

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FINAL EXAMINATION – JANUARY 2012

(60) ADVANCED FINANCIAL ACCOUNTING

Time: 03 hours

22-01-2012
Morning
[9.00 – 12.00]

• Instructions to candidates:

- (1) *All questions should be answered.*
- (2) *Submit all workings and calculations. State clearly assumptions made by you, if any.*
- (3) *All answers should be in one language, in the medium applied for, in the booklets provided.*
- (4) *Use of calculators is permitted.*
- (5) *100 Marks.*

No. of Pages : 07
No. of questions : 0601. The Trial Balance of the **Zodiac PLC** as at 31st March 2011 is given below:Trial Balance as at 31st March 2011

	Dr (Rs.'000)	Cr (Rs.'000)
<u>Stated Capital</u>		
Ordinary Shares (800,000 shares)		12,000
General reserve		5,330
Retained Earnings as at 01 st April 2010		2,150
<u>Property, Plant and Equipment - at cost</u>		
Plant and Machinery	10,000	
Motor Vehicles	5,450	
Office Equipment	1,450	
Furniture & Fittings	950	
<u>Provision for Depreciation, as at 01st April 2010</u>		
Plant and Machinery		2,400
Motor Vehicles		2,180
Office equipment		870
Furniture & Fittings		665
Provision for doubtful debt, as at 01 st April 2010		975
Inventory	3,200	
Trade Receivables / Trade Payables	19,800	7,770
14% Bank loan		3,650
Cash and Bank balances	2,250	
Cost of Sales / Sales	34,815	54,950
Other Income		345
Income Tax paid	1,600	
Interim dividend paid	800	
Administration Expenses	7,350	
Selling and Distribution Expenses	4,600	
Debenture interest	150	
Other finance expenses	870	
	93,285	93,285

The following additional information is provided:

- (1) A right issue and debenture issue were made to raise funds to purchase a new machine on 01st July 2010.
 - (i) Right issue: Issued one(01) share for every 5 shares held by the existing share holders at a price of Rs.13/- per share.
 - (ii) Debenture issue: 20,000, 15% debentures were issued at Rs.100/- each. Interest on debentures should be paid on 01st January and 01st July in each year.

The monies received on 01st July 2010 from the right issue and debenture issue were recorded only in cash / bank and General Reserve Account. Assume that all share holders have exercised their rights and the debenture issue had been fully subscribed.

- (2) A new machine at a cost of Rs.7 million was purchased on 01st July 2010 and computers for Rs.240,000/- were purchased on 01st December 2010.
- (3) Depreciation on Property, Plant and Equipment is provided on straight-line method based on the following rates:

Plant and Machinery	-	10%	per annum
Motor Vehicles	-	20%	per annum
Office Equipment	-	20%	per annum
Furniture & Fittings	-	10%	per annum

- (4) Accrued expenses and Advance & Prepayments as at 31st March 2011 are as follows:

	Rs.
Accrued Expenses	
Electricity, Water & Telephone	41,500
Sales Commission	16,500
Advance and Prepayments	
Advertising	85,000
Insurance on Plant & Machinery	36,000

- (5) The following errors have been made while recording the transactions in the books of accounts:
 - (i) A refundable deposit of Rs.300,000/- kept with the building owner has been included in administration expenses.
 - (ii) Printing and stationery expenses of Rs.32,000/- was recorded under selling and distribution expenses.
- (6) 50% of the bank loan as at 31st March 2011 should be settled during the next year.
- (7) Goods costing Rs.500,000/- were purchased on cash basis on 30th March 2011. However the goods were received by the stores only on 03rd April 2011.
- (8) Income Tax liability for the year of assessment 2010/11 is estimated as Rs.1,800,000/-.
- (9) A debt of Rs.800,000/- has to be written-off during the year. A provision of 5% should be made for doubtful debt on balance at the end of year.
- (10) The Board of Directors has taken the following decisions at a meeting held on 25th May 2011:
 - To purchase an office building during the next year.
 - To transfer Rs.400,000/- to the General Reserve.
 - To pay final dividend of Rs.2/- per share for the ordinary shares held on 31st March 2011.

Based on the above information, you are required to prepare, for Zodiac PLC the following, in a form suitable for publication:

(Assume that this Enterprise have decided to adopt early the Sri Lanka Accounting Standards which comes into effect from 01st January 2012.)

