EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

PART II EXAMINATION IN BBA/COM - 1998/99 (Nov/Dec-2000)

COM 304 ADVANCED FINANCIAL ACCOUNTING - II

Time: 3 hours

Answer **All** Questions

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01. (I) "Accounting Ratio Analysis is more informative and useful for financial decision makings rather than the financial statement itself"

a) List out the benefits of Ratio Analysis. (1 mark)

b) What kinds of things about a business concern can you measure using accounting ratios? (1 mark)

c) How do you classify the accounting ratios to be useful and appropriate to measure those things you mentioned in (b) above. (1 mark)

d) What are the conditions to be satisfied to do a inter-firm comparison by ratio analysis? (1 mark)

e) What are the other kinds of tools to do financial statements analysis? (1 mark)

(Total 5 marks)

(II) You are given the financial statements of Gold star Ltd. as follows.

The Trading and Profit and Loss Account for the year ended

	30.09.1999		30.09.2000	
	Rs.000	Rs.000	Rs.000	Rs.000
Sales		3000		4000
Less: Cost of sales:				
Opening stocks	300		400	
Purchases	2350		3200	
	2650		3600	
Closing stocks	(400)	2250	(600)	3000
Gross Profit		750		1000
Less: Operating Expenses:-				
Administration	125		180	
Selling and Distribution	100		230	
Finance	75	300	90	500
Net Profit Before Tax		450		500
Less: Taxation		90		100
Net profit After Tax		360		400
Less: Appropriation:-				
General Reserve	100		100	
Dividends:- Preference	20		15	
Ordinary	100	220	125	240
		140		160
Add:- Profit and Loss A/C balance b/f		300		440
Profit and Loss A/C balance c/f		440		600

The Balance sheets as at

	30.09.1999		30.09.2000	
	Rs.000	Rs.000	Rs.000	Rs.000
Fixed Assets (at Book Value)				
Land and Buildings		2100		2000
Furniture and fittings		400		360
Motor Vehicles		1000		1640
		3500		4000
Current Assets				
Stocks	400		600	
Trade Debtors	1200		1500	
Cash and Bank	900		310	
	2500		2410	

Less: Current Liabilities				
Trade Creditors	1100		1160	
Tax payable	90		100	
Dividend payable	110		140	
	(1300)	1200	(1400)	1010
		4700		5010
Less: Long Term Liabilities				
15% Debentures		500		600
		4200		4410
Share Capital				
Ordinary shares of Rs. 10 each		3000		3000
10% Preference shares of Rs.10 each		200		150
		3200		3150
Reserve				
Share Premium	300		300	
General Reserve	260		360	
Profit and Loss A/C	440	1000	600	1260
		4200		4410

Additional Information:

i) Market price of ordinary shares
As at 30.09.1999 - Rs. 15 per share
As at 30.09.2000 - Rs. 18 per share

ii) Operating period of Business - 360 days.

iii) All purchases and sales are on credit basis.

Required:

Do a comprehensive financial statement analysis and interpretation by accounting ratio analysis for Gold star Ltd. between the two financial years ended 30.09.1999 and 30.09.2000.

(20 marks)
(Total 25 marks)

02. (I) "Cash flow statement is more useful to the users for financial decision makings rather than other conventional financial statements".

a) What are the benefits of cash flow statement?

(1 mark)

b) Why fund flow statement was replaced with cash flow statement in usage, in Sri Lanka?

(1 mark)

c) How cash and cash equivalents are defined according to S.L.A.S. - 9? (1 mark)

d) How can you classify the cash flows from various activities? (1 mark)

e) What do you mean by "Direct method" and "Indirect method" of preparing cash flow statement? (1 mark)

(Total 5 marks)

