National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER: 2011/2012

DATE:	**JULY 2012**
SUBJECT:	**FINANCIAL ACCOUNTING IIB: CAC 2201**
TIME ALLOWED:	**THREE (3) HOURS**
MARKS:	**100**

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE [25 Marks]
The abridged financial statements of Dundee Ltd and Newcastle Ltd for the financial year ended 31 December 2011 are as follows:-

Statement of Comprehensive Income for the year ended 31 December 2011

	Dundee Ltd	Newcastle Ltd
	$000	**$000**
Sales	3 500	950
Cost of sales	(1 150)	(230)
Gross profit	2 350	720
Other income (Refer points ii and iv)	100	50
Net operating expenses	(1 350)	(500)
Profit before taxation	1 100	270
Taxation	(400)	(90)
Profit for the year	700	180

Statement of financial position as at 31 December 2011

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	Dundee Ltd	Newcastle Ltd
	$000	**$000**
ASSETS		
Land	500	300
Plant and equipment	700	400
Cost	1 300	800
Accumulated depreciation	(600)	(400)
Loan to Newcastle Ltd	80	-
Investment in subsidiary	300	-
Cash at bank	50	60
Accounts receivable	140	200
	1 770	**960**
EQUITY AND LIABILITIES		
Share capital	110	200
Retained income	600	400
Shareholder's equity	710	600
Long term liabilities	850	300
Current liabilities	210	60
	1 770	**960**

Extract from Statement of Changes in Equity for the year ended 31 December 2011

	Dundee Ltd $000	Newcastle Ltd $000
Retained profit as at 1 January 2004	200	340
Profit for the year	700	180
Dividends paid	(300)	(120)
Retained profit as at 31 December 2004	600	400

Additional information:-

(i) Dundee Limited purchased 60% of the ordinary share capital of Newcastle Limited on 1 January 2009, at which stage the retained earnings of Newcastle Ltd was $120 000.

(ii) The land of Newcastle Ltd was considered undervalued by $40 000 at the date of acquisition. This land was sold by Newcastle during the current year ended 31 December 2011 for a profit of $50 000, which is included in other income.

(iii) At the date of acquisition Dundee Ltd considered the equipment in Newcastle Ltd to be undervalued by $120 000 but agreed with Newcastle's assessment that the estimated remaining life of the equipment was 4 years from the date of acquisition. The accumulated depreciation on plant and equipment of Newcastle at the date of acquisition amounted to $50 000. No equipment has been purchased or sold by Newcastle Ltd since acquisition.

(iv) Dundee Limited considered $20 000 of accounts receivable in Newcastle Ltd to be doubtful at the date of acquisition. All accounts receivable reflected in Newcastle Ltd's books at acquisition were collected during the 2010 financial year.

(v) Other income of Dundee Ltd comprises dividends received of $92 000, and interest received of $8 000 in respect of the loan to Newcastle.

(vi) You can assume that goodwill arising at acquisition has not been amortised or impaired.

(vii) Newcastle Ltd has included interest paid to Dundee Ltd of $8 000 in net operating expenses. This interest is in respect of the loan from Dundee Ltd which is included in long term liabilities.

(viii) There have been no changes in the share capital of Newcastle Ltd since the acquisition date.

REQUIRED:

(a) Prepare the analysis of equity of Newcastle Ltd up to 31 December 2011. **[5]**

(b) Prepare the following statements of Dundee Ltd and its subsidiary Newcastle Ltd for the year ended 31 December 2011:-

(i) Group income statement **[9]**

(ii) Group Statement of financial position (showing plant cost and accumulated depreciation separately) **[11]**

QUESTION TWO (25 MARKS)

(a) Discuss the advantages and disadvantages of using historical cost accounting in preparing financial statements which are presented to shareholders. **[10]**

(b) The following is an extract from the trial balance of Lucky Limited on 30 April 2011:

	$
Bank – debit	46 000
Trade and other receivables	103 000
Inventory (balance 30 April 2010 - $191 000)	209 000
Deferred expenditure	20 000
Furniture and equipment	55 000
Land and buildings	57 000
Investment (40 000 shares of $1 each in Soll Ltd at fair value)	50 000
Trade and other payables	105 000
Tax payable	55 000
Shareholders for dividends	50 000
15% Long-term loan	210 000
Share capital	325 000
- Ordinary share capital including share premium	225 000
- Preference share capital	100 000
Retained earnings end of year	100 000
- Retained earnings beginning of year	80 000
- Retained earnings for the year	20 000
Goodwill	20 000

Additional information

(i) Issued share capital - 1 May 2010

- 200 000 ordinary shares of $1 each
- 20 000 10% preference shares of $5 each

No shares were issued or redeemed during the year.

(ii) Gross profit for the year amounted to $672 000 and represents 40% of the sales for the year.

(iii) Income from investments for the year amounted to $12 000.

(iv) All sales and all purchases are on credit.

(v) The item shareholders for dividends represent the total amount of dividends declared on ordinary shares for the year. All preference dividends were paid up to date. No further distribution of profit other than dividends was made during the year.

(vi) There was no change in the amount of the long-term loan for the year.

