



Bachelor of Commerce (Special) Degree Second Examination (External)- 2010  
December 2011/ January 2012

Faculty of Commerce and Management

BCOM E 2045 – Advanced Financial Accounting

No. of questions: Five (05)  
Answer all questions.

Time: 03 hours

(01) Mihiri Ltd is a public company incorporated at 01<sup>st</sup>.04.2000. The trial balance of Mihiri Ltd as at 31.03.2011 as follows.

	Dr (Rs.)	Cr (Rs.)
Ordinary Shares (50,000 shares)		750,000
Preference Shares (10,000 shares)		100,000
General Reserve		25,000
Revaluation Reserve		60,000
Profit & Loss Account as at 01.04.2010		169,000
Purchases	1500,000	
Sales		3850,000
Debtors	285,000	
Creditors		300,000
<u>Property, Plant &amp; Equipment as at 01.04.2010 at cost</u>		
Land	1000,000	
Freehold Building	500,000	
Furniture & Fittings	250,000	
Motor Vehicle	375,000	
<u>Provisions for depreciation as at 01.04.2010</u>		
Buildings		125,000
Furniture & Fittings		75,000
Motor Vehicle		187,500
Opening Stock	425,550	
Rent	25,000	
Electricity Bill	37,500	
Provisions for doubtful debts		7,500
Interim dividends - Ordinary Shares	15,300	
- Preference Shares	18,000	
Reincorporated expenses	20,000	

Preliminary Expenses	10,000	
Bank loan (10%- borrowed - 01.09.2010)		500,000
Office Expenses	10,000	
Cash in hand	15,000	
Cash in bank	18,000	
Selling Expenses	18,150	
Sales commissions	23,500	
Investment	1803,000	
Investment Income		200,000
	<u>6349,000</u>	<u>6349000</u>

You are given the following additional information.

1. Stocks as at 31<sup>st</sup>.03.2011 were valued at Rs.575, 000.
2. Outstanding Expenses: Rent Rs.6, 000 & Electricity bill Rs.10, 000.
3. The company decided to set up a provision for doubtful debts amounting to 5% of the outstanding trade debtors as at end of each financial year.
4. Interim dividends stated excluding the Withholding tax (WHT 10%).
5. Following transactions took place in the motor vehicle account during the year. An old lorry standing in the books at Rs.20, 000 (Purchase cost Rs.100, 000) was sold for Rs.50, 000 and credited to the sales account on 01.04.2010. A new motor vehicle purchase at a cost of Rs.150,000 on 01.07.2010 on credit.
6. Provisions for depreciation are calculated on straight line basis as follows.

Building	2%
Furniture & Fittings	10%
Motor Vehicle	15%
7. The tax liability for the current year is estimated at Rs.120, 000.
8. Bank Loan should pay from five annual installments starting with 01.04.2012.
9. The directors proposed following in their meetings.
  - I. To transfer 50,000 to General Reserve
  - II. To proposed Rs.1.50 dividend per ordinary shares.

You are required to prepare,

- a). Income statement for the year ended 31.03.2011 in a form suitable for presentation to the shareholders.
- b). Statement of changes in equity during the year.
- c). Balance Sheet as at 31<sup>st</sup> March 2011, in a form suitable for presentation to the shareholders.
- d). Notes to the accounts.

(Total 35 Marks)

(02) The Summarized financial statements of Samanala Ltd, for the year to March 2011, together with a comparative balance sheet are as follows.

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

	Rs.000'
Sales	10,820
Cost of Sales	<u>(6,480)</u>
Gross Profit	4,340
Operating Expenses	(1,020)
Interest Expenses	(215)
Profit from disposal of Motor Vehicle	25
Interest Income	12
Dividend Income	280
Profit before Tax	3,422
Income Tax	<u>(980)</u>
Profit after Tax	<u>2,442</u>

