

Uva Wellassa University
Faculty of Management

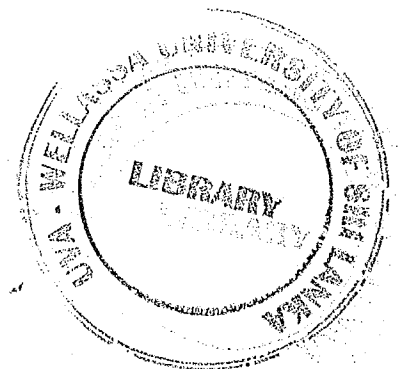


Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION - AUGUST/SEPTEMBER 2011
EMG 212 -3 Advanced Financial Accounting (Repeaters)

Instructions to candidates:

No. of pages : Nine (09)
No. of questions : Five (05) Structured Essay
 : Three (03) Essay
Time allocation : Two (02) Hours and Thirty (30) Minutes
Marks allocated : 80 Marks
Question paper is not to be removed from examination hall.

Index Number:



Part C – Essay Questions

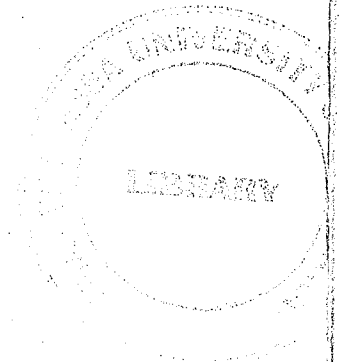
Answer only two (02) questions from Part C including question no. 01

Marks allocation: 50 Marks

Show all workings very clearly. Any assumptions should clearly be stated.

- 01) ABC PLC is a trading company and its summarised Balance Sheet as at 31.03.2010 and the Income Statement for the year ended 31.03.2010 are given below.

Balance Sheet as at 31.03.2010	(Rs.'000)
Assets:	
Property, Plant & Equipment	5,820
Investment property	2,000
Inventories	1,880
Trade receivables	1,450
Other current assets	450
Cash and cash equivalents	650
Total Assets	12,250
Equity & Liabilities:	
Stated capital (400,000 shares)	4,000
Retained earnings	4,410
Long-term borrowings	1,500
Trade payables	1,760
Current portion of long-term borrowing	300
Other short-term payables	280
Total Equity and Liabilities	12,250



Income Statement for the year ended 31.03.2010

	(Rs.'000)
Revenue	15,200
Cost of sales	<u>(9,570)</u>
Gross profit	5,630
Less: expenses	
Distribution expenses	(1,460)
Administration expenses	(1,390)
Finance cost	<u>(340)</u>
Profit before taxation	2,440
Income tax expenses	<u>(735)</u>
Profit for the year	<u><u>1,705</u></u>

The following ratios and additional information is also available.

Ratio	2008/2009	Industry average
Gross profit margin	41%	40%
Net profit margin	15.5%	15%
Return on capital employed	32%	32%
Current ratio	2.2:1	2 : 1
Liquidity ratio	1.4 : 1	1.2 : 1
Inventory turnover	6 times	6 times
Average collection period	29 days	30 days
Debt ratio	18%	20%
Earnings per share	Rs.5.80	-
Price Earnings Ratio	5.8	5



- i. Market price of ABC PLC's shares on 31.03.2010 was Rs.30 per share.
- ii. Investment property was acquired during 2009/2010 and it did not yield any income during the year
- iii. A sales growth of 5% was experienced in the year 2009/2010

You are required to:

Compute the necessary ratios for the year 2009/2010 and to write a report to the Managing Director that analyzing the current financial position of ABC PLC under appropriate headings.

(30 Marks)

02)

- a) Explain what is meant by a Construction Contract.

(5 Marks)

- b) A construction contractor has a fixed price contract for Rs.9,000,000 to build a shopping complex. The initial amount of revenue agreed in the contract is Rs.9,000,000. The contractor has initially estimated the contract cost at Rs.8,000,000 and it will take three years to complete the building of shopping complex. By the end of the 1st year of construction, the contractor's estimate of contract costs has increased to Rs.8,050,000.

In year 2 the customer approved a variation resulting in an increase in contract revenue of Rs.200,000 and estimated additional contract cost of Rs.150,000. At the end of first year, cost incurred include Rs.100,000 for standard materials stored at the site to be used in the third year to complete the project.

The contractor determines the stage of completion of the contract by calculating the proportion that contract costs incurred for works performed to date bear to the latest estimated total contract costs. Summary of the financial data during the construction period as follows.

	Year 1 (Rs.)	Year 2 (Rs.)	Year 3 (Rs.)
Initial amount of revenue agreed	9,000,000	9,000,000	9,000,000
Variation	-	200,000	200,000
Total Contract Revenue	9,000,000	9,200,000	9,200,000
Contract costs incurred to date	2,193,000	6,168,000	8,200,000
Contract costs to complete	5,857,000	2,032,000	-
Total estimated contract costs	8,050,000	8,200,000	8,200,000

You are required to:

Determine the contract revenue, expense and profit to be recognised in each year.

(15 Marks)

(Total – 20 Marks)

- 03) Alpha company purchased 1,450,000 ordinary shares in Beta Company in 2005, when the general reserve of Beta stood at Rs.400,000 and there were no any retained earnings.

The balance sheets of the two companies as at 31.12.2009 are set out bellow.

	Alpha Rs.'000	Beta Rs.'000
<u>Non-current Assets</u>		
Property plant and equipment	8,868	1,787
Investment in Beta at cost	1,450	-
Total non-current assets	10,318	1,787
<u>Current Assets</u>		
Inventories	1,983	1,425
Receivables	1,462	1,307
Cash	25	16
Total current Assets	3,470	2,748
Total assets	<u>13,788</u>	<u>4,535</u>



Equity and Liabilities

Equity

Share capital (Rs.0.50 ordinary shares)	5,500	1000
General Reserve	1,200	800
Retained earnings	<u>485</u>	<u>100</u>
Total equity	<u>7,185</u>	<u>1,900</u>

Non-current liabilities

Borrowings @ 10%	4,000	-
Borrowings @ 15%	-	<u>500</u>
Total non-current liabilities	<u>4,000</u>	<u>500</u>

Current Liabilities

Bank overdraft	1,176	840
Trade payables	887	1,077
Taxation	<u>540</u>	<u>218</u>
Total current liabilities	<u>2,603</u>	<u>2,135</u>
Total liabilities	<u>6,603</u>	<u>2,635</u>
Total equity and liabilities	<u>13,788</u>	<u>4,535</u>

At the balance sheet date the current account of Alpha with Beta was agreed at Rs.23,000 owed by Beta. This account is included in the appropriate receivable and trade payable balances shown above. There has been no impairment of goodwill since the date of acquisition.

You are required to

Prepare a consolidated Balance sheet as at 31.12.2009 for the Alpha Beta group.

(20 Marks)