NATIONAL UNVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATIONS: OCTOBER 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	PARTNERSHIP ACCOUNTS	30
2	RATIO ANALYSIS	20
3	BRANCH ACCOUNTS	20
4	STATEMENT OF CASH FLOWS	30

QUESTION 1 **(Total 30 marks)**

Tamara and Queen are partners in an electronic contracting firm. The following data is available from their balance sheet:

TarQueen Partnership

Statement of Financial Position at 31 December 2008

ASSETS	$
Non-current assets	
Equipment:	
Cost	150 000
Accumulated Depreciation	45 000
Current Assets	
Inventories	195 000
Debtors	70 000
Provision for bad debtors	64 000
Cash	32 000
	396 000
EQUITY AND LIABILITIES	
Equity	
Tamara	180 000
Queen	160 000
Current liabilities	
Creditors	56 000
	396 000

Tamara and Queen share profits and losses equally. They decide to convert the partnership into a company and for this purpose create TarQueen (Pvt) Ltd, with an authorized share capital of $500 000 (5 000 shares with a par value of $100 each) to take over the partnership on 1 January 2009. The formation costs of the company amount to $3 000.

For the purpose of the conversion the assets are valued as follows:

Debtors	62 000
Inventory	220 000
Equipment	100 000
Goodwill	50 000
	$432 000

Required:

1. Show the journal entries to close off the books of the partnership. ***(9 marks)***
2. Show the journal entries to open a new set of books for the company. ***(6 marks)***
3. Prepare the opening Statement of Financial Position of TarQueen (Pvt) Ltd as at 1 January 2009. ***(10 marks)***
4. Explain how the "Loss Absorption" method deals with the insolvency of a partner? ***(5 marks)***

QUESTION 2 **(Total 20 marks)**

Blue Sky (Pvt) Ltd is a holding company with subsidiaries that have diversified interests. The company's board of directors is interested in the group acquiring a subsidiary in the machine tool making sector. Two companies have been identified as potential acquisitions: M Ltd and N Ltd. Summaries of both these companies' accounts are shown below:

Statements of Comprehensive Income for the year ended 31 December 2005

	M Ltd	**N Ltd**
	$	$
Turnover	985 000	560 000
Cost of goods sold:		
Opening stock	150 000	145 000
Materials	255 000	136 000
Labour	160 000	125 000
Factory overheads	205 000	111 000
Depreciation	35 000	20 000
Closing Stock	(155 000)	(140 000)
	650 000	397 000
Gross Profit	335 000	163 000
Selling and administration expenses	(124 000)	(75 000)
Interest	(35 000)	(10 000)
Profit before taxation	176 000	78 000
Taxation	65 000	25 000
Profit after taxation	111 000	53 000

Statement of Financial Position as at December 2005

	M Ltd	N Ltd
ASSETS	$	$
Fixed Assets	765 000	410 000
Current Assets		
Stock	155 000	140 000
Debtors	170 000	395 000
Bank	50 000	45 000
	1 140 000	990 000
EQUITY and LIABILITIES		
Equity		
Share Capital	450 000	440 000
Profit and loss account	105 000	55 000
	555 000	495 000
Non-current Liabilities		
Debentures	220 000	70 000
Current Liabilities		
Trade Creditors	235 000	300 000
Other	130 000	125 000
	1 140 000	990 000

Required:

Prepare a report for the board of Blue Sky (Pvt) Ltd assessing the financial performance and position of M Ltd and N Ltd. Your report should be prepared in the context of Blue Sky (Pvt) Ltd's interests in these two companies and should be illustrated with financial ratios where appropriate. You should state any assumptions you make as well as any limitations of your analysis. ***(20 marks)***

QUESTION 3 (Total 20 Marks)

Simunye Ltd has its head office in Harare but its branch is in Francistown – Botswana. The currency in Botswana is the Pula. The following are the trial balances of the head office and the Francistown branch as at 31 December 2008.

	Head Office		Francistown Branch	
	$	$	Pula	Pula
Branch account	65 280			
Balances at bank	10 560		66 000	
Creditors		21 120		92 400
Debtors	18 480		158 400	
Fixed assets purchased 1/1/08	39 600		145 200	
Head office account				316 800
Profit and loss account				
Net profit for year		52 800		79 200
Issued share capital		86 400		
Stocks	26 400		118 800	
	160 320	160 320	488 400	488 400

The trial balance of the head office was prepared before any entries had been made in respect of any profits or losses of the branch.
Remittances from head office to branch and from branch to head office were recorded in the books at the actual amounts paid and received.
The rates of exchange were:

On 31 December 2005 5 pula = $1
On 31 December 2005 4 pula = $1

Required:

1. The trial balance of the Lilongwe branch in dollars as at 31 December 2005. ***(8 marks)***
2. A Statement of Financial Position of Bantu Ltd as at 31 December 2005. Ignore depreciation of fixed assets. ***(12 marks)***

QUESTION 4 (Total 30 marks)

a) (i) Explain how a Statement of Cash Flows differs from a Cash Budget ***(5 marks)***

(ii) What additional information would an accounting information user derive from a Statement of Cash Flows in addition to the Statement of Comprehensive Income and Statement of Financial Position? ***(5 marks)***

b) The following information has been extracted from the books of Mkoba Ltd for the year ended 31 December

Statement of Comprehensive Income for the years to 31 December:

	2004	2005
Profit before taxation	9 500	20 400
Taxation	(3 200)	(5 200)
Profit after taxation	6 300	15 200
Dividends:		
Preference paid	(100)	(100)
Ordinary: Interim paid	(1 000)	(2 000)
Final proposed	(3 000)	(6 000)
	2 200	7 100

Balance Sheet at 31 December

	2004	2005
Share Capital		
Ordinary shares of $1 each	5 000	5 000
10% preference share of $1 each	1 000	1 000
Profit and loss account	3 000	10 100
	9 000	16 100
Non-current Liabilities		
15% debenture stock	600	750
Current liabilities		
Bank overdraft	-	16 200
Trade creditors	6 000	10 000
Accruals	800	1 000
Taxation	3 200	5 200
Dividends	3 000	6 000
	22 600	55 250
Represented by		
N0n-current Assets		
Plant and machinery at cost	17 600	23 900
Less Accumulated depreciation	(9 500)	(10 750)
	8 100	13 150
Current Assets		
Stocks	5 000	15 000
Trade debtors	8 600	26 700
Prepayments	300	400
Cash at bank and hand	600	- .
	22 600	55 250

Additional Information:

(i) The directors are greatly concerned about the large bank overdraft as at 31 December 2005 and they attribute this mainly to the increase in trade debtors as a result of alleged poor credit control.

(ii) During the year to 31 December 2005, fixed assets originally costing $5 500 were sold for $1 000. The accumulated depreciation on these assets as at 31 December 2005 was $3 800.

Required

Prepare a Statement of Cash Flows for Mkoba Ltd for the year ended 31 December 2005 in compliance with IAS7. ***(20 marks)***