National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION PAPER: 2011/2012

DATE:	**MAY 2012**
SUBJECT:	**FINANCIAL ACCOUNTING IB: CAC 1201**
TIME ALLOWED:	**THREE (3) HOURS**
MARKS:	**100**

INSTRUCTIONS TO CANDIDATES

1. Answer all 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

Question one (25 Marks)

RTY's trial balance at 31 January 2012

	Notes	$'000	$'000
Administrative expenses		1225	
Cash received on disposal of PPE	i		2068
Cash and cash equivalent		142	
Cost of goods sold		4939	
Distribution costs		679	
Equity dividend paid	ii	138	
Equity shares $1 each fully paid at 31/01/2011			1375
Income tax	vi	35	
Interest paid half year to 31/01/2011		69	
Inventory at 31/01/2012		330	
Long term borrowings (redeemable 2025)	v		2740
Plant and Equipment cost 31/01/2011	i	5750	
Property valuation 31/01/2011	i	17120	
Provision for deferred tax at 31/01/2011	vii		1064
Provision for Plant and Equipment depreciation 31/01/2011	i		3900
Provision for Property depreciation 31/01/2011	i		2610
Research and development	ii	689	
Retained Earnings 31/01/2011			2785
Revaluation reserve 31/01/2011			2900
Sales Revenue			9320
Share premium 31/01/2011			2750
Trade payables			1080
Trade receivables	iv	1476	
		32592	**32592**

Additional information provided:

i. Property Plant and Equipment (PPE)

The property valuation at 31 January 2011 for $17200000 consisted of Land $6220000 and Buildings $10900000. On 1 February 2011 RTY revalued its Properties to $15750000 (Land $6850000 and Buildings $8900000). During the year RTY disposed of Property, Plant and Equipment as follows:

- A piece of surplus Land was sold on 1 March 2011 for $2060000.
- Obsolete Plant was sold for $8000 scrap value on the same date.
- All cash received is included in the trial balance

Details of the assets sold were

Asset type	cost	revalued amount	accumulated depreciation
Land	1000000	1800000	-
Plant and Equipment	820000		800000

Buildings were depreciated at 5% per annum on straight line basis. No buildings were fully depreciated at 31 January 2011. Plant and equipment is depreciated at 31 January 2011. Plant and equipment is depreciated at 25% per annum using reducing balance method. All depreciation I treated as a cost of sales. RTY charges a full year's depreciation in the year of acquisition and none in the year of disposal.

ii. RTY carries out research and development on a continuous basis to ensure that its product range continues to meet customer demands. The research and development figure in the trial balance is made up as follows:

	$'000
Development costs capiatlised in previous years	1199
less amortization to 31 January 2011	744
	455
Research costs incurred in the year to 31/01/2012	163
Development costs (*all meet IAS38 Intangible Assets)*	
incurred in the year to 31/01/2012	71
	689

Development costs are amortised on a straight line basis at 20% per annum per year. No development costs were fully amortized at 30 January 2011. Research and Development are treated as cost of sales when charged to income statement. RTY charges a full year's amortization in the year of acquisition.

iii. During the year RTY paid a final dividend for the year on 31/01/2012

iv. On 1 March 2012, RTY was informed that one of its customers, BVC had ceased trading. The liquidators advised RTY that it was unlikely to receive payment to any of the $48000 due from BVC at 31 January 2012.

v. The long term borrowings incur annual interest rate of 5 % per annum paid six months in arrears

vi. The income tax balance is a result of under provision of tax for the year ended 31 January 2011. The directors estimate the income tax charge on the year's profits to 31 January 2012 at $765000.

vii. The deferred tax provision is to be decreased by $45000.

Required

Prepare RTY's Statement of Comprehensive Income and Statement of Changes in Equity for the year ended 31 January 2012 and a Statement of Financial Position at that date in accordance with the requirements of International Financial Reporting Standards.**[25**]

Question two (25 Marks)

Cash ratio	=	0,2
Current ratio	=	1,97
Current liabilities	=	$620 000
Operating margin	=	13,6%
Sales	=	$3 074 000
Earnings per share	=	$2,90
Net Profit	=	$221 000
P/E ratio	=	11,1 times
Times interest earned ratio	=	4,5 times
NWC turnover ratio	=	5,10 times
Return on Assets ratio	=	6.10 times
Debt ratio	=	45,7%
Quick ratio	=	1.51
Gross margin	=	32,1%

Required:
Calculate the following:

i.	Current assets	**[2]**
ii.	Operating profit	**[2]**
iii.	Shares issued	**[2]**
iv.	Market price per share	**[2]**
v.	Cash	**[2]**
vi.	Net working capital (NWC)	**[2]**
vii.	Total assets	**[2]**
viii.	Total liabilities	**[2]**
ix.	Inventory	**[2]**
x.	Cost of goods sold	**[3]**
xi.	Market capitalization	**[3]**

