



SOUTH EASTERN UNIVERSITY OF SRI LANKA

THIRD YEAR EXAMINATION IN BACHELOR OF COMMERCE (EXTERNAL)
2009 / 2010 - HELD IN DECEMBER - 2010

COM 33- ACCOUNTING THEORY AND STANDARDS

Answer all questions

Time allowed: 03 Hours

01. Set out below is the summarized Balance Sheets of Toyota Ltd as at 31st March 2008 and 2009 and the Income Statement for the year ended 31st March 2009.

Balance Sheets as at 31st March

<u>Non Current Assets</u>	2009 (Rs. '000)		2008 (Rs. '000)	
Property, Plant & Equipment		520		350
Investments		150		200
		670		550
<u>Current Assets</u>				
Inventories	565		335	
Accounts Receivables	335		415	
Cash and Bank	175	1,075	195	945
		1,745		1,495
<u>Share Capital and Reserves</u>				
Ordinary Share Capital	850		800	
Revenue Reserves	295	1,145	100	900
<u>Non Current Liabilities</u>				
Long-term Liabilities		100		150
<u>Current Liabilities</u>				
Accounts Payable	165		135	
Tax	300		225	
Bank overdraft	35	500	85	445
		1,745		1,495

Income statement for the year ended 31st March 2009

	(Rs. '000)
Turnover	3,565
Cost of Sales	(2,390)
Gross Profit	1,175
Operating Expenses	(520)
Profit from Operations	655
Profit from Sale of Investment	50
Profit on Sale of Equipment	25
Profit before Finance Cost	730
Interest	(35)
Profit Before Tax	695
Tax	(300)
Dividends Paid	395
Retained Profit for the year	195

Additional information

- The proceeds from the sale of non-current investments amounted Rs. 100,000.
- Equipment with an original cost of Rs. 150,000 and a net book value of Rs. 100,000 were sold during the year.
- Additional information on property plant and equipment are as follows:

	In Rs. '000	
	31.03.2009	31.03.2010
Cost	700	500
Accumulated Depreciation	<u>(180)</u>	<u>(150)</u>
Net Book Value	<u>520</u>	<u>350</u>

You are required to prepare:

A Cash Flow Statement for the year ended 31st March 2009 using the Direct Method.

(20 Marks)

02. 'X' PLC acquired 75% of the ordinary share capital of 'Y' Plc few years ago when the balance on the accumulated profits of 'Y' PLC was £. 40,000. Draft Balance Sheets of the companies as at 31st December 2009 are as follows. The Balance Sheet of Y PLC represents £ which is its reporting currency.

	X PLC (\$.)	Y PLC (£.)
Non-current Assets	452,000	350,000
Investment in Y PLC	120,000	--
Current Assets	<u>80,000</u>	58,000
	<u>652,000</u>	<u>408,000</u>
Ordinary Share Capital	350,000	200,000
Preference Share Capital	200,000	40,000
Accumulated Profits	82,000	120,000
Dividend Payable	-	40,000
Other Payable	<u>20,000</u>	<u>8,000</u>
	<u>652,000</u>	<u>408,000</u>

Other information:

- On 01/01/2009, "X" PLC sold a fixed asset to 'Y' PLC for \$. 40,000 which originally cost \$. 50,000 and had a net book value of \$. 35,000. Both companies depreciate fixed assets at 20% per annum.
- 'X' PLC has not yet made any entry for the dividend receivable from 'Y' PLC for the year.
- Exchange Rate details are given below;

Date	Exchange Rate (\$ to £)
On the date of acquisition	3.00
31 st December 2008	2.50
Average for the year ended 31 st December 2009	2.45
31 st December 2009	2.30

You are required to:

Translate the Balance Sheet of 'Y' PLC in to \$ and prepare the consolidated Balance Sheet as at 31st December 2009.

(20 Marks)

03. (a) Explain the term 'Holding Profit' with example.

(b) An assets had been purchased on 1st April 2007. The useful life of the asset is six years and there is no residual value at the end of six years. The current cost of asset is as follows.

	Rs.
31 st March 2008	18,000
31 st March 2009	22,000

The asset is depreciated on direct line basis and the asset is maintained on Current Cost Basis.

You are required to calculate the 'Backlog Depreciation' of that asset.

(c) XYZ Plc started its business on 31st December 2009 with an initial investment of Rs. 50,000. Total of this investment was used to buy stock on the same date. Within the financial year, all stock was sold at a price of Rs. 60,000. The retail price index has changed from 130/- to 150/- during the year.

What is the maximum profit that XYZ Company can distribute its shareholders?

(20 Marks)

04. (a) Define the term 'cost' according to SLAS- 5.

(b) What are the costs associated with purchase cost calculation according to SLAS-5.

(c) The following details are related with purchase of material during a week for production.

Day	Cost of Unit (Rs.)	Movements of Stock Purchase /(Used)
1	2.50	100
2	2.75	120 / (80)
3	2.60	75

4	2.80	90 / (150)
5	3.00	50
6	3.00	80 (75)

There is no opening stock at the beginning of this week.

Calculate the value of inventory at the end of the week using Last in First Out (LIFO) method.

- (d) Differentiate 'depreciation and the provision for depreciation.'
- (e) A delivery van had been purchased for Rs. 150,000 on 31st March 2007. It is estimated that the van will have 5 years useful life and there is no residual value at the end of its useful life. On 01st April 2009, the van had been sold for Rs. 105,000.

Show the journal entries for the above transaction and find out the profit on sale of the van.

(20 Marks)

05. Write explanatory notes on the following.

- i. Objectives of the conceptual framework for the preparation and presentation of financial statement.
- ii. Elements of the financial statements.
- iii. Qualitative characteristics of financial information.
- iv. Fundamental assumption of financial statements.
- v. Balance Sheet Equitation

(4 x 5 = 20 Marks)