(vii) Income tax expense in the income statement for the year amounted to $55 000.

Required:

Calculate the following:

a. The acid test ratio **[2]**

b. The rate of return on investments **[2]**

c. Earnings per share **[2]**
d. Ordinary dividends per share **[2]**
e. The trade and other receivables collection period (assume 1 year = 365 days) **[1]**
f. The trade and other payables payment period (assume 1 year = 365 days) **[1]**
g. The inventory turnover period in months **[2]**
h. Calculate the return on equity before tax. **[2]**
i. Calculate the return on assets. **[1]**

QUESTION THREE [25 Marks]
The following are the financial statements, with an extract from the notes of Placid.

Placid's Statement of Comprehensive Income for the year ended 31 March 2012

	$million
Sales	1,162
Cost of sales	(866)
Gross profit	296
Distribution costs	(47)
Administrative expenses	(110)
Operating profit	139
Interest received	79
Interest paid	(55)
Profit before taxation	163
Taxation	(24)
Profit for the financial year	139

Placid statement of financial position as at 31 March:

	2012		2011	
	$million	**$million**	**$million**	**$million**
Non-current assets				
Intangible assets		277		234
Tangible assets		1,023		600
Investments		69		68
		1,369		902
Current assets				
Inventory	246		128	
Trade receivables	460		353	
Investments	-		20	
Cash at bank and in hand	250		124	
		956		625
		2,325		1,527
Equity				
Ordinary share capital		29		24
Share premium		447		377
Revaluation reserve		251		-
Retained profits		165		48
		892		449
Non-current liabilities				
Debenture stock		755		555
Deferred taxation		4		2
Current liabilities				
Overdrafts	388		185	
Trade payables	244		311	
Taxation	42		25	
		674		521
		2,325		**1,527**

Additional information:

(i) The non-current assets investments relate to the shares held by Placid in a competitor company.
(ii) The intangible assets are patents used in production.

(iii) The current asset investments were shares in Sparks and Fencer plc, held for a short term gain. The sale of the current asset investments realised $25 million. The gain on the disposal has been subsumed into interest received.

(iv) The trading profit is after charging depreciation on the tangible assets of $22 million and amortisation on the intangible assets of $7 million. The revaluation reserve relates wholly to tangible assets.

(v) During the year ended 31 March 2012, plant and machinery, costing $1,464 million, written down to $244 million at 31 March 2011, was sold for $250 million. The profit on disposal has been subsumed into cost of sales.

(vi) A proportion of the debenture stock was issued at par for oil used in production, the remaining $130 million was issued for cash.

(vii) During the year ended 31 March 2012, 25 million 20cents shares were issued at a premium of $2.80.

(viii) During the year ended 31 March 2012 equity dividend of $22 million was paid.

Required:

(a) Prepare a statement of cash flows of Placid for the year ended 31 March 2012 **(Use the Direct method)**. **[18]**

(b) Comment on the working capital and cash flow of Placid. **[7]**

QUESTION FOUR [25 Marks]
The following abridged trial balance was presented for BLUE (Pty) Ltd at 30 June 2011:

	Dr	Cr
	$	$
Ordinary share capital		550 000
Revaluation reserve		105 000
Retained earnings		350 000
Land and buildings	850 000	
Investment in subsidiary at cost – **note 1**	200 000	
Inventory	65 000	
Accounts receivable	25 000	
Bank	42 000	
Accounts payable		102 000
Ordinary dividend payable		50 000
Ordinary dividend declared at 29 June 2006	50 000	
Sales		1 224 000
Dividends received		15 000
Cost of sales	935 000	
Operating costs	209 000	
Taxation	20 000	
	2 396 000	2 396 000

Note 1:
BLUE (Pty) Ltd acquired 75% of the equity (and control) of RED (Pty) Ltd in February 2008. BLUE (Pty) Ltd has no other subsidiaries.

The following analysis of equity has been prepared, which you can assume to be correct on all aspects:

Analysis of Equity of RED (Pty) Ltd at 30 June 2011

	100%	75%	25%
At acquisition:			
Share capital	140 000	105 000	35 000
Share premium	14 000	10 500	3 500
Revaluation reserve	20 000	15 000	5 000
Retained earnings	45 000	33 750	11 250
Plant	20 000	15 000	5 000
Inventory	8 000	6 000	2 000
	247 000	185 250	61 750
Investment		?	
Goodwill		?	
Since acquisition:			
Revaluation reserve	15 000	11 250	3 750
Retained earnings	60 000	45 000	15 000
Inventory	(8 000)	(6 000)	(2 000)
Plant - depreciation adjustment	(5 000)	(3 750)	(1 250)
Current year:			
Net income after tax	50 000	37 500	12 500
Plant - depreciation adjustment	(5 000)	(3 750)	(1 250)
Dividend	(20 000)	(15 000)	(5 000)
	?	?	?

REQUIRED:
Prepare all the **pro-forma journal entries** required to prepare the consolidated financial statements of BLUE (Pty) Limited and its subsidiary for the year ended 30 June 2011. **[25]**

END OF EXAMINATION PAPER