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Diploma in Quantity Surveying			
NVQ Level 05 –Semester I			
Financial Accounting	F45C002M05	Three Hours	
Answer any 04 questions includ	ing question No 01.		

## **Question No 01**

The following trial balances were extracted from the books of accounts of Laksiri Hardware on March 31, 2020

Particulars	Amount (Rs) 000	Amount (Rs) 000
Sales		138,078
Purchases	82,350	
Drawings	7,800	
Rent and insurance	11,766	
Stationary expenses	3,001	
Advertising expenses	1,330	
Salaries and wages	26,420	
Electricity bills	7,800	
Tax expenses	877	
Receivables	11,990	
Payables		6,471
Cash in hand	177	
Cash at bank	1,002	
Inventory at 1st April 2019	11,927	
Equipment	31,200	
Capital		53,091
	197,640	197,640

Additional information;

- a. Interest paid for the period was Rs 880,000
- b. New vehicle has purchased at cost Rs 10 Mn at the beginning of the year
- c. Closing inventory at 31<sup>st</sup> March 2020 was Rs 13,551,000
- d. Long term bank loan was Rs 10,880,000

a) You are required to prepare,

- i. Trading & profit & loss account of Laksiri Hardware for the financial year ended 31<sup>st</sup> March 2020. (10 Marks)
- ii. The balance sheet as at 31<sup>st</sup> March 2020

(15 Marks)

- b) The balance sheets of Steel Ltd as at 31<sup>st</sup> March 2018 and 2019 are given below. You are required to prepare a cash flow statement for Steel Ltd for the year ended 31<sup>st</sup> March 2019. (15 marks)
- Steel Ltd

# Balance sheets as at 31<sup>st</sup> March 2018 and 2019

Rs '000'		
	2019	2018
Fixed assets		
Buildings	6000	4000
Equipment	3000	2000
Less Depreciation	_ (750)_	(500)
	8,250	5,500
Current Asset		
Stocks	3,200	2,000
Debtors	1,900	1,300
Bank	1,800	600
	6,900	3,900
Current Liabilities		
Creditors	3,100	1,800
Accruals	1,900	900
	<u> </u>	2,700
Net Assets	10,150	6,700
Financed By	=====	=====
Capital	5,000	5,000
Profit b/fd	1,700	-
Long Term Loans	1,250	-
Profit & Loss for the year	_ 2,200_	1,700
	10,150	6,700
	=====	=====

#### **Question No 02**

i. State four (04) types of financial statements which are prepared in financial accounting.

(2 marks)

- ii. Write down three (03) parties who make use of these financial statements and briefly describe, how these three parties use these financial statements for the purpose of decision making. Your answer should be supported with suitable examples. (6 marks)
- iii. According to LKAS 1-Accounting for Presentation of financial statements of companies, explain how Assets and Liabilities are needed to be classified and presented in the statement of financial position. (2 marks)
- iv. Name three (03) aspects that need to be considered when assets are depreciated in accordance with the LKAS 16-Accounting for property, plant and equipment (3 marks)
- v. The most fundamental principle of Accounting is the "Accrual concept". Using a suitable example, briefly explain this concept and its application when preparing the financial statements of a business. (2 marks)
- vi. Mr Somadasa started a new grocery store utilizing his personal fixed deposit of Rs 990,000. After a period of six months, he borrowed Rs 565,000 from the bank under the business name in order to purchase stocks for the business.
  In addition he took some grocery items worth Rs 108,500 for his home use from the stocks of his business and Rs 46,000 cash for his personal use.
  You are required to explain how the "Business entity concept" should apply in the given scenario for accounting purposes. (5 marks)

# **Question No 03**

Mr. Wijesekara commenced a business on 1<sup>st</sup> January 2020. Recorded the following transactions in the ledger accounts.

