

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATIONS: FEBRUARY 2010

FINANCIAL ACCOUNTING 2A CAC 2101

TIME ALLOWED : 3 HOURS

INSTRUCTIONS TO CANDIDATES:

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

QUESTION	TOPIC	MARKS
1	TREND ANALYSIS	25
2	HIRE PURCHASE	25
3	STATEMENT OF CASH FLOWS	25
4	INTERNATIONAL ACCOUNTING STANDARDS	25

QUESTION 1 (25 Marks)

The following 5-year summary relates to Ilanga Food Product Ltd and is based on the financial statement prepared under the historical cost convention:

Financial ratios		1999	1998	1997	1996	1995
Profitability						
Margin	$\frac{\text{Trading profit}}{\text{Sales}}$ (%)	7.8	7.5	7.0	7.2	7.3
Return on assets	$\frac{\text{Trading profits}}{\text{Net operating assets}}$ (%)	16.3	17.6	16.2	18.2	18.3
Interest and dividend cover						
Interest cover	$\frac{\text{Trading profit}}{\text{Net finance charges}}$ (times)	2.9	4.8	5.1	6.5	3.6
Dividend cover	$\frac{\text{Earnings per ord. share}}{\text{Dividend per ordinary share}}$ (times)	2.7	2.6	2.1	2.5	3.1
Debt – equity ratio						
	$\frac{\text{Net borrowings}}{\text{Shareholders funds}}$ (%)	65.9	61.3	48.3	10.8	36.5
	$\frac{\text{Net borrowings}}{\text{Shareholders funds plus minority interest}}$ (%)	59.3	55.5	44.0	10.1	33.9
Liquidity ratio						
Quick ratio	$\frac{\text{Current assets less stock}}{\text{Current liabilities}}$ (%)	74.3	73.3	78.8	113.8	93.4
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$ (%)	133.6	130.3	142.2	178.9	174.7
Asset ratio						
Operating asset Turnover	$\frac{\text{Sales}}{\text{net operating assets}}$ (times)	2.1	2.4	2.3	2.5	2.5
Working capital Turnover	$\frac{\text{Sales}}{\text{working capital}}$ (times)	8.6	8.0	7.0	7.4	6.2
Per share						
Earnings per share	-pre tax basis (cents)	23.62	21.25	17.96	17.72	15.06
	-net basis (cents)	15.65	13.60	10.98	11.32	12.18

Dividend per share	(cents)	5.9	5.4	4.9	4.6	4.1
Net asset per Share	(cents)	102.1	89.22	85.95	85.79	78.11

Net operating assets include tangible fixed assets, stock, debtors and creditors. They exclude borrowings, taxation and dividends.

Required:

Prepare a report on the company' performance over the years clearly interpreting and evaluating the information given.

(25 Marks)

QUESTION 2 (25 Marks)

Olga Limited is a retail outlet selling word processing equipment both for cash and on hire purchase terms. The following information has been extracted from the books of account as at 31 December 2009:

	Dr	Cr
	\$	\$
Authorized, issued and fully paid share capital (ordinary shares of \$1 each)		100 000
Administration and shop expenses	155 000	
Cash at bank and in hand	6 208	
Cash received from hire purchase customers		315 468
Cash sales		71 000
Depreciation of premises and equipment (at 1 January 2008)		45 000
Higher purchase debtors (at 1 January 2008)	2 268	
Premises and equipment at cost	100 000	
Profit and loss account (at 1 January 2008)		8 000
Provision for unrealized profit (at 1 January 2008)		1 008
Purchases	342 000	
Stock (at 1 January 2008)	15 000	
Trade creditors		80 000
	<u>\$620 476</u>	<u>\$620 476</u>

Additional information:

- I. The company's policy is to take credit for gross profit (including interest) for higher purchase sales in proportion to the installments received. It does this by raising a provision against the profit included in higher purchase debtors not yet due.
- II. The cash selling price is fixed at 50% and the higher purchase selling price at 80% respectively above the cost of goods purchased.
- III. The higher purchase contract requires an initial deposit of 20% of the higher selling purchase price, the balance to be paid in four equal installments at quarterly intervals. The first installment is due three months after the agreement is signed.
- IV. Hire purchase sales for the year amounted to \$540 000 (including interest).
- V. In June 2009 the company repossessed some goods which had been sold earlier in the year. These goods had been purchased for \$3 000, and the unpaid installments on

them amounted to \$3 240. They were then taken back into stock at a value of \$2 500. Later on in the year they were sold on cash terms for \$3 500.

