# National University of Science and Technology

## FACULTY OF COMMERCE

## DEPARTMENT OF ACCOUNTING

**SUPPLEMENTARY EXAMINATION PAPER: 2011/2012**

| | |
|---|---|
| **DATE:** | **JUNE 2012** |
| **SUBJECT:** | **FINANCIAL ACCOUNTING 1B: 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)**
**Given below are the financial statements of NUST Ltd which is a competitor of your company**

**Income statements for the years ended 31 December**

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Turnover | 35100 | 39000 | 41700 | 42900 |
| Cost of Sales | 22800 | 25800 | 28200 | 30300 |
| Gross Profit | **12300** | **13200** | **13500** | **12600** |
| Distribution Costs | 1800 | 2100 | 2400 | 3000 |
| Administration Costs | 5400 | 5700 | 6900 | 5700 |
| | **7200** | **7800** | **9300** | **8700** |
| Operating Profit | 5100 | 5400 | 4200 | 3900 |
| Interest | 150 | 600 | 1200 | 1500 |
| Profit before tax | **4950** | **4800** | **3000** | **2400** |
| Taxation | 750 | 150 | 300 | 450 |
| Profit after tax | **4200** | **4650** | **2700** | **1950** |
| Retained Profits b/f | 720 | 1320 | 2070 | 320 |
| | **4920** | **5970** | **4770** | **4320** |
| Dividends | 3600 | 3900 | 2400 | 1500 |
| Retained Profits c/f | **1320** | **2070** | **2370** | **2830** |

| **Statements of Financial Position as at 31 December** | **2008** | **2009** | **2010** | **2011** |
|---|---|---|---|---|
| **Assets** | **$** | **$** | **$** | **$** |
| Non Current Assets | 4596 | 6672 | 8586 | 8268 |
| Current Assets: | | | | |
| Stock | 4800 | 5400 | 5100 | 4500 |
| Debtors | 6300 | 7800 | 9000 | 9600 |
| Bank | 204 | 0 | 0 | 0 |
| **Total Assets** | **15900** | **19872** | **22686** | **22368** |
| **Equity And liabilities:** | | | | |
| Ordinary Share capital | 6900 | 6900 | 6900 | 6900 |
| General Reserves | 2910 | 2910 | 2910 | 2910 |
| Retained Profits | 1320 | 2070 | 2370 | 2820 |
| Long term Loans | 0 | 1500 | 3000 | 3300 |
| **Current Liabilities:** | 2160 | 2400 | 2220 | 2106 |
| Trade Creditors | 2610 | 2190 | 2010 | 1584 |
| Other Creditors | 0 | 1902 | 3276 | 2748 |
| Bank Over Draft | **15900** | **19872** | **22686** | **22368** |

**Required**

prepare a report to the board of directors of your company interpreting the financial statements of NUST plc From 2008 to 2011 making analysis of the following:

**a)** Gearing Ratios (5)
**b)**Acid test ratios (5)
**c)** Use of assets Ratios (5)
**d)**ROCE (5)
**e)** Sales growth ratios (5)

**Question two (25 Marks)**

The financial statements of Nedberg for the year to 30 September 2011, together with the comparative statement of financial position for the year to 30 September 2010 are shown below:

**Income statement – year to 30 September 2011**

| | $m |
|---|---|
| Sales revenue | 3,820 |
| Cost of sales (note 1) | (2,620) |
| Gross profit for period | 1,200 |
| Operating expenses (note 1) | (280) |
| | 920 |
| Interest – loan note | (30) |
| Profit before tax | 890 |
| Taxation | (270) |
| Net profit for the period | 620 |

**Statements of financial position as at 30 September:**

| | **2011** | | **2010** | |
|---|---|---|---|---|
| **Non-current assets** | $m | $m | $m | $m |
| Property, plant and equipment | | 1,890 | | 1,830 |
| Intangible assets (note 2) | | 670 | | 300 |
| | | 2,560 | | 2,130 |
| **Current assets** | | | | |
| Inventory | 1,420 | | 940 | |
| Accounts receivable | 990 | | 680 | |
| Cash | 70 | | - | |
| | | 2,480 | | 1,620 |
| Total assets | | 5,040 | | 3,750 |
| **Equity and liabilities** | | | | |
| Ordinary shares of $1 each | | 750 | | 500 |
| Reserves | | | | |
| Share premium | | 350 | | 100 |
| Revaluation | | 140 | | nil |

| | | |
|---|---|---|
| Retained earnings | 1,910 | 1,600 |
| | 3,150 | 2,200 |
| Non-current liabilities (note 3) | 870 | 540 |
| Current liabilities (note 4) | 1,020 | 1,010 |
| Total equity and liabilities | 5,040 | 3,750 |

**Notes to the financial statements:**

**(1)** Cost of sales includes depreciation of property, plant and equipment of $320 million and a loss on the sale of plant of $50 million. It also includes a credit for the amortisation of government grants.

**(2)** Intangible non-current assets:

| | **2011** | **2010** |
|---|---|---|
| | $m | $m |
| Deferred development expenditure | 470 | 100 |
| Goodwill | 200 | 200 |
| | 670 | 300 |

**(3)** Non-current liabilities:

| | | |
|---|---|---|
| 10% loan note | 300 | 100 |
| Government grants | 260 | 300 |
| Deferred tax | 310 | 140 |
| | 870 | 540 |

**(4)** Current liabilities:

| | | |
|---|---|---|
| Accounts payable | 875 | 730 |
| Bank overdraft | nil | 115 |
| Accrued loan interest | 15 | 5 |
| Taxation | 130 | 160 |
| | 1,020 | 1,010 |

**(5)** Extract from statement of changes in equity – Movement on retained earnings:

| | | |
|---|---|---|
| Opening balance | 1,600 | 1,000 |
| Total comprehensive income for the year | 620 | 800 |
| Dividends – interim | (320) | (200) |
| Transfer from revaluation reserve | 10 | - |
| Closing balance | 1,910 | 1,600 |

**The following additional information is relevant:**

**(i) Intangible non-current assets:**
The company successfully completed the development of a new product during the current year, capitalising a further $500 million before amortisation for the period.

