National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER SUPPLIMENTARY EXAMINATION PAPER: 2013/2014

DATE: **JANUARY 2014**

SUBJECT: FINANCIAL ACCOUNTING IIA: CAC 2101

TIME ALLOWED: **THREE (3) HOURS**

MARKS: **100**

INSTRUCTIONS TO CANDIDATES

1. Answer ALL questions
2. Use the examination answer book provided
3. Use black or blue pen
4. Begin each question on a new page
5. Submit all answer books

QUESTION 1 [25 MARKS]

(a) PML

PML acquired PAL on 1 July 2011. PAL is primarily engaged in developing a new medicine ("DD 1") that will be used to treat diabetes. PML agreed to issue 500,000 shares to the shareholders of PAL on or before 30 June 2013 if, at any point prior to that date, "DD 1" is granted certification and a license to sell it publicly in the market.

PML's year-end is 30 June. Its directors approved the 30 June 2012 financial statements on 15 September 2012. "DD 1" was granted a certificate and license on 31 October 2012.

Required:

Explain and discuss how the above arrangement affects the calculation of the basic and diluted earnings per share of PML for the years ended 30 June 2012 and 30 June 2013 respectively. **[11]**

(c) CC

CC's net profits for the year ended 31 March 2013, after all outstanding issues have been resolved, is $50million.

At 31 March 2012 the share capital of the company comprised 20 million fully paid ordinary shares with a par value of $1 each.

During the year ended 31 March 2013, the following events took place in respect of the company's capital structure:

(i) On 1 July 2012, the company issued 4 million ordinary shares with a par value of $1 each at $9 each.

(ii) On 1 December 2012, the company approved a capital structure change that involved a stock split of every one share at 1 December 2012 into 3 shares.

(iii) On 1 March 2013, the company issued 2 million shares with a par value of $0.3333 each at $5 per share.

(iv) At 31 March 2013, details of the stock options granted by the company to its employees in previous years are as follows:

Number of share options granted and outstanding	**Exercise price $**
10,000,000	7.00
500,000	9.00
200,000	8.00
900,000	12.00
500,000	10.50

(v) The average price of the company's shares was $10 for the year ended 31 March 2013.

(vi) The financial statements of the company for the year ended and as at 31 March 2013 were approved by the board of directors on 5 May 2013. On 5 May 2013, the board also proposed to make a bonus issue of 2 shares for every 1 share held at 31 March 2013. Such bonus issues need to be approved by the shareholders at the Annual General Meeting of the company planned for 10 June 2013.

Required:

Compute the basic and diluted earnings per share of CC for the year ended 31 March 2013 and explain the treatment that you choose to adopt for the proposed bonus issue of shares.**[14]**

QUESTION 2 [25 MARKS]

The financial statements of N for the year to 30 September 2012, together with the comparative statement of financial position for the year to 30 September 2011 are shown below:

Statement of comprehensive income - year to 30 September 2012

	$'000	**$'000**
Sales revenue		3,820
Cost of sales (Note 1)		(2,620)
Gross profit for period		1,200
Operating expenses (Note 1)		(300)
		900
Interest - Loan note		(30)
Profit before tax		**870**
Taxation		(270)
Net profit for the period		600
Dividends: ordinary – Interim	(120)	
- Final	(280)	(400)
Net profit for period		**200**

Statement of financial positions - as at 30 September

	2012		**2011**	
	$'000	**$'000**	**$'000**	**$'000**
Non-current assets				
Property, plant and equipment		1,890		1,830
Intangible assets (Note 2)		650		300
		2,540		2,130
Current assets				
Inventory	1,420		940	
Accounts receivable	990		680	
Cash	70	2,480	-	1,620
Total assets		**5,020**		**3,750**

Equity and liabilities				
Share capital - ordinary shares of $1 each		750		500
Retained earnings	2,010		1,700	
Less dividends paid and declared	(400)	1,610	(300)	1,400
Share premium		350		100
Revaluation		140		-
		2,850		2,000
Non-current liabilities (Note 3)		870		540
Current liabilities (Note 4)		1,300		1,210
Total equity and liabilities		**5,020**		**3,750**

Notes to the financial statements:

1. Cost of sales includes depreciation of property, plant and equipment of $320 million and a loss on the sale of plant of $50 million. It also includes a credit for the amortisation of government grants. Operating expenses include a charge of $20 million for the amortisation of goodwill.

2. Intangible non-current assets:

	2012	**2011**
	$'000	**$'000**
Deferred development expenditure	470	100
Goodwill	180	200
	650	**300**

3. Non-current liabilities

	2012	**2011**
	$'000	**$'000**
10% loan note	300	100
Government grants	260	300
Deferred tax	310	140
	870	**540**

4. Current liabilities

	2012	**2011**
	$'000	**$'000**
Accounts payable	875	730
Bank overdraft	-	115
Accrued loan interest	15	5
Declared dividends unpaid	280	200
Taxation	130	160
	1,300	**1,210**

The following additional information is relevant:

(i) Intangible fixed assets:

The company successfully completed the development of a new product during the current year, capitalising a further $500 million before amortisation charges for the period.

