National University of Science and Technology

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**SUPPLEMENTARY EXAMINATION: AUGUST 2010**

**ADVANCED FINANCIAL ACCOUNTING CAC 4201**

**TIME ALLOWED: 3 HOURS**

**MARKS: 100** **TIME: 3 HOURS**

## 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 used.

**QUESTION ONE**

The following are statements of financial position of the parent company Anthony Ltd.

| **ASSETS** | **CONSOLIDATED** | **ANTHONY LTD** |
|---|---|---|
| | **US$** | **US$** |
| **Non Current Asset** | | |
| Property | 127 400 | 84 000 |
| Plant | 62 720 | 50 400 |
| Goodwill | 85 680 | - |
| Investment | - | 151 200 |
| | 275 800 | 285 600 |
| **Current Asset** | | |
| Inventory | 121 604 | 71 120 |
| Debtors | 70 420 | 46 760 |
| Dividends due | - | 5 040 |
| Cash + cash equivalent | 24 360 | - |
| | 216 384 | 122 920 |
| | **492 184** | **417 520** |
| **Equity and Liabilities** | | |
| Ordinary shares | 140 000 | 140 000 |
| Capital Reserve | 92 400 | 92 400 |
| Retained earnings | 79 884 | 35 280 |
| | 312 284 | 267 680 |
| N.C.I | 12 320 | - |
| | 324 604 | 267 680 |

**Current Liabilities**

| | | |
|---|---|---|
| Trade creditors | 129 220 | 69 720 |
| Corp Tax | 27 160 | 20 720 |
| Overdraft | - | 39 200 |
| Interim Dividend not paid | 11 200 | 11200 |
| | 167 580 | 140 840 |
| | 492 184 | 418 520 |

## Notes

a) Anthony Ltd acquired 50 400 $1 ordinary shares in Brutus Ltd for $151 200. Brutus Ltd is the only subsidiary.

b) There are no capital reserves in Brutus

c) Anthony LTD produced inventory for sale to the subsidiary at a cost of $3 360 in May 2010. The inventory was invoiced to the subsidiary at $4 200 and is still on hand at the subsidiaries ware house on 30 June 2010. The invoice had not been settled at 20 June 2010.

d) The retained profit of the subsidiary had a credit balance of $16 000 at the date of acquisition.

e) There is a right of set -off between overdrafts and cash balances.

f) Dividends totalling $560 payable to NCI are wrongly included in creditors of $129 220 in the consolidated statements.

## Required

Prepare the statement of financial position as at 30 June 2010 of the subsidiary company from the information given above. (25 Marks)

## QUESTION 2

From the attached financial statement of African Distillers Limited, calculate and comment on four appropriate ratios from each of the financial statements (excluding a statement of changes in equity). (state any assumptions) (25 marks)

## QUESTION 3

Define and briefly explain the following;-

a) Function and currency (5 marks)

b) Cash operating cycle (5 marks)

c) Business combination (5 marks)

d) Earning yield and dividend yield (5 marks)

**e)** Non Controlling interest (5 marks)

**QUESTION 4**

Midzi Ltd, Khumalo Ltd and Vuma Ltd have issued capitals in ordinary shares of $1 each of $300 000, $100 000 and $90 000 respectively.

On 30 June 2009 the summarized profit and loss accounts of the companies showed the following.

| | **Midzi Ltd** | **Khumalo Ltd** | **Vuma Ltd** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Turnover | 5 210 000 | 2 175 000 | 1 250 000 |
| Cost of sales | 4 072 000 | 1 650 000 | 920 000 |
| Gross profit | 1 138 000 | 525 000 | 330 000 |
| Distribution costs | 210 000 | 175 200 | 120 000 |
| Administrative expenses | 377 800 | 223 000 | 163 000 |
| Operating profit | 550 200 | 126 600 | 46 800 |
| Dividends | | | |
| Received | 9 600 | - | - |
| Receivable | 40 800 | - | - |
| Profit on ordinary activities before Taxation | 600 600 | 126 600 | 46 800 |
| Tax on profit on ordinary activates | 286 800 | 65 760 | 24 480 |
| Profit on ordinary activities after taxation | 313 800 | 60 840 | 22 320 |
| Dividends | | | |
| Interim paid | 36 000 | 12 000 | - |
| Final | 180 000 | 36 000 | 18 000 |
| Retained profit for the financial year | 97 800 | 12 840 | 4 320 |
| Retained profit brought forward | 94 320 | 48 000 | 35 640 |
| Retained profit carried forward | 192 120 | 60 840 | 39 960 |

You also obtain the following relevant information.

a) Midzi Ltd acquired 80 000 shares in Khumalo Ltd on 1 July 2001 when there had been a debit balance on the profit and loss account of $30 000.

b) Midzi Ltd buys goods for resale from Khumalo Ltd which yield a profit to Khumalo Ltd of 33 1/3% on selling price. Goods purchased by Midzi Ltd during the year ended 30 June 2009 at a cost of $36 000 were unsold at the date and included in stocks at a net realisable value of $34 000. At 30 June 2008 stocks held by Midzi Ltd had not included any goods purchased from Khumalo Ltd .

c) On 1 November 2008 Midzi Ltd acquired 60 000 shares in Vuma Ltd, whose profits accrued evenly throughout the year.

**d)** Vuma Ltd manufactures machinery of the type used by Mudzi Ltd in its processes. On 1 January 2009 Mudzi Ltd had bought machinery from Vuma Ltd for $36 000 on which Vuma Ltd had earned its normal profit of 40% on selling price. Depreciation had been charged on the machinery at 20% per annum.

**<u>You are required</u>**

To prepare a consolidated profit and loss account of Mudzi Ltd and its subsidiary companies for the year ended 30 June 2009 together with your consolidation schedules. Mudzi Ltd does not propose to publish its own separate profit and loss account. **(25 marks)**