# EASTERN UNIVERSITY, SRI LANKA\*

# THIRD YEAR / FIRST SEMESTER EXAMINATION IN BUSINESS ADMINISTRATION

# / COMMERCE 2003/2004 (NOV / DEC 2004)

## (PROPER / REPAET)

## COM 3024 ADVANCED FINANCIAL ACCOUNTING - II

#### Answer All Questions

Time: 03 Hours

Sei Dan

1.10KAR

Non Programmable calculator permitted

30<sup>th</sup> (I) The Income statement of Browns Ltd. for the years ended 01. September, 2002, 2003, and 2004 are as follows:

	2004	2003	2002
	Rs.	Rs.	Rs.
	920000	950000	910000
	640000	648000	624000
	280000	302000	286000
for set piced	80000	78000	75000
	76000	79000	79000
2 K	17000	16000	15000
	107000	129000	117000
	36300	43200	39800
ę	70700	85800	77200
		Rs. 920000 640000 280000 80000 76000 17000 107000 36300	Rs. Rs.   920000 950000   640000 648000   280000 302000   80000 78000   76000 79000   17000 16000   36300 43200

## **Required:**

Comment on financial performance of the company for above years using Vertical and Horizontal analyses.

(5 marks)

(II) The financial statements of two companies, Alpha Ltd. and Beta Ltd., operating in a similar business for the year ended 30<sup>th</sup> September 2004 are as follows:

## a. The Income Statement

	Alpha	a Ltd	Beta	Ltd
	Rs.000	Rs.000	Rs.000	Rs.000
Sales		1500		2100
Cost of sales	18 To The	antere arec	The set	111-110
Opening stock	150		150	
Purchases	1150	4002 bns,	1500	
2003 2004 2003	1300		1650	
Closing stock	100	1200	200	1450
Gross Profit		300		650
Operating Expenses:		000		000
Administration	30		70	
Selling and Distribution	90		200	
Finance	30	150	30	300
Profit Before Tax		150		350
Taxation		30	naqxa notis	70
Profit After Tax		120	All manager	280
General Reserve	10	120	20	200
Dividend: Ordinary	42		90	
Preference	20	72	20	120
	20		20	130
Profit & Loss A/C b/f		48		150
Profit & Loss A/C c/f	• _	12		176
TION & LUSS A/C C/I	1	60		326

# b. The Balance Sheet as at 30<sup>th</sup> September 2004

	Alpha	Beta
	Rs.000	Rs.000
Non Current assets (Book value)		
Land and Buildings	300	260
Furniture and fittings	100	80
Motor vehicle	200	250
Investments	150	350
Current assets	100	000
Stocks	100	200
Debtors ·	250	350
Cash and Bank	50	40
	1150	1530

	A	1
Share capital	.2 5 90	T 2005
Ordinary shares of Rs.10 each	these rn 300	3000
10% Preference shares of Rs.10 each	" 1200 ersi	w. Sr200
Reserves		AN AD AN AD
General reserve	40	80
Share Premium	100	100
Profit and loss account	60	326
Non Current Liabilities		
15% Debentures	200	150
Current Liabilities		
Creditors	158	194
Dividend Payable	62	110
Tax payable	30	70
	1150	1530
Price of an Ordinary share	15	18

## **Required:**

2.

Compare and comment on the Profitability, Efficiency, Potential Growth, Short term Solvency and Liquidity, and Long term Solvency and Stability of the above two companies using ratio analysis (State your assumptions Clearly).

