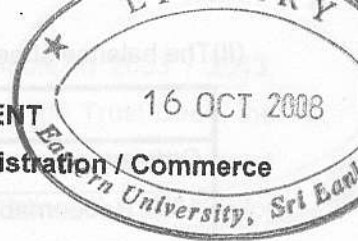


**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**



Second Year / First Semester Examination in Business Administration / Commerce

2006/2007 (July 2008)

(Proper / Repeat)

DAF 2114 Advanced Financial Accounting - I

**Answer All Questions**

**Calculator Permitted**

**Time: Three (03) hours**

01. (I) NPK plc obtained necessary license for manufacture and sale of television sets. As a part of financing project 50,000 equity share of Rs.10 each were issued at a premium of Rs.2 per share on the following terms.

Value of each share is payable as follow:

- |                                    |      |
|------------------------------------|------|
| ▪ On application                   | Rs.3 |
| ▪ On allotment (including premium) | Rs.6 |
| ▪ On first call                    | Rs.2 |
| ▪ On Second and final call         | Rs.1 |

Applications were received for 60,000 shares. Allotments were made on following basis:

- a) To application for 10,000 shares in full.
- b) To application for 20,000 shares 15,000 shares.
- c) To application for 30,000 shares 25000 shares.

All excess amounts paid on application to be adjusted against amount due on allotment.

The shares were fully called and paid up except amount on allotment, first and second calls which are not paid by those who applied for 2,000 shares, attached to the group which applied for 20,000 shares.

All the shares on which calls were not paid were forfeited by the Board of Directors.

Out of the forfeited shares 1000 shares were re-issued as fully paid on receipt of Rs.8 per share.

**Required:**

Write the journal entries for the above transactions

**(10 Marks)**

(II) The balance sheet of USA plc as at 31.12.2007 is as follows:

Liabilities	Rs.	Assets	Rs.
Ordinary shares of Rs.10 each	1000000	Non current Assets	2000000
10% Redeemable Preference shares of Rs.100 each	900000	Investment	400000
General Reserves	360000	Debtors	300000
Share premium	100000	Cash & Bank	200000
Profit & Loss Account	340000		
Creditors	200000		
	<b>2900000</b>		<b>2900000</b>

The redeemable preference shares were to be redeemed at 10% premium along with dividend payable for 2007. The company issued 45000 ordinary shares of Rs.10 each at a premium of Rs.5 per share. All the shares were subscribed fully and cash duly received. The investments were sold for Rs.350000. Payment was made to the preference shareholders and thereafter the directors decided to issue bonus shares to the old shareholders in the ratio of one share for every four shares held. For this purpose, the free reserves were utilized to the minimum extent necessary.

**Required:**

Open relevant ledger accounts and Post into them the above transactions, and draft the Balance sheet of the company after the redemption of preference shares

(10 Marks)

(Total 20 Marks)

2. (I) SML plc issued 10000, 15% debentures of Rs.100 each at par on 01.01.2003, redeemable at par on 31.12.2007. A sinking fund was established for this purpose. It was expected that investment would earn 12% net return. The Sinking fund tables show that Re. 0.1574059 amounts to Re.1 at the end of the 5 years @ 12%. On 31 December 2007 the investment realized at Rs.750000. The debentures were duly redeemed.

**Required:**

Write the journal entries for the above transactions

(10 Marks)

(ii) In 1993 KDK plc had issued Rs.500000 10% Debentures redeemable in 2003 / 2013. Interest is paid half yearly in June and December. Under the terms of the Trust Deed, the debentures may be redeemed at any time at company's option, by purchase on the open market. A sinking fund has been established with an annual appropriation of Rs.25000 for investment in securities.

At 31.12.2006 the following balance were in the company's books of accounts:

	Rs.
Sinking Fund	200000
Sinking Fund Investment	172000
10% Redeemable Debentures 2003/2013	400000

During 2007 the following transactions occurred:

Date	Transactions	Rs.
January 1 <sup>st</sup>	Bought sinking fund investment	28000
February 25 <sup>th</sup>	Sold sinking fund investment (Cost Rs.20000)	22000
March 1 <sup>st</sup>	Bought Rs.20000 of own 10% Debentures on the open market at 96 cum.int. for immediate cancellation	
May 20 <sup>th</sup>	Received sinking fund investment income	12500
June 30 <sup>th</sup>	Paid 10% debenture interest	
August 15 <sup>th</sup>	Sold sinking fund investment (cost Rs.30000)	32500
October 1 <sup>st</sup>	Bought Rs.30000 of own 10% debentures on the open market at 94 cum.int. and retained them for possible reissue	
November 15 <sup>th</sup>	Received sinking fund investment income	10000
December 31 <sup>st</sup>	Paid 10% debenture interest.	
	Made annual appropriation	

**Required:**

Open relevant ledger accounts, Post into them the above transactions, and balance off them.

