National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER: 2013

SUBJECT: **FINANCIAL ACCOUNTING IB: CAC 1201**

TIME ALLOWED: **THREE (3) HOURS**

MARKS: **100**

INSTRUCTIONS TO CANDIDATES

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

Question1

Given below are summarised financial statements for Havens Ltd for 2011 and 2012

Statement of financial position

	2011	**2012**
	$	**$**
Plant	10 000	11 000
Accumulated Depreciation	(4 000)	(5 000)
Caring amount	**6 000**	**6 000**
Buildings	50 000	90 000
Accumulated Depreciation	(10 000)	(11 000)
Caring amount	**40 000**	**79 000**
Investment @ cost	50 000	80 000
Land	43 000	63 000
Inventory	55 000	65 000
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 Interest	100 000	150 000
Payables	40 000	60 000
Bank	---------	4 000
	237 000	**343 000**

INCOME STATEMENT

	2011	2012
	$	$
Sales	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	**40 000**	**20 000**

Notes:

A $20 000 dividend has been paid in the year.

a) Prepare a statement of cash flows for Havens for 2012, to explain as far as possible the movement in the bank balance. The statement of cash flows should be prepared using the direct method. (20 marks)

b) Using the summarised accounts given, and the statement you have just prepared, comment on the position, progress and direction of Havens (5 marks)

Question 2

Given below are summarised financial statements for Havens Ltd for 2011 and 2012

Statement of financial position

	2011	2012
	$	**$**
Plant	10 000	11 000
Accumulated Depreciation	(4 000)	(5 000)
Caring amount	**6 000**	**6 000**
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b) Using the summarised accounts given, and the statement you have just prepared, comment on the position, progress and direction of Havens

Question 3

Revenue recognition is given by IAS 18. This standard gives the recognition criteria.

a) List and explain the five criterions to be observed to recognise revenue from sale of goods.
b) State whether the following events occurring after the reporting date require an adjustment to the assets and liabilities of the financial statements.
    (i) Purchase of an investment
    (ii) A change in the rate of tax, applicable to the previous year
    (iii) An increase in the pension benefit
    (iv) Losses due to fire
    (v) An irrecoverable debt suddenly being paid
    (vi) The receipts of proceeds of sales or other evidence concerning the net realizable value of inventory

(vii) A sudden decline in the value of property held as a long term investment.

The directors of a company are considering the company's draft financial statements for the year ended 30/09/2002

The following material points are unresolved:

(i) One of the company's buildings was destroyed in a flood in October 2002. The estimated value of the building was $4 million, but was insured for only $3 million. The company's going concern status is not jeopardized. The directors are unsure what adjustments on disclosure if any should be made.

(ii) Some goods which had cost $120,000 and which were included in closing inventory at 30/09/2002 at that figure were found to have deteriorated while held in inventory. The directors are unsure whether to adjust the inventory figure downwards by $40,000or allow the loss to fall in the period when deterioration was discovered.

(i) The company's warehouse was destroyed by fire with an uninsured loss of inventory worth $180,000 and damage to the buildings also uninsured of $228,000. The going concern is not affected. The financial statements currently make no mention of the fire losses.

The draft financial statements for Darlars, a limited liability company for the year ended 31/12/12 is currently under review. The following points have been raised:

I. An ex-employee has started an action against the company for wrongful dismissal. The company's legal team have stated that the ex-employee is not likely to succeed. The following estimates have been given by the lawyers relating to the case:
    a) Legal costs (to be incurred whether the claim is successful or not) $5 000
    b) Settlement of claim if successful $15 000. Total $20 000.

(ii) The company has a policy of refunding the cost of any goods returned by dissatisfied customers, even though it is under no legal obligation to do so. This policy of making refunds is generally known. At the year end returns totalling $4 800 have been made.

(iii) A claim has been made against a company for injury suffered by the pedestrian in connection with building work by the company. Legal advisers have confirmed that the company will probably have to pay damages of $100 00 but that a counter claim made against the building subcontractor for $50 000 would probably be successful.

Sate with reasons what adjustments, if any, should be made by the company in the financial statements.

Question 4

The trial balance of Gumps, a company as at 31 December 2012 was as follows:

	DR	**CR**
	$	**$**
Sales and purchases	20 000	50 000
Inventory	8 000	
Distribution costs	8 000	
Adminstration expenses	15 550	
Receivables and payables	10 000	
Fundamental reorganisation costs	2 400	
Cash at bank	8 100	
Ordinary shares 50c		8 000
10% irredeemable preference shares $1		9 000
10% loan notes		8 000
Non- current assets at net book value	35 000	
Share premium		3 000
Retained profits at 1 January 2012		3 000
Lone note interest	400	
Preference dividend	450	
Interim ordinary dividend	1 600	

Tax		500
Suspense	______	8 000
	109 000	**109 000**

Notes:

1) A building whose net book value is currently $5 000 is to be revalued to $11 000
2) A final ordinary dividend of 10c per share is to be proposed.
3) The balance on the corporation tax account represents an overprovision of tax for the previous year. Tax for the current year is estimated at $3 000
4) Closing inventory is $12 000
5) The balance on the suspense account represents the proceeds from the issue of 4 000 ordinary shares.

Prepare the following statements for the year ended 31 December 2012:

a) Statement of comprehensive income
b) Statement of Financial position
c) Statement of changes in equity
d) An income statement (hence ignoring the revaluation)

The following are the Statement of Financial Position of Victory plc for 2011 and 2012 together with the statement of comprehensive income for the year ended 31 December 2012.

Victory plc Statement of Financial positions

	2011	2012
	$000	**$ 000**
Goodwill at cost	110	100
Land @ cost	140	230
Buildings @ cost	168	258
Provision for depreciation on buildings	(22)	(28)
Motor vehicle @ cost	162	189
Provision for depreciation on motor vehicle	(46)	(41)
Inventory	116	148
Accounts receivable	76	100
Prepaid expenses	60	64
Bank	10	-----
	664	**877**
Called-up capital ($1 shares)	300	360
Share premium account	------	48
General reserve	44	60
Retained profits	96	130
Debentures	60	100
Corporation tax payable	60	70
Bank	----	24
Accounts receivables	99	79
Accrued wages	5	6
	664	**877**

<u>Victory plc statement of comprehensive income for the year ended 31 December 2012</u>

	$000
Sales revenue	670
Less cost of sales	323
	347
Less expense:	
Wages	112
Office expenses	27
Selling expenses	9
Depreciation:	
Motor vehicles	22
Buildings	6
Interest	18
Amortisation of good will	10
	204
Profit before taxation	150
Less corporation tax	70
Net profit after tax	**80**

Notes:

a) During 2012, motor vehicles, costing $42 000 and depreciated by $27 00, were sold. New motor vehicles costing $69 000 were purchased in the year.
b) A dividend of $30 000 was paid out in June 2012
c) Corporation tax paid over 2012 amounted to $60 000

Required:

A cash flow statement in accordance IAS 7 for the period ended 31 December 2012 using the direct method.