**NATIONAL UNVERSITY OF SCIENCE AND TECHNOLOGY**

**DEPARTMENT OF ACCOUNTING**

**SECOND SEMESTER EXAMINATIONS: AUGUST 2009**

**FINANCIAL ACCOUNTING 1B CAC 1201**

**TIME ALLOWED : 3 HOURS**

**INTRUCTIONS TO CANDIDATES:**

1. Answer **ALL FOUR questions.**
2. **Start each question on a new page.**
3. **Show all workings.**

| QUESTION | TOPIC | MARKS |
|---|---|---|
| 1 | CASH FLOW STATEMENTS | 20 |
| 2 | ISSUE OF SHARES | 25 |
| 3 | PUBLISHED FINANCIAL STATEMENTS | 35 |
| 4 | CAPITAL RE-0RGANISATION | 20 |

**QUESTION 1** **(20 Marks)**

You are given below, in summarized form, the accounts of Orion Ltd, for 2006 and 2007.

**Statement of Financial Position for**

| | **2006** | **2007** |
|---|---|---|
| | **$** | **$** |
| Land | 50 000 | 80 000 |
| Buildings at cost | 50 000 | 90 000 |
| Plant at cost | 10 000 | 11 000 |
| Investments at cost | 46 000 | 85 000 |
| Inventory | 43 000 | 63 000 |
| Receivables | 40 000 | 50 000 |
| Bank | 3 000 | -- . |
| | 237 000 | 343 000 |
| | | |
| Ordinary shares of $1 each | 40 000 | 50 000 |
| Share Premium | 12 000 | 14 000 |
| Revaluation reserve (land) | -- | 20 000 |
| Accumulated profit | 45 000 | 45 000 |
| 10% Loan Notes | 100 000 | 150 000 |
| Depreciation - Buildings | 10 000 | 11 000 |
| Depreciation – Plant | 4 000 | 5 000 |
| Payables | 40 000 | 60 000 |
| Bank | | 4 000 |
| | 237 000 | 343 000 |

Statements of Comprehensive Income for

| | 2006 | 2007 |
|---|---|---|
| | $ | $ |
| Sales revenue | 200 000 | 200 000 |
| Cost of sales | 100 000 | 120 000 |
| | 100 000 | 80 000 |
| Expenses | 50 000 | 47 000 |
| | 50 000 | 33 000 |
| Interest | 10 000 | 13 000 |
| Net profit for the year | 40 000 | 20 000 |
| Dividend for the year (paid after balance sheet) | 20 000 | 20 000 |

**You are required to prepare:**

(a) To prepare a statement of cash flows for Orion Ltd for 2007, to explain as far as possible, the movement in the bank balance. The statement should comply with the requirements of IAS 7. **[15]**

(b) Using the summarised accounts given, and the statement you have just prepared in (a) above, comment on the position, progress and direction of Orion Ltd. **[5]**

## <u>QUESTION 2</u> (25 Marks)

The directors of Skyview Ltd invited applications for 150 000 of its $1 ordinary shares at $1.15 per share payable as follows:

| | Per share |
|---|---|
| On application on 1 April 2008 | $0.75 |
| On allotment 30 April 2008 (including a premium of $0.05 per share | $0.20 |
| On first and final call 31 May 2008 | $0.20 |

Applications were received for 180 000 shares and it was decided to deal with these as follows:

1. To refuse allotment to applicants for 8 000 shares,
2. To give full allotment to applicants for 22 000 shares.,
3. To allot the remainder of the available pro rata among the other applicants
4. To utilize the surplus received on applications in part payment of amounts due on allotment.

An applicant, to whom 400 shares had been allotted, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 July 2008. These shares were reissued on 3 September 2008 as fully paid at $0.90 per share.

## <u>REQUIRED:</u>

(a) Journal entries to record the above transactions **[10]**

(b) All the necessary ledger accounts **[10]**

(c) Statement of Financial position of Skyview Ltd as at 31 July 2008. **[5]**

**QUESTION 3** **(35 Marks)**

Jaggers Ltd are specialist wholesalers. Given below is the company's trial balance.