- (a) Statement of Comprehensive Income for the year ended 31st March 2011. (10 marks)
- (b) Statement of Financial Position as at 31st March 2011. (10 marks)
- (c) Notes to the Property, Plant & Equipment. (07 marks)
- (d) Statement of changes in Equity for the year ended 31st March 2011. (03 marks)
(Total 30 marks)

02. (A) (a) List four(04) reasons for dissolution of a partnership. (02 marks)
- (b) Briefly explain “Garner Vs Marray Rule”. (02 marks)

- (B) **Manoj, Nuwan and Janaka** were carrying on partnership with a profit and losses sharing ratio of 3 : 2 : 1. Partners decided to dissolve their partnership on 31st March 2011.

Statement of Financial Position (Balance Sheet) of the partnership as at 31st March 2011, was as follows:

Manoj, Nuwan and Janaka Partnership
Statement of Financial Position (Balance Sheet) as at 31st March 2011

	Rs.'000	Rs.'000
Assets		
<u>Non Current Assets</u> (at carrying value)		
Land	6,100	
Building	4,650	
Plant & Machinery	5,925	
Motor Vehicle	1,300	
Furniture	930	18,905
<u>Current Assets</u>		
Inventories	634	
Trade Receivables	720	
Short-term investments	1,200	
Bank balance	861	3,415
Total Assets		22,320
Equity & Liabilities		
<u>Capital Accounts</u>		
Manoj	6,400	
Nuwan	5,600	
Janaka	950	12,950
<u>Current Accounts</u>		
Manoj	1,025	
Nuwan	1,040	
Janaka	(2,070)	(5)
Liabilities		
<u>Non-Current Liabilities</u>		
Bank Loan	3,960	
Loan - Manoj	1,300	5,260
<u>Current Liabilities</u>		
Trade Payables	1,625	
Accrued Expenses	2,490	4,115
Total Equity and Liabilities		22,320

The following additional information is provided:

- (1) **Janaka** was declared insolvent. **Manoj** and **Nuwan** shared all liabilities of **Janaka** on the last agreed capital ratio.
- (2) Carrying value of Rs.875,000/- of Plant & Machinery was taken by **Manoj** for Rs.1,100,000/-. Motor Vehicle was taken by **Nuwan** for Rs.1,350,000/-.
- (3) The balance non-current assets were realized for following amounts:

	<u>Rs.</u>
Land and Building	13,390,000/-
Plant & Machinery	5,100,000/-
Furniture	880,000/-

- (4) It was revealed that 10% of the inventories have been obsolete and the balance inventories were sold at price of Rs.590,000/-.
- (5) Rs.690,000/- was collected from trade receivables and the balance is to be treated as bad debts. Trade payables and other liabilities were settled in full.
- (6) A part of **Manoj's** loan was settled by giving a share of short-term investments valued Rs.800,000/- and balance of the loan was settled in cash. The remaining short-term investments were realized for Rs.695,000/-.
- (7) The dissolution expenses of the partnership was Rs.66,000/-.

Based on the above information, you are required to prepare the following accounts of partnership:

- (a) Realization Account.
- (b) Cash Book.
- (c) Partners' Capital and Current Accounts in Columnar Form.

(14 marks)
(Total 18 marks)

03. **Rantharu Ltd.** operated a branch in Galle while its head office was in Colombo. Trial Balances of Head Office and Branch as at 31st March 2011 were as follows:

Trial Balance as at 31st March 2011 (Rs. '000)

	Head Office (Colombo)		Branch (Galle)	
	Dr.	Cr.	Dr.	Cr.
Stated Capital - Ordinary shares (1,100,000 shares)	-	11,000	-	-
- Preference shares (230,000 shares)	-	2,300	-	-
Retained Earnings as at 01 st April 2010	-	6,337	-	-
Non-current Assets (at Cost)				
Property, Plant and Equipment	17,980	-	7,205	-
Accumulated Depreciation , as at 31 st March 2011				
Property, Plant and Equipment	-	13,282	-	3,950
Trade Receivables	14,362	-	7,197	-
Trade Payables	-	4,178	-	877
12% Long-term loan	-	1,084	-	-
Short-term investments	3,100	-	-	-
Inventories as at 01 st April 2010 - cost / invoiced price	1,650	-	174	-
Purchases	10,522	-	-	-
Sales	-	18,170	-	9,279
Goods sent to / Goods received by Branch	-	3,460	3,398	-
Head office current account	-	-	-	6,300
Branch current account	6,410	-	-	-
Administration expenses	3,668	-	1,087	-
Selling & distribution expenses	1,427	-	755	-
Finance expenses	390	-	-	-
Investment income	-	169	-	-
Provision for unrealized profit on stock	-	29	-	-
Bank balance	500	-	-	-
Cash in hand	-	-	590	-
Total	60,009	60,009	20,406	20,406

The following additional information is provided:

- (1) All goods sold by the branch were supplied by Head office at cost plus 20%.
- (2) Closing inventories as at 31st March 2011 were as follows:

Rs.

