

## 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 31<sup>st</sup> March 2011 is given below:Trial Balance as at 31<sup>st</sup> 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 <sup>st</sup> 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 01<sup>st</sup> 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 <sup>st</sup> 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	
	<b>93,285</b>	<b>93,285</b>

The following additional information is provided:

- (1) A right issue and debenture issue were made to raise funds to purchase a new machine on 01<sup>st</sup> 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 01<sup>st</sup> January and 01<sup>st</sup> July in each year.

The monies received on 01<sup>st</sup> 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 01<sup>st</sup> July 2010 and computers for Rs.240,000/- were purchased on 01<sup>st</sup> 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 31<sup>st</sup> March 2011 are as follows:

	<b>Rs.</b>
<b>Accrued Expenses</b>	
Electricity, Water & Telephone	41,500
Sales Commission	16,500
<b>Advance and Prepayments</b>	
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 31<sup>st</sup> March 2011 should be settled during the next year.
- (7) Goods costing Rs.500,000/- were purchased on cash basis on 30<sup>th</sup> March 2011. However the goods were received by the stores only on 03<sup>rd</sup> 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 25<sup>th</sup> 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 31<sup>st</sup> 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 01<sup>st</sup> January 2012.)*

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

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

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

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

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 31<sup>st</sup> March 2011 were as follows:

**Trial Balance as at 31<sup>st</sup> 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 <sup>st</sup> April 2010	-	6,337	-	-
<b>Non-current Assets</b> (at Cost)				
Property, Plant and Equipment	17,980	-	7,205	-
<b>Accumulated Depreciation</b> , as at 31 <sup>st</sup> 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 <sup>st</sup> 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	-
<b>Total</b>	<b>60,009</b>	<b>60,009</b>	<b>20,406</b>	<b>20,406</b>

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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2011 and 31<sup>st</sup> March 2010 and income statement for the year ended 31<sup>st</sup> March 2011 of **Shobana Ltd.** are given below:

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

	as at 31 <sup>st</sup> March 2011		as at 31 <sup>st</sup> March 2010	
<b>Assets</b>				
<b>Non Current Assets</b>				
<b>Property, Plant and Equipment</b>				
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
<b>Current Assets</b>				
Inventories	3,897		2,525	
Trade Receivables	13,760		14,000	
Cash and cash Equivalentents	1,300	18,957	1,420	17,945
<b>Total Assets</b>		<b>39,407</b>		<b>42,945</b>
<b>Equity &amp; Liabilities</b>				
<b>Equity</b>				
Stated Capital - Ordinary Share capital		17,675		17,675
Retained Earnings		7,027		2,560
		<b>24,702</b>		<b>20,235</b>
<b>Non Current Liabilities</b>				
Bank Loan		5,000		8,000
<b>Current Liabilities</b>				
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
<b>Total Equity and Liabilities</b>		<b>39,407</b>		<b>42,945</b>

**Shobana Ltd.**  
**Income Statement**  
**for the year ended 31<sup>st</sup> March 2011**

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

The following additional information is provided:

- (1) The company disposed a Motor Vehicle on 01<sup>st</sup> April 2010 which was purchased for Rs. 1,000,000/- on 01<sup>st</sup> 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 01<sup>st</sup> 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 31<sup>st</sup> March 2011.

(04 marks)

(Total 10 marks)