**Jaggers Ltd**
**Trial Balance as at 31 December 2008**

| | $ | $ |
|---|---|---|
| Ordinary share capital ($1 shares) | | 1 000 000 |
| Share premium | | 120 000 |
| General reserve | | 48 000 |
| Retained income as at 31 Dec 2007 | | 139 750 |
| Inventories at 31 Dec 2007 | 336 720 | |
| Sales | | 4 715 370 |
| Purchases | 2 475 910 | |
| Returns outward | | 121 220 |
| Returns inward | 136 200 | |
| Carriage inward | 6 340 | |
| Carriage outward | 43790 | |
| Warehouse wages | 410 240 | |
| Salespeople's salaries | 305 110 | |
| Administrative wages and salaries | 277 190 | |
| Plant and machinery | 610 000 | |
| Motor vehicle hire | 84 770 | |
| Depreciation provision – plant an machinery | | 216 290 |
| General distribution expenses | 27 130 | |
| General administrative expenses | 47 990 | |
| Directors' remuneration | 195 140 | |
| Rents receivable | | 37 150 |
| Trade receivables | 1 623 570 | |
| Cash and bank balances | 179 250 | |
| Trade payables | | 304 570 |
| Bills payable | | 57 000 |
| | 6 759 350 | 6 759 350 |

**Additional information:**

(a) Inventories at 31 December 2008 amount to $412 780 and have been valued at the lower of cost and net realizable value;

(b) Plant and machinery is apportioned: 60% distribution and 40 % administrative;

(c) Accrued auditors' remuneration amounts to $71 000;

(d) Depreciation on plant and machinery is 20% on cost;

(e) Of the motor hire, $55 000 is for distributive purposes;

(f) Income tax expense at 35% is estimated at $238 500;

(g) It is proposed to pay a dividend of 37 ½ % for the year;

(h) Plant of $75 000 had been bought during the year.

(i) Directors' remuneration has been as follows:

| | $ |
|---|---|
| Chairman | 46 460 |
| Managing Director | 51 500 |
| Finance Director | 46 000 |
| Marketing Director | 43 000 |
| | 187 140 |

In addition each of them drew $2 000 as directors' fees. Pensions are the personal responsibility of directors.

**You are required to:**
Prepare a statement of comprehensive income for the year ended 31 December 2008 and a statement of financial position as at that date in accordance with IAS 1 **[35]**

## QUESTION 4 (20 Marks)

During the last two financial years ended 31 March 2009, Rising Tide Limited has experienced extremely difficult trading conditions which has resulted in no dividends being declared in either year and the Loan Stock interest has not been paid for the year ended 31 March 2009.
The company's summarized balance sheet as at 31 March 2009 is as follows:

| | $ | $ |
|---|---|---|
| FIXED ASSETS | | |
| Intangible assets: | | |
| Goodwill | | 46 000 |
| | | |
| Tangible assets: | | |
| Freehold property | 29 000 | |
| Plant and machinery | 60 000 | |
| Motor vehicles | 35 000 | 124 000 |
| | | |
| CURRENT ASSETS | | |
| Stocks | 38 000 | |
| Debtors | 12 000 | |
| Cash at bank | 3 000 | |
| | 53 000 | |
| CURRENT LIABILITIES | | |
| Trade creditors | 8 000 | 45 000 |
| | | 215 000 |
| | | |
| LONG- TERM LIABILITIES | | |
| 7% Loan stock 2015 | | 20 000 |
| | | 195 000 |

CAPITAL AND RESERVES

| | |
|---|---|
| Ordinary shares of $1 each fully paid | 160 000 |
| 8% Preference shares of $1 each fully paid | 50 000 |
| Profit and loss account | (15 000) |
| | 195 000 |

However, industrial prospects are now improving and it is confidently expected that Rising Tide Limited should be able to return to profitable trading following a scheme of internal reconstruction incorporating the injection of more capital into the company. After the successful completion of these plans it is considered that the company's annual profits after depreciation but before interest would be $40 000.
The plans under consideration are as follows:

(i) Each existing ordinary share of $1 to be redesignated as a share of 50c.
(ii) The existing shareholders are to subscribe for one new ordinary share of 50c at a price of 55c per share for every two ordinary shares of 50c already held.
(iii) The 8% preference shareholders are to be offered 10 000 new ordinary shares of 50c fully paid at par in lieu of their undeclared dividends for the last two years.
(iv) The 7% loan stock holders are to be offered 4 000 ordinary shares of 50c fully paid at par in lieu of the unpaid interest for the year ended 31 March 2009.
(v) Goodwill is to written off
(vi) Certain tangible assets are to be revalued as follows:

| | $ |
|---|---|
| Freehold property | 39 000 |
| Plant and machinery | 50 000 |
| Motor vehicles | 30 000 |
| Stocks | 31 000 |

**REQUIRED:**

**(a)** The summarized balance sheet of Rising Tide Limited immediately after the completion of the scheme of internal reconstruction and the injection of additional capital into the company. **[7]**

(b) A schedule showing how the anticipated future annual profits will be distributed amongst:
  (i) existing ordinary shareholders
  (ii) existing preference shareholders
  (iii) existing loan holders. **[7]**

Note: Assume all future profits will be distributed.

(c) A critical review of the attractiveness of the scheme of internal reconstruction and capital injection to each of the groups mentioned in part (b) above.
Note: Make and state any necessary assumptions. **[6]**