

COURSE CODE: AC501 (M) 2005

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER

DEGREE/ YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING IV
COURSE CODE	:	AC501
TIME ALLOWED	:	TWO (2) HOURS
INSTRUCTIONS		
	1.	TOTAL NUMBER QUESTIONS ON THIS PAPER: FOUR [4]
	2.	ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.
	3.	THE MARKS AWARDED FOR A QUESTION/ PART ARE INDICATED AT THE END OF EACH QUESTION/ PART OF QUESTION.
	4.	ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.
	5.	WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

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

THIS PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

The following are the trial balances of Anadale Ltd, Glenrose Ltd and Fedhile Ltd as at 31 December 2004.

	Anadale Ltd E	Glenrose Ltd E	Fedhile Ltd E
Ordinary share capital (shares of E1 each. Fully paid)	100,000	30,000	20,000
7% cumulative preference share capital (shares of Eeach, fully paid)	-	-	5,000
Profit and loss account - Balance at 31 December 2003	15,600	6,000	1,900
Current liabilities	20,750	15,900	18,350
Sales	194,000	116,000	84,000
Dividends received from Glenrose Ltd	1,200	-	-
	<u>331,550</u>	<u>167,900</u>	<u>129,250</u>
Fixed assets	45,000	29,000	25,000
Current assets	46,000	27,500	22,500
24,000 ordinary shares in Glenrose Ltd at cost	33,700	-	-
20,000 ordinary shares in Fedhile Ltd at cost	21,250	-	-
Cost of goods sold	153,000	87,000	63,000
General expenses	32,600	22,900	18,750
Dividends for 2004, paid on 31 December 2004	-	1,500	-
	<u>331,550</u>	<u>167,900</u>	<u>129,250</u>

Anadale Ltd acquired the shares in Fedhile on 31 December 2002, when the credit balance on the profit and loss of Fedhile Ltd was E700, and acquired the shares in Glenrose Ltd on 31 December 2003. No dividend has been paid by Fedhile Ltd and for the years 2002, 2003 and 2004 and none is proposed. The directors of Anadale propose to pay a dividend of E7,000 for 2004.

The sales of Glenrose Ltd for 2004 E116,000 include E1,000 for goods sold to Fedhile Ltd and this amount has been debited to purchases account in the books of Fedhile Ltd. All goods were sold by Fedhile Ltd during 2004.

Required:

Prepare a consolidated profit and loss account for the year ended 2004 and a consolidated balance sheet as on 31 December 2004 (Not necessarily in the form of publication). Ignore depreciation of fixed assets and taxation.

Total (40 marks)

QUESTION 2

Zethu Ltd is incorporated in Swaziland and rents out mobile homes to holiday makers in this country and in Lesotho. The company has a head office in Swaziland and a branch in Lesotho where the local currency is 'Maloti'. The following balances are extracted from the books of the head office and its 'self-accounting' branch at 31 December 2004.

	Head office E	Branch Maloti
Debit balances		
Fixed assets at cost	450,000	900,000
Debtors and cash	17,600	36,000
Operating costs	103,700	225,000
Branch current account	42,600	
	<u>613,900</u>	<u>1,161,000</u>
Credit balances		
Share capital	200,000	-
Retained profit, 1 January 2004	110,800	-
Sales revenue	186,300	480,000
Creditors	9,700	25,000
Head office current account	-	420,000
Accumulated depreciation	107,100	236,000
	<u>613,900</u>	<u>1,161,000</u>

The following information is provided regarding exchange rates, some of which is relevant. The fixed assets of the branch were acquired when there were 8 Maloti to the E. Exchange rates ruling during 2004 were:

	Maloti to the E
1 January	6
Average	5
31 December	4

There are no cash and goods in transit between the head office and branch at the year end.

Required:

Prepare the final accounts of Zethu Ltd for 2004. The accounts should be expressed in Emalangeni (E) and, for this purpose, the conversion of the Maloti should be made in accordance with the temporal method of translation as specified in SSAP 20; Foreign currency translation.

Total (30 marks)

QUESTION 3***Leasing***

You are the financial consultant to Zeus Ltd and you have been asked to consider the accounting treatment of lease transactions in the financial statements.

The company leases two cars to companies on two or three year leases. At the end of the lease term the lessee has the option to purchase the car at 40% of its original cost for a two year lease and 25% of the original cost for a three year lease. If the lease does not exercise the option to purchase the car, Zeus sells the car and bears the profit or loss on disposal. The cost of all repairs and maintenance of the cars is the responsibility of the lessee.

Required:

- (a) Consider whether the leased car transactions should be treated as a finance lease or an operating lease. (10 marks)
- (b) State how the item in (a) should be treated in the financial accounts of Zeus Limited. (5 marks)

Ratio analysis

- (c) When carrying out ratio analysis for investment purposes one should be sceptic about the earnings figure reported by organisations in their financial statements as they will normally have a tendency to manage their reported earnings to improve the entity's financial performance. Briefly discuss 5 ways by which organisations can manage their reported earnings and give examples where necessary to illustrate your answer. (15 marks)

Total (30 marks)

QUESTION 4

The following is a balance sheet of Radox Limited as at 31 December 2003. Radox Limited had a poor trading performance since the date of incorporation (1.1.2000). The company was declared bankrupt on 1 January 2004.

BALANCE SHEET AS AT 1 JANUARY 2004

ASSETS	E
Goodwill	60,000
Land and buildings	75,000
Plant and machinery	110,000
Patents and trade marks	25,000
Stocks at cost	80,000
Sundry debtors	60,000
Preliminary expenses	10,000
Profit and loss	386,000
Bank balance	4,000
	<u>810,000</u>

LIABILITIES AND CAPITAL

4,000 Ordinary shares	400,000
Profit prior to incorporation	15,000
Bank loan	100,000
18% debentures	100,000
Sundry creditors	150,000
Sales tax due	45,000
	<u>810,000</u>

Security arrangements

1. The 18% debentures were secured against land and buildings. The debentures has accumulated interest in arrears of E10,000.
2. The bank loan was secured against plant and machinery. The bank loan has accumulated interest in arrears of E15,000.

The revaluation of assets

	E
Land and buildings	120,000
Plant and machinery	80,000
Patents and trade marks	5,000
Stocks	65,000
Debtors	55,000

REQUIRED

Prepare a statement of affairs of Radox Limited as at 1 January 2004.

Total (30 marks)