IAS ACCOUNTING
Final Examination

Date : 30 August 2010

Please read these instructions carefully

a) Check that this set of examination paper consists of 7 pages including this page.
b) Answer ALL questions.
c) All essential workings must be shown.
d) Write ALL your answers in the writing paper provided.

Total Marks for this paper : 100

Time Duration : 3 hours

Student Details
Name
CMND

TOTAL MARKS	

Question 1 [20 marks]

The following are the financial statements of Induk Ltd and its subsidiary Anak Ltd at 31 December 2009:

	Induk Ltd	**Anak Ltd**
	£	£
Sales	450 000	300 000
Cost of Goods Sold	180 000	120 000
Gross Profit	270 000	180 000
Other income	60 000	
	330 000	
Distribution Costs	48 000	20 000
Administrative Expenses	80 000	45 000
Profit Before Tax	202 000	115 000
Tax	60 000	35 000
Profit After Tax	142 000	80 000
Retained Earnings b/f	428 000	220 000
Proposed Dividend	(80 000)	(50 000)
Retained Earnings c/f	490 000	250 000
Fixed Assets	2 800 000	1 000 000
Investment in Sun Ltd	900 000	
Inventory	750 000	320 000
Accounts Receivable	440 000	200 000
Cash	210 000	50 000
	5 100 000	1 570 000
Accounts Payable	330 000	270 000
Proposed Dividend	80 000	50 000
	4 690 000	1 250 000
£1 Ordinary Share Capital	4 000 000	1 000 000
Share Premium	200 000	
Retained Earnings	490 000	250 000
	4 690 000	1 250 000

Notes:

1. Induk Ltd purchased 80% of the shares of Anak Ltd on 1 January 2007 when Anak Ltd had retained earnings of £100 000.
2. Goodwill from consolidation is to be written off evenly over 4 years.
3. Induk Ltd purchased goods from Anak Ltd for £80 000. These goods were invoiced at cost plus 25%. Induk Ltd had sold 75% of these goods by 31 December 2009.
4. Induk sent a cheque of £20 000 to pay for the goods purchased. Induk Ltd still had £60 000 outstanding debt payable to Anak Ltd. Anak Ltd did not receive this cheque until 15 January 2010.

Required:

A. Consolidated Income Statement of Induk Ltd at 31 December 2009. [10marks]
B. Consolidated Balance Sheet of Induk Ltd at 31 December 2009. [10marks]

Question 2 [30 marks]

Satu and Dua were in partnership sharing profits and losses in the ratio 2:1 respectively. Each partner was entitled to a salary of £9 000 per year.

Their balance sheet on 1 January 2008 was as follows:

	£ Cost	£ Accumulated Depreciation	£ Net Book Value
Fixed Assets	120 000	56 000	64 000
Stock	30 000		
Trade Debtors	9 000		
Cash	12 000		
	51 000		
Trade Creditors	15 000		36 000
			100 000
Capital Accounts			
- Satu	50 000		
- Dua	30 000		80 000
Current Accounts			
- Satu	12 000		
- Dua	8 000		20 000
			100 000

On 1 July 2008, Tiga was admitted into the partnership. Profits and losses were then shared between Satu, Dua and Tiga in the ratio 2:2:1 respectively. Tiga put in £40 000 cash into partnership. Tiga was allowed a salary of £8 000 per year.

Goodwill on 1 July 2008 was valued at £90 000. Any adjustments in respect of goodwill were made in the partner's capital accounts. The partners decided that goodwill was to be written off completely.

The following information relates to the operations of the partnership for the year ended 31 December 2008.

1. Total cash received from customers was £174 000. Trade debtors at the end of the year totalled £11 000.

2. 60% of sales occurred before Tiga joined the partnership.

3. Gross profit margin was the same throughout the year.

4. Total cash paid to trade creditors was £83 000. Trade creditors at the end of the year totalled £12 000.

5. Fixed assets were depreciated at 10% on cost.
6. Other operating expenses for the whole year totalled £54 000. These operating expenses (excluding depreciation) for the first six months were half of the last six months'.

7. The closing stock was £20 000.

Required:

A. The Income (Profit and Loss) Statement for the year ended 31 December 2008, showing the net profit before the admission of Tiga as well as the net profit after the admission of Tiga. [7 marks]

B. The Balance Sheet as at 31 December 2008. [10 marks]

The partners were not very happy with the way the business was being conducted, resulting in frequent quarrels among them. On 31 December 2009, the partnership was dissolved.

