



**UNIVERSITY OF KELANIYA – SRI LANKA**  
**Centre for Distance and Continuing Education**  
**Faculty of Commerce & Management Studies**

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2021  
August – 2024

**BCOM E 3035 - Advanced Financial Accounting**

**No. of Questions : Three (03)**

**Time: 03 hours**

**Answer all questions.**

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**Question No. 01**

- a). Explain the importance of the conceptual framework in financial reporting.  
(06 Marks)
- b). Name and define the elements of Financial Statements.  
(07 Marks)
- c). Explain the qualitative characteristics that make financial information effective for decision-making by analyzing fundamental and enhancing qualitative characteristics.  
(12 Marks)

**(Total 25 Marks)**

**Question No. 02**

Alpha ltd acquired 75% of net assets of Beta Ltd on 01.04.2023. At the date of the acquisitions. The fair value of non-controlling interest at the date of the acquisition was Rs. 2,200,000. You have been given the individual financial statements of Alpha group of companies for the year ended 31<sup>st</sup> March 2024 as follows.

Statements of Comprehensive Income for the year ended 31<sup>st</sup> March, 2024

|                         | <b>Alpha</b>     | <b>Beta</b>      |
|-------------------------|------------------|------------------|
| Revenue                 | 13,568,225       | 10,420,712       |
| Cost of sales           | 10,221,430       | 8,111,900        |
| <b>Gross Profit</b>     | <b>3,346,795</b> | <b>2,308,812</b> |
| Other Income            | 132,000          | 4,500            |
| Administrative Expenses | 943,235          | 622,900          |
| Distribution Expenses   | 1,028,328        | 712,800          |
| <b>Operating Profit</b> | <b>1,507,232</b> | <b>977,612</b>   |

|                            |                  |                |
|----------------------------|------------------|----------------|
| Finance Expenses           | 323,450          | 488,950        |
| <b>Profit before Tax</b>   | <b>1,183,782</b> | <b>488,662</b> |
| Taxation                   | 428,200          | 94,500         |
| <b>Profit for the year</b> | <b>755,582</b>   | <b>394,162</b> |

Statements of Changes in Equity for the year ended 31<sup>st</sup> March, 2024

|                                 | <b>Alpha</b>     | <b>Beta</b>      |
|---------------------------------|------------------|------------------|
| Stated Capital                  | 6,000,000        | 3,000,000        |
| <b>Retained earnings</b>        |                  |                  |
| Balance as at 01.04.2023        | 1,512,854        | 1,492,900        |
| Net Profit                      | 755,582          | 394,162          |
| Dividend Paid                   | 156,000          | 100,000          |
|                                 | 2,112,436        | 1,787,062        |
| <b>Balance as at 31.03.2024</b> | <b>8,112,436</b> | <b>4,787,062</b> |

Statements of Financial Position as at 31<sup>st</sup> March, 2024

|                                       | <b>Alpha</b>     | <b>Beta</b>      |
|---------------------------------------|------------------|------------------|
| <b><u>Assets</u></b>                  |                  |                  |
| <b><u>Non- Current Assets</u></b>     |                  |                  |
| Property Plant and Equipment          | 4,325,270        | 4,328,150        |
| Investment - Beta                     | 2,450,000        |                  |
| Other Investment                      | 185,000          | 75,000           |
|                                       | <b>6,960,270</b> | <b>4,403,150</b> |
| <b><u>Current Assets</u></b>          |                  |                  |
| Inventories                           | 822,600          | 612,850          |
| Trade debtors                         | 456,750          | 343,600          |
| Amount due from related party         | 21,500           | -                |
| Cash and cash equivalent              | 977,466          | 677,362          |
|                                       | <b>2,278,316</b> | <b>1,633,812</b> |
|                                       | <b>9,238,586</b> | <b>6,036,962</b> |
| <b><u>Equity and Liabilities</u></b>  |                  |                  |
| <b><u>Equity</u></b>                  |                  |                  |
| Stated capital                        | 6,000,000        | 3,000,000        |
| Retained earnings                     | 2,112,436        | 1,787,062        |
|                                       | <b>8,112,436</b> | <b>4,787,062</b> |
| <b><u>Non-Current liabilities</u></b> |                  |                  |
| Interest bearing borrowings           | 522,200          | 792,000          |
| <b><u>Current liabilities</u></b>     |                  |                  |
| Interest bearing borrowings           | 95,800           | 125,000          |
| Trade Creditors                       | 383,500          | 288,950          |
| Amount due to related party           | -                | 1,500            |
| Taxation                              | 124,650          | 42,450           |
|                                       | <b>603,950</b>   | <b>457,900</b>   |
|                                       | <b>9,238,586</b> | <b>6,036,962</b> |

### **Additional Information**

1. On 20<sup>th</sup> May 2023 Alpha ltd sold goods to Beta ltd valued at Rs. 315,000. The gross profit margin of this transaction was 20%. 30% of such goods remained in Beta Ltd.'s inventory as on the date of statement of financial position.
2. Further, Beta ltd also sold goods to Alpha ltd during the year valued at Rs. 415,000. The cost of the goods to Beta was Rs. 352,000. 15% of such goods remained in Alpha Ltd.'s inventory as on the date of statement of financial position.
3. Creditors of Alpha ltd includes Rs. 30,000 as a payable amount to Beta ltd arose from trading transactions between two companies. Beta has recorded the same under their trade debtors.
4. Rs. 20,000 cash payment made by Beta ltd on 30<sup>th</sup> March 2024 as a part settlement of the amount due to Alpha not recorded in the books of Alpha ltd.

