NATIONAL UNVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATIONS: OCTOBER 2009

FINANCIAL ACCOUNTING 1B CAC 1202

TIME ALLOWED: 3 HOURS

INTRUCTIONS TO CANDIDATES:

1. Answer **ALL FOUR questions.**
2. **Start each question on a new page.**
3. **Show all workings.**

QUESTION	TOPIC	MARKS
1	CASH FLOW STATEMENTS	25
2	THEORY	30
3	PARTNERSHIP CHANGES	10
4	PUBLISHED FINANCIAL STATEMENTS	35

QUESTION 1 **(25 Marks)**

The Following are summarized financial statements of Rubber Industries Ltd.

Rubber Industries Ltd

Statement of Financial Position as at 31 December:

	2007	**2008**
	$	**$**
Plant and machinery	2 086	2 103
Fixtures and fittings	1 381	1 286
Inventory	1 282	1 952
Receivables	1 783	2 086
Cash	197	512
	8 719	7 949
Ordinary Share capital	4 200	4 500
Share premium	800	900
Retained income	563	1 234
Trade payables	899	903
Taxation	257	312
	8 719	7 949

Rubber Industries Ltd

Statement of Comprehensive Income for the year ended 31 December 2009

	$
Profit before tax	1 381
Taxation	310
Profit for year	1 071

Dividend paid for the year

	$
Final for the year ended 31 December 2008	132
Interim for the year ended 31 December 2009	168

You are informed that:

(a) Plant and machinery with a book value of $184 was disposed of for $203 while a new item of plant was purchased for $312.

(b) Fixtures and fittings with a book value of $100 were disposed of for $96 Depreciation provided on fixtures and fittings amounted to $351.

REQUIRED;

Prepare a Statement of Cash Flows for the year ended 31 December 2009 in accordance with International Accounting Standard 7 (IAS 7) using any method

[25 marks]

QUESTION 2 **(30 Marks)**

(a) State **four** advantages and **four** disadvantages of operating as a limited company. [**8]**

(b) State **two** advantages and **two** disadvantages of financing a company using a rights issue. **[4]**

(c) Explain the following terms in order to show how they differ form each other:

(i) Issued capital and called-up capital **[1 ½]**

(ii) Cumulative preference shares and Participating preference shares **[1 ½]**

(iii) Authorised capital and Nominal capital **[1 ½]**

(iv) Share premium and Capital redemption reserve **[1 ½]**

(v) A Dividend and a Bonus **[1 ½]**

(vi) A Reserve and a Provision **[1 ½]**

(d) You are the accountant at your company which is conducting a capital reduction scheme. For each of the events given in (i) to (vi) below, state the account to be debited and the account to be credited.

(i) Amounts written off assets on revaluation; **[1 ½]**

(ii) Writing off the accumulated loss; **[1 ½]**

(iii) Surplus on revaluation of fixed assets; **[1 ½]**

(iv) Amounts written off share capital; **[1 ½]**

(v) Settlement of liabilities by an issue of shares; **[1 ½]**

(vi) Waiver of an arrear preference dividend by an issue of ordinary shares; **[1 ½]**

QUESTION 3 **(10 Marks)**

The partnership of A, B, C and D has never brought goodwill in its books, However, the partners have agreed to value their goodwill as they want to change their profit sharing ratios. The old and new profit sharing ratios are given below:

	Old Ratio	**New Ratio**
A	2	3
B	3	4
C	4	3
D	1	2

Goodwill is valued at $18 000 but no goodwill account is to be maintained in the books of the partnership.

(a) Calculate the amount by which each partner's capital account will be adjusted **[5]**

(b) Explain why it is necessary to revalue goodwill on retirement or admission of a partner. **[5]**

<u>QUESTION 4</u> **(35 Marks)**

The following information has been extracted from the books of account of B Ltd as at 30 June 2006:

	Dr	***Cr***
	$000	*$000*
Administration expenses	242	
Cash at bank and in hand	157	
Cash received on sale of fittings		3
Corporation tax (over-provision for the previous year)		10
Deferred taxation		60
Depreciation of fixtures, fittings, tools and equipment (1 July 2005)		132
Distribution costs	55	
Factory closure costs	30	
Fixtures, fittings, tools and equipment at cost	340	
Profit and loss account (at 1 July 2005)		40
Purchase equipment	60	
Purchases of goods for resale	855	
Sales		1 500
Share capital (500 000 authorized, issued and fully paid ordinary shares of $1 each)		500
Stock (at 1 July 2005)	70	
Trade creditors		64
Trade debtors	500	
	$2 309	$2 309

Additional information:

1. The company was incorporated in 2000.
2. The stock at 30 June 2006 (valued at the lower of cost or net realizable value) was estimated to be worth $100 000.
3. Fixtures, fittings, tools and equipment all related to administrative expenses. Depreciation is charged on them at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
4. During the year to 30 June 2006, the company purchased $60 000 of equipment. It also sold some fittings (which had originally cost $20 000) for $3 000 and for which depreciation of $15 000 had been charged.
5. The corporation tax based on the profits for the year at a rate of 35% is estimated to be $100 000. A transfer of $40 000 is to be made to the deferred taxation account.
6. The company proposes to pay a dividend of 20c per ordinary share.

<u>REQUIRED:</u>

In so far as the information permits, prepare B Ltd's Statement of Comprehensive Income for the year to 30 June 2006, and a Statement of Financial Position as at that date in accordance with the requirements of IAS 1 and the Companies Act. **[35 Marks]**