



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER FINAL EXAMINATION PAPER: 2013/2014

DATE:

SUBJECT: FINANCAL ACCOUNTING 1B (CAC 1202)

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
5. Show all workings clearly and
6. Submit all answer books

QUESTION ONE**[25 MARKS]**

The directors of NUST Ltd provide the following balances extracted from the ledgers of the company at 30 September 2012.

	Dr	Cr
	\$000	\$000
Cost of sales and Sales	819	1 626
Operating expenses	672	
Interest paid	12	
600 000 ordinary shares of \$0.50 each	-	300
10 % redeemable preference shares -		100
8% Debentures (2016)	-	150
Interim preference dividend paid	5	-

Additional information:

The market price of the ordinary shares on 30 September 2012 was \$1.60.

The directors wish to make provision for:

- Corporation taxation for the year of \$28 000.
- Final preference dividend.
- Final ordinary dividend of \$35 000 (no interim dividend was paid).

The corporation tax charge for the year was \$28 000.

REQUIRED

- a) Prepare Statement of Comprehensive Income for the year ended 30 September 2012. **[10]**

The following information relates to the Statement of Comprehensive Income for the year ended 30 September 2011.

	\$000
Operating profit	120
Debenture interest paid	12
Provision for corporation tax	25

Preference dividends for the year	10
Proposed ordinary dividend (no interim dividend was paid)	20

The market price per share at 30 September 2011 was \$1.35.

The issued ordinary share capital was 600 000 shares of \$0.50 each at both balance sheet dates.

REQUIRED

- b) Calculate the following ratios for each of the years ended 30 September 2011 and 30 September 2012:
- i. interest cover;
 - ii. earnings per share (EPS);
 - iii. price earnings ratio (P/E);
 - iv. dividend yield;
 - v. dividend cover. [5]

The directors of NUST Ltd have drawn up the following draft balance sheet at 30 September 2012.

	\$000	\$000	\$000
ASSETS			
Non-Current assets			
Premises			460
Other fixed assets			<u>200</u>
			660
Current assets			
Current assets other than bank		65	
Balance at bank		<u>91</u>	
			<u>156</u>
Total assets			816

EQUITY & LIABILITIES**EQUITY****Share Capital and Reserves**

Ordinary shares of \$0.50 each fully paid		300
Profit and loss account		<u>180</u>
		480

LIABILITIES**Current Liabilities**

Trade creditors	18	
Proposed dividends	40	
Taxation	<u>28</u>	86

Non-Current Liabilities

10% redeemable preference shares of \$1 each fully paid	100	
8% Debentures (2016)	<u>150</u>	
		<u>250</u>
Total Liabilities		<u>336</u>
Total equity & liabilities		816

Note: Both the debentures and the preference shares were issued in 2006

The directors have not taken into account the following transactions that took place at the close of business on 30 September 2012:

- the premises were revalued at \$750 000;
- the preference shares were redeemed at a premium of 15%;
- a bonus issue of 1 new ordinary share for every 2 held was made;

It is company policy to maintain reserves in their most flexible form.

REQUIRED

(d) An extract showing the share capital and reserves section of the Statement of Financial Position for NUST Ltd after the above items have been incorporated. **[10]**

QUESTION TWO**[25 MARKS]**

You are provided with the following financial Statement;

ABC Ltd**The Summarised Statement of Financial Position at 30 April 2012**

	\$000
ASSETS	
PPE	2550
Net current assets	<u>950</u>
Total assets	3500
EQUITY & LIABILITIES	
Ordinary shares of \$1	2500
Share Premium account	200
Profit and Loss Account	350
10% redeemable preference shares of \$1	300
6% debentures 2012/2013	<u>150</u>
Total equity and liabilities	3500

Further information:

1. The market price of the ordinary shares at 30 April 2012 was \$1.60.
2. The dividend yield on ordinary shares was 2.5 per cent.
3. The liability for taxation at 30 April 2011 was \$25 000. Taxation paid in the year ended 30 April 2012 amounted to \$22 000. The liability for taxation on the profit of the year ended 30 April 2012 is \$31 000 and is carried forward on the Taxation account.
4. The retained profit for the year ended 30 April 2012 was \$60 000.
5. The debentures were issued in 2007. The preference shares were issued at par.

REQUIRED:

- a) Prepare ABC Ltd's Statement of Comprehensive Income for the year ended 30 April 2012 in as much detail as possible. It should commence with the operating profit. **[12]**

The following PPE note to the Statement of Financial Position gave details of the movements on Non-current assets in the year ended 30 April 2012:

Non-current assets	Premises	Plant and machinery	Motor vehicles	Total
COST	\$000	\$000	\$000	\$000
As at 30 April 2011	1000	800	560	2360
Revaluation	500	–	–	500
Purchases	–	300	260	560
Disposals	–	(100)	(80)	(180)
As at 30 April 2012	1500	1000	740	3240
ACCUMULATED DEPRECIATION				
Balance at 30 April 2011	300	380	255	935
Revaluation	(300)			(300)
Provided in the year	–	110	95	205
Disposals	–	(90)	(60)	(150)
As at 30 April 2012	–	400	290	690
Carrying value at 30 April 2012	1500	600	450	2550

During the year ended 30 April 2012, plant and machinery was sold for \$25 000 and motor vehicles were sold for \$8000.

