National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER SUPPLIMENTARY EXAMINATION PAPER: 2013/2014

DATE:

SUBJECT: **FINANCAL ACCOUNTING 1B (CAC 1202)**

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

MARKS: **100**

<u>INSTRUCTIONS TO CANDIDATES</u>

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 summarised Statement of Financial Position of OMA Ltd at 31 December 2012 was as follows:

	$000
PPE	1 900
Net current assets	1 500
	3 400
10% debentures 2013/2014	400
Capital employed	**3 000**
Share capital and reserves	
Ordinary shares of $1	1 000
8% preference shares of $1	800
Share Premium account	180
Profit and Loss Account	1 020
Shareholder's funds	**3 000**

On 1 January 2013 before any other transactions had taken place the following occurred.

- Redemption of all the debentures at a premium of 5%.
- Redemption of all the preference shares at $1.10 per share. The shares had originally been issued at $1.10 per share.

REQUIRED

(a) A revised Statement of Financial Position at 1 January 2013 as it appeared after the redemption of the debentures and the preference shares. **[6]**

OMA Ltd's profit before interest for the year ended 31 December 2012 was $600 000. A dividend of $0.40 was paid on its ordinary shares for the year. The ordinary shares were quoted at $3.50 on 31 December 2002 and at $3.84 on 1 January 2003 after the redemption of the debentures and preference shares.

REQUIRED

(b) Calculate the following ratios **both** at 31 December 2012 **and** on 1 January 2013 after the debentures and preference shares had been redeemed. Give your answers to **two** decimal places.

(i) Gearing

(ii) Dividend cover

(iii) Earnings per share (EPS)

(iv) Price earnings ratio (PER)

(v) Dividend yield **[5]**

REQUIRED

(c) Comment on the changes in the ratios you have calculated in **(b)** as a result of the transactions in **(a)**. **[5]**

In May 2013 the directors of OMA Ltd plan to build an additional factory. This requires initial capital expenditure of $600 000 and is expected to start producing revenue and be profitable in three years' time. The directors are considering raising the additional funds for the project by one of the following methods.

- The issue of 12% debentures 2018 at par.
- A rights issue of ordinary shares at $4 per share.
- An issue of ordinary shares to the public at $4 per share.

REQUIRED

(d) Discuss **each** of the methods of raising the capital, and state with reasons which method the directors should choose. **[9]**

QUESTION TWO [25 MARKS]

Statements of financial position as at 31 March 2012 and 2011 for XYZ Ltd are shown below:

	2012			2011	
	$000	**$000**		**$000**	**$000**
ASSETS					
Tangible Non-current assets					
PPE (note 1)		3150			2627
Current assets					
Inventory	470			400	
Receivables	280			200	
Bank balance	190			-	
		940			600
Total Assets		**4090**			**3227**
EQUITY & LIABILITIES					
Equity					
Share capital and reserves					
Ordinary share capital			1500		1000
of $1 each fully paid **(note 3)**					
Share premium account			660		500
Revaluation reserve			300		-
Retained profit			1265		1199
Total equity			**3725**		**2699**
Liabilities					
Current Liabilities					
Payables	135			130	
Taxation	30			50	
Bank overdraft	-			48	
	165			228	
Non-current liabilities					
8% debenture stock **(note 2)**	200			300	

Total liabilities	**365**	**528**
Total equity & liabilities	**4090**	**3227**

Other information:

1. Extract from the Statement of Comprehensive Income for the year ended 31 March 2012

	$000
Operating profit	156
Interest paid	(28)
Profit before tax	128
Tax	(30)
Profit after tax	98
Interim dividend paid	(32)
Retained profit for the year	**66**

2. **Note 1**

	2012	**2011**
PPE		
Land	$000	$000
Cost	1200	1200
Revaluation	300	-
Carrying amount	**1500**	**1200**

There were no additions to or disposals of land during the year ended 31 March 2009.

	2012	**2011**
Buildings	**$000**	**$000**
Cost at 1 April	900	900
Additions	400	-
Disposals	(240)	-
Accumulated depreciation	(245)	(243)
Carrying amount	**815**	**657**

During the year ended 31 March 2012 buildings that had originally cost $240 000 were sold for $320 000. The depreciation charges on these buildings up to 31 March 2011 was $21000. Additional buildings were purchased for $400 000.

	2012	2011
Plant and machinery	**$000**	**$000**
Cost at 1 April	850	850
Additions	250	-
Accumulated depreciation	(450)	(340)
Carrying amount	**650**	**510**

There were no disposals of plant and machinery during the year ended 31 March 2012.

