

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART II – 1ST SEMESTER FINAL EXAMINATION - NOV/DEC 2005
FINANCIAL REPORTING ENVIRONMENT [CFI 2102]
TIME ALLOWED: 3 HOURS

INSTRUCTIONS

1. The paper contains 5 questions.
2. Answer Question 1 and 2 **AND** any other 2 questions.
3. Each question carries 25 marks

QUESTION 1

Below is the information extracted from the financial statements of XYZ Ltd during the year ended 30 September 2004.

Income Statement for the Year ended 30 September 2004.

	\$m
Revenue	10,000
Cost of Sales	<u>(6,300)</u>
Gross Profit	3,700
Other operating expenses	<u>(1,900)</u>
Operating profit	1,800
Interest payable	<u>(300)</u>
Profit before taxation	1,500
Taxation	<u>(470)</u>
Profit after taxation	1,030
Equity dividend	<u>(800)</u>
Retained profit	<u>230</u>

Balance Sheet as at 30 September 2004.

	<u>\$m</u>	<u>\$m</u>
Non-current assets		
Intangible assets		3,000
Tangible assets		<u>4,000</u>
		7,000
Current Assets		
Inventory	1,300	
Receivable	1,500	
Cash at hand and at bank	<u>100</u>	
		<u>2,900</u>
		<u>9,900</u>
Capital Reserves		
Called-up share capital		1,500
Share premium account		2,700
Income statement		<u>900</u>
		5,100

Current Liabilities

Trade payables	900	
Taxation	500	
Proposed dividends	800	
Bank Overdraft	<u>600</u>	2,800
Long-term loans		<u>2,000</u>
		<u>9,900</u>

Additional Information

1. The called-up share capital of the company comprises \$1 equity shares only.
2. The market price of the shares is \$3,50 per share.

REQUIRED

- (i) Current Ratio
 - (ii) Quick Ratio
 - (iii) Gross Profit Ratio
 - (iv) Return on Capital Employed.
 - (v) Net Profit Ratio
 - (vi) Asset Turnover
 - (vii) Earning Per Share
 - (viii) Dividends Per Share
 - (ix) Dividend Yield
 - (x) Debt to Equity Ratio
 - (xi) Debt to Total Assets
 - (xii) Interest Cove Ratio
 - (xiii) Return on Equity
 - (xiv) Inventories ratio [in days]
 - (xv) Dividend Payout
- [15 marks]**
- (b) Discuss the importance and limitations of using ratio analysis in analyzing the performance of the company. **[10 marks]**

QUESTION 2

The following annual account were extracted from the financial records of a parent company [TSV Holding Ltd] and a subsidiary [PV Ltd] during the year ended 31 March 2004]

Balance Sheet as at 31 March 2004

	<u>TSV</u> (\$ 000)	<u>PV</u> (\$ 000)
<i>Non- Current Assets</i>		
Plants and Equipment	90 000	80 000
Furniture & Fittings	30 000	50 000
Motor Vehicles	<u>60 000</u>	<u>45 000</u>
	180 000	175 000
<i>Investment in PV Ltd</i>	150 000	
<i>Current Assets</i>		
Stocks	80 000	65 000
Trade Debtors	70 000	40 000
Current Account with PV Ltd	27 000	-
Bank	<u>45 000</u>	<u>11 000</u>
	<u>552 000</u>	<u>291 000</u>
<i>Equities and Liabilities</i>		
Common Stock	264 000	120 000
Reserves	70 000	32 000
Profit and Loss Account	12 000	10 000
<i>Net Current Liabilities</i>		
Loan Stock	112 500	75 000
<i>Current Liabilities</i>		
Trade Creditors	70 500	24 000
Taxation	22 500	15 000
Current Account with [TSV Ltd]	<u>-</u>	<u>15 000</u>
	<u>552 000</u>	<u>291 000</u>

Additional Information

- The investment in PV Ltd consist of the following:-

4 000 000 ordinary shares	120 000 000
15% loan stock	30 000 000
- Details of the share capital of TSV Ltd and PV Ltd were as follows:

	<u>TSV</u>	<u>PV Ltd</u>
Authorised shares	15 000 000	4 000 000
Issued and fully paid shares	8 800 000	4 000 000
Par value	\$30	\$30
- The profit and loss account balances represents annul profit generated during the period.
- TSV Ltd`s loan stock attracts 12% nominal interest.

REQUIRED

- (a) Prepare a Consolidated Balance Sheet for TSV Ltd and its subsidiary. [20 marks]
- (b) What are the disadvantages of consolidations. [5 marks]

QUESTION 3

Discuss the following concepts:

- (i) Prudence concept
- (ii) Separate Valuation concept.
- (iii) Objectivity concept
- (iv) Materiality concept
- (v) Substance over form [25 marks]

QUESTION 4

- (a) What are the objectives of Financial Reporting? [5 marks]
- (b) Discuss the four principal qualitative characteristics of Financial Statements and State how they are important to different users. What information are different users interested in? [20 marks]

QUESTION 5

What is an accounting framework? Discuss the advantages and disadvantages of an accounting framework. [25 marks]