REQUIRED

- b) Prepare the following **extracts** from the Statement of Cash Flows for the year ended 30 April 2012:
- i. Reconciliation of operating profit to net cash flow from operating activities;
 - ii. Capital expenditure (Investing activities). **(Your answer should include only those items that appear in the note on non-current assets).** [6]

On 1 May 2012, before any further transactions had taken place, the company decided to carry out the following redemptions:

- all the debentures at a premium of \$0.05
- all the preference shares at \$1.20 per share out of the proceeds of a new issue of 200 000 ordinary shares of \$1 at \$1.25. The new issue of ordinary shares was fully subscribed.

REQUIRED

- c) Show, under the appropriate heading, how the redemption of the debentures and preference shares will appear in ABC Ltd's Statement of Cash flows for the year ending 30 April 2013. **[3]**

Following the redemption of the debentures and preference shares, the market price of ordinary shares rose from \$1.60 to \$1.85.

REQUIRED

- d) Explain why the redemption of the debentures and the preference shares may have caused the market price of the ordinary shares to rise. **[4]**

QUESTION THREE**[25 MARKS]**

You have received the following financial statements of Pie Ltd for the year ended 30 April 2012, but you do not have the company's Statement of Financial Position for the previous year, 2011.

Pie Ltd**Statement of Financial Position as at 30 April 2012**

	Cost or valuation \$000	Depn. \$000	Carrying Amount \$000
ASSETS			
Non-Current Assets			
Intangible: Goodwill	–	–	–
Tangible:			
Freehold premises	600	–	600
Plant and machinery	520	280	240
Motor vehicles	<u>135</u>	<u>85</u>	<u>50</u>
	<u>1 255</u>	<u>365</u>	<u>890</u>
Current assets:			
Inventory		212	
Receivables		<u>96</u>	
			<u>308</u>
Total assets			1198
EQUITY & LIABILITIES			
Share capital and reserves			
Ordinary shares of \$1			300
Share Premium account			105
Revaluation reserve			360
General reserve			100
Retained profit			<u>134</u>
Shareholder's funds			999

LIABILITIES**Current liabilities**

Bank	36	
Payables	63	
Ordinary dividend	<u>20</u>	119

Non-Current liabilities

10% debentures 2011/2014	<u>80</u>	
Total Liabilities		<u>199</u>
Total equity & liabilities		1198

Extract from Statement of Comprehensive income for the year ended 30 April 2012

	\$000	\$000
Operating profit		119
Interest on debentures		<u>10</u>
		109
Transfer to General Reserve	20	
Ordinary dividends – paid	10	
proposed	<u>20</u>	<u>(50)</u>
<i>Retained profit for the year.</i>		59

Pie Ltd**Statement of Cash Flow for the year ended 30 April 2012**

	\$000	\$000
OPERATING ACTIVITIES		
Cash inflow from operating activities (see below)	226	
Debenture interest paid	(10)	
Preference share dividend paid	(3)	
Equity dividends paid	<u>(25)</u>	
Cash flows before investing activities		188
INVESTING ACTIVITIES		
Payments to acquire tangible fixed assets;		
Plant and machinery	(250)	

Motor vehicles	(62)	
Receipts from sale of tangible fixed assets (see below)	<u>41</u>	
Net cash flows from investing activities		271
Cash flow before financing activities		(83)

FINANCING ACTIVITIES

Issuing of ordinary share capital	100	
Redemption of preference shares	(115)	
Redemption of debentures	<u>(40)</u>	
Net cashflow from financing activities		(55)
Decrease in cash		(138)

Reconciliation of operating profit with net cash inflow from operating activities

		\$000
Operating profit		119
Goodwill written off		30
Depreciation: plant and machinery		150
motor vehicles		50
Loss on sale of motor vehicle (see 1. below)		4
Profit on sale of plant and machinery (see 2. below)		(15)
Increase in stock		(40)
Increase in debtors		(28)
Decrease in creditors		(44)
Net cash inflow from operations		226

Further information relevant to the year ended 30 April 2012:

1. Motor vehicles which had cost \$35 000 were sold for \$6000.
2. Plant and machinery which had cost \$90 000 was sold for \$35 000.
3. The freehold premises were purchased on 1 May 2002 for \$400 000. They had been depreciated annually at the rate of 4% on cost.
4. \$40 000 debentures had been redeemed at par on 31 October 2011 .

5. The company redeemed its 6% preference shares at a premium of \$0.15 on 1 May 2011. The shares had been issued at \$1.20. The redemption was financed by an issue of 50 000 ordinary shares at \$2.00 each.

REQUIRED

Prepare Pie Ltd's Statement of Financial Position as at 30 April 2011.

QUESTION 4

[25 MARKS]

- a) Define the following elements of financial statements
- i. Contingent assets [3]
 - ii. Contingent Liabilities [3]
 - iii. Provision [3]
 - iv. Research costs [3]
- b) State the recognition criteria for development costs as prescribed by IAS 38:
Intangible assets [5]
- c) XYZ Pvt Ltd, a book seller, has announced a scheme which is open to any person who buys any book from the shop. ^{any of its} According to the scheme, **no matter when any book is purchased from** XYZ Pvt Ltd, if the buyer returns the book, he will get a full refund of the amount paid for the book.
- Required:**
- Determine whether this is a contingent liability. [3]
- d) ABC Pvt Ltd has to make a provision for warranty claims of \$2,500 at the end of 2009 financial year. During the next year, 2010, ABC Pvt Ltd settles warranty claims worth \$2,200. At the end of the 2010 financial year, \$3,000 will be needed to provide warranty claims.
- Required:**
- Set out the journal entries that it should make in respect of these transactions. [5]

THE END