

## ENTERPRISE DEVELOPMENT

2005/2006 (NOVEMBER/DECEMBER - 2007)

DAF 3243 ADVANCED FINANCIAL ACCOUNTING - II

Time : 03 Hours

Answer all questions

Calculator is permitted

01. (a) What are the limitations of financial statements?

(03 Marks)

(b) Summarized Balance Sheet and Profit and Loss Account of Alpha (Pvt.) Ltd. are given below. Determine the following ratios and comment on the health of the company basing your arguments on the industry averages given below.

Inventory Turnover	10 times
Sales Margin	3.5 %
Return on Assets	4.0 %
Profit / Net Worth	11.5 %
Debtors Collection Period	45 days
Debt / Equity	0.31:1

## Balance Sheet

Liabilities	Rs.	Assets	Rs.
Equity	968,000	Non Current Assets	484,000
Secured Loans	176,000	Stocks	330,000
Creditors	132,000	Debtors	220,000
Overdraft	176,000	Bank	506,000
Income Tax Due	88,000		
	<b>1,540,000</b>		<b>1,540,000</b>

### Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
Materials	836,000	Sales	2,200,000
Energy	80,000		
Factory Expenses	660,000		
Depreciation	48,000		
Selling & Distribution	220,000		
Administration	180,000		
Interest	16,000		
Profit	160,000		
	<b>2,200,000</b>		<b>2,200,000</b>

Assume that income tax rate is 50%

(12 Marks)

(c) The followings are the Balance Sheet of Mitel (Pvt.) Ltd. for the year ending 31 December 2005, and 2006.

#### Balance Sheet

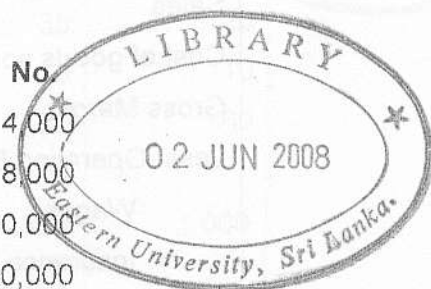
Liabilities	2006	2005
Equity Share Capital	330,000	200,000
Preference Share Capital	150,000	100,000
Reserves	30,000	20,000
Profit & Loss a/c	20,000	15,000
Bank Overdraft	50,000	50,000
Creditors	50,000	40,000
Provision for taxation	25,000	20,000
Proposed Dividend	25,000	15,000
<b>Total</b>	<b>680,000</b>	<b>460,000</b>
<b>Assets</b>		
Non Current Assets (Less Depreciation)	350,000	240,000
Stock	50,000	40,000
Debtors	125,000	100,000
Bills Receivables	60,000	20,000
Prepaid expenses	12,000	10,000
Cash in Hand	53,000	40,000
Cash at Bank	30,000	10,000
<b>Total</b>	<b>680,000</b>	<b>460,000</b>

You are required to prepare comparative Balance Sheet and study its financial position.

(5 Marks)

02. (a) Batticaloa Fruit (Pvt.) Ltd supplies its drink in a returnable bottles which are charged at Rs.20 each. Customers returning the bottles within a month are credited with Rs.18. The company's procedures is to retain Rs.18 in a deposit account till the expiry of the option for return of the bottles. The following particulars are available from the books.

	No.
Returnable Bottles as on 01.01.2006	4,000
Bottles in Stock as on 01.0.2006	8,000
Bottles purchased during 2006 at Rs. 15 per bottle	10,000
Bottles sent to customers during 2006	150,000
Bottles returned by customers in 2006	144,000
Bottles returnable on 31.12.2006	7,500
Bottles scrapped in 2006 sold for Rs.5000	1,000



All bottles as on 31.12.2005 and 31.12.2006 are to be valued at Rs.10 each. All the amounts due in respect of bottles have been collected from the customers.

You are required to show the ledger accounts for 2006 of:

- Bottles Stock Account
- Bottles Debtors Account
- Bottles Deposit Account
- Bottles Trading Account

(10 Marks)

(b) Mr. Investor furnishes the following details relating to his holding in 6% Government Bonds.

- 01.01.2006 Opening balance face value Rs.60,000 Cost Rs.53,000
- 01.03.2006 100 units purchased ex-interest at Rs.98.
- 01.07.2006 Sold 200 units ex-interest of the original holding at Rs.100.
- 01.10.2006 Purchased 50 units at Rs.98 cum-interest.
- 01.11.2006 Sold 200 units ex-interest at Rs.99 out of the original holdings.

Interest dates are March 31 and September 30. Mr. Investors closes his books every December 31. Show the investment account as it would appear in his books.

(10 Marks)

03. The financial statements and other information of Lion Ltd are given below.

**Profit and Loss account for the year ended 31.12.2006**

	Rs.'000	Rs.'000
Sales		4,720
Cost of goods sold		(2,320)
Gross Margin		2,400
Less: Operating Expenses		
Wages	1,420	
Insurance	150	
Depreciation	400	(1,970)
Income from operating		430
Loss on sales of equipment	(60)	
Gain on sales of long term investment	150	90
		520
Less: Interest		(50)
Income before tax		470
Less: Income tax		(80)
Profit after tax		390

**Balance sheet of Lion Ltd. as at 31.12.2004 and 31.12.2003.**

Assets	31.12.2004 Rs.'000	31.12.2003 Rs.'000
<b>Current Assets</b>		
Stock	630	510
Cash	150	130
Debtors	530	460
Pre paid insurance	10	20
(a)	1,320	1,120
<b>Non current Assets</b>		
Land	500	500
Building	2,750	2,750
Equipment	2,430	2,100
	5,680	5,350
Accumulate Depreciation	(1,780)	(1,500)
(b)	3,900	3,850
Investment (c)	530	410
(a+b+c)	5,750	5,380



