National University of Science and Technology

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION: AUGUST 2010

FINANCIAL ACCOUNTING 1B CAC 1201

TIME ALLOWED: 3 HOURS

MARKS: 100 TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all 4 questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books used.

QUESTION ONE **25 Marks**

a) Discuss the main points of difference in law between a public limited company and a Private Limited company [10 Marks]

b) Outline what is contained in the Memorandum of Association and in the Articles of Association [8 Marks]

c) Outline the contents of the directors and Auditors reports [7 Marks]

QUESTION TWO **25 Marks**

a) Name six different users of financial statements and relevance of each group

[6 marks]

b) The following items have been extracted from the trial balance of Croons a limited liability company at 30 September 2009

	$	**$**
Opening inventory	186 400	
Purchases	1 748 200	
Carriage inwards	38 100	
Carriage outwards	47 250	
Sales		3 210 000
Trade receivables	318 000	
Wages and Salaries	694 200	
Sundry administration expenses	381 000	
Allowance for doubtful debts as at 01/10/2008		18 200
Bad debts written off during the year	14 680	
Office equipment as at 01/10/2008		
Cost	214 000	
Accumulated depreciation		88 700
Office equipment:		
Additions during the year	48 000	
Proceeds of sale of item during the year		12 600
Interest paid	30 000	

Additional information;

1. Closing inventory amounted to $219 000

	$ Prepayment	**$** accruals
2. Carriage outwards		1 250
Wages and Salaries		5 800
Sundry administration expenses	4 900	13 600
Interest payable		30 000

3. Wages and salaries cost is to be allocated:

Cost of sales	10%
Distribution Costs	20%
Administrative expense	70%

4. Further bad debts totaling $8 000 are to be written off and the closing allowance for doubtful debts is to be equal to 5 % of the final trade receivables figure. The bad and doubtful debt expense is to be included in administrative expenses.

5. Office equipment:
Depreciation is to be provided at 20% per annum on straight line basis, with a full year's charge in the year of purchase and none in the year of sale .During the year equipment which had cost $40 000, with accumulated depreciation of $26 800 was sold for $12 600.

Required:

Prepare the comprehensive income statement for the year ended 30 September 2009 in accordance with IAS1 [19 Marks]

QUESTION THREE

The extracts from the financial statements of Apollo for the years ended 31 March 2010 are given below:

Comprehensive income statement	**2010**	**2009**
	$000	**$000**
Sales revenue	3 800	3 100
Cost of sales	(2 400)	(1 900)
Gross profit	1 400	1 200
Expenses	(1 100)	(900)
Net profit	**300**	300

Statement of financial position	**2010**	**2009**
	$000	**$000**
Current assets		
Inventory	720	540
Trade receivables	700	450
	1 420	990
Current liabilities		
Trade payables	690	410
Bank overdraft	170	20
	860	430

Additional information:
Sales revenue for 2010 and 2009 include cash sales of $100 000 and $300 000 for 2010 and 2009 respectively
The cost of sales include the following

	2010	**2009**
	$000	**$000**
Opening inventory	540	360
Purchases	2 580	2 080
Closing inventory	720	540

All purchases are on credit

Required
Calculate the following for each of the two years

- (i) Current ratio
- (ii) Quick ratio
- (iii) Inventory turnover period
- (iv) Average period of credit allowed to customers
- (v) Average period of credit taken from suppliers
- (vi) Cash conversion cycle **[7 marks]**

(b) Make brief comments on the changes in the position of the company as revealed by the changes in these ratios and or given figures from the financial statements **[5 marks]**

(c) Explain the meaning of the term working capital cycle for a trading company **[4 marks]**

(d) Ratio analysis in general can be useful in comparing the performance of the two companies, but it has its limitations.

Required
State and briefly explain factors which can cause accounting ratios to be misleading when used for such comparison. **[6 Marks]**

(e) A company may choose to finance its activities mainly by equity capital with low borrowings (low gearing) or by relying on high borrowing with relatively low equity capital (high gearing)

Required
Explain why a highly geared company is generally more risky from an investor's point of view than a company with a low gearing **[3 marks]**

QUESTION FOUR **25 Marks**

Statement of financial position of NUST Ltd for the year ended 31 March 2010

	2010		2009	
	$,000	$,000	$,000	$,000
Assets				
Non Current Assets				
Property	19160		18000	
Plant and equipment	8500		10000	
Available for sale investment	1500		2100	
		29160		30100
current Assets				
Inventory	2714		2500	
trade receivables	2106		1800	
cash at bank	6553		0	
cash in hand	409	11782	320	4620
		40942		34720

Equity and liabilities				
ordinary shares $0.50 each	12000			7000
Share premium	10000			5000
Revaluation reserve	4200			2700
Retained profit	3009			1510
		29209		16210
Noncurrent liabilities				
Interest bearing borrowing	7000		13000	
provision of deferred tax	999	7999	800	13800
current Liabilities				
Bank overdraft	0		1200	
trade and other payables	1820		1700	
corporate income tax payable	1914	3734	1810	4710
		40942		34720

Comprehensive Income Statement for the year ended 31 March 2010

	$,000
Revenue	31000
cost of sales	19000
Gross profit	12000
other Income	200
Administrative expenses	3900
Distribution costs	2600
Finance costs	1302
Profit before tax	4398
Income tax expense	2099
Profit for the period	2299

Additional Information

1. On 1 April 2009 NUST Ltd issued 10 000 000 $0.50 ordinary shares at a premium of 100%
2. No additional available for sale investments were acquired during the year
3. On 1 July 2009 NUST Ltd repaid $ 6 000 000 of interest bearing borrowing
4. Properties were revalued by $ 1 500 000 during the year
5. Plant disposed of during the year at a net book value of $ 95 000, cash received on disposal was $118 000
6. Depreciation charged for the year was:

    properties $ 2 070 000
    Plant and equipment $ 1 985 000

7. The trade and other payables include interest payable of

31 March 2009	$650 000
31 March 2010	$350 000

8. Dividends were paid during the year
9. Other income comprises of

Dividend received	$180 000
Gain on disposal of available for sale investments	$20 000

10. Income tax expense comprises

corporate tax	$ 1 900 000
Deferred tax	$ 199 000

Required

Prepare NUST Limited's statement of cash flow for the year ended 31 March 2010, using the indirect method in accordance with IAS 7