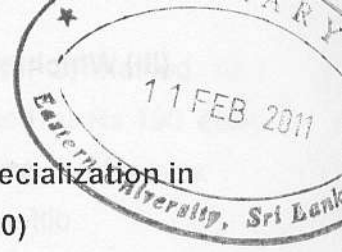


Eastern University, Sri Lanka  
Faculty of Commerce and Management  
Final Year First Semester Examination in commerce (Specialization in  
Accounting and Finance) 2009/2010(Dec'2010)  
DAF 4122 Accounting Theory and Standards



Answer all questions

Time: Two Hours

1. Select the most appropriate answer for the questions (i)-(v).

(I) In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?

- (A) Asset values and profit both understated
- (B) Asset values and profit both overstated
- (C) Asset values understated and profit overstated
- (D) Asset values overstated and profit understated.

(II) Which of the following statements are correct?

- (1) Materiality means that only items having a physical existence may be recognised as assets.
- (2) The substance over form convention means that the legal form of a transaction must always be shown in financial statements even if this differs from the commercial effect.
- (3) The money measurement concept is that only items capable of being measured in monetary terms can be recognised in financial statements.

- (A) 2 only
- (B) 1, 2 and 3
- (C) 1 only
- (D) 3 only

**(III) Which of the following statements are correct?**

- (1) A cash flow statement prepared using the direct method produces a different figure for operating cash flow from that produced if the indirect method is used.
- (2) Rights issues of shares do not feature in cash flow statements.
- (3) A surplus on revaluation of a fixed asset will not appear as an item in a cash flow statement
- (4) A profit on the sale of a fixed asset will appear as an item under Capital Expenditure in a cash flow statement.

- (A) 1 and 4  
(B) 2 and 3  
(C) 3 only  
(D) 2 and 4

**(IV) Part of a company's cash flow statement is shown below:**

	Rs'000
Operating profit	8,640
Depreciation charges	(2,160)
Increase in stock	(330)
Increase in trade creditors	440

The following criticisms of the extract have been made:

- (1) Depreciation charges should have been added, not deducted.
- (2) Increase in stock should have been added, not deducted.
- (3) Increase in trade creditors should have been deducted, not added.

**Which of the criticisms are valid? (Support your answer with workings)**

- (A) 2 and 3 only  
(B) 1 only  
(C) 1 and 3 only  
(D) 2 only

(V) A company values its stock using the first in, first out (FIFO) method. At 1 May 2009 the company had 700 engines in stock, valued at Rs.190 each. During the year ended 30 April 2010 the following transactions took place:

2009

1 July Purchased 500 engines at Rs.220 each

1 November Sold 400 engines for Rs.160,000

2010

1 February Purchased 300 engines at Rs.230 each

15 April Sold 250 engines for Rs.125,000

**What is the value of the company's closing stock of engines at 30 April 2010? (Show your workings clearly)**

(A) Rs.188,500

(B) Rs.195,500

(C) Rs.166,000

(D) Rs.106,000

(15 Marks)

2. (I) As an accountant how will you explain the importance of Accounting Theory?

(II) What is meant by "Decision Theory"? State its stages.

(III) Indicate some approaches to formulate the accounting theory

(IV) Define the following terms:

i. Accounting Standards

ii. Accounting Principles

iii. Accounting Postulates

(V) Discuss the similarities between "Periodic Matching of Cost & Revenue Concept" and "Realization Concept".

(30 Marks)

3. (I) What do the SLAS-18 and SLAS – 20 refer to? Explain briefly on these standards.
- (II) What is the Measurement procedure recommended by the SLAS-05 for inventory valuation? Indicate the best procedure reasoning out.
- (III) Guaranteed residual value and un-guaranteed residual value are the two things mentioned in SLAS-19, Leases. Explain the above terms briefly.
- (IV) Explain the changes made in the Presentation of Financial statement after the introduction of New Company Act No. 7<sup>th</sup> of 2007.
- (V) In SLAS-3, Presentation of Financial Statement, Paragraphs 74 and 75 tells about some disclosures of a company's Income statement and Balance Sheet. List out them.

(35 Marks)

4. (I) "When calculating earning per share for a company, weighted average number of Ordinary Shares is considered". Analyse this statement according to paragraph 16, SLAS-34, Earning per Share.
- (II) JKL (PLC) preparing financial statements to 31<sup>st</sup> August. At 1<sup>st</sup> September 2009, JKL had 6,000,000 shares of Rs.50 each in issue. On 1<sup>st</sup> February 2010, the entity made a right issue of 1 for 4 @ Rs.125 per share; the issue was successful and all rights were taken up. The market share price of one share immediately prior to the issue was Rs.145 per share. Earnings after tax for the year ended 31<sup>st</sup> August 2010 were Rs.2,763,000. Several years ago JKL (PLC) issued a 7% convertible loan of Rs.2,000,000, convertible in to 105 equity shares each.

**Required:**

Calculate basic Earning per Share and Diluted Earning per Share for the year ended 31 August 2010.

(20 Marks)