

EASTERN UNIVERSITY, SRI LANKA  
 FACULTY OF COMMERCE AND MANAGEMENT  
 SPECIAL EXAMINATION FOR FINAL YEAR  
 Third year Examination in commerce -2005/2006  
 COM 3013 ADVANCED FINANCIAL ACCOUNTING - II



Answer All Questions

Time: Three Hours

The financial statements of XYZ Ltd for the year 2007 are given below:

**The Profit and Loss Account for the year ended 31.12.2007**

	Rs.	Rs.
Sales: Cash	280000	
Credit	1120000	1400000
Less: Cost of Sales		840000
Gross Profit		560000
Less: Operating expenses	140000	
Depreciation	98000	
Interest on Long term Debt	42000	280000
Profit before taxes		280000
Less: Taxes		140000
Profit after taxes		140000
Less: Preference Dividend	17000	
Ordinary Dividend	25000	42000
Retained profit for the year		98000
Profit & Loss b/f		182000
		<b>280000</b>

**Balance sheet as at 31.12.2007**

Liabilities	Rs.	Assets	Rs.
Ordinary share capital (Rs.10 each)	140000	Fixed assets	1050000
Preference share capital	280000	Goodwill	140000
Profit & Loss account	280000	Stock	490000
Long term debt	840000	Debtors	350000
Creditors	280000	Cash	70000
Bills payables	140000		
Taxes payable	100000		
Outstanding expenses	40000		
	<b>2100000</b>		<b>2100000</b>

**Required:**

Calculate the following ratios for company and comment on the company's operating performance and financial position.

- a) Current ratio
- b) Acid test ratio
- c) Debtor turnover
- d) Stock turnover
- e) Long term debt to total capital
- f) Gross profit margin
- g) Net profit margin
- h) Return on equity
- i) Total assets turnover
- j) Interest coverage
- k) Earning Per Share (Rs.)
- l) Dividend Per share (Rs.)

(25 Marks)

2. The financial statements of ABC Ltd for the year 2007 are as follows:

**The Profit and Loss Account for the year ended 31.12.2007**

	Rs.	Rs.
Sales		2040000
<b>Less:</b> Cost of Sales		1360000
Gross Profit		680000
<b>Add:</b> Investment income		25000
		705000
<b>Less:</b> Operating expenses	230000	
Depreciation	110000	
Interest	70000	410000
Profit before taxes		295000
<b>Less:</b> Taxes		130000
Profit after taxes		165000
<b>Less:</b> Dividend		90000
Retained profit for the year		75000
Profit & Loss b/f		425000
Profit & Loss c/f		500000

**Balance sheet as at 31.12.2006 and 31.12.2007**



Liabilities	2006	2007	Assets	2006	2007
	Rs.	Rs.		Rs.	Rs.
Ordinary share capital	500000	500000	Fixed assets	850000	1000000
Profit & Loss account	425000	500000	Stock	340000	350000
Long term loan	500000	530000	Debtors	360000	330000
Creditors	175000	200000	Cash	230000	250000
Taxes payable	125000	130000			
Outstanding expenses	15000	25000			
Dividend payable	40000	45000			
	<b>1780000</b>	<b>1930000</b>		<b>1780000</b>	<b>1930000</b>

**Required:**

Prepare the Cash flow statement of ABC Ltd for the year 2007 reporting the cash flow from operation in the direct method. (Show your workings and assumptions (if any) under notes)

**(25 Marks)**

3. (I) briefly explain the limitations of historic cost based accounting system

**(10 Marks)**

(II) The data regarding historic cost of sales of a company for the year 2007 are given below:

	Rs.
Opening stock	145000
Purchases	650000
Closing stock	115000

An average of 3 months sales is held in stocks

The price indices (for mid months) are as follows:

2006	October	250
	November	252
	December	255
2007	October	300
	November	304
	December	306
2008	January	310
	Average for 2007	280

**Required:**

Calculate the following under CCA

- (i) Cost of sales adjustment
- (ii) Revaluation surplus of stock to be transferred to Current Cost Reserve
- (iii) Value of closing stock to be shown in the current cost balance sheet

(15 Marks)

(Total 25 Marks)

4. (I) ASP investment Ltd held 1000 15% debentures of Rs.100 each in KVS Ltd as at 1.04.2007 at a cost of Rs.105000. interest is payable 30 June and 31 December each year. On 1.05.2007, 500 debentures were purchased *cum-interest* at Rs.53500. On 1.11.2007, 600 debentures was sold *ex-interest* at Rs.57300. On 30.11.2007, 400 debentures were purchased *ex-interest* at Rs.38400. On 31.12.2007 400 debentures were sold *cum-interest* for Rs.55000.

**Required:**

Prepare the Investment account valuing the stock on 31.12.2007 at cost applying FIFO method.

(15 Marks)

- (II) Prepare a trading, and profit and loss account from the following information

Opening stock	Rs.9200
Closing stock	Rs.10000
Gross Profit ratio	36%
Stock Turnover	20
Net Profit ratio	12%
Income tax rate	40%

(10 Marks)

(Total 25 Marks)