

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Third Year First Semester Examination in Bachelor of Commerce/ Bachelor of
Commerce (Specialization in Accounting and Finance) - 2012/2013

(February 2015)

(Proper/ Repeat/ Re-Repeat)

DAF 3013 Advanced Financial Accounting

29 APR 2015

Answer All Questions.

Time: Three (03) hours.

Calculator Permitted.

(I) From the following information presented by a firm for the year ended 31st December 2014, prepare the Statement of Financial Position:

Sales to Equity	5 Times
Current Liabilities to Equity	50%
Total Debts to Equity	60%
Fixed Assets to Equity	60%
Current Ratio	2
Sales to Stock	10 Times
Debtors' Velocity	9 Times
Annual Sales	Rs. 15,00,000
Cash Sales	40% of Sales

(12 Marks)

(II) Compute Inventory Turnover for each of the three years shown below and give your comments on the results:

	2012	2013	2014
	Rs.	Rs.	Rs.
Cost of Goods Sold	760,417	854,413	308,243
Average Inventory	336,420	955,817	310,412

(04 Marks)

(III) DMP plc has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by stock of Rs. 24,000, calculate total current assets and total current liabilities.

(04 Marks)

(Total 20 Marks)

(I) From the following Balance Sheets and information given below, prepare a Consolidated Balance Sheet:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share Capital (in Rs. 10 Shares)			Sundry Assets	80,000	12,000
Rs. 10 per share fully paid	1,00,000	20,000	Stock in trade	61,000	24,000
Profit and Loss A/c	40,000	12,000	Debtors	13,000	17,000
Reserve	10,000	6,000	Bills Receivable	1,000	-
Creditors	20,000	12,000	Shares in S. Ltd.		
Bills Payable	-	3,000	1,500 shares of		
			Rs. 10 each at cost	15,000	-
	1,70,000	53,000		1,70,000	53,000

Additional Information:

- All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but the Reserve of Rs. 6,000 was already there at the time.
- Bills accepted by S Ltd, are all in favour of H Ltd. which was discounted for Rs.2,000.
- Sundry Assets of S Ltd. are undervalued by Rs. 2,000.
- The Stock in trade of H Ltd. includes Rs. 5,000 bought from S Ltd at a profit to the latter of 25% on cost.

(10 Marks)

- (ii) From the Balance Sheets given below prepare a consolidated Balance Sheet of Motti Ltd. and its subsidiary, Chotti Ltd. The non-controlling interests of Chotti Ltd. are to be shown as a separate item.

Balance Sheets as on 30th June 2014

Liabilities	Motti		Chotti		Assets	Motti		Chotti	
Share Capital (in Rs. 10 shares)	1,20,000	30,000			Plant & Machinery	40,000	15,000		
Trade Creditors	15,000	5,000			Less: Depreciation	10,000	5,000		
General Reserve	25,000	6,000			Land and Building (at cost)	72,000	25,000		
Profit & Loss A/c	12,000	9,000			Investment in Chotti's 2,000 shares of Rs. 10 each	25,000			
					Stock	18,000	3,000		
					Debtors	22,000	7,000		
					Bank	5,000	5,000		
	1,72,000	50,000				1,72,000	50,000		

Motti Ltd purchased shares in Chotti Ltd at 01st July 2013. At the date of acquisition by Motti Ltd. of its holding of 2,000 shares in Chotti Ltd., the latter company had undistributed profits and reserve amounting to Rs 5,000 none of which has been distributed since the date of acquisition.

(10 Marks)

(Total 20 Marks)

- (i) From the following information restate the cost of goods sold according to HCA and CPP methods presuming that the firm is using FIFO method for pricing its inventories:

	Rs.
Inventories as at 01.01.2012	160,000
Purchases during 2012	200,000
Inventories as at 31.12.2012	75,000

The above information has been given on historical cost basis. The price index in the beginning of 2012 was 100 while at the end of 2012, it was 180. The inventory

4. (I) From the following data, compute "Cost of Sales Adjustment":

Particulars	HCA (Rs.)	price Index
Stock on 1 January, 2005	15,000	180
Purchases during 2005	40,000	198
Stock as on 31 December, 2005	15,000	220

(05 Marks)

(II) Calculate the Monetary Working Capital Adjustment from the following under CCA method:

Balances	Opening Rs.	Closing Rs.
Debtors	225,000	275,000
Creditors	125,000	161,000

The prices of materials increased by 15% and those of finished goods by 10% during the year

(05 Marks)

(III) From the data given below calculate the gearing adjustment required under CCA method:

Current Cost	Opening Rs.	Closing Rs.
Convertible Debentures	1,00,000	1,20,000
Bank Overdraft	60,000	80,000
Cash	10,000	20,000
Paid up Share Capital	1,50,000	2,00,000
Reserves	30,000	50,000
COSA	Rs. 20,000	
MWCA	15,000	
Depreciation	5,000	
	<u>40,000</u>	

(10 Marks)

(Total 20 Marks)

05. (I) On 1st April, 2010 Raja & Co. held 9 % debentures in B Ltd of face value Rs. 10,000 at cost of Rs. 8,000. Market value on that date was Rs. 9,000. Interest is payable on 31st December every year. On 1st December, 2010 debentures of nominal value Rs. 6,000 were purchased for Rs. 5,000 ex-interest and on 31st December, 2010 debentures of nominal value-Rs. 2,000 were sold cum-interest for Rs. 1,900. On 1st January, 2011 debentures of nominal value Rs. 6,000 were bought at Rs. 5,800. The market value of the debentures on 31st March, 2011 was Rs. 90.

Make out Investment Account in the book of Raja & Co. showing profit and loss on sale of investment. Stocks on 31st March each year are valued at lower of cost and market price.

(10 Marks)

(II) Transport Ltd. purchased 2 trucks costing Rs. 80,000 each from Auto Ltd. on 1st January, 2004 on the hire purchase system. The terms were:

Payment on delivery, Rs. 20,000 for each truck. Remainder in 3 equal installments together with interest at 10% per annum to be paid at the end of the year.

Transport Ltd. wrote off 25% depreciation each year on the diminishing balance method.

Transport Ltd. paid the installments due on 31st December, 2004 and on 31st December, 2005 but could not pay the final installment.

Auto Ltd. repossessed one truck adjusting its value against the amount due. The repossession was done on the basis of 30% depreciation on the diminishing balance method.

Write up the ledger account in the books of Transport Ltd. showing the above transaction.

(10 Marks)

(Total 20 Marks)