NATIONAL UNVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATIONS: AUGUST 2009

FINANCIAL ACCOUNTING 2B CAC 2201

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	CONSLIDATED CASH FLOW STATEMENTS	25
2	ACCOUNTING FOR PRICE CHANGES	25
3	COMPANY TAKING OVER PARTNERSHIP	25
4	CONSOLIDATED FINANCIAL STATEMENTS	25

QUESTION 1 **(25 Marks)**

The following are the consolidated financial statements of XYZ Limited and its subsidiaries for the two years 2006 and 2007:

Consolidated Statement of Financial Position at 31 December

ASSETS		
Non-current Assets		
Land and buildings	500 000	400 000
Machinery	176 000	150 000
Investments in associates	38 000	34 000
Current Assets		
Stocks	240 000	210 000
Debtors	94 000	100 000
Bank	156 000	166 000
	1 204 000	1 060 000
EQUITY AND LIABILITIES		
Equity		
Ordinary shares of $1 each	250 000	250 000
Preference shares of $1 each	70 000	50 000
Share premium	20 000	---
Non-distributive reserve	104 000	---
Retained profit	28 000	(60 000)
Shareholders' funds	472 000	240 000
Non-controlling interest	147 000	136 000
Non-current Liabilities		
Long term loans	472 000	582 000
Deferred taxation	41 230	47 000
Current Liabilities		
Creditors	41 770	55 000
Accrued taxation	30 000	---
Total equity and liabilities	1 204 000	1 060 000

Consolidated Statement of Comprehensive Income
for the year ended 31 Dec 2007

Turnover	10 000 000
Cost of sales	(5 000 000)
Gross profit	5 000 000
Operating expenses	(4 500 000)
Operating profit	500 000
Interest received	1 000
Profit before tax	501 000
Taxation:	
Current	(323 770)
Deferred	5 770
Profit on ordinary activities after tax	183 000
Share from associates earnings	50 000
Profit for the group	233 000
Minority interest	(11 000)
Net profit for the year	222 000

Consolidated Statement of Changes in Retained Profit for the year ended December 2007

Accumulated loss at beginning of year	(60 000)
Net profit for the year	222 000
Dividends declared and paid	(130 000)
Transfer to non-distributive reserve	(4 000)
Retained profit at end of year	28 000

Additional information:

(a) During the year, land and buildings were revalued at $500 000.
(b) Operating expenses include:
- Interest paid 120 000
- Depreciation 50 000

(c) On 30 June 2007, machinery with a book value of $50 000 was sold. Profit realized from the disposal amounted to $30 000 and this figure has been included in the operating expenses.
(d) On 1 October 2007, preference shares were issued at a premium.

REQUIRED:

Prepare a Consolidated Cash Flow Statement of XYZ Limited and its subsidiaries for the year ended 31 December 2007, using the direct method and incorporating the reconciliation of profit before tax to cash generated from operations. **[25]**

QUESTION 2 **(25 Marks)**

During a period of inflation, many accountants believe that financial reports prepared under the historical conversion are subject to the following major limitations:

1. Stocks are undervalued;
2. Depreciation is understated;
3. Gains and losses on net monetary assets are not disclosed;
4. Balance values are unrealistic; and
5. Meaningful periodic comparisons are difficult to make.

REQUIRED;

Explain the limitations of historical cost accounting in periods of inflation with reference to each of the items listed above. **[25]**

QUESTION 3 **(25 Marks)**

On 31 December 2007 Fairline Ltd was incorporated with an authorized share capital of $100 000 in shares of $1 each to take over the business carried on at that date by the partnership of Peter, Godfrey and Ben.

The Statement of Financial Position of the partnership at 31 December 2007 showed the following:

	Peter	Godfrey	Ben	
	$	$	$	$
Capital accounts	24 000	18 000	15 000	57 000
Current accounts				
Balances as on 31 Dec 2006	11 940	8 480	6 000	
Add: Interest on Capitals A/cs	720	540	450	
Share of Profit for year	6 126	6 126	4 084	
	18 786	15 146	10 534	
Less Drawings	8 926	6 726	4 064	
	9 860	6 420	6 470	22 750
				79 750

ASSETS	Cost	Depn	Net
Non-current Assets	$	$	$
Land and Buildings	26 000	--	26 000
Plant and machinery	42 000	22 000	20 000
Motor vehicles	19 700	4 700	15 000
	87 700.	26 700	61 000
Current Assets			
Stocks		22 400	
Debtors		12 200	
Cash at Bank		19 750	
		54 350	
Less Creditors		35 600	
Working Capital			16 750
			79 750

You are also given the following information:

1. Land and buildings are to be transferred to the limited company at a valuation of $30 000, and plant and machinery at $15 000. Stocks, debtors and creditors are to be transferred to the company at their book values as at 31 December 2007.
2. The motor vehicles are to be withdrawn from the business by the partners at the following valuations: Peter - $4 000: Godfrey - $3 500 and Ben - $3 600.
3. It is estimated that the company will require an opening balance at bank of $15 000.
4. Sufficient 9% Unsecured Loan Stock is to be issued by the company to the partners so that they will receive the same interest as they received on capital in the partnership for the year ended 31 December 2007.
5. Ordinary shares are to be issued at par to each partner in proportion to their share in the partnership profits.
6. Any surplus or deficiency on partners accounts on realization after taking into account loan stock and shares issued, is to be withdrawn or paid in, whichever the case may be.

REQUIRED:

(a) Calculate the amount of loan stock and shares in Fairline Ltd to be issued to each partner. [6]

(b) Prepare partners' accounts showing all the necessary entries to dissolve the partnership. [11]

(c) Prepare the Statement of Financial Position of the company as at 1 January 2008 [8]

<u>QUESTION 4</u> (25 Marks)

The following are summarized financial statements of Sun Ltd, Moon Ltd and Mars Ltd:

Statement of Comprehensive Income for the year ended 31 December 2005.

	Sun Ltd	Moon Ltd	Mars Ltd
	$	**$**	**$**
Net before tax	40 000	16 000	4 000
Income tax expense	20 000	8 000	2 000
Net Income for the year	20 000	8 000	2 000
Net Income from last year	80 000	32 000	18 000
	100 000	40 000	20 000

Statements of Financial Position as at 31 December 2005

	Sub Ltd	Moon Ltd	Mars Ltd
	$	**$**	**$**
ASSETS			
Non-current assets			
Property plant and equipment	90 000	30 000	35 000
Investments at cost:			
- 24 000 shares in Moon Ltd	56 000	--	--
- 16 000 shares in Mars Ltd	--	50 000	--
Current assets			
Stocks	34 000	14 000	14 000
Trade receivables	14 000	4 000	9 000
Cash and bank	10 000	5 000	4 000
	204 000	103 000	62 000
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital ($2 shares)	100 000	60 000	40 000
Retained earnings	100 000	40 000	20 000
	200 000	100 000	60 000
Current liabilities			
Trade payables	4 000	3 000	2 000
	204 000	103 000	62 000

Additional information:

(a) Sun Ltd acquired its interest in Moon Ltd on 2 January 2004, when the retained earnings of Moon Ltd was $20 000 and that of Mars limited was $16 000.
(b) Moon Ltd acquired its interest in Mars Ltd on 2 January 2003 when the retained earnings if Mars Ltd amounted to $8 000.

REQUIRED:

Prepare consolidated financial statements of Sun Ltd and its subsidiaries for the year ended 31 December 2005 in accordance with the requirements of the Companies Act and Generally Accepted Accounting Practice. **[25]**