

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Second Year / First Semester Examination in Business Administration /
Commerce 2005 / 2006 (July / August 2007)

(Proper / Repeat)

DAF 2114 Advanced Financial Accounting - I

Answer All Questions

Calculator Permitted

Time: Three (03) hours

01. Orange Co. Ltd. has incurred exceptional losses and a scheme of reconstruction was approved by all the concerned parties. The Balance Sheet at 31st December, 2006 showed:

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets at cost less depreciation	1800000
12% cumulative preference shares of Rs.100 each	480000	Stock	720000
Equity shares Rs.100 each	1200000	Trade debtors	960000
Bank overdraft (Secured)	1200000	Profit & Loss Account	900000
Creditors – preferential	60000		
Creditors – others	1440000		
	4380000		4380000

The scheme of reconstruction provided:

- (i) A new company – Apple Ltd. will be formed to take over the assets and liabilities of Orange Ltd. as at 31st December 2006.
- (ii) 2400 equity shares of Rs.100 each in Apple Ltd., credited as Rs.50 per share paid up to be issued to the liquidator of Orange Ltd. for the benefit of that company's equity shareholders who had agreed to pay up the balance of Rs.50 per share immediately.
- (iii) 4800 preference shares of Apple Ltd., credited as Rs.75 per share paid up to be issued to liquidators of Orange Ltd. for the benefit of that company's preference shareholders, who had agreed to pay the balance of Rs.25 per share immediately.

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In addition Rs.57600 in 14% debentures (redeemable after 5 years) are to be issued as compensation for arrears of preference dividends.

- (iv) Apple Ltd. to reimburse liquidation expenses of Orange Ltd. for Rs.12000.
- (v) Apple Ltd. decided to adopt the following values for tangible assets acquired viz.
- Rs.1680000 for fixed assts
 - Rs.600000 for stocks
 - Rs.960000 for trade debtors
- (vi) Apple Ltd. immediately to discharge preferential creditors in cash
- (vii) Apple Ltd. to fully satisfy "other creditors" liability as under:
- Rs.720000 in cash
 - Rs.360000 in acceptance of a bill of exchange payable after 120 days
 - Rs.360000 is issue of 14% debentures (redeemable after 5 years)
- (viii) The authorized capital of Apple Ltd. will be Rs.3000000 divided into 15000, 12% cumulative preference share of Rs.100 each and 15000 equity shares of Rs.100 each.
- (ix) The directors of Apple Ltd. have agreed to subscribe for 8400 equity shares of Rs.100 each payable in fully, with application.
- (x) Apple Ltd. decided to pay – off bank overdraft to the extent of Rs.240000 and the balance will be secured on fixed assets.
- (xi) Preliminary expenses of Apple Ltd. amounted to Rs.24000.

Assuming that all the above provisions of the scheme are fulfilled, you are required to show:

- (a) In the books of Orange Ltd.
- (i) Realization account
 - (ii) Equity shareholders Account
 - (iii) Preference Shareholders Account
- (b) (i) Journal entries (including for cash items) in the books of Apple Ltd.
- (ii) Opening Balance sheet of Apple Ltd.

(20 Marks)

02. (i) The following is the balance sheet of Penta Ltd. as on 31 December 2006.

Liabilities	Rs	Assets	Rs
Authorized and subscribed capital: 20000, 12 % Non-Cumulative		Land and Buildings	190000
Preference shares of Rs.10 each 10000 Equity shares of Rs.10 each, Rs.9 paid	200000	Plant and Machinery	120000
10000 Equity shares of Rs.10 each, Rs.5 paid	90000	Patents	10000
6 percent Mortgage debentures (holding a floating charge on all the assets of the company)	100000	Stock	45000
Interest outstanding on the debentures	6000	Sundry debtors	90000
Loan secured by hypothecation of stock	40000	Cash at bank	30000
Trade Creditors	80000	Investments	40000
Creditors for salaries and wages	15000	Profit and loss A/c	70500
Liabilities for workmen's compensation	2000		
Owing to government for telephone and purchases	2500		
Owing to government for taxes	10000		
	595500		595500

The company went into voluntary liquidation on 1st of January 2007 and a liquidator was appointed with remuneration of 2 percent of assets realized with the exception of cash and 2 percent of the amount distributed among unsecured creditors other than preferential creditors. The dividend on preference shares was not paid for the year 2005 and 2006. Stock realized Rs.30000 and the other assets excluding cash realized Rs.400000. The expenses of liquidation were Rs.4450. All assets were realized and payments made on 30th of June 2007.

Required:

Prepare the Liquidator's Final Statement of Account.

(10 Marks)

(ii) ABC Ltd has an authorized equity capital of Rs.2000000 divided into shares of Rs.100 each. The paid up capital was Rs.1250000. Besides this, the company had 9% Redeemable Cumulative Preference shares of Rs10 each for Rs.250000. Balances on the other accounts were: share premium, Rs.18000, profit and loss Account Rs.72000 and General Reserve Rs.340000. Included in Sundry Assets were investments of the face value of Rs.30000 carried in the books at a cost of Rs.34000.

The company decided to redeem the cumulative preference shares at 10% premium, partly by the issue of equity shares of the face value of Rs.120000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holders holding 250 shares. After redemption of the cumulative preference shares, fully paid bonus shares were issued in the ratio of 1:4

Required:

Give the necessary journal entries bearing in mind that the directors wanted a minimum reduction in free reserves, while effecting the above transactions. Working should form part of your answer.

