NATIONAL UNVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATIONS: APRIL 2009

FINANCIAL ACCOUNTING 2A CAC 2101

TIME ALLOWED : 3 HOURS

INTRUCTIONS TO CANDIDATES:

1. Answer **ALL FOUR questions.**
2. **Start each question on a new page.**
3. **Show all workings.**

QUESTION	TOPIC	MARKS
1	PUBLISHED FINANCIAL STATEMENTS	25
2	CASH FLOW STATEMENTS	25
3	INTERNATIONAL ACCOUNTING STANDARDS	25
4	DISSOLUTION OF PARTNERSHIP	25

QUESTION 1 **Total (25 Marks)**

The following information has been extracted from the books of account of B Ltd as at 30 June 2006:

	Dr	***Cr***
	$000	*$000*
Administration expenses	242	
Cash at bank and in hand	157	
Cash received on sale of fittings		3
Corporation tax (over-provision for the previous year)		10
Deferred taxation		60
Depreciation of fixtures, fittings, tools and equipment (1 July 2005)		132
Distribution costs	55	
Factory closure costs	30	
Fixtures, fittings, tools and equipment at cost	340	
Profit and loss account (at 1 July 2005)		40
Purchase equipment	60	
Purchases of goods for resale	855	
Sales		1 500
Share capital (500 000 authorized, issued and fully paid ordinary shares of $1 each)		500
Stock (at 1 July 2005)	70	
Trade creditors		64
Trade debtors	500	
	$2 309	$2 309

Additional information:

1 The company was incorporated in 2000.
2 The stock at 30 June 2006 (valued at the lower of cost or net realizable value) was estimated to be worth $100 000.
3 Fixtures, fittings, tools and equipment all related to administrative expenses. Depreciation is charged on them at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
4 During the year to 30 June 2006, the company purchased $60 000 of equipment. It also sold some fittings (which had originally cost $20 000) for $3 000 and for which depreciation of $15 000 had been charged.
5 The corporation tax based on the profits for the year at a rate of 35% is estimated to be $100 000. A transfer of $40 000 is to be made to the deferred taxation account.
6 The company proposes to pay a dividend of $ 0.2 (20 cents) per ordinary share.

REQUIRED:

In so far as the information permits, prepare B Ltd's Statement of Comprehensive Income for the year to 30 June 2006, and a Statement of Financial Position as at that date in accordance with the requirements of IAS 1 and the Companies Act. **[25 Marks].**

QUESTION 2 Total (25 Marks)

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

	2008	**2007**
	$	**$**
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:

- **a)** On 3 January 2008 a rights issue of one share for every nine shares was made at a premium of $1 per share.
- **b)** A bonus issue of one share for every ten shares held was made on 1 July 2008..
- **c)** Corporation tax for the year 2008 amounts to $7 000, being $8 000 current tax and an overprovision of $1 000 for the previous year.
- **d)** During the year a delivery vehicle with a book value of $12 000 was scrapped. This vehicle had originally cost $20 000.

- **e)** The 5% Debenture took place on 3 January 2008 at a premium of $300. This premium was charged against income.
- **f)** Investment which had cost $4 000 was sold for $12 000.
- **g)** Dividends received on Investments amounted to $1 800.
- **h)** Loans to directors bear interest calculated at 10 % per annum on the opening balances.
- **i)** Interest for the period ended 31 December 2008 on the Barclays Bank loan amounted to $1 800.
- **j)** All interest paid or received was correctly calculated and recorded in the statement of comprehensive income.
- **k)** 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.

<u>REQUIRED:</u>

Prepare a Cash Flow Statement for the year ended 31 December 2008 for XYZ Ltd in accordance with IAS 7. ***[25 marks]***

<u>QUESTION 3</u> Total (25 MARKS)

a) International Accounting Standard 16 deals with Property Plant and Equipment (PPE). With regard to this standard, state the following:

- i) the objective of IAS 16 ***[1 mark]***
- ii) Three (3**)** types of assets to which IAS 16 does not apply ***[3 marks]***
- iii) Three types of assets that are not part of PPE ***[3 marks]***
- iv) Three types of costs that are part of PPE ***[3 narks]***

b) Investment Property is the subject of International Accounting Standard 40 (IAS 40). You are required to:

- i) State the objective of IAS 40. ***[1 mark]***
- ii) Define the term 'investment property'. ***[2 marks]***
- iii) Give **two** examples of assets that may be classified as investment property ***[2 marks]***
- iv) Give **two** examples of assets that may not be classified as investment property. ***[2 marks]***

c) i) Define the term 'Revenue' in accordance with International Accounting Standard 18 (IAS 18). ***[1 mark]***

ii) For each of the following items, state when 'Revenue' should be recognized in the Statement of Comprehensive Income:

1) Installment sales ***[1mark]***

2) Installation fees ***[1 mark]***
3) Tuition fees ***[1 mark]***
4) Real Estate sales ***[1 mark]***
5) License fees ***[1 marl]***
6) Royalties ***[1 mark]***

QUESTION 4 **Total (25 Marks)**

Ebb, Teb and Veb who are in partnership sharing profits and loses 2: 2: 1, decide to dissolve the partnership on 30th September 2008 at which date their balance sheet was:-

Ebb, Teb and Veb
Balance sheet as at 30 September 2008

	$	*$*		*$*	*$*
Capital accounts			**Fixed assets (at wdv)**		
- Ebb	39 000		Freehold property	30 000	
- Teb	13 000		Equipment	15 000	
- Veb	2 000				45 000
		54 000			
Current accounts			Current assets		
- Ebb	700		Stock	8 000	
- Teb	(300)		Debtors	4 500	
- Veb	200		Cash at bank	2 100	
		600			14 600
Current liabilities					
Creditors		3 000			
Loan – Teb		2 000			
		59 600			59 600

The partners were unable to sell the business as a going concern and disposed of the assets piecemeal as follows:

	Carrying Amount $	Cash Received: $
Oct 10 Debtors	1 500	1 500
Oct 31 Debtors	3 000	4 000
Nov 11 Stock	5 000	5 600
Jan 29 Stock	3 000	2 400
Feb 23 Equipment	15 000	13 500
Freehold property	30 000	33 000

Liquidation expenses were charged at 4% of sale proceeds and paid immediately after each liquidation.

REQUIRED:

Prepare Liquidation Schedules to show the liquidation of the assets of the partnership and interim distributions to the partners using the loss absorption capacity method.

[25 marks]