

EASTERN UNIVERSITY, SRI LANKA

THIRD YEAR / FIRST SEMESTER EXAMINATION IN BUSINESS ADMINISTRATION
/ COMMERCE 2003/2004 (NOV / DEC 2004)

(PROPER / REPAET)

COM 3024 ADVANCED FINANCIAL ACCOUNTING – II

Answer All Questions

Time: 03 Hours

Non Programmable calculator permitted

01. (I) The Income statement of Browns Ltd. for the years ended 30th September, 2002, 2003, and 2004 are as follows:

	2004	2003	2002
	Rs.	Rs.	Rs.
Net sales	920000	950000	910000
Cost of sales	640000	648000	624000
Gross profit	280000	302000	286000
Administration expenses	80000	78000	75000
Selling and Distribution expenses	76000	79000	79000
Finance expenses	17000	16000	15000
Profit before Tax	107000	129000	117000
Income Tax	36300	43200	39800
Profit after Tax	70700	85800	77200

Required:

Comment on financial performance of the company for above years using Vertical and Horizontal analyses.

(5 marks)

(II) The financial statements of two companies, Alpha Ltd. and Beta Ltd., operating in a similar business for the year ended 30th September 2004 are as follows:

a. The Income Statement

	Alpha Ltd		Beta Ltd	
	Rs.000	Rs.000	Rs.000	Rs.000
Sales		1500		2100
Cost of sales				
Opening stock	150		150	
Purchases	1150		1500	
	1300		1650	
Closing stock	100	1200	200	1450
Gross Profit		300		650
Operating Expenses:				
Administration	30		70	
Selling and Distribution	90		200	
Finance	30	150	30	300
Profit Before Tax		150		350
Taxation		30		70
Profit After Tax		120		280
General Reserve	10		20	
Dividend: Ordinary	42		90	
Preference	20	72	20	130
		48		150
Profit & Loss A/C b/f		12		176
Profit & Loss A/C c/f		60		326

b. The Balance Sheet as at 30th September 2004

	Alpha	Beta
	Rs.000	Rs.000
Non Current assets (Book value)		
Land and Buildings	300	260
Furniture and fittings	100	80
Motor vehicle	200	250
Investments	150	350
Current assets		
Stocks	100	200
Debtors	250	350
Cash and Bank	50	40
	1150	1530



Share capital		
Ordinary shares of Rs.10 each		300
10% Preference shares of Rs.10 each		300
Reserves		
General reserve	40	80
Share Premium	100	100
Profit and loss account	60	326
Non Current Liabilities		
15% Debentures	200	150
Current Liabilities		
Creditors	158	194
Dividend Payable	62	110
Tax payable	30	70
	1150	1530
Price of an Ordinary share	15	18

Required:

Compare and comment on the Profitability, Efficiency, Potential Growth, Short term Solvency and Liquidity, and Long term Solvency and Stability of the above two companies using ratio analysis (State your assumptions Clearly).

(15 Marks)

(Total 20 Marks)

2. The Financial Statements and other information of Bristle Ltd are given below.

i. **The Profit and Loss Account for the year ended 30.09.2004**

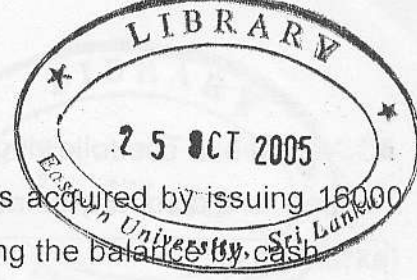
	Rs.000	Rs.000
Sales		4000
Less: Cost of sales:		
Opening stock	400	
Purchases	2400	
	2800	
Closing stocks	600	2200
Gross Profit		1800
Add: Investment income		80
Profit on Disposal of a Motor vehicle		20
		1900
Less: Operating Expenses:		
Administration	600	
Selling and Distribution	400	
Finance	60	1060

Operating profit Before Tax		840
Less: Taxation		240
Operating profit After Tax		600
Less: Distribution:		
General Reserve	100	
Dividend	300	400
		200
Profit and Loss A/C b/f		600
Profit and Loss A/C c/f		800

ii. **Balance sheets as at**

	30.09.2003	30.09.2004
	Rs.000	Rs.000
Non Current Assets		
Land and Buildings	1600	1900
Furniture and Fittings	320	280
Motor vehicles	480	300
Investments	400	600
Goodwill	300	200
Current Assets		
Stocks	400	600
Debtors	800	880
Cash and Bank	300	400
	4600	5160
Share Capital		
Ordinary shares of Rs.10 each	1600	1760
10% Preference shares of Rs.10 each	800	600
Reserves		
Share Premium	140	180
General Reserve	240	340
Profit and Loss Account	600	800
Non Current Liabilities		
15% Debentures	400	320
Current Liabilities		
Creditors	360	560
Tax Payable	160	240
Dividend Payable	180	300
Administrative expenses payable	120	60
	4600	5160

Other Information



- i. During the current year a land costing Rs.300000 was acquired by issuing 16000 ordinary shares of Rs.10 each at Rs.15 per share and paying the balance by cash.
- ii. A motor vehicle purchased on 01.07.1999 at Rs.200000, and valued Rs.120000 at the date of disposal was disposed at Rs.140000 during the current year.
- iii. During the year furniture was purchased at Rs.20000 by cash.
- iv. Rs.100000 of Goodwill was written off against the profit for the current year. It was included in the administration expenses.
- v. During the current year 20000 10% Redeemable Preference Shares of Rs.10 each were redeemed at Rs.12 per share. The premium on redemption was written off against the share premium account.
- vi. At the end of the current year, part of the 15% Debentures were redeemed at par.