(15 Marks)

(Total 20 Marks)

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

## i. The Profit and Loss Account for the year ended 30.09.2004

	1.100 E.100	
	Rs.00	00 Rs.000
Sales		4000
Less: Cost of sales:		
Opening stock	4	00
Purchases	240	00
	280	00
Closing stocks	6	00 2200
Gross Profit		1800
Add: Investment income		80
Profit on Disposal of a Motor vehicle	En existent desusors	20
		1900
Less: Operating Expenses:		
Administration	6	00
Selling and Distribution	4	00
Finance		60 1060

Operating profit Before Tax			840
	State of the second second second		240
Less: Taxation	of the order of the second		
Operating profit After Tax			600
Operating profit After Tax Less: Distribution:	the year ended The		and applying a
General Reserve		100	General
Dividend		300	400
Dividend			200
			600
Profit and Loss A/C b/f	The second second second second		And and a second s
Profit and Loss A/C c/f			800

## ii. Balance sheets as at

005

	30.09.2003	30.09.2004
2 Cobing class	Rs.000	Rs.000
Non Current Assets		
Land and Buildings	1600	1900
Furniture and Fittings	320	280
Motor vehicles	480	300
Investments	400	600
Goodwill	300	200
Current Assets		
Stocks	400	600
Debtors	800	880
Cash and Bank	. 300	400
ariste 02 Islati) - Frederents	4600	5160
Share Capital		
Ordinary shares of Rs.10 each	1600	1760
10% Preference shares of Rs.10 each	800	600
Reserves	e i bratilier	Fakt 1
Share Premium	140	180
General Reserve	240	340
Profit and Loss Account	600	800
Non Current Liabilities	85168	
15% Debentures	400	320
Current Liabilities	24669	Berg of
Creditors	360	560
Tax Payable	160	
Dividend Payable	180	
Administrative expenses payable	120	and the second second state and black or a state of the second sta
	4600	5160

#### **Other Information**

- i. During the current year a land costing Rs.300000 was acquired by issuing 16000 ordinary shares of Rs.10 each at Rs.15 per share and paying the balance is cash
  - ii. A motor vehicle purchased on 01.07.1999 at Rs.200000, and valued Rs.120000 at the date of disposal was disposed at Rs.140000 during the current year.
  - iii. During the year furniture was purchased at Rs.20000 by cash.
  - iv. Rs.100000 of Goodwill was written off against the profit for the current year. It was included in the administration expenses.
  - v. During the current year 20000 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, part of the 15% Debentures were redeemed at par.

#### **Required:**

Prepare the Cash flow Statement of Bristle Ltd for the year ended 30.09.2004, reporting the cash flow from operating activities in the Direct method as per the requirement of S.L.A.S. 09.

5

(20 Marks)

LIBRAR

2 5 OCT 2005

3. (I) The following data are available for the plant and machinery in the balance sheets of a company as at 30<sup>th</sup> September 2003 and 2004

	30.09.2003	30.09.2004
Plant and machinery at Cost (Rs.)	100000	1250000
Accumulated Depreciation (Rs.)	50000	625000
Price Index	200	250

The depreciation on the plant and machinery was provided on the straight line basis at 10% p.a ignoring its scrap value. The base Year Price index was 100.

## **Required:**

Calculate the Revaluation surplus/deficit and the Depreciation adjustment for the plant and machinery under the Current Cost Accounting (CCA) method.

(8 Marks)

(II) The following figures were taken from the published accounts of Bama Ltd for the year ended 30<sup>th</sup> September 2004

ihare Capitan Succession .	Rs.
Raw material consumed	2125000
Wages and other manufacturing expenses	1700000
Stock as at 1.10.2003 at cost: Raw materials	170000
Finished Goods	425000
Stock as at 30.09.2004 at cost: Raw materials	255000
Finished Goods	382500
Stock's value to the business as at 1.10.2003: Raw materials	204000
Finished Goods	467500
Stock's value to the business as at 30.09.2004: Raw materials	297500
Finished Goods	425000

The price of Raw materials arose during the year ended 30 09.2004 steadily by 25 % and wages and other manufacturing expenses by 20%.

#### **Required:**

Ascertain the adjustment that would be required in respect of the above under the CCA Essie Controrslition 2 5 OCT 2005 method.

LIBRA

Sti Lund marks)

The following items were extracted from the balance sheets of Ananda Ltd (III)as at 30<sup>th</sup> Sep 2003 and 2004.