<b>Liabilities</b>		
<b>Current Liabilities</b>		
Creditors	130	170
Notes payable	240	150
Wages payable	35	20
Interest payable	15	10
Income tax payable	30	60
<b>Non Current Liabilities</b>		
Mortgage Payable	850	1,000
<b>Equity and Reserve</b>		
Common stock	1,650	1,510
Retain earning	2,800	2,460
	<b>5,750</b>	<b>5,380</b>

**Additional information**

- i. Equipment with the cost of Rs.200,000 and accumulated depreciation of Rs.120,000 was sold for Rs.20,000 in 2006. Equipment was purchased for Rs.530,000.
- ii. Long term investment with cost of Rs.160,000 were sold for Rs.310,000 and additional long term investment purchased Rs.280,000.
- iii. Notes payable in the amount of Rs.200,000 were repaid and new notes payable in the amount of Rs.290,000 were issued for cash during 2006.
- iv. A principal payment of Rs.150,000 was made on the mortgage in the 2006.
- v. Common stock was issued for Rs.140,000 in 2006.

You are required to prepare the Cash Flow Statement of Lion Ltd. under the direct method for the year ended 31.12.2006 as per the requirement of S.L.A.S. 09.

(20 Marks)

04. a) Briefly state the limitation of historical accounting in a period of inflation?

(02 marks)

b) Shri Ram industries (Pvt) Ltd provides the following historical based financial statements and other information for the period of 2005, 2006:

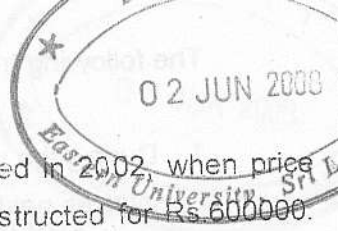
**The Balance Sheet**

	31-12-2005	31-12-2006
<u>Assets</u>	Rs.000	Rs.000
Land & Building	900	1500
Less: Accumulated Depreciation	(200)	(310)
Stocks	130	105
Debtors	200	170
Cash	150	190
	<b>1180</b>	<b>1655</b>
<u>Liabilities</u>		
Ordinary Shares	800	900
Reserve	35	155
10% Debenture	100	200
Hire purchase creditors	50	40
Trade creditors	120	230
Provision for Taxation	75	130
	<b>1180</b>	<b>1655</b>

**Income Statement for the year ended 31-12-2006**

Description	Amount (Rs.000)
Sales	1650
Less: Cost of Sales	( 850)
Gross Profit	800
Less: Depreciation	( 135)
Expenses (Ad & Sales)	( 425)
Interest	( 20)
Profit Before Taxation	220
Less: Tax	(50)
Profit after Taxation	170
Less: Dividend	(50)
Reserve	120

## Further Information



1. The value of stocks are on FIFO basis
2. Land and building (Land cost Rs.400000) were purchased in 2002, when price index was 100. During the year a new building were constructed for Rs.600000. The company depreciate building at 10% p.a. on straight-line basis.

3. The price index are as follows:

End of December 2005	..	200
End of December 2006	-	300
Average for the last quarter of 2005	-	180
Average for the last quarter of 2006	-	260
Average for the year 2006	-	250

4. Average age of stocks and debtors, and creditors was three months (a quarter)
5. The fixed assets prices rose by 200% in 2005 and 300% in 2006.

### Required:

Restate the historical cost based financial statement to current cost accounting (CCA) system for the year ended 31 - 12 - 2006.

(18 marks)

05. a) Justify the necessities for presenting social accounting in the financial statement of an organisation.

(02 Marks)

- b) Identify the various types of transaction occurred in an agricultural farm and state how they are recorded in the books of accounts.

(02 Marks)

- c) Sekara farm provide the following information for the year ending 31<sup>st</sup> December, 2006.

### Assets and Liabilities

	01-01-2006	31-12-2006
Land	500000	650000
Machinery	600000	700000
Implement and Tools	400000	375000
Stock		
Seeds	5000	20000
Fertiliser & Pesticides	35000	64000
Farm output	65000	75000
Sundry debtors	100000	120000
Sundry creditors (Fertiliser & Pesticides)	90000	110000
Bank Loan	200000	150000
Cash in hand	400000	...

The following transaction incurred during 2006.

1. During the year Rs. 150000 worth machinery was purchased.
2. Wages paid for labours (other than family workers) - Rs. 98000
3. Purchases            Seeds - Rs. 15000     ; Fertiliser & Pesticides - Rs. 97000.
4. General Expenses (Administration & Selling) - Rs. 198000.
5. Land revenue and taxes - Rs. 3750.
6. Interest on loan - Rs. 3500
7. Family consumption of farm output - Rs. 22500.
8. Cash drawing by family members from the farm - Rs. 8500.
9. Cost of food supplied by the family to farm workers - Rs. 157000.
10. Sales            By cash - Rs. 350000  
                      By credit - Rs. 400000

The following information also available.

1. Interest on own capital can be charged @ 18% p.a
2. Presumed wages for family members' contribution to the farm work was Rs. 25000
3. Rental value of own land was Rs. 17500.

**Required:**

- i. Farm Profit and Loss account and show clearly farm profit as per A, B, and C cost concept.
- ii. Balance sheet as at 31-12-2006

**(16 Marks)**

Assets and Liabilities	
Land	1000
Machinery	150000
Inventory	22500
Stock	2000
Debtors	400000
Fertiliser & Pesticides	97000
Farm output	157000
Sundry debts	100000
Sundry credits (Fertiliser & Pesticides)	150000
Bank Loan	35000