



Uva Wellassa University
Faculty of Management

**Degree of Bachelor of Business Management
 and Entrepreneurship**
Year 2 Semester II Examination – July 2009

EMG 212-3 Financial Accounting in Management



Time : Thirty (30) minutes

Total marks : 20

Answer all questions

Under line the correct answer from the choices given below for each question. Each question carries only one correct answer.

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Section III

Answer all questions

1. (a). Briefly explain the importance of having a net positive cash flow from operating activities.

(02 Marks)

- (b). Comparative balance sheets of Araliya Ltd for 2008 and 2007 and profit and loss statement for 2008 are as follows.

Comparative Balance Sheets

	31 st December	
	2007	2008
	Rs.	Rs.
Equipments	1,500,000	1,955,000
Accumulated depreciation – Equipments	(500,000)	(600,000)
Furniture	100,000	50,000

Accumulated depreciation – Furniture	(30,000)	(20,000)
Inventory	150,000	145,000
Trade debtors	50,000	75,000
Cash at bank and in hand	30,000	65,000
	-----	-----
	1,300,000	1,670,000
	=====	=====
Stated Capital	1,050,000	1,320,000
Trade creditors	250,000	350,000
	-----	-----
	1,300,000	1,670,000
	=====	=====

Income Statement

For the year ended 31st December 2008

	Rs.
Revenue	730,000
Less : Cost of sales	(300,000)

Gross profit	430,000
Profit on disposal of furniture	10,000

	440,000
Operating expenses :	
Selling and general expenses	150,000
Depreciation of equipments	100,000
Depreciation of furniture	20,000

	(270,000)

Net operating profit	170,000
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Additional informations :

Furniture which had cost Rs. 50,000 and had been written down to Rs. 20,000 was sold for Rs. 30,000 cash. No furniture was purchased during the year.

You are required to prepare a cash flow statement under the indirect method for the year ended 31st December 2008.

(08 Marks)

(Total 10 Marks)

2. Horizon plc acquired 135,000 shares in Sunrise plc in 2007. The reserves of Sunrise plc at the date of the acquisition comprised: revenue reserve Rs. 20,000 ; capital reserve Rs. 10,000. The draft balance sheets of both companies are given below as at 31st December 2008.

	Horizon plc Rs.	Sunrise plc Rs.
<u>Fixed assets</u>		
Tangible assets	350,000	210,000
<u>Investments</u>		
Shares in Sunrise plc at cost	190,000	

	540,000	
<u>Current assets</u>		
Stocks	83,000	42,000
Debtors	102,000	48,000
Current account with Sunrise plc	5,000	-
Cash and Bank	40,000	12,000
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	230,000	102,000
	-----	-----
<u>Current liabilities</u>		
Trade creditors	120,000	47,000
Current account with Horizon plc	-	1,000
	-----	-----

	120,000	48,000
	-----	-----
Net current assets	110,000	54,000
	-----	-----
Total assets less current liabilities	650,000	264,000
	=====	=====
<u>Capital and reserves</u>		
Stated capital	400,000	150,000
Capital reserve	60,000	15,000
Revenue reserve	190,000	99,000
	-----	-----
	650,000	264,000
	=====	=====

On 29th December 2008, Sunrise plc sent a cheque for Rs. 4,000 to Horizon plc which was not received until 03rd January 2009. You are required to prepare the consolidated balance sheet of Horizon plc as at 31st December 2008. (Total 10 Marks)

3. The trial balance of Greenview Hotels Ltd as at 31st March 2009 was as follows.

	Rs.'000	Rs.'000
Stated Capital		300,000
General Reserve		112,900
Retained Profit		14,953
Bank Loans		40,220
Freehold Land	63,335	
Freehold Buildings	222,520	
Accumulated depreciation – Buildings		23,711
Plant & Equipments	112,408	
Accumulated depreciation – P & E		45,339
Fixtures & Fittings	28,587	
Accumulated depreciation – F & F		8,735
Motor Vehicles	4,326	
Accumulated depreciation – MV		1,568
Investments	98,750	
Furnishing, cutlery and glassware	37,130	
Inventory	9,185	
Trade debtors	78,364	
Provision for doubtful debts		586
Prepayments	3,400	



Cash in hand and at bank	15,588	
Corporate Tax	3,365	
Deferred Tax		942
Trade creditors		65,056
Gross revenue		213,838
Taxes and other government levies	6,715	
Dividend (net) from investment		11,847
Cost of inventories and services	51,881	
Provision for gratuity as at 31.03.2008		1,937
Salaries and wages	26,075	
Other operating expenses	72,726	
Directors' emoluments	1,825	
Auditors' remuneration	126	
Interest on bank loans	5,073	
Bank charges	253	
	<u>841,632</u>	<u>841,632</u>

You are given the following additional information.

- a) Based on the estimated useful life of each asset, depreciation on non-current assets for the year has been determined as follows:
 - Buildings : Rs. 4,451,000
 - Plant & equipments : Rs. 8,107,000
 - Furniture & fittings : Rs. 2,120,000
 - Motor vehicles : Rs. 742,000
- b) Addition to the plant & equipments during the year amounted to Rs. 5,525,000.
- c) No depreciation is to be provided on land, furnishing, cutlery and glassware.
- d) A total of Rs. 925,000 is to be written off as breakages and losses on furnishing, cutlery and glassware. The cost of these assets should be adjusted accordingly.
- e) Bad debts written off during the year amounted to Rs. 36,000.
- f) The provision for bad and doubtful debts is to be increased to Rs. 783,000.

- g) Annual charge on the provision for gratuity amounted to Rs. 229,000.
- h) Current portion of the bank loans as at 31st March 2009 amounted to Rs. 1,720,000.
- i) Being a company involved in the promotion of tourism, Greenview Hotels Ltd is liable to income tax at a concessionary rate of 15%. Based on these rates and allowances and non-deductible expenses, the corporate tax expense for the current year has been determined as Rs. 4,374,000. Deferred tax liability arising from timing differences for the year is Rs. 165,000.
- j) The directors have proposed a dividend of Rs. 23,100,000.
- k) The directors have decided to transfer Rs. 10,000,000 to the general reserve.

You are required to prepare for the purpose of publication:

- I. Income Statement for the year ended 31st March 2008. (12 Marks)
 - II. Balance Sheet of the company at the same date. (12 Marks)
 - III. Statement of changes in equity. (02 Marks)
 - IV. Notes to the financial statements. (04 Marks)
- (Total 30 Marks)