(II) You are given the following Balance sheets of "Christel" Ltd as at

	30.09.1999		30.09.2000	
	Rs.000	Rs.000	Rs.000	Rs.000
Fixed Assets				
Land and Buildings at cost	500		500	
Less: Accumulated depreciation	(100)	400	(125)	375
Furniture & Fittings at cost	200		200	
Add: Addition during the year at cost	-		50	
	200		250	
Less: Accumulated depreciation	(80)	120	(100)	150
Motor vehicle at cost	300		300	
Less: Disposal during the year at cost	-		(100)	
	300		200	
Less: Accumulated depreciation	(120)	180	(100)	100
		700		625
Investments	100		150	
Goodwill	100	200	75	225
		900		850
Current Assets				
Stocks	130		150	
Trade debtors	220		250	
Investment in Treasury Bills (3 months)	100		100	
Prepaid operating expenses	20		10	
Cash and Bank balance	130		90	
	600		600	
Less: Current Liabilities				
Trade creditors	240		210	
Dividend payable	120		100	
Tax payable	110		120	
Accrued operating expenses	30		20	
	(500)	100	(450)	150
		1000		1000
Less: Long Term Liabilities				
10% Debentures	200		150	
20% Bank loan	100	(300)	120	(270)
		700		730

Share Capital				
Ordinary shares of Rs. 10 each		400		450
Reserves				
Share premium	100		125	
General Reserves	70		80	
Profit and Loss Account	130	300	75	280
		700		730

Further information:

i) The sales and the cost of sales for the year ended 30.09.2000 are Rs. 2000,000 and Rs. 1300,000 respectively.

ii) A motor vehicle purchased at a cost of Rs. 100,000 five years ago and valued at Rs. 50,000 at the date of disposal was disposed at price of Rs. 70,000 for cash during the year ended 30.09.2000.

iii) One fourth of goodwill was written off against the profit and loss A/C for the year ended 30.09.2000.

iv) A part of 10% debentures were redeemed at par on 31.03.2000.

v) A 20% Bank Loan of Rs. 20,000 was received at 31.03.2000.

vi) 5000 ordinary shares of Rs. 10 each were issued to the public at Rs. 15 per share during the year end 30.09.2000.

vii) Dividend proposed and Taxation for the year ended 30.09.2000 are Rs. 100,000 and Rs. 120,000 respectively.

Required:

i) Prepare the cash flow statement of 'Christel Ltd." for the year ended 30.09.2000, reporting the cash flow from operating activities in the direct method.

ii) Report the cash flow from operating activities in the indirect method.

(20 Marks)

(Total 25 marks)

03. (I) What are the limitations of Historical cost based financial accounting system?

(04 marks)

(II) The historical cost based financial statement of Emeral Ltd. are as follows:

The trading, and profit and loss account for the year-ended 31.12.1999

	Rs.000	Rs.000
Sales		1050
Less: Cost of sales:		
Opening stock	125	
Purchases	675	
	800	
Closing stock	115	685
Gross profit		365
Less: Operating expenses		165
Net profit before tax		200
Less: Taxation		75
Net profit after tax		125
Less: Dividend		170
		55
Profit and loss A/C balance b/f		245
Profit and loss A/C balance c/f		300

The balance sheets as at

	31.12.1998		31.12.1999	
	Rs.000	Rs.000	Rs.000	Rs.000
Fixed Assets				
Land and buildings (Cost)	400		400	
Less: Accumulated depreciation	100	300	120	28
Furniture and fittings (Cost)	150		150	
Less: Accumulated depreciation	60	90	75	7
Motor Vehicle (Cost)	300		400	
Less: Accumulated depreciation	120	180	200	20
		570		55

Current assets				
Stocks	125		115	
Trade Debtors	112		190	
Prepayments	18		24	
Bills Receivable	85		86	
Bank balance	20		30	
	360		**445**	
Less: Current Liabilities				
Trade creditors	73		68	
Tax payable	60		75	
Dividend payable	90		70	
Operating expenses payable	12		17	
	235	125	**250**	195
		695		**750**
Share capital				
Ordinary shares of Rs.10 each		300		300
Reserves				
Share premium	150		150	
Profit and loss A/C	245	395	300	450
		695		**750**

Further information:

(a) Depreciations on fixed assets are calculated on straight line basis assuming no residual value for both historical and current cost purposes as follows:

Land and building - 5% per annum
Furniture and fittings – 10% per annum
Motor vehicles – 20% per annum

A motor vehicle costing Rs.100,000 was purchased during the year ended 31.12.99, which has been provided 20% depreciation for the year of purchase. No other additions or disposals of any fixed assets were taken place during the lifetime of the business.

