

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 - JANUARY 2008

FINANCIAL REPORTING ENVIRONMENT [CFI 2102]

TIME ALLOWED: 3 HOURS 10 MINUTES

INSTRUCTIONS

1. The paper contains 6 questions.
2. Answer Question 1 **AND** any other 3 questions.
3. Each question carries 25 marks

QUESTION 1

Given below is the Trial Balance as at 30 June 2000 for a parent company B Ltd and Z Ltd [subsidiary].

	B Ltd \$000	Z Ltd \$000
Share Capital	15 000	10 000
Retained Income 1 Jul 1999	40 000	20 000
Non-distributable Reserves	-	10 000
General Reserves	20 000	20 000
Sales	220 000	150 000
Creditors	<u>15 000</u>	<u>20 000</u>
	<u>310 000</u>	<u>230 000</u>
Tax	15 000	10 000
Purchases	100 000	70 000
Administrative Expenses	5 000	20 000
Investments in Z 8 000 at cost	25 000	-
Machinery	25 000	50 000
Stock	35 000	12 000
Debtors	30 000	8 000
Audit Fees	5 000	2 000
Bank	36 000	22 000
Directors Remuneration	24 000	24 000
Leasing charges – machine	-	12 000
Dividend paid	<u>10 000</u>	<u>-</u>
	<u>310 000</u>	<u>230 000</u>

ADDITIONAL INFORMATION

B acquired Z Ltd on 1 July 1997. at which date Z Ltd had the full reserves:

Retained Income	5 000
General Reserve	10 000
Non-distributable reserve	10 000

REQUIRED

Prepare the consolidated financial statements of B Ltd and its subsidiary for the year ended 30th June 2000. **[25 marks]**

QUESTION 2

Given below are the Income Statements and Balance Sheets of DD Ltd and JM Ltd at the end of December 2004.

INCOME STATEMENTS FOR THE YEAR ENDING 31/12/04

	<u>DD LTD</u> \$000	<u>JM LTD</u> \$000
Revenue	1 100 000	740 000
Cost of Sales	<u>(540 000)</u>	<u>(390 000)</u>
Gross Profit	560 000	350 000
Other Operating Expenses	<u>(285 000)</u>	<u>(169 000)</u>
Operating profit	275 000	181 000
Interest payable	<u>(55 000)</u>	<u>(21 000)</u>
Profit before Taxation	220 000	160 000
Taxation	<u>(60 000)</u>	<u>(45 000)</u>
Profit after Taxation	160 000	115 000
Equity Dividends	<u>80 000</u>	<u>60 000</u>
	<u>80 000</u>	<u>55 000</u>

BALANCE SHEET AS AT 31/12/04

	<u>DD LTD</u> \$000	<u>JM LTD</u> \$000
Non-current assets	340 000	180 000
<i>Current Assets</i>		
Stock	410 000	160 000
Debtors	390 000	185 000
Bank	-	90 000
	<u>800 000</u>	<u>435 000</u>
	<u>1 140 000</u>	<u>615 000</u>
<i>Capital Reserves</i>		
Called-up share capital	400 000	190 000
Income statement	<u>80 000</u>	<u>55 000</u>
	480 000	245 000
<i>Current Liabilities</i>		
Trade payable	220 000	170 000
Bank Overdraft	70 000	-
Proposed dividends	80 000	60 000
Taxation	<u>135 000</u>	<u>65 000</u>
	505 000	295 000
Long-term loans	<u>155 000</u>	<u>75 000</u>
	<u>1 140 00</u>	<u>615 000</u>

Additional Information:

Called-up share capital of company comprise \$1 equity shares for DD Ltd and \$0,50 for JM Ltd.

Your client has approached you for advise as to which of the 2 companies he should invest in.

REQUIRED

To advise your client as to which company he must invest in. [25 marks]

QUESTION 3

Identify different users of accounting information and discuss their information needs and requirements. What are the objectives of financial reporting?

[25 marks]

QUESTION 4

What are the objectives of the IAS? Why is harmonization of the preparation of financial statements across boundaries necessary?

[25 marks]

QUESTION 5

(a) Discuss the elements of the Financial Statements. [10 marks]

(b) Bank Ltd has just purchased an ATM for \$500m excluding VAT [17.5%]. Installation of the machine requires alteration to the main entrance of the building at a cost of \$15m. A consultant from South Africa was hired to come and averse the installation at a cost of \$25m.

Other Costs include:

- | | | |
|----|--|----------|
| 1. | Freight and Insurance | \$5,5m |
| 2. | Insurance in transit | \$2 |
| 3. | Spares | \$40m |
| 4. | Installation cables | \$3m |
| 5. | Consumable at installation | \$1m |
| 6. | Test runs | \$5m |
| 7. | Sign writing | \$1,5m |
| 8. | | |
| ◆ | Advertisements for advising customers of the machine's arrival | \$12,5m. |
| ◆ | Connection fees to ZimSwitch | \$10m |

Additional Information:

The machine is to be depreciated at 20% straight-line.

REQUIRED

Calculate the cost price of which the machine should be recorded and carrying amount of the machine after one year. **[15 marks]**

QUESTION 6

What are the objectives of a cashflow statement?. What are the benefits and advantages of a cashflow accounting? **[25 marks]**