National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER FINAL EXAMINATION PAPER

DATE:	**MAY 2012**
SUBJECT:	**ACCOUNTING 1B CAC 1208**
TIME ALLOWED:	**THREE (3) HOURS**
MARKS:	**100**

INSTRUCTIONS TO CANDIDATES

1. Question 1 is compulsory
2. Answer any 3
3. Use the examination book provided
4. Use black or blue pen
5. Begin each question on a new page and
6. Submit all answer books

QUESTION ONE (25 marks)

Patel PLC was established in the year 2000. A trainee accountant has prepared the following draft summarised financial statements for the year ended 31 March 2010.These accounts contain serious errors of principle and presentation.

<u>Statement of Comprehensive income for the year ended 31 March 2010</u>

	$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**

<u>Statement of Financial Position at 31 March 2010</u>

	$	**$**	**$**
Non-current assets			
Premises at cost **(note 4)**			500
Other non-current assets (carrying amount)			684
Goodwill **(note 2)**			250
			1 434
Current assets		265	
Creditors: amounts falling due in less than one year			
Creditors and accruals	245		
7½ % debenture (2029)	200	445	
Net-current assets			**(180)**
Capital Employed			**1 254**
Share capital and reserves			
Ordinary shares of $0.50 each, valued at issue price of $0.70 each			350
Retained earnings			904
			1 254

<u>Additional information</u>

i. A bonus issue of shares was made during the year. For every 5 shares already held 1 bonus share was issued at par. The bonus issue has been included in the draft Statement of Comprehensive Income for the year ended 31 March 2010 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 2010.

ii. The number of customers has doubled since the year 2000 and the value of the company's sales has trippled. 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

iii. A bad debt of $40 000 that had been written off in 2007 has been recovered. This has been credited to retained earnings since the amount recovered arose from a sale in 2007.

iv. Premises were purchased in the year 2000. The market value of the premises fell each year and were depreciated until 31 March 2009. They were valued by a professional valuer on 1 April 2009 at $500 000, the value shown in the Statement of Financial Position as at 31 March 2009. 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 in the current 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 2010. **[10]**
(b) Prepare a corrected Statement of financial position at 31 March 2010. **[10]**

Your friend Brian has just inherited $10 000 and would like to invest in Patel PLC. He is undecided 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
(c) Advise Brian which investment to choose and give reasons for your choice. **[5]**

<u>QUESTION TWO (25 MARKS)</u>

An extract from P.E.L.E PLC's Statement of Comprehensive Income for the year ended 30 April 2011 was as follows:

	$000	$000
Operating profit		1 000
Debenture interest (12.5%)		(250)
		750
Ordinary dividend paid and proposed	350	
Preference dividend paid and proposed	120	
Transfer to General Reserve	200	(670)
Retained profit for the year		80

P.E.L.E PLC's issued share capital and reserves at 30 April 2011 consisted of:

	$000
Ordinary shares of $10	4 000
8% Preference shares of $5	1 500
Capital and revenue reserves	900

The market price of the ordinary shares at 30 April 2011 was $30.

REQUIRED

(a) Calculate the following ratios for P.E.L.E PLC

(i) Interest cover

(ii) Dividend covers

(iii) Earnings per share

(iv) Price earnings ratio

(v) Dividend yield

(vi) Gearing

[6]

b) Suggest further information and documents you might wish to see to enable you to assess the likely future performance of P.E.L.E PLC. **[3]**

c)Compare and contrast Current Purchasing Power (CPP) and Current Cost Accounting **[6]**

d) Using an example of your choice**,** state any social activities the company could undertake **[5]**

e) Suppose you are a Fund manager, and one of your clients has approached you requesting for advice on which type of investment to make between Unit trusts and government stocks. Advice your client highlighting the advantages and disadvantages of each of the two **[5]**

QUESTION THREE (25 MARKS)

The following balances were extracted from the books of XYZ Ltd at 31 December:

