

COURSE CODE: AC301 (M) 2005

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION QUESTION PAPER, 2005

DEGREE/DIPLOMA AND  
YEAR OF STUDY

: D.COM 111

TITLE OF PAPER

: FINANCIAL ACCOUNTING II

TIME ALLOWED

: THREE [3] HOURS

INSTRUCTIONS

1. TOTAL NUMBER OF QUESTIONS  
ON THIS PAPER: FOUR [4]
2. ANSWER ALL QUESTIONS.
3. WHERE APPLICABLE ALL  
WORKINGS SHOULD BE SHOWN.
4. ALL CALCULATIONS ARE TO BE  
MADE TO THE NEAREST  
LILANGENI

**NOTE:** YOU ARE REMINDED THAT IN ASSESSING YOUR WORK,  
ACCOUNT WILL BE TAKEN OF ACCURACY OF THE  
LANGUAGE AND THE GENERAL QUALITY EXPRESSION,  
TOGETHER WITH THE LAYOUT AND PRESENTATION OF  
YOUR FINAL ANSWER.

**SPECIAL REQUIREMENT:** NONE

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN  
GRANTED BY THE INVIGILATOR.**

**QUESTION 1**

Radi Pty Limited has its head office and main store in Mbabane, and a branch store in Steki. All goods are purchased by the head office. Goods are invoiced to the branch at cost price plus a profit mark up of 25%. The following trial balances have been extracted from the books of account of both the head office and the branch as at 31 October 2004.

	Head office books		Branch Books	
	Dr	Cr	Dr	Cr
	E	E	E	E
Drawings	80,000			
Fixed assets: at cost		700,000	200,000	
Accumulated depreciation (at 1 November 2003)		280,000		60,000
Stock (at 1 November 2003)	16,000		40,000	
Provision for unrealised profit		8,000		
Purchases	1,828,000			
Goods sent to branch at invoiced Value		760,000	750,000	
Sales		1,700,000		874,000
Provision for doubtful debts		18,000		5,000
Head office/ branch current accounts		350,000		240,000
Distribution expenses	161,000		10,000	
Administrative expenses	400,000		33,000	
Trade debtors	120,000		120,000	
Trade creditors		100,000		
Cash and bank balances	31,000		26,000	
Capital	<u>820,000</u>			
	3,686,000	3,686,000	1,179,000	1,179,000
	=====	=====	=====	=====

**Additional information:**

- All goods are purchased by the head office. Those goods sent to the branch are invoiced at cost plus 25 per cent.
- Stocks were valued at 31 October 2004 as being at head office, E24,000; and at the branch, E30,000 at their invoiced price.

3. Depreciation is to be provided for the year on the fixed assets at a rate of 10 per cent on the historic cost.
4. The provision for doubtful debts is to be maintained at a rate of 5 per cent of outstanding trade debtors as at the end of the financial year.
5. As at 31 October 2004, there was E100,000 cash in transit from the branch to the head office; This cash was received in Mbabane on 3 November 2004. There was also E10,000 of goods in transit at invoice price from the head office to the branch; the branch received these goods on 10 November 2004.

Required:

Prepare in adjacent columns: (a) the head office and (b) the branch trading and profit and loss account for the year to 31 October 2004 and a combined balance sheet for Radi Pty Limited as at that date.

Note:

Separate balance sheets for the head office and the branch are not required as well as the combined trading account.

Total (25 marks)

**QUESTION 2**

The following information has been extracted from the draft financial information of Zethu Limited:

Profit and loss account for the year ended 31 December 2004

	£000	£000
Sales		495
Raw materials consumed	49	
Staff costs	37	
Depreciation	74	
Loss on disposal	4	
		<u>(164)</u>
		331
Interest payable		<u>(23)</u>
Profit before taxation		308
Taxation		<u>(87)</u>
Profit after taxation		221
Dividend		<u>(52)</u>
Profit retained for the year		169
Balance brought forward		<u>389</u>
		<u>558</u>

Balance sheet as at 31 December 2004

	2004	2003
Fixed assets	1,145	957
Current assets		
Stock	19	16
Trade debtors	38	29
Bank	31	37
	<u>88</u>	<u>82</u>
Current liabilities		
Trade creditors	12	17
Taxation	79	66
Proposed dividend	21	15
	<u>112</u>	<u>98</u>
Working capital	(24)	(16)
Total assets	<u>1,121</u>	<u>941</u>
Capital and reserves		
Share capital	182	152
Share premium	141	80
Revaluation reserve	170	-

Profit and loss	558	389	
	1,051	621	
Long term liabilities			
Long term loans	70	320	
	1,121	941	

	Land & Buildings £000	Machinery £000	Fixtures & Fittings £000	Total £000
<b>Cost or valuation:</b>				
At 31 December 2003	830	470	197	1497
Additions	-	43	55	98
Disposals	-	(18)	-	(18)
Adjustment on revaluation	70	-	-	70
At 31 December 2004	900	495	252	1647
<b>Depreciation</b>				
At 31 December 2003	(90)	(270)	(180)	(540)
Charge for the year	(10)	(56)	(8)	(74)
Disposals	-	12	-	12
Adjustment on revaluation	100	-	-	100
At 31 December 2004	-	(314)	(188)	(502)
<b>Net book value</b>				
At 31 December 2004	900	809	440	2149
At 31 December 2003	740	200	17	957

**REQUIRED:**  
 Prepare a cashflow statement of Zethu Limited for the year ended 31 December 2004 in accordance with the requirements of Financial Reporting Standard 1 (FRS 1).

