12.2009.

(25 Marks)

4. On 1st of January, 2006, RDA plc purchased a truck from HMO plc on the hire purchase system. At the time of agreement, a sum of Rs.300,750 was paid as down payment out of the cash price of the truck of Rs.1300,000 and the balance was payable in four annual installments of Rs.350,000 each together with interest at 15% p.a at end of each year. Depreciation was to be provided at 20% p.a. on the straight line basis.

Required:

- (a) Prepare the following ledger accounts in the books of RDA plc for the year ended on 31st December 2006 to 2009:
 - (i) Truck Account
 - (ii) HMO plc Account
 - (iii) Hire Purchase Interest Account
 - (iv) Provision for Depreciation on Truck Account and the Depreciation Account
- (b) Show the relevant balances of accounts in the balance sheet of RDA plc as at 31.12.2007.

(25 Marks)