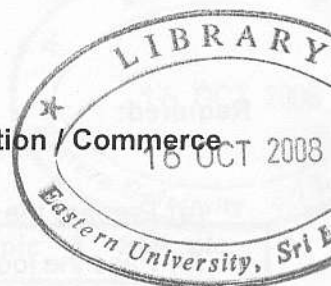


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Second Year / First Semester Examination in Business Administration / Commerce

2006/2007 (July 2008) (Repeat)

COM 2013 Advanced Financial Accounting - I



Answer All Questions

Calculator Permitted

Time: Three (03) hours

1. TVL plc absorbed the business of RDL plc as a going concern as at 30.06.2008. The balance sheets of the two companies as on that date were as under:

Balance sheet of TVL plc as at 30.06.2008

| Liabilities | Rs. | Assets | Rs. |
|--------------------------------------|----------------|------------------|----------------|
| Share capital: | | Land & Buildings | 500000 |
| Authorized: | | Investment | 120000 |
| 200000 Ordinary shares of Rs.10 each | 2000000 | Stocks | 140000 |
| Issued & paid up: | | Debtors | 280000 |
| 100000 Ordinary shares of Rs.10 each | 1000000 | Bank balance | 100000 |
| Reserves | 120000 | | |
| creditors | 20000 | | |
| | 1140000 | | 1140000 |

Balance sheet of RDL plc as at 30.06.2008

| Liabilities | Rs. | Assets | Rs. |
|-------------------------------------|---------------|-------------------|---------------|
| Share capital: | | Goodwill | 100000 |
| Authorized & Issued: | | Stocks | 260000 |
| 60000 Ordinary shares of Rs.10 each | 600000 | Debtors | 200000 |
| Creditors | 100000 | Profit & Loss A/C | 240000 |
| Bank Overdraft | 100000 | | |
| | 800000 | | 800000 |

The purchase consideration was agreed upon at Rs.400000 payable as to Rs.200000 in cash and the balance by the issue of 16000 Ordinary shares of Rs.10 each fully paid up in TVL plc, at an agreed value of Rs.12.50 per share. The sale was completed and RDL plc went into liquidation. The Stocks and Debtors were taken over the TVL plc at Rs.250000 and Rs.195000 respectively, and the liabilities at the book value. Liquidation expenses of Rs.5000 were paid by RDL plc.

Required:

- (a) Prepare the relevant ledger accounts in the books of RDL plc to close its accounts
- (b) Pass the journal entries in the books of TVL plc
- (c) Prepare the balance sheet of TVL plc as after the absorption

(25 Marks)

02. The balance sheet of PQR plc as at 31.12.2007 is as follows:

| Liabilities | Rs. | Rs. | Assets | Rs. |
|-------------------------------------|--------|----------------|--------------|----------------|
| 40000 Ordinary Shares of Rs.10 each | | 400,000 | Fixed Assets | 681000 |
| 9% 2500 preference Shares of Rs.100 | 250000 | | Investment | 34000 |
| Call in arrears of Rs.20 each | (5000) | 245000 | Stocks | 50000 |
| Share Premium | | 18000 | Debtors | 170000 |
| Profit & Loss A/C | | 72000 | Cash & Bank | 150000 |
| General Reserve | | 60000 | | |
| Creditors | | 290000 | | |
| | | 1085000 | | 1085000 |

The company decided to redeem the preference shares at 10% premium. In order to do this, investments were sold at Rs.30000. To finance the part of the redemption they issued sufficient number of ordinary shares at a premium of 10%.

All preference share holders paid off except 3 holders of 250 shares. The company sent reminders to final call and collected the money from 100 shares and others were forfeited.

After the redemption of the cumulative preference shares, fully paid bonus shares were issued in the ratio 1:4.

Required:

1. Pass the journal entries
2. Open and Post into Ledger A/C
3. Prepare Balance Sheet after the redemption of preference shares

(25 Marks)

3. Following are the balance sheets of RKM plc and SML plc as at 31.12.2007:

| Liabilities and Assets | RKM plc | SML plc |
|---|----------------|---------------|
| | Rs. | Rs. |
| Share Capital: Ordinary shares of Rs.10 each fully paid up | 400000 | 200000 |
| General Reserve | 50000 | 40000 |
| Profit & Loss A/C | 30000 | 25000 |
| 12% Debentures | 200000 | - |
| Current Liabilities | 320000 | 235000 |
| | 1000000 | 500000 |
| Fixed Assets | 500000 | 240000 |
| Investment in 15000 Ordinary shares in SML plc on 1.1.2007) | 200000 | - |
| Current Assets (including Rs.10000 stock-in-trade purchased from RKM plc) | 300000 | 260000 |
| | 1000000 | 500000 |

Further information:

- (I) SML plc's General reserve and Profit & Loss Account stood at Rs.25000 and Rs.10000 respectively
- (II) RKM plc sells goods at a profit of 25% on cost

Required:

Prepare the Consolidated balance sheet as at 31.12.2007. (Show the workings clearly)

(25 Marks)

4. On 1st of January, 2005, RMO plc purchased a motor car from AUTO plc on the hire purchase system. At the time of agreement, a sum of Rs.24000 was paid out of the cash down price of the car and the balance was payable in three annual installments together with interest at 5% p.a at end of each year. The amount of the last installment including interest was Rs.33600. Depreciation was to be provided at 10% p.a. on the reducing balances.

Required:

- (a) Prepare the following ledger accounts in the books of RMO plc for the year ended on 31st December 2005 to 2007:
- (i) Motor car Account
 - (ii) AUTO plc Account
 - (iii) Hire Purchase Interest Account
 - (iv) Provision for Depreciation on Motor car Account and the Depreciation Account
- (b) Show the relevant balances of accounts in the balance sheet of RMO plc as at 31.12.2005

(25 Marks)