National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER FINAL EXAMINATION MAY 2013

COURSE: ACCOUNTING 1B: CAC 1208

TIME ALLOWED: Three (3) HOURS

TOTAL 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

INFORMATION FOR CANDIDATES

1. Submit all answer books used
2. All workings should be clearly shown

QUESTION ONE [25 Marks]

A, B and C are in partnership sharing profits and losses in the ratio 5:4:1 respectively. Their capital accounts show the following balances:

Capital accounts

A	$3 000
B	$5 000
C	$4 000
Total	$12 000

The partnership business is in need of an injection of additional Capital to fund its expansion activities. After careful consideration of the various sources of finance available for such a business the partners resolved to introduce two new partners, D and E.

The profits are now to be shared amongst the partners A, B, C, D and E in the ratio of 4:2:2:1:1 respectively.

D is to pay in $3 000 for his share of the goodwill but E has insufficient funds to pay immediately. No Goodwill Account is to be maintained in the books.

Required:

(a) Draw up a schedule showing the computation of Goodwill to the various partners and the action required on the capital accounts. **[13]**

(b) Prepare the capital accounts for each of the partners after D has paid his share of goodwill. **[12]**

QUESTION TWO[25 Marks]

(A) Cracker, a company, has share capital as follows:

Ordinary share capital (50c shares) $200,000

8% Irredeemable Preference share capital $50,000

The company pays an interim dividend of 12.5c per share to its ordinary shareholders and pays the preference shareholders their fixed dividend.

Before the year end the company declares a final dividend of 36.5c per share to its ordinary shareholders.

Required:

Prepare, **Extracts** for The Statement of Changes in equity for the year ended 31 December 2012 and Statement of Financial Position as at that date, in respect of dividends for the year. **[12]**

(B) Lucky Duck is a limited liability company with 200,000 25c shares in issue. On 1 January 2012 the balance on the share premium account is $75,000.

The following transactions occurred during the year ended 31 December 2012:

I. On31 January there is a fully taken up 2 for 5 rights issue.The issue price is $1.80.
II. On12 August there is a 1 for 10 bonus issue made using the share premium account.

Required:

Prepare the share capital accounts and the share premium account for Lucky Duck for the year ended 31 December 2012 **[13]**

QUESTION THREE [25 Marks]

The following are the Statements of Financial position of Gorehondo for the year ended 31 December 2011 and 2012:

	31December 2011 $	31December 2011 $	31December 2012 $	31December 2012 $
Non Current Assets				
Equipment at cost		28 500		26 100
Less Depreciation to date		11 450		13 010
		17 050		**13 090**
Current assets				
Inventory		18 570		16 250
Receivables	8 470		14 190	
Less allowance for credit loss	420	8 050	800	13 390
Cash and bank balances		4 060		3 700
		30 680		33 340
Less Current liabilities				
Payables		4 140		5 730
Working capital		**26 540**		**27 610**
		43 590		**40 700**
Financed by:				
Capital				
Opening balances b/d		35 760		33 590
Add net profit		10 240		11 070
Add cash introduced		NIL		600
		46 000		45 260
Less drawings		12 410		8 560
		33 590		36 700
Loan from J Gordard		10 000		4 000
		43 590		**40 700**

Additional information

1. Equipment with a carrying amount of $1 350 was sold for $900.
2. Depreciation written off equipment during the year was $2 610.

Required

- **(a)** Prepare a Statement of Cash flows for Gorehondo for the year ended 31 December 2012 using the **Indirect method**. **[20]**
- **(b)** Explain the need for preparing a Statement of Cashflows **[2]**
- **(c)** Differentiate a Statement of Cashflows from a Statement of Comprehensive Income **[3]**

Question Four

(a) Define and give the formulae for the following Accounting ratios

- I) Return on Capital employed **[3]**
- II) Payables turnover days **[3]**
- III) Quick ratio **[3]**
- IV) Earnings per share **[3]**
- V) Dividends per share **[3]**

(b) Explain why an investor would choose to invest in Unit Trusts over Government stocks. **[5]**

(c) Briefly explain the differences between Historical Cost Accounting and Current Cost Accounting. **[5]**

End of Examination Paper