

# FINANCIAL REPORTING MAY 2018 QUESTION 2

## QUESTION TWO

The following trial balance relates to Zambezi Ltd. as at 31 October 2017:

	Sh. "000"	Sh. "000"
Turnover		213,800
Cost of sales	143,800	
Trade receivables	13,500	
Bank balance		900
Distribution expenses	9,800	
Inventories (31 October 2017)	10,500	
Interest expenses	5,000	
Administrative expenses	12,600	
Rental income from investment property		1,200
Plant and equipment - cost	36,000	
Land and building - at valuation	63,000	
Accumulated depreciation - plant and equipment		16,800
Investment property - valuation (1 November 2016)	16,000	
Trade payables		11,800
Joint arrangement	8,000	
Deferred tax		5,200
Ordinary shares (Sh.25 each)		20,000
10% redeemable preference shares (Sh.1 each)		10,000
Retained earnings - 1 November 2016		17,500
Revaluation surplus		<u>21,000</u>
	<u>318,200</u>	<u>318,200</u>

### Additional information:

1. An inventory count on 31 October 2017 listed goods with a cost of Sh.10.5 million. These included some damaged goods that had cost Sh.800,000. These goods would require repair works costing Sh.450,000 after which they could be sold for an estimated price of Sh.950,000.
2. Non-current assets:
  - o **Plant**  
All plant, including that of the joint operation is depreciated at the rate of 12.5% per annum on reducing balance basis.
  - o **Land and building**  
The land and building were revalued at Sh.15 million and Sh.48 million respectively on 1 November 2016 creating a Sh.21 million revaluation surplus. At this date, the building had a remaining useful life of 15 years.  
Depreciation is on a straight line basis. Zambezi Ltd. does not make a transfer to realised profits in respect of excess depreciation.  
Depreciation on both the building and the plant should be charged to the cost of sales.
  - **Investment property**  
On 31 October 2017, a qualified surveyor valued the investment property at Sh.13.5 million. The company uses the fair value model as per IAS 40 – Investment Property, to value its investment property.
3. Interest expenses include overdraft charges, the full year's preference dividend and an ordinary dividend of Sh.4 per share that was paid in April 2017.
4. The directors have estimated the provision for income tax for the year ended 31 October 2017 at Sh.8 million. The deferred tax provision as at 31 October 2017 is to be adjusted (through the profit and loss statement) to reflect that the tax base of the company's net assets is Sh.12 million less than their carrying amounts. The tax rate is 30%.
5. On 1 November 2016, Zambezi Ltd. entered into a joint arrangement with two other entities. Each venturer contributes their own assets and is responsible for their own expenses including depreciation on assets of the joint arrangement. Zambezi Ltd. is entitled to 40% of the joint venture's total turnover. The joint arrangement is not a separate entity and is regarded as a joint operation.

Details of Zambezi Ltd.'s joint venture transactions are as follows:

	Sh. "000"
Plant and equipment (at cost)	12,000
Share of joint venture turnover (40% of total turnover)	(8,000)
Related joint venture cost of sales (excluding depreciation)	5,000
Trade receivables	1,500
Trade payables	<u>(2,500)</u>
Balance as per trial balance	<u>8,000</u>

### Required:

- (a) Statement of comprehensive income for the year ended 31 October 2017. (10 marks)
  - (b) Statement of financial position as at 31 October 2017. (10 marks)
- (Total: 20 marks)**