**Balance Sheets**

	2011 Rs. 000'		2010 Rs. 000'	
<u>Assets</u>				
Property, Plant & Equipments		2,805		2,360
Investments		2,820		2,040
Stocks		1,970		1,705
Trade receivables		2,650		1,840
Cash & Bank		48		180
		<u>10,293</u>		<u>8,125</u>
<u>Equity</u>				
Ordinary Share Stated Capital		5,000		3,500
Revenue Reserve		<u>2,512</u>		<u>870</u>
		7,512		4,370
<u>Liabilities</u>				
Long Term Liabilities	1,640		2,170	
Trade Payables	640		720	
Interest Payable	21		5	
Income Tax Payable	456		860	
Bank overdraft	<u>24</u>	<u>2,781</u>	-	<u>3,755</u>
		<u>10,293</u>		<u>8,125</u>

Additional Information:

- 1) During the year a motor vehicle that had cost Rs.125, 000 and had net book value of Rs. 75,000 was sold.
- 2) Dividend paid – Rs. 800,000
- 3) Additional Information of Property, Plant and Equipment are as follows.

	31.03.2011 (Rs. 000')	31.03.2010 (Rs. 000')
Cost	4,275	3,600
Accumulated Depreciation	(1,470)	(1,240)
Net Book Value	<u>2,805</u>	<u>2,360</u>

You are required to prepare cash flow statement for the year ended 31.03.2011.

(Total 30 Marks)

- 03) Given below are the Balance sheets of Alpha Ltd. and Beta Ltd. as on 31.03.2011.

	Alpha Ltd Rs.	Beta Ltd Rs.
<b>Assets</b>		
<b>Non Current assets</b>		
<u>Property Plant &amp; Equipment</u>		
Machinery	135,000	67,500
Vehicles	270,000	90,000
Furniture and fittings	<u>105,000</u>	<u>120,000</u>
	510,000	277,500
Goodwill	75,000	45,000
Investment on Beta Ltd	350,000	
Investments	400,000	75,000
Stocks	60,000	60,000
Cash in hand	15,000	18,750
Sundry debtors	30,000	22,500
Bills receivables	<u>11,250</u>	<u>15,000</u>
	<b><u>1451,250</u></b>	<b><u>513,750</u></b>
<u>Equity &amp; Liabilities</u>		
<u>Stated Capital</u>		
Equity shares of		
Rs. 10 each	1200,000	150,000
Preference shares		
of Rs. 10 each	120,000	-
General reserve	86,250	25,500
Profit and Loss Accounts	<u>30,000</u>	<u>15,750</u>
	1,436,250	191,250

<u>Long term liabilities</u>		
Loan	-	300,000
<u>Short term liabilities</u>		
Creditors	<u>15,000</u>	<u>22,500</u>
	<u>1451,250</u>	<u>513,750</u>

The following further information are furnished

1. Alpha Ltd acquired 80% equity shares of Beta Ltd on 31.03.2010.
2. The retained earnings of Beta Ltd had a debit balance of Rs. 27,000 as on 31.03.2010.
3. The general reserve balance of Beta Ltd stood at Rs. 5,500 as on 31.03.2010.
4. Beta Ltd. owed Rs. 12,000 for purchase of stock from Alpha Ltd. The entire stock is remained unsold in Beta Ltd as on 31.03.2011. Alpha Ltd. made a profit of 20% on selling price.
5. Goodwill should be amortized by 10%.

You are required to prepare consolidated balance sheet as at 31.03.2011.

(Total 20 Marks)

- (04) A Ltd issued 120,000 ordinary shares at Rs.60 each. Payment being made as follows.

On Application Rs.20

On Allotment Rs.20

On call Rs.20

01.08.2010- Applications were received 120,000 shares and it was decided to allot the shares for all.

10.08.2010- Allotment was made.

20.08.2010- Allotment money paid in fully by shareholders.

30.08.2010- Call money was made and stated that should be paid on or before 15.09.2010

15.09.2010- With exception of 16000 shares, the remainders of the call were paid in fully. Company decided to charge 8% interest for arrears that stated in their article of association.

30.09.2010- Company informed shareholders who arrears call money that the company decides to resale the shares.

15.10.2010- Company resold shares at Rs.60 each and incurred Rs.17, 000 expenses. Finally company paid balance money to the prior shareholders.

Give necessary ledger accounts.

(Total 10 Marks)

- (05) Define following\$.

a). Stated Capital

b). Solvency Test

(05 Marks)