Head office - at cost	870,000/-
Branch at invoiced price	394,000/-

- (3) Invoiced goods of Rs.62,000/- from head office to Branch and cash amount of Rs.48,000/- sent from branch were in Transit as at 31st March 2011.
- (4) The company policy is to make a 5% general provision as doubtful debt on the year end Trade Receivable Balance.
- (5) Estimated income tax liabilities for the year is as Rs.669,000/-.

You are required to prepare:

- (a) The Head office, the Branch and the entire organization's Income Statement for the year ended 31st March 2011 in columnar form.
- (b) Head office current account in the branch books and branch current account in the Head office books.
- (c) Statement of financial position (balance sheet) as at 31st March 2011 for the entire organization.

(15 marks)

04. (A) Explain what is the “Consolidated Fund” and give three(03) example of monies that constitute the Consolidated Fund. (05 marks)
- (B) List five(05) functions of General Treasury. (05 marks)
(Total 10 marks)
05. (A) Indicate four(04) advantages of preparation of Cash Flow Statements. (02 marks)
- (B) Statements of Financial Position (Balance Sheets) as at 31st March 2011 and 31st March 2010 and income statement for the year ended 31st March 2011 of **Shobana Ltd.** are given below:

Shobana Ltd.
Statement of Financial Position (Balance Sheet) (Rs. '000)

	as at 31 st March 2011		as at 31 st March 2010	
Assets				
Non Current Assets				
Property, Plant and Equipment				
Plant & Machinery at cost	26,500		26,500	
Less: Accumulated Depreciation	(10,600)	15,900	(5,300)	21,200
Motor Vehicle at cost	2,000		3,000	
Less: Accumulated Depreciation	(1,000)	1,000	(1,250)	1,750
Furniture & Fittings at cost	1,500		1,500	
Less: Accumulated Depreciation	(450)	1,050	(300)	1,200
		17,950		24,150
Investments		2,500		850
		20,450		25,000
Current Assets				
Inventories	3,897		2,525	
Trade Receivables	13,760		14,000	
Cash and cash Equivalentents	1,300	18,957	1,420	17,945
Total Assets		39,407		42,945
Equity & Liabilities				
Equity				
Stated Capital - Ordinary Share capital		17,675		17,675
Retained Earnings		7,027		2,560
		24,702		20,235
Non Current Liabilities				
Bank Loan		5,000		8,000
Current Liabilities				
Trade Payables	6,345		10,340	
Accrued Expenses	1,100		2,300	
Tax payable	1,425		1,520	
Loan Interest payable	835	9,705	550	14,710
Total Equity and Liabilities		39,407		42,945

Shobana Ltd.
Income Statement
for the year ended 31st March 2011

	Rs.'000	Rs.'000
Sales		105,000
Cost of sales		(61,958)
Gross Profit		43,042
Other Income		
Investment Income	287	
Profit on disposal of the Motor Vehicle	125	412
		43,454
Less: Expenses		
Distribution Expenses	14,000	
Administration Expenses	20,137	
Finance Expenses	1,650	35,787
Net Profit Before Tax		7,667
Tax		(3,200)
Net Profit After Tax		4,467

The following additional information is provided:

- (1) The company disposed a Motor Vehicle on 01st April 2010 which was purchased for Rs. 1,000,000/- on 01st April 2007. The rate of depreciation for the Motor Vehicles is 25% per annum on straight-line method.
- (2) Depreciation for the year was Rs.5,950,000/-.
- (3) Company had invested Rs.1,650,000/- in 5 years Treasury Bonds during the year.

You are required to prepare, the Cash Flow Statement of **Shobana Ltd.** using direct method.

(15 marks)

(Total 17 marks)

06. (A) State three(03) limitations of Accounting ratios in business decision making process. (03 marks)
- (B) List three(03) Profitability Ratios and three(03) Investment Ratios. (03 marks)
- (C) **Mickey Leasing Company PLC** had provided a finance leasing facility to **Donald Company Ltd.** for a machine on 01st April 2010. The given below are terms of the lease agreement.
- | | |
|-------------------------------|---|
| Cost of the machine | Rs.3,250,000/- |
| Lease period | 5 years |
| Initial deposit | Rs.650,000/- |
| Value of a annual Installment | Rs.869,362/- (payable at the end of the year) |
| Rate of interest | 20% per annum |

You are required to, record accounting entries of the above transaction in the books of **Donald Company Ltd.** for the year ended 31st March 2011.

(04 marks)

(Total 10 marks)