**(ii) Property, plant and equipment/revaluation reserve:**

- The company revalued its buildings by $200 million on 1 October 2010. The surplus was recorded as other comprehensive income and credited to a revaluation reserve.
- New plant was acquired during the year at a cost of $250 million and a government grant of $50 million was received for this plant.

- On 1 October 20X1 a bonus issue of 1 new share for every 10 held was made from the revaluation reserve.

- $10 million has been transferred from the revaluation reserve to realised profits as a year-ended adjustment in respect of the additional depreciation created by the revaluation.

- The remaining movement on property, plant and equipment was due to the disposal of obsolete plant.

**(iii) Share issues:**

In addition to the bonus issue referred to above, Nedberg made a further issue of ordinary shares for cash.

**Required:**

**(a)** A statement of cash flows for Nedberg for the year to 30 September 2011 prepared in accordance with IAS 7 **Statement of Cash Flows.**

**(20**

**(b)** Comment briefly on the financial position of Nedberg as portrayed by the information in your statement of cash flows.

**(5)**

**Question three (25 marks)**

**(a)** List the contents of the memorandum and articles of association (**10)**

**(b)** What are the major differences between a private company and a public company **(8)**

**(c)** What are the contents of the directors and auditor's report **(7)**

**Question four (25 marks)**

Trail balance at 31 March 2012

| | NOTE | $'000 | $'000 |
|---|---|---|---|
| 8% Loan 2020 | xiv | | 2000 |
| Administration expenses | | 891 | |
| Bank and cash | | 103 | |
| Cash received on disposal of land | | | 1500 |
| cash received on disposal of plant | | | 5 |
| Cost of raw materials purchased in year | | 2020 | |
| Direct production labor costs | | 912 | |
| Distribution costs | | 462 | |
| Equity shares $1 each fully paid | | | 1000 |
| Income tax | xi | 25 | |
| Inventory finished goods | | 240 | |
| Inventory of raw materials at 31/03/2011 | | 132 | |
| Land at valuation at 31/03/2011 | | 1250 | |
| loan interest paid half year | | 80 | |
| Plant and equipment at cost31/03/2011 | | 4180 | |
| Production overheads (excluding depreciation) | | 633 | |
| Property at cost 31/03/2011 | | 11200 | |
| Provision for deferred tax 31/03/2011 | xii | | 773 |
| Provision for depreciation 31/03/2011: | (iv) (v) | | |
| property | | | 1900 |
| Plant and equipment | | | 2840 |
| Research and development | vi | 500 | |
| retained earnings at 31/03/2011 | | | 2024 |
| Revaluation reserve at 31/03/2011 | | | 2100 |
| Revenue | | | 8772 |
| Trade payables | | | 773 |
| trade receivables | | 1059 | |
| | | **23687** | **23687** |

**Further information:**

**(i)** The property cost of $11200000 consisted of land $3500000 and buildings $7700000.

**(ii)** During the year, DZ disposed of the following noncurrent assets:

- A piece of surplus land was sold on 1 March 2012 for $1500000
- Obsolete plant was sold for $5000 scrap value on the same date
- All the cash received is included in the trial balance

  Details of the assets sold were:

| Asset type | cost | revalued amount | accumulated Depreciation |
|---|---|---|---|
| Land | $500000 | $1250000 | $0 |
| Plant and equip | $620000 | | $600000 |

**(iii)** On 31 March 2012, DZ Revalued its properties to $9800000 (land $4100000 and buildings $5700000).

**(iv)** Buildings are depreciated at 5% per annum on straight line basis. Buildings depreciation is treated 80% production overhead and 20% administration.

**(v)** Plant and equipment is depreciated at 25% per annum using the reducing balance method, the depreciation being treated as a production overhead.

**(vi)** The product was developed in house. Research and development is carried out on a continuous basis to ensure that the product range continues to meet customer demands. The **r**esearch and development figure in the trial balance is made up as follows:

| | $000 |
|---|---|
| Development costs capitalised | 867 |
| Less amortization to 31 March 2011 | 534 |
| | 333 |
| Research costs incurred in the year to 31 March 2012 | 119 |
| Development cost (all meet IAS38 criteria) incurred in year to 31/03/12 | 48 |
| Total | **500** |

**(vii)** Development costs are amortised on a straight line basis at 20% per annum.

**(viii)** Research and development costs are treated as costs of sales when charged to the income statement.

**(ix)** DZ charges a full year's amortization and depreciation in the year of acquisition and none in the year of disposal.

**(x)** Inventory of raw materials at 31 March 2012 was $165000. Inventory of finished goods at 31 March 2012 was $27000.

**(xi)** The directors estimate the income tax charge on the year's profits at $811000. The balance on income tax account represents the under provision for the previous year's tax charge.

**(xii)** The deferred tax provision is to be reduced to $665000

**(xiii)** No interim dividend was paid during the year

**(xiv)** The 8 % loan is a 20 year loan issued in 2005

**Required**

**(a)** Prepare DZ's Property, Plant and Equipment note to the accounts for the year ended 31 March 2012 **(5)**

**(b)** Prepare the income statement and a statement of changes in equity for the year to 31 March 2012 and the statement of financial position at that date in accordance to IFRS **(20)**

**END OF EXAMINATION PAPER**