- 01 Started business with Rs 360,000 cash
- O3 Paid Rs 324,000 of the opening cash into a bank account for the business
- 05 Bought office furniture on credit from Binara Ltd for Rs 21,600
- 06 Bought a motor van paying by cheque Rs171,000
- Bought machinery from Ediriweera Pvt Ltd on credit Rs100,800
- 12 Returned faulty furniture costing Rs 11,160 to Binara Ltd
- 16 Sold some machinery for Rs 13,500 cash
- 21 Paid an amount of Rs10,440 owing to Binara Ltd by cheque
- Took Rs18,000 out of the bank and put it in the cash till
- Mr Siripala lent Rs 90,000 money by cheque

You are required to record above transactions in the relevant ledger accounts. (20 marks)

### **Question No 04**

Statement of Comprehensive Income of Ceylon Steel Corporation (CSC) Limited at 30<sup>th</sup> September 2020

	Rs.'000
Turnover	12,000
Cost of Sales	<u>(7,000)</u>
Gross Profit	5,000
Operating Expenses	<u>(2,500)</u>
Operating Profit	2,500
Interest	<u>(300)</u>
Profit before tax	2,200
Tax	<u>(700)</u>
Profit after Tax	<u>1,500</u>

Statement of Financial Position of Ceylon Steel Corporation (CSC) Limited as at 30<sup>th</sup> September 2020

	Rs.'000	Rs.'000
Non-Current Assets		4,700
Current Assets; Inventory	1,200	
Receivables	1,700	
Cash	300	
		3,200
Total assets		7,900
Capital and reserves		3,400
Non-Current Liabilities; Loan		3,000
Current Liabilities; Payables		1,500
Total Liabilities		7,900

a) Calculate the following ratios using the above financial statements.
 i. Gross profit margin
 ii Net profit margin
 iii. Inventory days
 iv. Receivable days
 v. Payable days

b) i) Using the above calculated ratios, you are required to calculate the working capital cycle of Ceylon Steel Corporation Limited. (1 marks)

ii) The CEO of the Ceylon Steel Corporation Limited intends to improve the working capital cycle of the company in order to increase the business efficiency.As a junior manager, you are required to propose three (03) recommendations to the line manager to meet this requirement. (3 marks)

(10 marks)

iii) Due to the Covid-19 outbreak, the company predicts 20% drop in the sales turnover.

Considering only the drop in the sales turn over, you are required to recalculate and comment on the expected changes that may occur in the Gross profit margin and the Net profit margin of this company. (6 marks)

## Question No 05

i) Name two (02) discounted cash flow techniques commonly used for investment appraisal. (2 marks)

ii) Briefly explain the advantage of using the discounted cash flow techniques in comparison to the Payback Period method and Accounting rate of return method. (4 marks)

iii) If a project investment is Rs.800, 000 and returns of the said project for the first four years are
 Rs.250, 000, Rs.300, 000, Rs.250, 000 and Rs.100, 000, calculate the payback period of this investment in years.

iv) "BEST HOMES PLC" is a group of companies who is also involved in the construction industry in minor scale. The company has to select one project that offers the greater financial gain from the following two mutually exclusive project options. The initial investment requirements and the annual net cash flows which are expected to raise from the two projects are as follows.

	Project Option 1	Project Option 2
	(Rs)	( <b>R</b> s)
Initial Investment	14,000,000	28,000,000
Year 1 cash in flow	3,000,000	1,000,000
Year 2 cash in flow	6,000,000	9,000,000
Year 3 cash in flow	6,000,000	9,000,000
Year 4 cash in flow	6,000,000	9,000,000
Year 5 cash in flow	2,415,500	5,370,600

a. You are required to calculate the net present value of each project, assuming a 12% cost of capital. (08 Marks)

b. Which option the company should select to obtain a greater financial gain and defend your answer. (02 Marks)

(You may ignore taxation and assume that the capital investment will be undertaken immediately and the annual cash flows arises at the yearend)

Year	1	2	3	4	5
Discount rates at 12%	0.893	0.797	0.712	0.636	0.567