NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION APRIL 2009

FINANCIAL REPORTING CAC 4101

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. ATTEMPT ALL QUESTIONS
2. USE THE EXAMINATION BOOK PROVIDED
3. USE BLACK OR BLUE PEN
4. CALCULTOR MAY BE USED
5. SHOW ALL YOUR WORKINGS OR CALCULATIONS CLEARLY
6. SUBMIT ALL ANSWER BOOKS USED
7. BEGIN EACH QUESTION ON A NEW PAGE

QUESTION	TOPIC	MARKS	
1	SHARE VALUATION AND STATEMENT OF CHANGES IN EQUITY	25	
2	INTERPRETATION OF ACCOUNTS	25	
3	VARIOUS TOPICS	25	
4	EVENTS AFTER BALANCE SHEET DATE	25	

QUESTION 1: (Total 25marks)

Multiplex Group (Pvt) Ltd is in the process of being bought by a group of investors. During the negotiations the potential investors have asked for two shares values one based on assets and the other on discounted cash flow. The statement of financial position for the Multiplex Group (Pvt) Ltd at 31 January 2009 is as follows:

Non Current Assets		**$ 000**
Goodwill		20
Licenses		40
Premises		1900
Plant		1140
		3100
Current Assets		
Inventory	540	
Debtors	897	1437
		4537
Equity/Liabilities		
Ordinary shares $2 each		1000
Reserves		760
Profit & Loss		1019
		2779
10% Long Term Loan		800
Current Liabilities		
Creditors	163	
Overdraft	795	958
		4537

Other information

1. Professional evaluators have set the premises at $2400 and one of the plant with a carrying amount of $40 at $10.
2. Debtors provision is overstated by $15 and work in progress stock has labor costs understated by $25.
3. Profit after tax for the next five years is estimated as follows:

	$
2010	50
2011	50
2012	50
2013	50
2014	50

These figures are after depreciation of $100 per year.

4. Discount rates at 10% are to be taken as follows

Year 1	.91
Year 2	.83
Year 3	.75
Year 4	.68
Year 5	.62

REQUIRED:

(a) Compute the share price using the two methods as requested by the investors and state the advantages and disadvantages of the two methods. **(18 marks)**

(b) Draft a Statement Of Changes in Equity for Multiplex (Pvt) Ltd as at 31 January 2009 in accordance with IAS 1 (Revised). (Use your own figures) The statement should include all items that the standard requires. **(7 marks)**

QUESTION 2 (Total 25 marks)

Simplex Ltd is a hardware company that started operating five years ago. Your company is considering purchasing of a majority shareholding in Simplex. The following financial statements for the year ended November 2008 have been given to you to use in your decision making.

Income Statement

		2008	2007
		$ '000	$ '000
Sales		11200	9750
Cost of Sales		8460	6825
Net Profit before tax		465	320
Net profit before tax is after charging			
	Depreciation	360	280
	Debenture Interest	80	60
	Overdraft Interest	15	9
	Audit fees	12	10

Balance Sheet as at 31 November 2008

	2008		2007	
Assets:	**$ 000**		**$ 000**	
Non Current Assets				
Goodwill		50		50
P.P.E.		1850		1430
		1900		1480
Current Assets				
Inventory	640		490	
Debtor	1230		1080	
Cash	80	1950	120	1690
Current Liabilities				
Short Term Loan	65		55	
	110		80	
	750		690	
	30	(955)	20	(845)
		2895		2325

Equity and Liabilities:

Ordinary Shares of $1 each	800	800
Reserves	1295	925
	2095	1725
10% Debentures	800	600
	2895	2325

	Industry average	Simplex Ltd 2007
Asset turnover	3.91	4.19
Current Ratio	1.90	2.00
Creditors Payment	49	37
Debtors Collection	52	40
Gearing	32.71%	26.37%
Gross Profit Margin	35.23%	30.00%
Inventory Turnover	18.30	13.90
Profit/Sales	4.73%	3.90%
Quick Ratio	1.27	1.42
ROCE		
Capital Employed = equity + debenture	18.5%	16.34%

Other information: Tax rate for 2008 has been 20% 10 % debentures are convertible into 100 000 ordinary shares in 2015.