The Balance Sheet on this date after profit sharing was as follows:

	£ Cost	£ Accumulated Depreciation	£ Net Book Value
Fixed Assets	120 000	80 000	40 000
Stock	70 000		
Trade Debtors	20 000		
Cash	6 000		
	96 000		
Trade Creditors	32 000		64 000
			104 000
Capital Accounts			
- Satu	to be calculated		
- Dua	to be calculated		
- Tiga	to be calculated		
Current Accounts			
- Satu	12 000		
- Dua	10 000		
- Tiga	(38 000)		(16 000)
			104 000

All fixed assets were sold for £30 000. Only half of the debtors paid up. The stock was sold for £50 000. Dissolution expenses were £5,000. Tiga stated that if he owed the partnership money, he would not be able to pay anything.

Required:

C. The Realization Account [6 marks]

D. The Capital Accounts of the partners [7 marks]

Question 3 [25 marks]

The following information is available for Gila Gila, a limited liability company:

Balance Sheets as at 31 December

	2009	**2008**
	£'000	£'000
Tangible Fixed Assets	11 000	8 000
Accumulated Depreciation	(5 600)	(4 800)
	5 400	3 200
Inventories	3 400	3 800
Accounts Receivables	3 800	2 900
Cash at Bank	400	100
	13 000	10 000
£1 Ordinary Share Capital	1 000	1 000
Revaluation Reserve	1 500	1 000
Retained Earnings	3 100	2 200
10% Debentures	3 000	2 000
Accounts Payable	3 250	2 800
Dividend Payable	450	400
Tax Payable	700	600
	13 000	10 000

Income Statement for the year ended 31 December

	2009	**2008**
	£000	£000
Operating Profit	2 650	1 650
Interest Expense	(300)	(200)
Profit before Tax	2 350	1 850
Tax Expense	(700)	(600)
Profit after Tax	1 650	1 250
Retained Earnings b/f	2 200	1 350
Interim Dividends	(300)	
Final Dividends	(450)	(400)
Retained Earnings c/f	3 100	2 200

Notes:

1. During the year fixed assets which had cost £800 000, with a net book value of £350 000, were sold for £500 000.
2. The revaluation surplus arose from the revaluation of some land.
3. The additional debenture were issued on 1 January 2009. Interest was paid on 30 June 2009 and 31 December 2009.

Required:

A. Prepare the company's Statement of Cash Flows for the year ended 31 December 2009. [12 marks]

B. Calculate the following ratios for the years 2008 and 2009 [10 marks]
   i. Current Ratio
   ii. Acid Test Ratio
   iii. Return on Capital Employed
   iv. Earnings Per Share

C. Comment on the liquidity and profitability of the company in 2009 compared with 2008. [3 marks]

Question 4 [25 marks]

The following information is available for Bodoh plc on 1 January 2010:

	£
Issued Capital	
Ordinary Shares £0.50 each	1 500 000
8% Preference Shares of £1 each	1 000 000
Share Premium	800 000
Retained Earnings	2 450 000

On 1 March 2010, the directors announced a new issue of 1 000 000 ordinary shares:

£0.50 payable on application
£0.30 payable on allotment
£0.20 payable on first and final call

By 31 March 2010, the company received applications for 1 800 000 shares. The company decided to return money for the application of 300 000 shares.

On 15 April 2010, the remaining applicants were alloted shares on a pro-rata basis, with any money overpaid being retained towards the amount due on allotment. By 30 April 2010, all money payable on allotment was received.

The first and final call was made on 1 June 2010 and all money received by 30 June 2010 except for 10 000 shares.

The directors decided to forfeit the shares on 31 July 2010. These shares were reissued on 10 August 2010 for £1 each.

On 1 September 2010, the company made a bonus (capitalisation) issue of 1 ordinary share for every 4 ordinary shares in issue.

The company decided to redeem 400 000 preference shares at £1.80. These shares were originally issued at £1.50. The share buyback was partly financed by a rights issue of 1 ordinary share for every 10 ordinary shares at par value. The rights issue was fully subscribed and the money was received by 31 October 2010. The share buyback was done on 15 November 2010.

Required:

A. Journal entries (without narratives) to record all the transactions given above. [18 marks]

B. Prepare a balance sheet extract to show the shareholders' equity after all the transactions. [5 marks]

C. What are two reasons for companies to buy back its own shares? [2 marks]