Question three (25 marks)

(a) On 1 October 2005 D ltd acquired a machine under the following terms

	Hours	**$**
Manufacturer's base price		1050000
Freight charges		30000
Electrical installation		28000
Staff training in use of the machine		40000
Estimated residual value		20000
Three year maintenance contract		60000
Estimated life of the machine	6000	
Hours used for the ended 30 September 2006	1200	
Hours used for the ended 30 September 2007	1800	
Hours used for the ended 30 September 2008	850	

Trade discount (applying to base price only) 20%

Early settlement discount taken (on the payable amount of the base cost only) 5%
On 1 October 2007 D ltd decided to upgrade the machine by adding new components at a cost of $200000. This upgrade led to the reduction in the production time per unit of the goods being manufactured using the machine.
The upgrade also increased the estimated life of the machine at 1 October 2007 to 4500 hours and its estimated residual value to $40000

Required
Prepare extracts from the income statement and the statement of financial position for the above machine for each of the three years to 30 September 2008 **[10]**

(b) The definition of a liability forms an important element of the Conceptual Framework which in turn forms the basis for *IAS 37 Provisions, Contingent liabilities and Contingent Assets*

Required

Define a provision and a Contingent Liability and Contingent Asset **[5]**

(c) The IASB'S Framework requires Financial Statements to be prepared on the basis that they comply with certain accounting concepts, underlying assumptions and qualitative characteristics. Five of these are :

Accrual / matching
Substance over form
Prudence
Comparability
Materiality

Required
Briefly explain the meaning of each of the above concepts /assumptions [**5]**

(d) A friend of yours has been critisised over an answer that he gave in class on the definition of Property, Plant and Equipment. He defined it as a *physical asset of substantial cost, owed by the company which will last longer than one year.*

Required
Provide a proper definition in accordance to IAS 16 *Property, Plant and Equipment* and explain the weakness of this definition given by your friend. **[5]**

Question four (25 Marks)
Jack plc
The draft statements of financial position as at 31 March 2012 and 2011 of Jack plc are shown below:

			2012		**2011**
	$m	$m	$m	$m	
Non-current assets					
Intangible assets – goodwill		450			410
Tangible assets			2,480		
1,830					
		2,930			2,240

Current assets				
Inventory	920		763	
Receivables	642		472	
Cash	-		34	
		1,562		1,269
		4,492		3,509
Share capital and reserves:				
Ordinary shares of $1 each		500		400
Retained earnings		1,871		1,732
Other components of equity:				
Share premium account		90		70
Revaluation reserve	170			-
		260		70
Non-current liabilities:				
8% debenture 2017		200		-
10% redeemable preference shares		350		350
Provisions for liabilities and charges:				
Government grants	210			160
Deferred tax	52		30	
Environmental provision	76		24	
		338		214
Current liabilities:				
Trade payables		680		518
Accrued interest	4		-	
Bank overdraft		63		-
Taxation	176		185	
Deferred credit-government grants	50			40
		973		743
		4,492		3,509

The draft income statement for Jack plc for the year to 31 March 2012 is as follows.

	$m	$m
Turnover		3,655
Cost of sales:		
Depreciation	366	

Impairment of goodwill	36	
Other costs	2,522	
		(2,924)
Gross profit for period		731
Other operating income-government grant		50
		781
Distribution costs	75	
Administration	56	
Environmental provision	67	
		(198)
		583
Finance cost – debenture interest	(12)	
Preference dividend	(35)	
		(47)
Profit before tax		536
Taxation		(177)
Profit for the period after tax		359

Jack plc-other comprehensive income for the year ended 31 March 2012

	$m
Profit for the year	359
Other comprehensive income	
Gain on property revaluation	170
Total comprehensive income for the year	**529**

The following information is relevant.

Tangible non-current assets
These include land which was revalued giving a surplus of $170 million during the period.

The company's motor vehicle haulage fleet was replaced during the year.

The fleet originally cost $42 million and had been written down to $11 million at the time of its replacement. The gross cost of the fleet replacement was $180 million and a trade-in allowance of $14 million was given for the old vehicles. The company acquired some new plant on 1 July 2011 at cost of $120 million from Bromway. An arrangement was made on the same day for the liability for the plant to be settled by Jack plc issuing at par an 8% debenture dated 2017 to Bromway. The value by which the debenture exceeded the liability for the plant was received from Bromway in cash.

Environmental provision
The provision represents an estimate of the cost of environmental improvements relating to the company's mining activities.

Ordinary share issue
During the year Jack plc made a bonus issue from the share premium account of one for every ten shares held. Later Jack plc made a further share issue for cash. A dividend of $220 000 was paid during the year.

Preference dividend

A full preference dividend was paid during the year.

Required
Prepare a statement of cash flows for Jack for the year to 31 March 2012 in accordance with IAS 7 Statements of cash flows using the indirect method **[25]**

END OF EXAMINATION PAPER