REQUIRED:

a) Calculate comparable ratios for 2008 for Simplex Ltd. **(5 marks)**
b) Calculate the Basic earnings per share for 2008 and 2007. **(3 marks)**
c) Calculate the Diluted earnings per share for 2008. **(3 marks)**
d) Calculate the cash cycle for both years. **(2 marks)**
e) Write a report to your finance director analysing the performance of Simplex Ltd (concentrate on the liquidity and working capital management only). **(12 marks)**

QUESTION 3 (Total 25 Marks)

What are the advantages of the following:

(a) Leasing **(5 Marks)**
(b) Segment reporting **(5 Marks)**
(c) Deferred tax provision **(5 Marks)**
(d) Inflation adjusted financial statements. **(5 Marks)**
(e) Statement of cash flow **(5 Marks)**

QUESTION 4 (Total 25 Marks)

You are assisting Mr Jonadini, the finance director of Zooler (Pvt) Limited, in searching for *events after the balance sheet date* that may be effected in the final accounts. Mr Jonadini tells you that the previous year the auditors asked him to put through or disclose some of the events or transactions that took place or were discovered after the year end accounts had been prepared. The company's financial year end is 31 October 2008

REQUIRED:

(a) Explain briefly what is meant by:-

(i) events after the balance sheet **(1 mark)**

(ii) adjusting event and **(1 mark)**

(iii) non – adjusting event **(1 mark)**

(b)Identify adjusting and non – adjusting events and indicate any necessary, journal entries to the accounts or notes to the annual financial statements for the year ended 31 October 2008 from the situations below. The amounts involved are considered material.

Ignore any taxation implications.

Situation 1

On 01 August 2008, BULK Ltd, a Zimbabwean company, bought inventory from AFRO Ltd, a company incorporated in the United Kingdom. The transaction order was marked *free on board* (f.o.b.). The invoice was for £ 100 000, payable on 30 November 2008. The goods were loaded on to the ship 01 September 2008 and arrived at the company's premises by rail, from Durban port, on 30 November 2008. No forward cover was taken out. Transport and warehouse costs amounted $ 30 000 000 and payment was made after year end. The financial year end of BULK Ltd is 31 October 2008. Applicable exchange rates were as follows:

	Spot Rate
	£ 1 = $
01 August 2008	35 000
01 September 2008	40 000
31 October 2008	45 000
30 November 2008	90 000

(6 marks)

Situation 2

Minutes of the meeting of the board of directors held in mid November 2008 revealed that a fire destroyed a major part of the stock estimated to the value of $ 3 000 000 000 in the company's warehouse in the Hatfield Park Industrial Area in Harare. This stock had not been insured.

(4 marks)

Situation 3

A debtor who had financial difficulties during the year filed for bankruptcy in November 2008. The value of the debt amounted to $ 500 000 000 ***(3 marks)***

Situation 4

The company invested some of its surplus funds with COMORTON Fund Mangers (Pvt) Limited and the value of the investment in mid July 2008 was \$ 40 000 000 000. The directors made a provision of \$ 10 000 000 after discovering that COMORTON Fund Managers (Pvt) Limited was in liquidity crisis and the situation had not improved by year end.
The attorneys have indicated that only 20% of debt is recoverable.
The company invested some of its surplus funds with COMORTON Fund Mangers (Pvt) Limited and the value of the investment in mid July 2008 was \$ 40 000 000 000. The directors made a provision of \$ 10 000 000 after discovering that COMORTON Fund Managers (Pvt) Limited was in liquidity crisis and the situation had not improved by year end. The attorneys have indicated that only 20% of debt is recoverable. **(9 Marks)**

END OF PAPER

GOOD LUCK