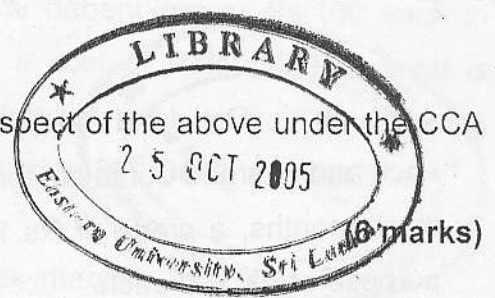
Required:

Prepare the Cash flow Statement of Bristle Ltd for the year ended 30.09.2004, reporting the cash flow from operating activities in the Direct method as per the requirement of S.L.A.S. 09.

(20 Marks)

Required:

Ascertain the adjustment that would be required in respect of the above under the CCA method.



(6 marks)

(III) The following items were extracted from the balance sheets of Ananda Ltd as at 30th Sep 2003 and 2004.

	30.09.2003	30.09.2004
	Rs.	Rs.
inventories	412500	457500
Trade debtors	337500	412500
Cash at bank	45000	60000
Advance for suppliers of materials	75000	94875
Due to suppliers	187500	241500

During the year ended 30th Sep 2004 material prices arose by 18%, and those of finished goods by 12%.

Required:

Calculate the Monetary Working Capital Adjustment (MWCA) to be made under the CCA Method.

(6 Marks)

(Total 20 marks)

4. (I) Dimo Ltd. supplies their products in containers which cost them Rs.150 each and charged out to customers at Rs.200 each. If the containers are returned within three months, a credit of Rs.120 each is allowed. All containers are valued for stock purpose at Rs.100 each.

On 1st October 2003 the stock in the store was 8000, and there were in hands of customers 4000 containers for which return period had not expired. Returnable containers as on 30th September 2004 were 4600.

During the year ended 30th September 2004 2500 containers were purchased, 25000 containers were invoiced to customers, and 22500 containers were returned within the period.

1000 containers were destroyed by fire and 100 containers were sold as scrap for Rs.10000.

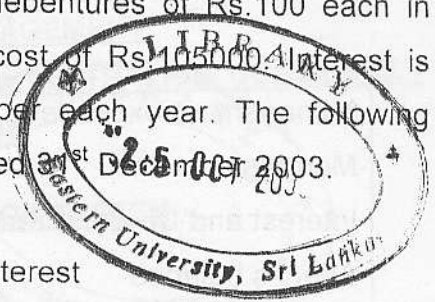
Required:

- i. Using Method – I (Stock and Trading Method) prepare the following accounts
 - a. Containers Stock account
 - b. Containers Trading account
 - c. Containers Deposit account
 - d. Containers Debtors account

- ii. Show the relevant items in the Profit and Loss account for the year ended 30th September 2004, and in the Balance sheet as at that date.

(10 marks)

- (II) Jusmin Investment Ltd. hold 1000 18% debentures of Rs.100 each in Lotus Ltd. as on 1st January 2003 at a cost of Rs.105000. Interest is payable on 31st March and 30th September each year. The following transactions took place during the year ended 31st December 2003.



2003

March 01 Purchased Rs.250000 @ Rs.95 ex interest

April 01 Sold Rs.50000 @ Rs.98 cum interest

August 31 Sold Rs.30000 @ Rs.101 cum interest

December 15 Purchased Rs.15000 @ Rs.98 cum interest

December 31 Sold Rs.25000 @ Rs.97 ex interest

December 31 Bought Rs.20000 @ Rs.100 cum interest

Note: Investments are sold on FIFO basis

Required:

Prepare the Investment on 18% Debenture account for the year ended 31.12.2003, assuming that a brokerage is to paid at 0.25% on the nominal value of Rs.100 each in each case.

(10 Marks)

(Total 20 marks)

5. The following trial balance was extracted from the books of New life Insurance Company Ltd. as on 30th September 2003.

	Debit (Rs.)	Credit (Rs.)
Capital		70000
Life assurance Fund as at 1.10.2003		2080610
Dividend Paid	10500	
Bonus	22050	
Premium		113050
Claims	137900	
Commission	6510	

Management expenses	22510	
Mortgage	344540	
Interest and Dividend received		78890
Agent's balance	6510	
Freehold premises	28000	
Investment	1613500	
Loan on Company policy	121520	
Cash on deposit	18900	
Cash in hand	3210	
Surrenders	4000	
	2342550	2342550

Additional Information:

1. Claims admitted but not paid Rs.12090
2. Management expenses dues Rs.260
3. Interest accrued Rs.25090
4. Premium Outstanding Rs.15600

Required:

Prepare the following

1. The company's revenue account for the year ended 30.09.2004
2. The balance sheet as at 30.09.2004

(20 marks)