	2012	2011
Vehicles	**$000**	**$000**
Cost at 1 April	500	500
Additions	150	-
Disposals	(75)	-
Accumulated depreciation	(390)	(240)
Carrying amount	**185**	**260**

During the year ended 31 March 2012 vehicles that had originally cost $75 000 were sold for $12 000, a loss of $5000. Additional vehicles were purchased for $150 000.

3. **Note 2**

$100 000 debentures were redeemed on 30 September 2011.

4. **Note 3**

A bonus issue of one ordinary share for every five held was made in July 2011. The share premium account was used for this purpose.

A rights issue of 1 ordinary share for every four held at a premium of $1.20 per share was made in January 2012.

5. **Note 4**

Interim dividends paid for the year ended 31 March 2012 were $32 000. No final dividend was proposed.

REQUIRED

Prepare a statement of cash flow for the year ended 31 March 2009 in accordance with the requirements of **IAS 7.**

QUESTION THREE [25 MARKS]

Patel plc was established in the year 2000. A trainee accountant has prepared the following draft summarised final accounts for the year ended 31 March 2012. These accounts contain a number of serious errors of principle and presentation.

Statement of Comprehensive Income for the year ended 31 March 2012

	$000	**$000**	**$000**
Gross profit			**1532**
Expenses		873	
Depreciation		76	
			949
Operating profit			**583**
Taxation		160	
Ordinary dividends – interim paid		12	
final proposed		30	
Bonus issue of ordinary shares **(note 1)**		50	
Debenture interest paid		15	
			267
Retained earnings for the year			**316**

Statement of Financial Position at 31 March 2012

Non-current assets			
Premises at cost **(note 4)**			500
Other fixed assets (carrying amount)			684
Goodwill **(note 2)**			<u>250</u>
			1434
Current assets		265	
Creditors: amounts falling due in less than one year			
Creditors and accruals	245		
7½ % debenture (2029)	<u>200</u>	445	
			<u>(180)</u>
			1254
Equity and reserves			
Ordinary shares of $0.50 each, valued at issue price of $0.70 each			350
Retained earnings			<u>904</u>
			1254

Additional information

1. A bonus issue of shares was made during the year. 1 bonus share was issued at par for every 5 shares already held. The bonus issue has been included in the draft profit and loss account for the year ended 31 March 2012 as an appropriation of profits and has been credited to retained earnings. It is company policy to maintain reserves in their most flexible form. The bonus shares did not attract a dividend in the year ended 31 March 2012.

2. The number of customers has doubled since the year 2003 and the value of the company's sales has trebled. The company is widely acknowledged to be one of the market leaders in its field. During the year the directors introduced goodwill into the company's books of account. They made the following entries in the ledger.

Dr Goodwill $250 000

Cr Retained earnings $250 000

3. A bad debt of $40 000 that had been written off in 2009 has been recovered. This has been credited to retained earnings since the amount recovered arose from a sale in 2009.

4. Premises were purchased in the year 2003. The market value of the premises fell each year and were depreciated until 31 March 2011. They were valued by a professional valuer on 1 April 2011 at $500 000, the value shown in the balance sheet at 31 March 2012. The increase of $200 000 in the value of the premises has been credited to retained earnings. The accountant has not charged the usual 2 % depreciation this year since the premises are now no longer falling in value.

REQUIRED

(a) Prepare a corrected Statement of Comprehensive Income for the year ended 31 March 2012. **[10]**

(b) Prepare a corrected Statement of Financial Position at 31 March 2012. **[11]**

(c) Your friend Brian has just inherited $10 000 and would like to invest in Patel plc. He is undecided as to whether to invest in ordinary shares (the current market price is $1.70 per share) or in 7½ % debentures that can be purchased at par value.

REQUIRED

Discuss the merits and disadvanta ges of the two investments in Patel plc and advise Brian which one to choose. Give reasons for your choice. **[4]**

QUESTION 4 [25 MARKS]

a) You have recently completed the first year of your Barchelors degree at N.U.S.T. Your vacation break is going to be three months long and your department has organised vacation jobs for students. You are amongst the few students who have been identified. Interviews will be conducted and only successful students will be picked. The following questions are popular questions with interview panel. How would you respond to them?

- **i.** Differentiate between liabilities and Contingent liabilities. **[5]**
- **ii.** Differentiate between assets and contingent assets. **[5]**
- **iii.** Differentiate between reserves and provisions. **[5]**
- **iv.** Differentiate between tangible assets and intangible assets **[5]**
- **v.** Differentiate between development costs and research costs **[5]**

THE END