EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Second Year First Semester Examination in Business Administration / Commerce

2014/2015 (November 2016) (Proper/Repeat)

DAF 2023 Advanced Accounting

Answer All Questions

Calculator Permitted **Time: Three (03) hours**

NHK plc Company issued a prospectus inviting applications for 4000 shares of Rs.100 each payable follows:

On application	-	Rs.20
On allotment	-	Rs.30
On first call	-	Rs.30
On second and final call	-	Rs.20

Applications were received for 6000 shares and pro-rata allotment was made on the applications for 4800 shares. Money overpaid on applications was employed on account of sum due on allotment. Mr.Ravi, to whom 80 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mr.Munas, the holder of 120 shares, failed to pay the two calls, and her shares were forfeited after the second call. Of the shares forfeited, 160 shares were sold to Mr.Sunil credited as fully paid for Rs.90 per share, the whole of Ravi's shares being included.

Required:

(a) Open and Post into Ledgers Accounts

(b) Prepare the Balance Sheet

(10 Marks)

02. The Balance Sheets of FUJI plc as at 31st December, 2014 and 2015 are given below:

Liabilities	2014	2015	Assets	2014	2015
Share Capital	400000	500000	Fixed Assets	730000	900000
Profit & Loss A/C	325000	500000	Investment	60000	100000
10% Long term Loans	200000	150000	Stock	140000	130000
Creditors	75000	90000	Debtors	60000	80000
Tax Payable	55000	70000	Bills Receivable	20000	25000
Dividend Payable	45000	40000	Cash	90000	115000
	1100000	**1350000**		**1100000**	**1350000**

The Income Statement of FUJI plc for the year ended 31st December, 2015 is as follows:

	Rs.	Rs.
Sales		1500000
Less: Cost sales		900000
Gross profit		600000
Less: Operating Expenses:		
Administration (Include Depreciation of Rs.30000)	130000	
Finance	20000	
Selling & Distribution	150000	300000
Operating profit		300000
Add: Investment Income		15000
Profit Before Tax		315000
Less: Taxation		100000
Profit After Tax		215000

Required:

(a) Prepare the Cash Flow Statement of FUJI plc for the year ended 31.12.2015, reporting cash flow from operating activities in the direct method.

(b) Compute the Net Cash Flow from Operating Activities for the year ended 31.12.2015 in the indirect method.

(20 Marks)

(I) A company produces three products namely, P, Q, and R, and is reviewing the production and sales budgets for the next accounting period. The following information is available for the three products:

	Product		
	P	Q	R
Selling Price (Rs.)	600	300	100
Labour Cost (Rs.)(Rs.20 per hour)	300	160	40
Other Variable Cost	90	68	14
Maximum Demand (units)	200	600	1000

Labour hours are strictly limited to 7,800 hours in total.

Required:

(a) Calculate the optimum product mix and the maximum contribution.

(b) If a special contract requires 3,000 labour hours, what would be the relevant cost of obtaining these hours?

(10 Marks)

(II) JKB plc has recently completed its sales forecasts for the year to 31 December 2015. It expects to sell two products, namely, J and K, at Rs.135 per unit and Rs.145 per unit respectively.

Sales demand is expected to be: J- 10000 units, K - 6000 units

Both products use the same raw materials (X and Y) and skilled labour, but in different quantities per unit as follows:

	J	K
Material X	10 Kg	6Kg
Material Y	4Kg	8Kg
Skilled labour	6 hours	4 hours

The prices expected during 2014 for the raw materials are:

Material X	Rs 1.50 per kg
Material Y	Rs 4.00 per kg

The skilled labour rate is expected to be Rs 6.00 per hour.

Stocks of raw materials and finished goods on 1 January 2014 are expected to be:

Material X	400 kg @ Rs 1.20 per kg
Material Y	200kg @ Rs 3.00 per kg
J	600units @ Rs 70.00 each
K	800units @ Rs 60.00 each

All stocks are to be reduced by 15% from their opening levels by the end of 2015 and are valued using the FIFO method. The company uses absorption costing, and production overhead costs are expected to be;

Variable	Rs. 2.00 per skilled labour hour
Fixed	Rs. 315,900 per annum

Required:

Prepare the following for the year to 31st December 2015:

(a) Production Budget (in units)

(b) Raw material purchase budget (in units & rupees)

(c) Production cost budget

(d) Budgeted trading account

(15 Marks)

(Total 25 Marks)

04. (I) A company uses 14,000 units of stock an item each year. The item has a purchase cost of Rs.4 per unit. The cost of placing an order for re-supply is Rs.252. The annual holding cost of one unit of the item is 10% of its purchase cost.

Required

(a) What is the Economic Order Quantity for the item?

(b) What would be the effect of an increase in the annual holding cost per unit on the EOQ and Total Annual Ordering Cost?

(10 Marks)

II) The expenses of the production departments (A and B) and service departments (X and Y) of a company for a year are as follows:

Department	Expenses before distribution of service department costs (Rs.000)	Service provided (%)	
		X	Y
A	500	40	50
B	400	30	50
X	100	-	10
Y	60	20	-

Required:

Allocate the service departments expenses to production departments by:

(a) Repeated Distribution Method

(b) Simultaneous Equation Method

(10 Marks)

(Total 20 Marks)

SML plc has prepared a forecast for the quarter ending December 31, 2015, which is based on the following projections:

(i) Sales for the period October 2015 to January 2016 has been projected as under:

	Rs.
October	7,500,000
November	9,900,000
December	10,890,000
January (2016)	10,000,000

Cash sale is 20% of the total sales. The company earns a gross profit at 20% of sales. It intends to increase sales prices by 10% from November 1, 2015, however since there would be no corresponding increase in purchase prices the gross profit percentage is projected to increase. Effect of increase in sales price has been incorporated in the above figures.

(ii) All debtors are allowed 45 days credit and are expected to settle promptly.

(iii) The company follows a policy of maintaining stocks equal to projected sale of the next month.

(iv) All creditors are paid in the month following delivery. 10% of all purchases are cash purchases.

(v) Marketing expenses for October are estimated at Rs. 300,000. 50% of these expenses are fixed whereas remaining amount varies in line with the value of sales. All expenses are paid in the month in which they are incurred.

(vi) Administration expenses paid for September were Rs. 200,000. Due to inflation, these are expected to increase by 2% each month.

(vii) Depreciation is provided @ 15% per annum on straight line basis. Depreciation is charged from date of purchase to the date of disposal.

(viii) On October 31, 2015 office equipment having book value of Rs. 500,000 (40% of the cost) on October 1, 2015 would be replaced at a cost of Rs. 2,000,000. After adjustment of trade-in allowance of Rs. 300,000 the balance would have to be paid in cash.

(ix) The opening balances on October 1, 2015 are projected as under:

	Rs.
Cash and bank	2,500,000
Trade debts – related to September	5,600,000
Trade debts – related to August	3,000,000
Fixed assets at cost (20% are fully depreciated)	8,000,000

Required:

(a) Prepare a month-wise cash budget for the quarter ending December 31, 2015.

(b) Prepare a budgeted profit and loss statement for the quarter ending December 31, 2015.

(25 Marks)