(10 Marks)

(Total 20 Marks)

03. The Balance Sheets of a Parent company, H Ltd, and its subsidiary, S Ltd, as at 31.12.2006 are as follows.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share Capital (Rs.10)	900000	500000	Land & Buildings	200000	475000
General Reserve	100000	100000	Plant & Machinery	300000	150000
Profit & Loss A/C	110000	70000	Investment in shares of S	500000	-
Creditors	70000	50000	Stocks	75000	350000
Bills Payable	30000	30000	Debtors	50000	80000
Dividend Payable	90000	50000	Bills receivable	20000	25000
			Cash & Bank	115000	350000
			Dividend Receivable	40000	-
	1300000	800000		1300000	800000

Additional Information:

- i. H Ltd acquired 40000 ordinary shares of Rs.10 each in S Ltd on 01.07.2006.
- ii. On 01.01.2006, S Ltd's Profit & Loss A/C showed a credit balance of Rs.30000, and the General Reserve A/C showed a balance of Rs.50000.
- iii. Bills Receivable of H Ltd includes Rs.15000 accepted by S Ltd.
- iv. Debtors of H Ltd include Rs.25000 due from S Ltd.
- v. Stocks of H Ltd include goods purchased from S Ltd for Rs.25000, which were invoiced by S Ltd at a profit of 25% plus cost.
- vi. At the date of acquisition S Ltd's Land & buildings and Plant & Machinery were revalued at Rs.520000 and Rs.156000 respectively. The depreciation for Land and Buildings of both companies is being provided at 5% p.a on its book value, while they provide depreciation for the Plant and Machinery, which were purchased on 01.01.2003, on straight line basis at 10% p.a.
- vii. During the current year S Ltd paid ordinary shareholders a dividend of Rs.20000 out of the profits earned before it was acquired by H Ltd and proposed 10% dividend out of the profits earned during the year ended 31.12.2006.

Required:

Prepare the Consolidated Balance sheet as at 31.12.2006.

(Show all the workings clearly)

(20 Marks)

04. The Trial Balances extracted as on 31.12.2006 from the books of accounts of the Head Office in Colombo and its branch in New York (USA) are as follows

Items	Colombo Head Office		New York Branch	
	Dr. (Rs.000)	Cr. (Rs.000)	Dr. US \$	Cr. (US \$)
Capital Account	-	700	-	-
Profit & Loss Account- 1.1.2006	-	260	-	-
Land and Building	300	-	-	-
Plant and Machinery	400	-	1800	-
Furniture and Fittings	100	-	1200	-
Stocks as at 1.1.2006	80	-	840	-
Purchases	800	-	3600	-
Goods received from HO	-	-	2900	-
Goods sent to Branch	-	300	-	-
Sales	-	900	-	8850
Administration expenses	48	-	320	-
Selling and Distribution expenses	32	-	300	-
Finance expenses	20	-	150	-
Head Office Current Account	-	-	-	2500
Branch Current Account	275	-	-	-
Debtors	160	-	360	-
Creditors	-	140	-	250
Cash and Bank	85	-	130	-
	2300	2300	11600	11600

Additional information:

1. Stocks as at 31.12.2006 (at cost): Head Office . - Rs.100000

New York Branch – US \$ 800

2. Depreciation on Plant and Machinery is to be provided at 10 % p.a at book value for both the Head Office and the Branch.

3. Exchange Rates are:

i. When Plant & Machinery, and Furniture & Fittings were purchased:

1 US \$ = Rs.90

ii. On 1.1.2006: 1 US \$ = Rs.105

iii. On 31.12.2006: 1 US \$ = Rs.110

iv. Average rate for the Year: 1 US \$ = Rs.100

Required:

1. Convert the Trial Balances of the New York Branch into Sri Lankan Rupee currency
2. Prepare the following in the columnar form for Head Office, Branch, Combined business
 - i. The Trading and profit and Loss account for the year ended 31.12.2006
 - ii. The Balance sheet as at 31.12.2006
 - iii. The Head Office Current account and the Branch current account

(20 Marks)

05. (I) On 1st of January 2001, XY Ltd acquired a motor car on hire purchase from David & Peris Company. The terms of contract as follows;

1. The cash price of car was Rs.25, 00,000.
2. Rs.500,000 were to be paid on signing of the contract
3. The balance was to be paid in four annual installments of Rs.500,000 each plus interest
4. Interest chargeable on outstanding balance was 10% p.a
5. Depreciation on the motor car is to be provided at 10% p.a using straight line method.

Because of financial difficulties of XY Ltd, after having paid down payment and 2nd installment at the end of 3rd year could not pay the third installment. Therefore, the David & Peris Company took the possession of the car on 31.12.2003. The David & Peris Company after spending Rs.55000 on repairs of this car sold it for Rs.1450000.

Required:

Prepare the following,

- a. David & Peris Company Account and the Car Account in the books of XY Ltd
- b. XY Ltd Account and Goods Repossessed Account in the books of David & Peris Ltd.

(15 Marks)

(II) Ray & Company purchased a machine on hire purchase system. As per terms they required to pay Rs.1000000 on signing of contract as down payment. The installment were as follows:

End of first year:	Rs.660000
End of second year:	Rs.620000
End of third year:	Rs.580000
End of fourth year:	Rs.540000

The interest is to be chargeable on outstanding balances at 8 % p.a.

Required:

Calculate the total cash price of the machine and interest paid with each instalment.

(05 Marks)

(Total 20 Marks)