The relevant price indices applicable to fixed assets are as follows:

Year	Price index Land and buildings	 Furniture and fittings	 Motor vehicles
1993 (Mid year)	120	-	-
1995 (Mid year)	-	100	125
1999 (Mid year)	-	-	225
1999 (Year end)	240	150	250

(b) An average of 3-month sales is held in stocks. The relevant price indices are as follows:

		Index
Mid month 1998	- Oct	220.0
	- Nov	222.5
	- Dec	225.0
Mid month 1999	- Oct	267.5
	- Nov	270.0
	- Dec	272.5
2000	- Jan	275.0
Average for 1999		250.0

(c) The average age of each of the monetary working capital items is two months. The relevant price indices for these items are as follows:

		Index
Mid month 1998	- Nov	228.8
	- Dec	234.0
Mid month 1999	- Nov	280.8
	- Dec	286.0
Average for 1999		260.0

Required:

Calculate the following under the current cost accounting system.

(i) Fixed assets depreciation adjustment.
(ii) Fixed assets revaluation surplus transferred to current cost reserve account.
(iii) Net book values of fixed assets are to be included in the current cost balance sheet as at 31.12.1999.
(iv) Cost of sales adjustment
(v) Closing stock revaluation surplus transferred to current cost reserve account.
(vi) Value of closing stock to be included in the current cost balance sheet as at 31.12.1999.
(vii) Monetary Working Capital Adjustment (MWCA)

(26 marks)

(Total 30 marks)

04. Certain items of the final accounts of Eastern Ltd. are missing as shown below.

The Trading and Profit and Loss Accounts for the year ended 30th June 2000

	Rs.	Rs.	Rs.
Sales			xxx
Less: Cost of sales:			
Opening stock		350,000	
Purchases	xxx		
Carriage inwards	87,500	xxx	
		xxx	
Closing stock		xxx	xxx
Gross profit			xxx
Add: Investment income			50,000
			xxx
Less: Operating expenses:			
Administration		220,000	
Selling and Distribution		150,000	
Interest on debenture		30,000	400,000
Net profit before tax			xxx
Less: Taxation			xxx
Net profit after tax			xxx
Less: Distributions:			
Dividends proposed		xxx	
General Reserve		xxx	xxx
			xxx
Add: Profit and Loss A/C balance b/f			70,000
Profit and Loss A/C balance c/f			xxx

The balance sheet as at 30th June 2000

	Rs.	Rs.	Rs.
Fixed Assets:			
Land and buildings			xxx
Plant and machinery			700,000
			xxx
Current Assets:			
Stocks		xxx	
Trade Debtors		xxx	
Bank Balance		62500	
		xxx	
Less: Current Liabilities:			
Creditors	xxx		
Dividend proposed	xxx		
Taxation	xxx	(xxx)	xxx
Less: Long Term Liabilities:			
10% Debentures			(xxx)
			xxx
Share Capital			
Ordinary shares			500,000
Reserves:			
General reserves		xxx	
Profit and loss account		xxx	xxx
			xxx

You are required to supply the missing figures with the help of the following information.

(i) Current Ratio 2:1

(ii) Closing stock is 25% of sales

(iii) Proposed dividends are 40% of ordinary share capital.

(iv) Gross profit ratio is 60%

(v) Ratio of current liabilities to debentures is 2:1

(vi) Transfer to general reserves from profit and loss account is equal to proposed dividends.

(vii) Profit and loss account c/f is 10% of proposed dividends.

(viii) Provision for taxation is 50% of net profit before tax.

(ix) Balance of general reserve at the beginning of the year is twice the amount transferred to that account from the current profit and loss account.

(Show your workings clearly)

(20 marks)