

# NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE

PART II – 1<sup>ST</sup> SEMESTER FINAL EXAMINATION - DECEMBER 2006

**FINANCIAL REPORTING ENVIRONMENT [CFI 2102]**

**TIME ALLOWED: 3 HOURS 10 MINUTES**

## **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**

The financial statements of Nust Ltd for the previous 3 years are supplied below:

### **BALANCE SHEET**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
<b><u>Non- Current</u></b>			
Fixed Assets	800	800	800
Current Assets			
Stock	400	480	600
Debtors	<u>200</u>	<u>260</u>	<u>290</u>
	<u>600</u>	<u>740</u>	<u>890</u>
	<u>1 400</u>	<u>1 540</u>	<u>1 690</u>
<b><u>Capital &amp; Liabilities</u></b>			
<b><u>Capital &amp; Reserves</u></b>			
Share Capital	100	100	100
Retained Earnings	<u>500</u>	<u>550</u>	<u>550</u>
	600	650	650
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Creditors	230	300	380
Provisions	200	210	225
Overdraft	<u>70</u>	<u>80</u>	<u>135</u>
	500	590	740
Long-term liabilities	<u>300</u>	<u>300</u>	<u>300</u>
	<u>1 400</u>	<u>1 540</u>	<u>1 690</u>

## INCOME STATEMENT

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Turnover	4 000	4 300	3 800
<b>Cost Of Sales</b>			
Opening Stock	-	400	480
Purchases	3 600	3 680	3 420
Closing Stock	<u>(400)</u>	<u>(480)</u>	<u>(600)</u>
	<u>3 200</u>	<u>3 600</u>	<u>3 300</u>
Gross Profit	800	700	500
<b>Expenses</b>			
Depreciation	(80)	(80)	(80)
Interest	(10)	(15)	(20)
Other	<u>(110)</u>	<u>(205)</u>	<u>(200)</u>
	<u>(200)</u>	<u>(300)</u>	<u>(300)</u>
Net Profit before tax	600	400	200
Taxation	<u>(300)</u>	<u>(200)</u>	<u>(100)</u>
Net Profit after tax	300	200	100
Dividends	<u>(50)</u>	<u>(150)</u>	<u>(100)</u>
Retained profit for the year	250	50	-
Retained profit beginning of year	<u>250</u>	<u>500</u>	<u>550</u>
Retained earnings end of year	<u>500</u>	<u>550</u>	<u>500</u>

### REQUIRED:

Evaluate the company's financial position and performance.

[25 marks]

### QUESTION 2

- (a) You are required to draw up a consolidated balance sheet from the following details as at 31 December 2004.

#### BALANCE SHEET AS AT 31 DECEMBER 2004

	<u>Power</u>	<u>JP Ltd</u>
	<u>\$m</u>	<u>\$m</u>
<b>Fixed Assets</b>	1,100	1,200
Stock	1,200	900
Debtors	2,100	1,400
Bank	200	300
Investment in Subsidiary 1 000 shares Bought 31/12/03	<u>2 800</u>	<u>- -</u>
	<u>7,400</u>	<u>3,800</u>
Share Capital	2,000	1,000
Retained earnings @ 31/12/03	1 500	950
Retained earning for 2004	<u>2 200</u>	<u>1,150</u>
	3,700	2,100
General Reserve	800	-
Creditors	<u>900</u>	<u>700</u>
	<u>7,400</u>	<u>3,800</u>

**Additional Notes:**

During the year, Power had sold goods which had a cost of \$150m to JP Ltd for \$240m. None of the goods had been sold by the balance sheet date. At the balance sheet date Power owes JP \$220M. **[15 marks]**

- (b) Discuss briefly the main reasons for the publication of the consolidated accounts **[10 marks]**

**QUESTION 3**

The IASB framework identifies 5 elements of financial statements for financial reporting purposes.

**REQUIRED**

- (a) Identify and define the basic elements of financial statements. **[15 marks]**
- (b) Categorize the elements of financial statements as into Balance Sheet and Profit and Loss elements and the conditions that they must fulfill to be included as part of the Financial Statements. **[10 marks]**

**QUESTION 4**

Discuss the importance of the conceptual framework in corporate financial reporting citing the major reporting issues it covers. **[25 marks]**

**QUESTION 5**

With reference to the IAS 16 and 38, show how the tangible and intangible fixed assets are recognized. Outline the disclosure requirements both at initial recording and revaluation. **[25 marks]**