Total (25 marks)

**QUESTION 3**

On 30 September 2002 J. Magagula, who prepares final accounts annually to 30 September, bought a motor lorry on hire purchase from the vehicles and finance company Co. Ltd. The cash price of the lorry was E3,081. Under the terms of the hire purchase agreement, J. Magagula paid a deposit of E1,000 on 30 September 2002 and two instalments of E1,199 on 30 September, 2003 and 2004. The hire vendor charged interest at 10% per annum on the balance outstanding on 1 October each year. All payments were made on the due dates.

J. Magagula maintained the motor lorry account at cost and accumulated the annual provision for depreciation, at 25 per cent on the diminishing balance method, in a separate account.

You are required to:

- (a) Prepare the following accounts as they would appear in the ledger of J. Magagula for the period of the contract:
  - (i) Vehicles and Finance Co Limited (15 marks)
  - (ii) Motor lorry account (1 mark)
  - (iii) Provision for depreciation of motor lorry (3 marks)
  - (iv) Hire purchase interest payable (2 marks)
- (b) Show how the above matters would appear in the balance sheet of J. Magagula at 30 September 2003. (4 marks)

The Vehicles and Finance Co Limited prepares final accounts annually to 30 September, on which date it charges J. Magagula with the interest due. Make calculations to the nearest E.

Total (25 marks)

**QUESTION 4**

Masterfridge Limited filed for a voluntary liquidation in late January 2001 and it was on the newspapers that its failure was due to cash flow problems. At its year end in 30 June 2000 the auditors had issued a clean audit report and the company had used overdraft finance of E83 million. The overdraft finance already used was close to the overdraft limit of E90 million that was made available to the company by First National Bank. Using the financial ratios of the company on the table below, identify some of the possible causes that eventual led to its failure. (25 marks)

<b>Masterfridge Swaziland</b>	<b>Average</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>Profitability ratios</b>						
Gross margin	20%	24%	22%	3%	17%	32%
Net profit margin	4%	7%	6%	(12%)	7%	9%
Return on capital employed (Roce)	9%	22%	20%	(36%)	14%	23%
Return on shareholders' funds	(4%)	12%	3%	(63%)	14%	14%
<b>Efficiency ratios</b>						
Stock turnover period	81	87	109	90	61	60
Debtors collection period	86	94	77	77	96	86
Creditors payment period	89	91	94	94	76	93
Sales to capital employed	3	3	3	3	2	3
<b>Liquidity ratios</b>						
Current ratio	1.5	1.3	1.4	1.2	1.8	2.0
Acid test ratio	0.9	0.8	0.8	0.6	1.1	1.5
<b>Gearing and equity ratios</b>						
Total debt ratio	56%	64%	64%	69%	45%	36%
Total equity ratio	44%	36%	36%	31%	55%	64%
Interest cover ratio	(8.9)	2.0	1.3	(4.0)	(47.6)	3.8
<b>Investment ratios</b>						
Earnings per share	10.8	15.1	1.3	(12.3)	24.0	26.0
P/E ratio	0.18	0.03	0.71	(0.29)	0.33	0.12
Edward Altman Z scores	2.219	2.149	2.230	0.989	2.528	3.200

**Additional information:**

The share price of the company which might be useful in your analysis evolved as follows over the years:

	<b>Average</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Price per share	3.3	0.52	0.89	3.6	8	3.25

Edward Altman (1968) in the USA model of corporate failure is stated as follows with respective interpretation:

$$Z \text{ score} = 1.2a + 1.4b + 3.3c + 0.6d + 1.0e$$

Where: a = (current assets - current liabilities) / total assets

b = total accumulated profits / total assets

c = Earnings before interest and taxes / total assets

d = Market value of equity and preference shares / total assets

e = Sales / Total assets

Companies with a Z score of less than 1.81 represent companies that are a prime candidate for bankruptcy, those between 1.81 and 2.99 are in a grey area (not clear whether represent companies that will fail or not) and those with a z score above 2.99 did not go bankrupt.



