NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION: NOV/DEC 2004

ACCOUNTING IIA CAC 2106

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

i) Answer the first 2 Questions any two others
ii) Begin the answer of each question on a new page.

QUESTION	TOPIC		MARKS
1	a) SOCIAL ACCOUNTING b) ISSUE OF SHARES	(13) (12)	25
2	INFLATION ACCOUNTING		25
3	INVESTMENT ACCOUNTS		25
4	RATIO ANALYSIS		25
5	ANALYSIS OF CASHFLOW STATEMENTS		25

SECTION A

QUESTION 1 (25 MARKS) (Compulsory)

a) i) Describe how an increase in Gross National Product may not have a positive effect on the well-being of the country. ***(3 marks)***

ii) What types of measures could be used to measure social well being? What difficulties would be discovered in trying to use accounting in measuring these? ***(2 marks)***

iii) What aspects of an organisation's activities could be measured in a 'social audit'? ***(2 marks)***

iv) Describe how there could be conflicts between short-term and long-term benefits. ***(1 mark)***

v) Why has the traditional model of income measurement failed to account for the impact of business activities on the environment? *(4 marks)*

vi) Describe how PPBS may conflict with departmental budgets. *(1 mark)*

b) A limited company has a nominal capital of $120 000 000 divided into 120 000 ordinary shares of $1 000 each. The whole of the capital was issued at par on the following terms:

	Per share
Payable on application	$125
Payable on allotment	$250
First call	$250
Second call	$375

Applications were received for 160 000 shares and it was decided to allot the shares on the basis of three for every four for which applications had been made. The balance of application monies were applied to the allotment, no cash being refund. The balance of allotment monies were paid by the members.

The calls were made and paid in full by the members, with the exception of a member who failed to pay the first and second calls on the 800 shares allotted to him. A resolution was passed by the directors to forfeit the shares. The forfeited shares were later issued to D. Regan at $900 each.

Required:
Show the ledger accounts recording all the above transactions, and the relevant extracts from a balance sheet after all the transactions had been completed.
(12 marks)

QUESTION 2 (25 MARKS) (Compulsory)

a) Inflation Limited's accounts to 31/12/02, prepared on a historic cost basis and on real or actual values are as follows:

	Historic	**Actual**
	$	**$**
Taxable Income	100 000	100 000
Tax thereon	50 000	50 000
Distributable balance	50 000	50 000
Dividends	25 000	25 000
Retained Income	25 000	25 000

Inflation in the year to 31/12 /2003 is 20%, while the company tax rate is 30% of taxable income. The dividend payout ratio is 50% of after tax profits.

i) Compute the historic and actual taxable income, tax etc. for the 2003 year. The change between the 2002 and 2003 figures is inflation driven. ***(5 marks)***

ii) Comment on the movement of retained income based on the historic and actual figures. Also comment on the ratio of dividends as a percentage of after tax income in real terms. ***(3 marks)***

b) The following information relates to Holding Ltd's merchandise over 5 years:

Month	1	2	3	4	5
	$	$	$	$	$
Cost price (per unit)	400	440	480	520	560
Sale price (Per unit)	500	540	580	620	660

Using the first month's cost per unit, work out the gross margin for each month. Demonstrate the composition of this margin as between the holding gain and profit. ***(8 marks)***

c) Enumerate five weaknesses of Historic Cost Accounting in an inflationary environment. ***(5 marks)***

d) State three bases for the computation of profit using traditional accounting and inflation adjusted accounts and illustrate by means of a practical example. ***(4 marks)***

SECTION B
ANY TWO QUESTIONS FROM THIS SECTION

QUESTION 3 (25 MARKS)

The following transactions of Trust Ltd took place during the year ended 30 June 2002.

1/7/02 Purchased $1 200 000 4 percent consolidated Loan (interest payable 1 February and 1 August) at 60 ½ cum div.

12/7/02 Purchased 2 000 ordinary shares of $50 each in Abee Ltd for $400 000.

1/8/02 Received half-year's interest on 4 percent Consolidated Loan.

15/8/02 Abee Ltd made a bonus issue of three ordinary shares for every two held. Trust Ltd sold 2,500 of the bonus shares for $100 each.

1/10/02 Purchased 5 000 ordinary shares of $100 each in Ceedee Ltd at $77.50 each.

2/1/03	Sold $300 000 4 percent consolidated Loan at 61 ex div.
1/2/03	Received half-year's interest on 4 percent Consolidated Loan.
1/3/03	Received dividend of 18 per cent on shares in Abee Ltd.
1/4/03	Ceedee Ltd made "rights' issue of one share for every two held at $50 per share. Rights' sold on market for $25 per share.
1/6/03	Received dividend of 12 ½ per cent on shares in Ceedee Ltd

Required:
Write up the relevant investment accounts, as they would appear in the books of Trust Ltd for the year ended 30 June 2003, bringing down the balances as on that date.

Ignore brokerage and stamp duty. *(25 marks)*

QUESTION 4 (25 MARKS)

The following information relates to Lamp (Pvt) Ltd company

Profit and loss accounts for the two years to 31 December 2002 and 2003

	2002	**2003**
	$m	**$m**
Credit sales	175	400
Cost of sales	(105)	(250)
	70	150
Expenses	(25)	(50)
	45	100
Taxation	(15)	(25)
	30	75
Dividends	(20)	(50)
Retained profit	$10	$25

Balance sheets at 31 December 2002 and 2003

	2002	**2003**
	$m	**$m**
Fixed assets (net book value)	1 035	960
Current assets		
Stocks	40	50
Trade debtors	90	180
Cash	380	30
	510	260
	$1 545	$1 220

Capital and reserves		
Ordinary shares ($1 each)	600	600
Share premium account	100	100
Retained profits	195	220
	895	920
Loans (15% debenture stock)	500	200
Current liabilities		
Trade creditors	115	50
Taxation	15	25
Proposed dividends	20	25
	150	100
	$1 545	$1 220

Additional Information:

1. The stock at 1 January 2002 was $30m.
2. Purchases for the year to 31 December 2002 amounted to $200m and for the year to 31 December 2003, $245m.
3. The market price of the company's shares at 31 December 2002 was $500 per share, and at 31 December 2003, $600 per share.

Required:

Using the above information, calculate for each of the two years to 31 December 2002 and 2003 respectively, the following ratios commonly used by accountants in interpreting financial accounting information:

i) TWO liquidity (or solvency) ratios, THREE profitability ratios, and FOUR efficiency (or utilization) ratios; and *(14 marks)*

ii) The following investment ratios:
  a) gearing;
  b) dividend cover; and
  c) price/earnings. *(3 marks)*

iii) Comment on the performance of the company in each of the two years. *(8 marks)*

Detailed Workings should be submitted with your solution.

QUESTION 5 (25 MARKS)

a) Illustrate the difference between accounts prepared on the accruals basis and accounts prepared on a cash basis, by means of a set of accounts for two successive years. ***(8 marks)***

b) What other aspects of accounting might lead to a difference between accounts as they are normally prepared, and the cash position? ***(4 marks)***

c) What four questions would you want answered when examining a cashflow statement? Indicate how surplus cash/ cash deficit might be dealt with. ***(7 marks)***

d) Discuss the implications of the following information revealed by a cashflow statement:
- Disposal of fixed assets.
- Purchase of fixed assets.
- The need to issue new shares. ***(6 marks)***