National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER SUPPLIMENTARY PAPER: 2011/2012

DATE:	**JUNE 2012**
SUBJECT:	**ACCOUNTING 1B CAC 1208**
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 and
5. Submit all answer books

QUESTION ONE (30 MARKS)

The following information is available about Grist plc:
i In 2003 it issued at $0.75 a number of ordinary shares with a nominal value of $0.50 each. At the same time it issued at par a number of 5% preference shares of $1 each.
ii. During 2009 Grist Ltd issued $200 000 6% debentures repayable in 2020.
iii. On 1 January 2011 the balance on the profit and loss account was $62 000.
iv. On 31 December 2011 the non-current (fixed) assets had a value of $610 000.

Further information relating to 2011 is as follows:
v. Interest cover was 16 times.
vi. The tax charge for the year was calculated as 20% of profit before tax.
vii. The ordinary dividends paid during the year were $54 000.
viii. Earnings per share were $0.22.
ix.Dividend per share was $0.09.
x. The directors decided to create a general reserve of $30 000.
xi. The market value of the ordinary shares was $2.50.

REQUIRED
(a) Starting with profit from operations (operating profit), prepare a statement to calculate the retained profit for the year ended 31 December 2011. **[10]**
(b) Giving as much detail as possible, prepare the Statement of Financial Position at 31 December 2011. **[10]**
(c) Calculate:
(i) the dividend cover
(ii) The price earnings ratio
(iii) The dividend yield
(iv) The gearing ratio
(v) The return on capital employed. **[5]**

(d) Vaughan plc is a company in the same line of business as Grist plc and is in a similar location. The following ratios have been calculated for Vaughan plc:
Gearing ratio 63.8%
Return on capital employed 22.1%
Dividend cover 1.8 times

REQUIRED
Compare and comment on the performance of Grist plc and Vaughan plc in the light of these ratios**.** **[5]**

QUESTION TWO (20 MARKS)

- **a.** What is the difference between government stocks and government bonds **[3]**
- **b.** 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. **[10]**
- **c.** “Social accounting is concerned with how to report upon the application of social policies adopted by an organisation and upon how they have impacted upon the organisation and its environment”. Can you list the major stakeholders of an organisation that might be interested in the social activities of an organisation and explain in brief specific interests of each stakeholder **[7]**

QUESTION THREE (25 MARKS)

Britney, Justin and Cameron had been in partnership sharing profits and losses in the ratio 5:3:2 respectively. Their Statement of Financial Position as at 31/07/03 is as follows;

	$	$	$
Non-current (fixed) assets			
Motor vehicles	50 000	8 000	42 000
Fixtures and Fittings	40 000	4 000	36 000
Buildings	25 000	-	25 000
	115 000	112 000	103 000
Current assets			
Inventory (stock)		16 800	
Trade receivables (debtors)		12 000	
Cash and cash equivalents (bank)		10 000	
		38 800	
Current liabilities			
Trade payables (creditors)	1 600	1 600	
Net current assets (working capital)			37 200
			140 200
Current accounts			
Britney		3 600	
Justin		4 400	
Cameron		2 200	
			10 200
Capital accounts			
Britney		50 000	
Justin		40 000	
Cameron		30 000	
			120 000
Long term Liabilities			
Loan- Justin			10 000
			140 200

On 1 September 2003 Justin retired and the following changes took place:

i. Motor vehicles were valued at $50 000

ii. Fixtures and Fittings were reduced by $6 000

iii. Buildings were valued at $ 35 000

iv .Inventory was reduced by $1 800

v. Bad debts of $1000 were written off

vi. Goodwill was valued at $ 20 000 and was not to be maintained in the partnership books

vii. Justin was paid $25 000 cash and also took a revalued vehicle worth $5 000

viii. Balance remaining was transferred to the loan account

ix. On the same date Mary was admitted as a new partner, she paid $45 000 cash capital plus a share of goodwill

x. Britney, Cameron and Mary share profits and losses in the ratio 4:3:1

Required:

- **a)** Prepare detailed capital accounts to show the above changes **[10]**
- **b)** Prepare a Statement of Financial Position after the changes **[15]**

QUESTION FOUR(25 MARKS)

You have received the following financial statements of NUST Ltd for the year ended 30 April 2010, but you do not have the company's Statement of Financial Position for the previous year.

Statement of Financial Position as at 30 April 2010

	Cost	Depn	Carrying Amount/ valuation Value
	$000	**$000**	**$000**
Non-Current Assets			
Intangible: Goodwill	–	–	–
Tangible: Freehold premises	600	–	600
Motor vehicles	520	280	240
Plant and Machinery	135	85	50
	1 255	365	890
Current assets:			
Inventory		212	
Receivables		96	
		308	
Current Liabilities			
Bank	36		
Trade creditors	63		
Ordinary dividend	20	119	189
			1 079
Non-current liabilities			
10% debentures 2010/2012			80
			999
Share capital and reserves			
Ordinary shares of $1			300
Share Premium account			105
Revaluation reserve			360
General reserve			100
Retained profit			134
			999

Extract from Statement of Comprehensive income for the year ended 30 April 2010

	$000	$000
Operating profit		119
Interest on debentures		10
		109
Transfer to General Reserve	20	
Ordinary dividends – paid	10	
-proposed	20	50
		59

Statement of Cash Flow for the year ended 30 April 2010

	$000	$000
Cash inflow from operating activities ***(see below)***		**226**
Debenture interest paid	(10)	
Preference share dividend paid	(3)	
Equity dividends paid	(25)	
		(38)
Net cashflow from operating activities		**188**
INVESTING ACTIVITIES		
Motor vehicles	(250)	
Plant and Machinery	(62)	
Proceeds from sale of tangible fixed assets ***(see below)***	41	
Net cashflow from investing activities		**(271)**
FINANCING ACTIVITIES		
Issuing of ordinary share capital	100	
Redemption of preference shares	(115)	
Redemption of debentures	(40)	
Net cash flow 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: motor vehicles	150
Plant and machinery	50
Loss on sale of plant and machinery ***(see 1. below)***	4
Profit on sale of motor vehicles ***(see 2. below)***	(15)
Increase in inventory	(40)
Increase in receivables	(28)
Decrease in trade payables	(44)
Net cash inflow from operations	**226**

Further information relevant to the year ended 30 April 2010:

i. Plant and machinery which had cost $35 000 were sold for $6000.

ii. Motor vehicles which had cost $90 000 was sold for $35 000.

ii. The Freehold premises were purchased on 1 May 1999 for $400 000. They had been depreciated annually at the rate of 4% on cost.

iv $40 000 debentures had been redeemed at par on 31 October 2009.

v. The company redeemed its 6% preference shares at a premium of $0.15 on 1 May 2009. The shares had been originally issued at $1.20. The redemption was financed by an issue of 50 000 ordinary shares at $2.00 each.

REQUIRED

Prepare NUST Ltd's Statement of Financial Position as at 30 April **2009**. [**25]**

END OF EXAMINATION PAPER