National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SPECIAL SUPPLEMENTARY EXAMINATION PAPER: 2011/2012

DATE:	**OCTOBER 2012**
SUBJECT:	**FINANCIAL ACCOUNTING IB: CAC 1201**
TIME ALLOWED:	**THREE (3) HOURS**
MARKS:	**100**

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

Question one (25 Marks)

RTY's trial balance at 31 January 2012

	Notes	$'000	$'000
Administrative expenses		1225	
Cash received on disposal of PPE	i		2068
Cash and cash equivalent		142	
Cost of goods sold		4939	
Distribution costs		679	
Equity dividend paid	ii	138	
Equity shares $1 each fully paid at 31/01/2011			1375
Income tax	vi	35	
Interest paid half year to 31/01/2011		69	
Inventory at 31/01/2012		330	
Long term borrowings (redeemable 2025)	v		2740
Plant and Equipment cost 31/01/2011	i	5750	
Property valuation 31/01/2011	i	17120	
Provision for deferred tax at 31/01/2011	vii		1064
Provision for Plant and Equipment depreciation 31/01/2011	i		3900
Provision for Property depreciation 31/01/2011	i		2610
Research and development	ii	689	
Retained Earnings 31/01/2011			2785
Revaluation reserve 31/01/2011			2900
Sales Revenue			9320
Share premium 31/01/2011			2750
Trade payables			1080
Trade receivables	iv	1476	
		32592	**32592**

Additional information provided:

i. Property Plant and Equipment (PPE)

The property valuation at 31 January 2011 for $17200000 consisted of Land $6220000 and Buildings $10900000. On 1 February 2011 RTY revalued its Properties to $15750000 (Land $6850000 and Buildings $8900000). During the year RTY disposed of Property, Plant and Equipment as follows:

- A piece of surplus Land was sold on 1 March 2011 for $2060000.
- Obsolete Plant was sold for $8000 scrap value on the same date.
- All cash received is included in the trial balance

Details of the assets sold were

Asset type	cost	revalued amount	accumulated depreciation
Land	1000000	1800000	-
Plant and Equipment	820000		800000

Buildings were depreciated at 5% per annum on straight line basis. No buildings were fully depreciated at 31 January 2011. Plant and equipment is depreciated at 31 January 2011. Plant and equipment is depreciated at 25% per annum using reducing balance method. All depreciation I treated as a cost of sales. RTY charges a full year's depreciation in the year of acquisition and none in the year of disposal.

ii. RTY carries out research and development on a continuous basis to ensure that its product range continues to meet customer demands. The research and development figure in the trial balance is made up as follows:

	$'000
Development costs capitalized in previous years	1199
less amortization to 31 January 2011	744
	455
Research costs incurred in the year to 31/01/2012	163
Development costs (*all meet IAS38 Intangible Assets)*	
incurred in the year to 31/01/2012	71
	689

Development costs are amortised on a straight line basis at 20% per annum per year. No development costs were fully amortized at 30 January 2011. Research and Development are treated as cost of sales when charged to income statement. RTY charges a full year's amortization in the year of acquisition.

iii. During the year RTY paid a final dividend for the year on 31/01/2012

iv. On 1 March 2012, RTY was informed that one of its customers, BVC had ceased trading. The liquidators advised RTY that it was unlikely to receive payment to any of the $48000 due from BVC at 31 January 2012.

v. The long term borrowings incur annual interest rate of 5 % per annum paid six months in arrears

vi. The income tax balance is a result of under provision of tax for the year ended 31 January 2011. The directors estimate the income tax charge on the year's profits to 31 January 2012 at $765000.

vii. The deferred tax provision is to be decreased by $45000.

Required

Prepare RTY's Statement of Comprehensive Income and Statement of Changes in Equity for the year ended 31 January 2012 and a Statement of Financial Position at that date in accordance with the requirements of International Financial Reporting Standards.**[25**]

Question two (25 marks)

(a) On 1 October 2005 D ltd acquired a machine under the following terms

	Hours	$
Manufacturer's base price		1050000
Freight charges		30000
Electrical installation		28000
Staff training in use of the machine		40000
Estimated residual value		20000
Three year maintenance contract		60000
Estimated life of the machine	6000	
Hours used for the ended 30 September 2006	1200	
Hours used for the ended 30 September 2007	1800	
Hours used for the ended 30 September 2008	850	

Trade discount (applying to base price only) 20%

Early settlement discount taken (on the payable amount of the base cost only) 5%

On 1 October 2007 D ltd decided to upgrade the machine by adding new components at a cost of $200000. This upgrade led to the reduction in the production time per unit of the goods being manufactured using the machine.

The upgrade also increased the estimated life of the machine at 1 October 2007 to 4500 hours and its estimated residual value to $40000

Required

Prepare extracts from the income statement and the statement of financial position for the above machine for each of the three years to 30 September 2008 **[10]**

(b) The definition of a liability forms an important element of the Conceptual Framework which in turn forms the basis for *IAS 37 Provisions, Contingent liabilities and Contingent Assets*

Required

Define a provision and a Contingent Liability and Contingent Asset **[5]**

(c) The IASB'S Framework requires Financial Statements to be prepared on the basis that they comply with certain accounting concepts, underlying assumptions and qualitative characteristics. Five of these are :

Accrual / matching

Substance over form

Prudence

Comparability

Materiality

Required

Briefly explain the meaning of each of the above concepts /assumptions **[5]**

(d) A friend of yours has been critisised over an answer that he gave in class on the definition of Property, Plant and Equipment. He defined it as a *physical asset of substantial cost, owed by the company which will last longer than one year.*

Required

Provide a proper definition in accordance to IAS 16 *Property, Plant and Equipment* and explain the weakness of this definition given by your friend. **[5]**