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**MASTERFRIDGE SWAZILAND LIMITED**  
**INCOME STATEMENT FOR 30 JUNE**

	2000	1999	1998	1997	1996
	E'000	E'000	E'000	E'000	E'000
Revenue	478,819	459,126	425,975	385,046	290,797
Cost of sales	-365,914	-360,244	-411,597	-318,308	-197,792
Gross profit	112,905	98,882	14,378	66,738	93,005
Profit before operating costs	112,905	98,882	14,378	66,738	93,005
Profit or loss on sale of subsidiaries	3,282	-738	0	0	0
Net operating costs	-81,409	-68,837	-63,606	-41,256	-66,211
	34,778	29,307	-49,228	25,482	26,794
Share of results of associate	84	0	0	0	0
Profit before exceptional items, interest and taxation	34,862	29,307	-49,228	25,482	26,794
Exceptional items	-2,726	-2,659	-5,170	0	0
Profit before interest and taxation, but after exceptional items	32,136	26,648	-54,398	25,482	26,794
Finance costs	-17,151	-22,506	-12,385	535	-7,099
Profit before taxation	14,985	4,142	-66,783	26,017	19,695
Taxation	-970	-739	1,613	-3,880	-3,656
Profit after taxation	14,015	3,403	-65,170	22,137	16,039
Outside shareholders' interest	1,086	-2,137	3,048	-707	-7
Net profit attributable to ordinary shareholders	15,101	1,266	-62,122	21,430	16,032
Proposed ordinary dividend	0	0	0	-7,927	0
Transfer to non distributable reserves	0	0	0	1,330	-4
Retained earnings for year	15,101	1,266	-62,122	14,833	16,028
Retained earnings at start of year	-16,995	-18,261	43,861	29,028	13,000
Retained earnings at end of year	-1,894	-16,995	-18,261	43,861	29,028
Earnings per ordinary share (cents)	15.06	1.26	-12.27	23.97	26.03

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## BALANCE SHEET AS AT 30 JUNE

	2000	1999	1998	1997	1996
	E'000	E'000	E'000	E'000	E'000
<b>Non current assets</b>					
Property, plant and equipment	94,293	85,658	94,987	70,045	30,210
Goodwill	7,892	8,811	0	30,700	26,467
Research and development	7,209	0	0	0	0
Investments in associates	85	0	0	0	0
<b>Fixed assets and intangibles assets</b>	<b>109,479</b>	<b>94,469</b>	<b>94,987</b>	<b>100,745</b>	<b>56,677</b>
<b>Current assets</b>					
Inventories	87,875	86,195	128,798	73,618	32,459
Accounts receivable	123,543	97,236	90,116	101,126	68,841
Outside shareholders' interest	5,254	796	2,110	0	0
Cash on hand and at bank	3,653	11,342	20,014	11,100	16,475
	<b>220,325</b>	<b>195,569</b>	<b>241,038</b>	<b>185,844</b>	<b>117,775</b>
<b>Current liabilities</b>					
Accounts payable	90,898	92,547	105,673	65,874	50,546
Dividend proposed	0	0	0	7,927	0
Commissioner of taxes	639	2,250	1,535	5,145	2,522
Outside shareholders' interest				1,173	5,155
Bank borrowings	83,099	50,020	92,588	23,005	0
	<b>174,636</b>	<b>144,817</b>	<b>199,796</b>	<b>103,124</b>	<b>58,223</b>
Working capital	45,689	50,752	41,242	82,720	59,552
	<b>155,168</b>	<b>145,221</b>	<b>136,229</b>	<b>183,465</b>	<b>116,229</b>
<b>CAPITAL EMPLOYED</b>					
Share capital and premium	121,340	121,340	121,340	113,879	81,212
Nondistributable reserves	0	9	6	6	1,336
Profit and loss account	-1,894	-16,995	-18,261	43,861	29,028
Shareholders' funds	<b>119,446</b>	<b>104,354</b>	<b>103,085</b>	<b>157,746</b>	<b>111,576</b>
<b>Long term liabilities</b>					
Debentures				15,900	
Long term liabilities	35,722	40,680	33,050	7,435	3,406
Deferred taxation	0	187	94	2,384	1,247
	<b>35,722</b>	<b>40,867</b>	<b>33,144</b>	<b>25,719</b>	<b>4,653</b>
	<b>155,168</b>	<b>145,221</b>	<b>136,229</b>	<b>183,465</b>	<b>116,229</b>
Total debt	210,358	185,684	232,940	128,843	62,876
Equity	119,446	104,354	103,085	157,746	111,576
Financing of assets	<b>329,804</b>	<b>290,038</b>	<b>336,025</b>	<b>286,589</b>	<b>174,452</b>
Total assets	<b>329,804</b>	<b>290,038</b>	<b>336,025</b>	<b>286,589</b>	<b>174,452</b>
Total debt ratio	64%	64%	69%	45%	36%
Equity ratio	36%	36%	31%	55%	64%
Total financing	100%	100%	100%	100%	100%
	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Shares outstanding	100,291,017	100,291,017	100,291,017	90,267,071	79,772,727
Share price	0.52	0.89	3.6	8	3.25
Market value of company	52,151,329	89,259,005	361,047,661	722,136,568	259,261,363