	2010	2009
	$	$
Credits		
Ordinary share capital ($1 shares)	110 000	90 000
Share Premium	10 000	-
Revaluation of land and buildings	30 000	-
Retained earnings	78 800	52 900
5% Debentures	40 000	50 000
Loan from Barclays Bank	15 000	9 000
Accumulated depreciation on motor vehicles	35 500	20 000
Bank overdraft	-	12 000
Trade and other payables	19 500	16 700
Proposed dividends	9 300	4 900
Debits		
Land and buildings at valuation	170 000	100 000
Motor vehicles	85 500	60 000
Investments	14 000	18 000
Trade and other receivables	24 000	16 000
Inventories	34 000	42 000
Loans to directors	9 000	11 000
Tax receivable	8 700	8 500
Bank	2 900	-

Additional information:

i. On 3 January 2010 a rights issue of one share for every nine shares was made at a premium of $1 per share.

ii. A bonus issue of one share for every ten shares held was made on 1 July 2010.

iii. Corporation tax for the year 2010 amounts to $7 000, being $8 000 current tax and an overprovision of $1 000 for the previous year.

iv. During the year a delivery vehicle with a book value of $12 000 was scrapped. This vehicle had originally cost $20 000.

v. The 5% Debenture took place on 3 January 2008 at a premium of $300. This premium was charged against income.

vi. Investment which had cost $4 000 was sold for $12 000.

vii. Dividends received on Investments amounted to $1 800.

viii. Loans to directors bear interest calculated at 10 % per annum on the opening balances.

ix. Interest for the period ended 31 December 2008 on the Barclays Bank loan amounted to $1 800.

x. All interest paid or received was correctly calculated and recorded in the statement of comprehensive income.

xi. For the year ended 31 December 2008, Sales amounted to $177 400; Cost of goods sold to $100 000 and Administration expenses to $10 800. Sales and purchases were all on credit basis.

REQUIRED:

Prepare a Statement of Cashflows for the year ended 31 December 2010 for XYZ Ltd in accordance with IAS 7 using the direct method. **[25]**

QUESTION FOUR (25 MARKS)

Oprah and Ellen have been in partnership for some years, sharing profits and losses in the ratio 2 : 1. The Partnership Statement of Financial Position as at 31 January 2011 was as follows:

Statement of Financial Position at 31 January 2011

	$	$	$
Non-Current Assets at Carrying amount			
Motor vehicles			58 200
Office equipment			35 400
Fixtures and fittings			39 000
			132 600
Goodwill			10 000
			142 600
Current Assets			
Inventory		64 000	
Trade receivables		45 600	
Bank		19 200	
		128 800	
Current liabilities			
Trade payables		22 400	
Net current assets			106 400
			249 000
Capital accounts			
Oprah		80 000	
Ellen		120 000	
		200 000	
Current accounts			
Oprah	35 400		
Ellen	13 600	49 000	
			249 000

Oprah and Ellen, who had been renting business premises, accepted an offer by Phil to move to his premises on 1 February 2011 on condition that he would be accepted into the partnership on that date.

Additional information:

i. The new partnership commenced on 1 February 2011 with Oprah, Ellen and Phil sharing profits and losses in the ratio 2 : 1 : 1.

ii. The new partnership took ownership of Phil's premises on 1 February 2011 at a valuation of $196 000.

iii. The following revaluations were to take place on 1 February 2011;

-Goodwill was revalued at $30 000 and would still be maintained in the books of accounts .

-Office equipment was revalued at $34 100

-Inventory was valued at $63 000.

REQUIRED

a. Prepare the partnership Goodwill account at 1 February 2011 following the amendments **[5]**

b. Prepare the partnership Revaluation account at 1 February 2011 following the amendments **[5]**

c. Prepare Capital accounts for Oprah, Ellen and Phil **[5]**

d. Prepare the Statement of Financial Position for the Partnership as at 1 February 2011 **[10]**

END OF EXAMINATION PAPER