You are required to prepare the

- a). Statement of Comprehensive Income of the Alpha group for the year ended 31.03.2024
- b). Statement of Changes in equity of the Alpha group for the year ended 31.03.2024
- c). Statement of Financial Position of the Alpha group as at 31.03.2024

**(Total 40 Marks)**

### **Question No. 03**

Sandamali PLC decided to liquidate its business on 31st March 2024. They prepared their final statement of financial position as of 31st March 2024.

#### **Sandamali Ltd.**

#### **Statement of Financial Position as of 31.03.2024**

| <b><u>Assets</u></b>             | <b>Rs.</b> | <b>Rs.</b> |
|----------------------------------|------------|------------|
| <b><u>Non-Current Assets</u></b> |            |            |
| Land                             | 9,800,000  |            |
| Building                         | 12,500,000 |            |
| Plant and Machinery              | 12,750,000 |            |
| Equipment                        | 12,910,000 |            |
|                                  |            |            |
| <b><u>Current Assets</u></b>     |            |            |
| Stock                            | 7,200,000  |            |
| Trade Debtors                    | 10,100,000 |            |
| Prepaid Expenses                 | 2,000,000  |            |



|   |                |                   |
|---|----------------|-------------------|
| Cash  | 4,685,000      |                   |
| <b>Total Assets</b>   |                | <b>71,945,000</b> |
| <u><b>Equity &amp; Liabilities</b></u>                        |                |                   |
| <u><b>Equity</b></u>  |                |                   |
| 15%, Preference Share Stated Capital                          | 35,000,000     |                   |
| Ordinary Share Stated Capital (200,000 shares at Rs.100 each) | 20,000,000     |                   |
| Calls in arrears (6000 shares at Rs. 10 each)                 | (80,000)       |                   |
| Reserves as at 01.04.2023                                     | (11,820,000)   |                   |
| Profit (Loss) for the year                                    | (4,935,000)    | 38,165,000        |
| <u><b>Non-Current Liabilities</b></u>                         |                |                   |
| 12% Mortgage Loan (Secured on Land)                           | 8,800,000      |                   |
| 14%, Bank Loan (Secured on Building)                          | 9,400,000      |                   |
| 10%, Rs. 100 Debentures                                       | 8,000,000      | 26,200,000        |
| <u><b>Current Liabilities</b></u>                             |                |                   |
| Trade Creditors   | 660,000        |                   |
| Preference share dividend payable                             | 200,000        |                   |
| Managing director salary                                      | 200,000        |                   |
| Salaries and wages (5 months)                                 | 3,000,000      |                   |
| Accrued debenture interest                                    | 600,000        |                   |
| Tax Payable – 20/21   | 2,000,000      |                   |
| 21/22   | 800,000        |                   |
| 22/23   | <u>120,000</u> | <u>7,580,000</u>  |
|   |                | <b>71,945,000</b> |

As per the requirement of section 283 of the companies act no 07 of 2007 the secretary of the company is going to submit the statement of company affairs and other documents on 31<sup>st</sup> March 2024 using following information.

i). Assets were realized as follows.

|                     |   |               |
|---------------------|---|---------------|
| Land                | - | Rs.10,200,000 |
| Building            | - | Rs. 9,000,000 |
| Plant and Machinery | - | Rs.10,500,000 |
| Equipment           | - | Rs.12,000,000 |
| Stock               | - | Rs. 7,000,000 |

ii). Based on the cash receipts trade debtors can be categorized as follows.

|                                      |   |               |
|--------------------------------------|---|---------------|
| Good                                 | - | Rs. 2,250,000 |
| Doubtful (estimated to realized 70%) | - | Rs. 3,000,000 |

Rests were treated as bad debtors.

iii). Prepaid expenses represent the rent paid to the office. Office owner agreed to repay Rs. 1,500,000

iv). Company has called money in arrears, and it is estimated to realize for Rs. 50,000.

v). An employee filed a case against the company; as compensation, the company should pay Rs.75,000 to that employee. This liability not yet recorded in the books of the company.

vi). Liabilities should be settled as follows.

|                            |   |  |
|----------------------------|---|--|
| Trade Creditors            | - | Rs. 700,000 (with late payment charge) |
| Managing Director's Salary | - | Rs. 150,000                            |

Other liabilities have to be settled in full.

vii). On 1<sup>st</sup> April 2020, the company's retained earning balance was Rs. 8,500,000 and during the financial year 2020/21 companies earned Rs. 5,100,000 trade profit and paid Rs. 6,450,000 and Rs. 4,000,000 as dividends to the ordinary and preferential shareholders respectively. During 2021/22, 2022/23 financial years, company suffered from Rs. 820,000 and Rs. 2,150,000 trade losses and thy paid Rs. 4,000,000 as preferential share dividend each year.

By using above information, you are required to prepare,

- a) Statements of Company affairs
- b) Deficiency or Surplus Account

**(Total 35 Marks)**