(ii) Property, plant and equipment / revaluation surplus:

_ The company revalued its buildings by $200 million on 1 October 2011. The surplus was credited to a revaluation surplus.

_ New plant was acquired during the year at a cost of $250 million and a government grant of $50 million was received for this plant

_ On 1 October 2011 a bonus issue of 1 new share for every 10 held was made from the revaluation surplus.

_ $10 million has been transferred from the revaluation surplus to realised profits as a year-end adjustment in respect of the additional depreciation created by the revaluation.

_ The remaining movement on property, plant and equipment was due to the disposal of obsolete plant.

(iii) Share issues:

In addition to the bonus issue referred to above N made a further issue of ordinary shares for cash.

Required:

(a) Prepare the Statement of Cash Flows by using the direct method. **[25]**

QUESTION 3 [25 MARKS]

The following are the summarised accounts for B Limited, a company with an accounting year ending on 31 December 2011 and 2012:

Summarised Statements of financial position

	2011		**2012**	
	$'000	**$'000**	**$'000**	**$'000**
Non current assets				
Tangible assets		2,997		7,620
Current assets				
Inventory	24,087		30,273	
Trade receivables	24,126		26,022	
Cash at bank	7,255	55,468	3,474	59,769
Total assets		**58,465**		**67,389**
Capital and reserves				
Share capital of 25 cents per share	5,952		5,952	
Profit and loss account	18,492	24,444	24,048	30,000
Non-current liabilities				
Bank loan		11,904		11,904
Current liabilities				
Trade payables	19,562		22,338	
Taxation	1,484		1,956	
Proposed dividend	1,071	22,117	1,191	25,485
Total assets and liabilities		**58,465**		**67,389**

Summarised Statement of comprehensive income

	2011 $'000	2012 $'000
Turnover	291,780	350,340
Operating profit	10,343	12,402
Interest payable	1,190	1,190
Profit on ordinary activities before taxation	**9,152**	**11,212**
Tax on profit on ordinary activities	(3,440)	(4,216)
Profit for the financial year	**5,712**	**6,996**

Details of movement in retained earnings

	2011	2012
$'000 $'000		
Retained profit brought forward	14,124	18,492
Profits for the year (From SOCI)	5,712	6,996
Dividends	(1,344)	(1,440)
Retained profit carried forward	**18,492**	**24,048**

A comparison of the ROA and ROE of B Ltd with the industry for the year ended 31 March 2013 shows the following:

	B	Industry
Return on total assets (ROA)	5.3%	5.1%
Return on common equity (ROE)	15.3%	7.3%

Required:

(a) Calculate 3 - 4 ratios and interpret these statements from the perspectives of potential investors, trade payables and potential lender of funds. **[20]**

(b) Comment on the comparison between the company and the industry for the year ended 31 March 2013. **[5]**

QUESTION 4 [25 MARKS]

(a) ST acquired a machine on 1 Oct 2004.Details of one of IT machines at 30 September 2012 are given below:

Component	Original cost ($m)	Depreciation basis
Engine	170	Useful life of 40,000 hours
Outer casings	510	25 years straight-line
Other components of machine	255	12 years straight-line
	765	

During the year to 30 September 2013, the following events took place:

	$'000
1. Engine, which had run for 30,000 hours till date developed serious snags It was replaced by a better engine with estimated life of 50,000 hours and a cost of the engine was used for 5,000 hours during the year. The engine was used for 5,000 hours during the year	238.0
2. Polishing and painting was done to the outer casings , costing	1.3
3. Other components were upgraded with a cost of	102.0

Remaining life of other components is 5 years.

For the purpose of depreciation calculations, assume that all the work mentioned above was completed at 1 October 2012

Required:

Calculate the carrying amount of ST machine at 30 September 2013 and its related expenditure in the statement of comprehensive income for the year ended 30 September 2013. Explain the treatment of each item. [**10**]

(b) R has recently purchased an item of earth moving plant at a total cost of $24 million. The plant has an estimated life of 10 years with no residual value, however its engine will need replacing after every 5,000 hours of use at an estimated cost of $7.5 million. The directors of R intend to depreciate the plant at $2.4 million ($24 million/10 years) per annum and make a provision of $1,500 ($7.5 million/5,000 hours) per hour of use for the replacement of the engine.

Required:

Explain how the plant should be treated in accordance with International Accounting Standards and comment on the Directors' proposed treatment. **[5]**

(c) Describe the IFRS Foundation's standard setting process including how standards are produced, enforced and occasionally supplemented. **[10]**

END OF EXAMINATION PAPER