The which felom pende had not explicit. Returned	30.09.2003	30.09.2004	
December 2. 1 1 Lord No. 75000 Cool and Volte Ted.	Rs.	Rs.	
inventories	412500	457500	
Trade debtors	337500	412500	
Cash at bank	45000	60000	
Advance for suppliers of materials	75000	94875	
Due to suppliers	187500	241500	

During the year ended 30<sup>th</sup> Sep 2004 material prices arose by 18%, and those of finished goods by 12%.

## **Required:**

Calculate the Monetary Working Capital Adjustment (MWCA) to be made under the CCA Method.

(6 Marks)

(Total 20 marks)

4. (I) Dimo Ltd. supplies their products in containers which cost them Rs.150 each and charged out to customers at Rs.200 each. If the containers are returned within three months, a credit of Rs.120 each is allowed. All containers are valued for stock purpose at Rs.100 each.

On 1<sup>st</sup> October 2003 the stock in the store was 8000, and there were in hands of customers 4000 containers for which return period had not expired. Returnable containers as on 30<sup>th</sup> September 2004 were 4600.

During the year ended 30<sup>th</sup> September 2004 2500 containers were purchased, 25000 containers were invoiced to customers, and 22500 containers were returned within the period.

1000 containers were destroyed by fire and 100 containers were sold as scrap for Rs.10000.

#### Required:

- i. Using Method I (Stock and Trading Method) prepare the following accounts
  - a. Containers Stock account
  - b. Containers Trading account
  - c. Containers Deposit account
  - d. Containers Debtors account
- ii. Show the relevant items in the Profit and Loss account for the year ended 30<sup>th</sup> September 2004, and in the Balance sheet as at that date.

(10 marks)

	(11)	Jusm	in Investment Ltd. hold 1000 18% debentures of Rs.100 each in
			Ltd. as on 1st January 2003 at a cost of Rs 105000 Anterest is
		payal	ble on 31 <sup>st</sup> March and 30 <sup>th</sup> September each year. The following
		transa	actions took place during the year ended 31 <sup>st</sup> December 2003.
	2003		All the second s
	March 01		Purchased Rs.250000 @ Rs.95 ex interest
-	April 01		Sold Rs.50000 @ Rs.98 cum interest
	August 31	3500	Sold Rs.30000 @ Rs.101 cum interest
	Decembe	r 15	Purchased Rs.15000 @ Rs.98 cum interest
	Decembe	r 31	Sold Rs.25000 @ Rs.97 ex interest
	Decembe	r 31	Bought Rs.20000 @ Rs.100 cum interest
	Note: Inve	estmer	its are sold on FIFO basis

## **Required:**

Prepare the Investment on 18% Debenture account for the year ended 31.12.2003, assuming that a brokerage is to paid at 0.25% on the nominal value of Rs.100 each in each case.

(10 Marks) (Total 20 marks)

**5.** The following trial balance was extracted from the books of New life Insurance Company Ltd. as on 30<sup>th</sup> September 2003.

even you the the year and id 30 00 2004	Debit (Rs.)	Credit (Rs.)
Capital		70000
Life assurance Fund as at 1.10.2003		2080610
Dividend Paid	10500	
Bonus	22050	Lundre' staff
Premium	o bitte Fut	113050
Claims	137900	
Commission	6510	

9

stainers were involved to cost / reas, and 22500 contain	2342550	2342550
Surrenders	4000	
Cash in hand	8210	
Cash on deposit	18900	
Loan on Company policy	121520	
Investment	1613500	
Freehold premises	28000	
Agent's balance	6510	
Interest and Dividend received	in set the set of	78890
Mortgage	344540	
Management expenses	22510	

Additional Information:

- 1. Claims admitted but not paid Rs.12090
- 2. Management expenses dues Rs.260
- 3. Interest accrued Rs.25090
- 4. Premium Outstanding Rs.15600

## **Required:**

Prepare the following

- 1. The company's revenue account for the year ended 30.09.2004
- 2. The balance sheet as at 30.09.2004

(20 marks)