The financial statements of Nedberg for the year to 30 September 2011, together with the comparative statement of financial position for the year to 30 September 2010 are shown below:

Income statement – year to 30 September 2011

	$m
Sales revenue	3,820
Cost of sales (note 1)	(2,620)
Gross profit for period	1,200
Operating expenses (note 1)	(280)
	920
Interest – loan note	(30)
Profit before tax	890
Taxation	(270)
Net profit for the period	620

Statements of financial position as at 30 September:

	2011		2010	
Non-current assets	$m	$m	$m	$m
Property, plant and equipment		1,890		1,830
Intangible assets (note 2)		670		300
		2,560		2,130
Current assets				
Inventory	1,420		940	
Accounts receivable	990		680	
Cash	70		-	
		2,480		1,620
Total assets		5,040		3,750
Equity and liabilities				
Ordinary shares of $1 each		750		500
Reserves				
Share premium		350		100
Revaluation		140		nil
Retained earnings		1,910		1,600

	3,150	2,200
Non-current liabilities (note 3)	870	540
Current liabilities (note 4)	1,020	1,010
Total equity and liabilities	5,040	3,750

Notes to the financial statements:

(1) Cost of sales includes depreciation of property, plant and equipment of $320 million and a loss on the sale of plant of $50 million. It also includes a credit for the amortisation of government grants.

(2) Intangible non-current assets:

	2011	**2010**
	$m	$m
Deferred development expenditure	470	100
Goodwill	200	200
	670	300

(3) Non-current liabilities:

10% loan note	300	100
Government grants	260	300
Deferred tax	310	140
	870	540

(4) Current liabilities:

Accounts payable	875	730
Bank overdraft	nil	115
Accrued loan interest	15	5
Taxation	130	160
	1,020	1,010

(5) Extract from statement of changes in equity – Movement on retained earnings:

Opening balance	1,600	1,000
Total comprehensive income for the year	620	800
Dividends – interim	(320)	(200)
Transfer from revaluation reserve	10	-
Closing balance	1,910	1,600

The following additional information is relevant:

(i) **Intangible non-current assets:**

The company successfully completed the development of a new product during the current year, capitalising a further $500 million before amortisation for the period.

(ii) Property, plant and equipment/revaluation reserve:

- The company revalued its buildings by $200 million on 1 October 2010. The surplus was recorded as other comprehensive income and credited to a revaluation reserve.
- New plant was acquired during the year at a cost of $250 million and a government grant of $50 million was received for this plant.
- On 1 October 20X1 a bonus issue of 1 new share for every 10 held was made from the revaluation reserve.
- $10 million has been transferred from the revaluation reserve to realised profits as a year-ended adjustment in respect of the additional depreciation created by the revaluation.
- The remaining movement on property, plant and equipment was due to the disposal of obsolete plant.

(iii) Share issues:

In addition to the bonus issue referred to above, Nedberg made a further issue of ordinary shares for cash.

Required:

(a) A statement of cash flows for Nedberg for the year to 30 September 2011 prepared in accordance with IAS 7 **Statement of Cash Flows.**

(20

(b) Comment briefly on the financial position of Nedberg as portrayed by the information in your statement of cash flows. **(5)**

Question Three (25 marks)
Given below are the financial statements of NUST Ltd which is a competitor of your company

Income statements for the years ended 31 December

	2008	2009	2010	2011
	$	$	$	$
Turnover	35100	39000	41700	42900
Cost of Sales	22800	25800	28200	30300
Gross Profit	**12300**	**13200**	**13500**	**12600**
Distribution Costs	1800	2100	2400	3000
Administration Costs	5400	5700	6900	5700
	7200	**7800**	**9300**	**8700**
Operating Profit	5100	5400	4200	3900
Interest	150	600	1200	1500
Profit before tax	**4950**	**4800**	**3000**	**2400**
Taxation	750	150	300	450
Profit after tax	**4200**	**4650**	**2700**	**1950**
Retained Profits b/f	720	1320	2070	320
	4920	**5970**	**4770**	**4320**
Dividends	3600	3900	2400	1500
Retained Profits c/f	**1320**	**2070**	**2370**	**2830**

Statements of Financial Position as at 31 December	**2008**	**2009**	**2010**	**2011**
Assets	**$**	**$**	**$**	**$**
Non Current Assets	4596	6672	8586	8268
Current Assets:				
Stock	4800	5400	5100	4500
Debtors	6300	7800	9000	9600
Bank	204	0	0	0
Total Assets	**15900**	**19872**	**22686**	**22368**
Equity And liabilities:				
Ordinary Share capital	6900	6900	6900	6900
General Reserves	2910	2910	2910	2910
Retained Profits	1320	2070	2370	2820
Long term Loans	0	1500	3000	3300
Current Liabilities:	2160	2400	2220	2106
Trade Creditors	2610	2190	2010	1584
Other Creditors	0	1902	3276	2748
Bank Over Draft	**15900**	**19872**	**22686**	**22368**

Required

prepare a report to the board of directors of your company interpreting the financial statements of NUST plc From 2008 to 2011 making analysis of the following:

a) Gearing Ratios **(5)**
b)Acid test ratios **(5)**
c) Use of assets Ratios **(5)**
d)ROCE **(5)**
e) Sales growth ratios **(5)**

Question four (25 Marks)

The financial statements of Nedberg for the year to 30 September 2011, together with the comparative statement of financial position for the year to 30 September 2010 are shown below:

Income statement – year to 30 September 2011

	$m
Sales revenue	3,820
Cost of sales (note 1)	(2,620)
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(d) Comment briefly on the financial position of Nedberg as portrayed by the information in your statement of cash flows.

(5)

END OF EXAMINATION PAPER