(10 Marks)

(Total 20 Marks)

03. The Profit and Loss accounts of BMC plc and CMA plc for the year ended 31.12.2007 are as follows:

	BMC plc	CMA plc
	Rs.	Rs.
Sales	2925000	1350000
<b>Less:</b> Cost of Sales	2340000	1012500
Gross Profit	585000	337500
<b>Less:</b> Administration Expenses	142000	111500
Distribution Expenses	85500	58500
Finance Cost	20000	10000
Operating Profit	337500	157500
<b>Add:</b> Dividend	18000	-
Profit Before Tax	355500	157500
<b>Less:</b> Taxation	89250	33750
Profit After Tax	266250	123750
<b>Less:</b> Dividends : Interim	45000	30000
Final Dividend	75000	56250
Retained Profit	146250	37500
<b>Add:</b> Balance b/f	383250	22500
Balance c/f	529500	60000

**Additional Information:**

- BMC plc acquired 80% of the ordinary shares of Rs.10 each at par for Rs.500000 on 01.01.2007 when the CMA plc had a credit balance of Rs.22500 in its profit and loss account.
- On the date of acquisition the fixed assets of CMA plc, acquired for Rs.400000 on 01.01.2005, and reported in the books at Rs.320000, had a fair value of Rs.340000.

- (c) Both companies provide depreciation on fixed assets at 10% per annum on straight line basis.
- (d) During the year 2007 BMC plc sold goods to CMA plc for Rs.384000 at cost plus 20%. One fourth of these goods remained in the hands of CMA plc on 31.12.2007.

**Required:**

- (i) Prepare the Consolidated Profit and Loss Account of the group for the year ended 31.12.2007
- (ii) Determine the Minority Interest in the group

**(Total 20 Marks)**

04. The Balance Sheets of JPS plc and its subsidiary DVD plc as at 31.12.2007 are as follows:

Liabilities	JPS plc	DVD plc	Assets	JPS plc	DVD plc
Share Capital (Rs.10 )	900000	500000	Land & Buildings	300000	480000
Share Premium	200000	100000	Plant & Machinery	250000	190000
General reserve	100000	150000	Investments	550000	100000
Profit & Loss A/C	120000	110000	Stocks	115000	70000
Creditors	70000	50000	Debtors	80000	60000
Bills Payable	30000	40000	Bills receivable	50000	45000
Dividend Payable	80000	50000	Cash & Bank	115000	55000
			Dividend Receivable	40000	-
	<b>1500000</b>	<b>1000000</b>		<b>1500000</b>	<b>1000000</b>

**Additional Information:**

- i. JPS plc acquired 75% of ordinary shares of Rs.10 each held in DVD plc on 30.06.2007 for Rs.450000.

- ii. In the beginning of the year 2007 the subsidiary had a debit balance of Rs.30000 in its profit and loss account, and Rs.50000 in general reserve account
- iii. Bills Payable of DVD plc includes Rs.2000 drawn in favour of JPS plc.
- iv. Debtors of JPS plc include Rs.30000 due from DVD plc.
- v. Stocks of JPS plc include goods purchased from DVD plc for Rs.36000, which were invoiced by the latter at a profit of 20% plus cost.
- vi. At the date of acquisition Land & buildings which were acquired on 01.01.2000 and Plant & Machinery of DVD plc were revalued at Rs.525000 and Rs.190000 respectively while investment had a fair value of Rs.96000. The depreciation for Land and Buildings of both companies is being provided at 5% p.a on straight line, while they provide depreciation for the Plant and Machinery at 10% p.a. on its book value evenly throughout the year.
- vii. During the current year DVD plc paid ordinary shareholders a dividend of Rs.30000 out of the profits earned before it was acquired by JPS plc and proposed 10% dividend out of the profits earned during the year ended 31.12.2007.

**Required:**

Prepare the Consolidated Balance sheet as at 31.12.2007.

(Show all the workings clearly)

**(20 Marks)**

05. (I) ADL plc purchased a truck on hire purchase system. As per terms it was required to pay Rs.70000 down, Rs.53000 at the end of first year, Rs.49000 at the end of second year, and Rs.55000 at the end of third year. Interest is charged at 10% p.a.

**Required:**

- (i) Calculate the Hire Purchase Total Interest and the interest paid with each installment
- (ii) Calculate the Cash Price of the truck
- (iii) What is the Hire Purchase Price of the truck?

**(5 Marks)**

