

NATIONAL UNIVERSITY OF SCIENCE & TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION: FEBRUARY 2010

FINANCIAL REPORTING – CAC 4101

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions in this paper.

QUESTION 1 **(25 Marks)**

Pathfinder Ltd, a furniture manufacturer and exporter, discontinued a major line of its business in Bulawayo dealing in cane furniture. The disposal was on 30 June 2009, three months before its financial year. Immediately after the disposal of this division, the company embarked on share buy: back and change in year end to 31 December 2009.

REQUIRED:

- a) Explain how the discontinued operations will be disclosed in the financial statements for year ended 30 September 2009. **(10 marks)**
- b) Explain the reasons why Pathfinder Ltd will be buying its own shares. **(10 marks)**
- c) Reasons for the change in year end to 31 December 2009 **(5 marks)**

QUESTION 2 **(25 Marks)**

Given below is the Statement of Cash Flow for Rockfinder a subsidiary of F world. The company is involved in bottling soft drinks. Rockfinder is in a large growth point area.

CASH FLOW STATEMENT

| | Year Ended 31-Mar-09 2009 \$ US | Year Ended 31-Mar-09 2009 \$ US |
|---|--|--|
| Cash retained from operating activities | | |
| Operating income | 3 720 175 | 645 452 |
| Depreciation | 41 068 | 8 085 |
| Monetary loss | | |
| Other non - cash items | (353 210) | [849] |
| Equity accounted loss (earnings) | (79 822) | (15 136) |
| (Increase)/decrease in working capital | (2 165 229) | (192 425) |
| | - | - |
| Cash generated from operating activities | 1 162 962 | 445 127 |
| Net financing income | 13 723 | 44 277 |
| Taxation paid | (171 022) | (41 702) |
| Cash flow from operations | 1 005 663 | 447 702 |
| Dividends paid in cash | (316 208) | (36 911) |
| Net cash (expended)/retained | 689 455 | 410 791 |
| Cash utilised in investment activities | | |
| Maintaining operations | (322 747) | (41 202) |
| Expanding operations | (292 394) | (71 535) |
| Decrease/(increase) in loans and investments | (186 896) | (19 077) |
| Acquisition of subsidiary | (36 860) | - |
| Net cash investment | (838 897) | (131 814) |
| Financial activities | | |
| Movement in long term borrowings | 20 000 | - |
| Increase in shareholder funding | 3 469 | 30 761 |
| Net cash generated from financing activities | 23 469 | 30 761 |
| Net(decrease)/increase in cash and cash equivalents | (125 973) | 309 738 |
| Cash and cash equivalents at beginning of year | 281 320 | (28 418) |
| Cash and cash equivalents at the end of year | 155 347 | 281 320 |
| Cash flow per share (\$) | 862,0 | 447.0 |

REQUIRED

a) Interpret and comment on the Statement of Cash Flow of Rockfinder, with special emphasis on the view of Government, Unions and Public (Users of Financial Statements). **(20 Marks)**

b) Name four appropriate Cash Flow Ratios. **(5 Marks)**

QUESTION 3 **(25 Marks)**

You have been approached by three first time investors A, B and C. Each investor would like to invest in only one company on the stock exchange. One wants a maximum of 5% holding, the other a maximum of 15% and the other a minimum of 20% holding.

They all want to invest in the Agro – Industry companies whose extracts are given below as at 30 November 2009;

| NAME | SHARE | DIVIDENDS | DIVIDEND | DIVIDEND | P/E |
|-------------------|-------|-----------|----------|----------|------|
| | PRICE | | | | |
| | Cents | CENTS | | | |
| Mazowe Valley | 224 | 0.7 | 3.1 | 0.4 | 10.2 |
| Ruya Development | 485 | 10.25 | 2.7 | 3.0 | 14.4 |
| Mguza Star | 809 | 10 | 2.8 | 1.7 | 24.6 |
| Limpopo Exporters | 79 | 1.33 | 2.3 | 2.4 | 20.8 |
| Odzi Deep | 400 | 3.5 | 6.9 | 1.2 | 15.7 |
| Save Park | 84 | 1.4 | 3.0 | 2.3 | 18.5 |
| Gweru River Basin | 217 | 6.0 | 1.8 | 3.9 | 17.5 |

REQUIRED

(a) Advise the new investors what each investment ratio means and identify for them companies that have highest cover for dividends, best cash return and best growth prospects. Also which companies are below industrial averages. **(13 marks)**

(b) Recommend share valuation methods suitable for each investor. **(12 marks)**

QUESTION 4 **(25 Marks)**

Describe the following,

- a) Investment Property **(5 Marks)**
- b) Journal entries in the books of a lessor in case of a finance lease. **(5 Marks)**
- c) Purpose of a Value Added Statement **(5 Marks)**
- d) Diluted Earnings Per Share disclosure **(5 Marks)**
- e) Operating cycle. **(5 Marks)**