- VI. Depreciation is charged on premises and equipment at a rate of 15% per annum at cost.

Required:

Prepare Olga Limited's Statement of Comprehensive Income for the year to 31 December 2009, and a Statement of Financial Position as at that date. **(25 marks)**

QUESTION 3

The Statements of Financial Position of Merlin Ltd as at 31 October 2008 and 31 October 2007 are as follows:

	2008		2007	
	\$000	\$000	\$000	\$000
Non-current assets:				
Property, at cost	4 000		3 000	
Plant and equipment, at cost	7 390		4 182	
Less accumulated depreciation	<u>(1 450)</u>		<u>(1 452)</u>	
	9 940		5 730	
Current assets:				
Inventory	5 901		4 520	
Trade receivables	2 639		2 233	
Bank	<u>-</u>	8 540	<u>1 007</u>	7 760
		<u>18 480</u>		<u>13 490</u>
Equity and Liabilities				
Ordinary shares	5 000		3 500	
Share premium	2 500		1 000	
Retained earnings	<u>2 110</u>	9 610	<u>3 090</u>	7 590
Non-current liabilities:				
10% loan stock		4 750		3 750
Current liabilities:				
Trade payables	1 237		1 700	
Taxation	550		450	
Bank overdraft	<u>2 333</u>	4 120	<u>-</u>	<u>2 150</u>
		<u>18 480</u>		<u>13 490</u>

The Statement of Comprehensive Income of Merlin Ltd for the year ended 31 October 2008 is as follows:

	\$000	\$000
Credit sales		9 500
Cash sales		1 047
Cost of sales		<u>(8 080)</u>
Gross profit		2 467
Distribution costs	(501)	
Administration expenses	<u>(369)</u>	<u>(870)</u>
Operating profit		1 597
Interest on loan stock		(425)
Loss on disposal of non-current asset		<u>(102)</u>
Profit before tax		1 070
Tax		<u>(550)</u>
Profit after tax		<u> 520</u>

Notes

- I. The Statement of Changes in Equity disclosed a dividend paid of \$1 500 000 during the year to 31 October 2008.
- II. Non-current assets schedule revealed the following details:

Property additions cost \$1 000 000.

Plant and equipment	Cost \$000	Depreciation \$000	NBV \$000
Balance at 31 October 2007	4 182	(1 452)	2 730
Additions	6 278	-	6 278
Annual charge	<u>-</u>	<u>(540)</u>	<u>(540)</u>
	10 460	(1 992)	9 468
Disposal	<u>(3 070)</u>	<u> 542</u>	<u>(2 528)</u>
Balance at 31 October 2008	7 390	(1 450)	5 940

Required:

- a) Prepare a Statement of Cash Flows of Merlin Ltd for the year ended 31 October 2008 using the Direct method in accordance with the IAS 7 format. **(20 marks)**
- b) Using the Indirect method, prepare the section on the Operating Activities only and calculate the Cash generated from Operations. **(5 marks)**

QUESTION 4 **(25 Marks)**

- a) Define each of the following terms in accordance with International Accounting Standards:
- i) Impairment
 - ii) Revenue
 - iii) Investment property
 - iv) Owner-occupied property
 - v) a cash generating unit
- (5 marks)**
- b) In accordance with IAS 18, explain how revenues is recognized for the provision of the following services:
- i) Tuition fees
 - ii) Admission fees
 - iii) Installation fees
 - iv) Franchise fees
 - v) Insurance agency commission
- (5 marks)**
- c) Explain three sources of external information that may indicate that an asset may be impaired (IAS 36).
- (3 marks)**
- d) XYZ Ltd purchased 10 000 shares ABC Ltd from the Zimbabwe Stock Exchange for \$10 each and also paid \$1 000 brokerage charges . At the end of the accounting period, the shares are worth \$120 000. XYZ Ltd treats this investment as available-for-sale financial assets and uses the fair value adjustment through the Income statement to record gains or losses on such assets.

Required:

Prepare necessary journal entries to record the investment in the books of XYZ Ltd.

(12 marks)