



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FINAL EXAMINATION PAPER

DATE: MAY 2013

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 1(25 MARKS)

The following trial balance was extracted from the books of Shaper Ltd, a manufacturing company, as at 31 August 2012

	\$	\$
	000	000
Accruals		4
Administrative expenses	153	
Bank deposits(instant access)	20	
Bank current account	4	
Bank loan		58
Bank interest earned		5
Warranty provision		19
Distribution expenses	175	
Land and buildings at cost	840	
Depreciation		166
Loan Interest	8	
Mortgage		90
Mortgage Interest	14	
Plant and machinery at cost	714	
Depreciation		368
Prepayments	2	
Retained earnings		138
General reserves		21
Purchases	2 678	
Trade payables		80
Revenue		3 290
Trade receivables	105	
Ordinary share capital		382
Share premium account		199
Inventories at 31 August 2011	<u>107</u>	<u>----</u>
	<u>4 820</u>	<u>4 820</u>

Notes:

- 1) Depreciation is to be provided on the straight line method on buildings at 2% per annum and on plant and machinery at 20% per annum. The buildings at 31 August 2012 were \$650 000.
- 2) Inventories at 31 August 2012 comprised raw materials \$113 000, work in progress \$12 000 and finished goods \$54 000.
- 3) The original mortgage of \$225 000 was taken out on 1 September 2003 for a term of 156 years, repayable in equal monthly instalments on the 25th day of each month.
- 4) The bank loan was granted on 1 May 2009 for a fixed term of ten years.
- 5) Provision is to be made for income tax of \$60 000 based on the result of the year.
- 6) Transfer of \$ 21 000 was made to the general reserve during the year.

Required:

- a) Prepare Shaper Ltd's Statement of Profit and Loss and other income and Statement of Changes in Equity for the year ended 31 August 2012 and

Statement of Financial Position at that date in accordance with the requirements of IAS 1. Notes **are not** required. **[22]**

b) Explain the concept of 'fair presentation'. **[3]**

Question 2(25 MARKS)

Given below are the income statement of DD Ltd and JM Ltd at the of December 2012

Income statement for the year ending 31/12/12

	DD Ltd	JM Ltd
	\$	\$
Sales	130 000	750 000
Less Sales returns	<u>(20 000)</u>	<u>(10 000)</u>
	<u>110 000</u>	<u>750 000</u>
Less cost of sales:		
Opening Inventory	230 000	120 000
Add purchases	<u>720 000</u>	<u>430 000</u>
	950 000	550 000
Closing Inventory	<u>(410 000)</u>	<u>(160 000)</u>
	540 000	390 000
Gross profit	560 000	350 000
<i>Less Expenses:</i>		
Operating Expenses	210 000	140 000
Interest	55 000	21 000
Depreciation	<u>75 000</u>	<u>29 000</u>
Total Expenses	<u>340 000</u>	<u>190 000</u>
Net profit before tax	220 000	160 000
Taxation	(60 000)	(45 000)
	160 000	115 000
Dividends	<u>(80 000)</u>	<u>(60 000)</u>
	80 000	55 000
Add opening balances	<u>215 000</u>	<u>125 000</u>
	<u>292 000</u>	<u>180 000</u>

Statement of financial Position as at 31/12/12

	DD Ltd	JM Ltd
	\$	\$
Non-Current Assets	340 000	180 000
Current Assets:		
Inventory	410 000	160 000
Accounts Receivable	390 000	185 000
Bank	<u>-----</u>	<u>90 000</u>
Total Assets	<u>1 140 000</u>	<u>615 000</u>
Equity and Liabilities:		
Ordinary share capital	400 000	190 000
Retained Profits	295 000	180 000
Long term Loans	<u>155 000</u>	<u>75 000</u>
	850 000	445 000

Liabilities:

Accounts payables	220 000	170 000
Bank	<u>70 000</u>	<u>-----</u>
	<u>1 140 000</u>	<u>615 000</u>
Nominal value per share	\$1	\$0.50

All sales are on credit

All sales and purchases are on credit.

Your client has approached you for advise as to which of the two companies he should invest in.

Required:

Advise your client as to which company he must invest in and support the advise with relevant calculations. **[25]**

Question 3 (25 MARKS)**Statement of Financial Position of NUST at 31December**

	2012	2011
	\$	\$
	000	000
Noncurrent assets	1048	750
Accumulated depreciation	<u>(190)</u>	<u>(120)</u>
	858	630
Current assets		
Inventory	98	105
Trade receivables	102	86
Dividends receivable	57	50
Cash	<u>42</u>	<u>18</u>
	<u>299</u>	<u>259</u>
Total assets	1 157	889
Capital and Reserves:		
Share capital	200	120
Share premium	106	80
Revaluation reserve	212	12
Accumulated profits	<u>283</u>	<u>226</u>
	801	438
Non-current liabilities:		
Loan	200	300
Current liabilities:		
Trade payables	47	52
Dividend payable	30	27
Interest accrual	3	5
Tax	<u>76</u>	<u>67</u>
	156	151
Total liabilities	1 157	889

NUST: Income statement for the year ended 31 December 2012

	\$
	000
Sales revenue	1 100
Cost of Sales	<u>(678)</u>
Gross profit	422
Operating expenses	<u>(309)</u>
Operating profit	113
Investment income- interest	15
Dividends	57
Finance charges	(22)
Income tax	<u>(71)</u>
Net profit for the year	<u>92</u>

Notes:

- During the year a plant with the original cost of \$80 000 and with depreciation of \$15 000 was disposed off.
- Operating expenses include a loss on disposal of non-current assets of \$5 000

Required:

Prepare cash flow state using the indirect method.

Question 4 (25 MARKS)

The following is an extract from the accounting records of Rock Cliff Ltd at 28 February 2013 (after the statement of comprehensive income and statement of financial position had been prepared.)

Assets:	\$000
Non-current (property plant and equipment)	540
Current (cash and cash equivalents)	<u>80</u>
Total Assets	620
Authorised share capital	
400 000 ordinary shares of \$1 .00 each	400
50 000 12% redeemable preference shares of \$1.00 each	<u>50</u>
Equity and liabilities:	
Issued share capital	
300 000 ordinary shares of \$1.00 each	300
50 000 12% redeemable preference shares of \$1.00 each	50
Share premium	30
Retained profits	180
Liabilities:	
Trade and other payables	<u>60</u>
Total Equity and Liabilities	620

The 12% redeemable preference shares are redeemable on 1 March 2013 at a premium of \$0.20 per share.

Required:

- a) Show the necessary journal entries to record the redemption. [15]
- b) Prepare the statement of financial position of Rock Cliff Ltd at 1 March 2013 after the redemption was recorded. [10]

END OF EXAMINATION PAPER