

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION QUESTION PAPER, 2005

**DEGREE/DIPLOMA AND
YEAR OF STUDY**

: D.COM 111

TITLE OF PAPER

: FINANCIAL ACCOUNTING II

TIME ALLOWED

: TWO [2] HOURS

INSTRUCTIONS

- 1. TOTAL NUMBER OF 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 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

The balance sheet and additional information relating to Tayorex Limited are given below.

Prepare a cash flow statement for Tayorex limited for the year ended 31 December 2004 using the indirect method together with the relevant notes and workings which must be referenced to the cash flow statement.

Tayorex Limited

Balance sheet as at 31 December 2004

	2004 E000	2003 E000
Non current assets		
Fixed assets	400	325
Investments	-	25
Intangible assets	230	180
	----	----
	630	530
	----	----
Current assets		
Stocks	120	104
Debtors	400	295
Short-term investments	50	-
Cash in hand	10	4
	----	----
	580	403
	----	----
Total assets	1,210	933
	====	====

Equity and reserves

Share capital (E1 ordinary shares)	200	150
Share premium account	160	150
Revaluation reserve	100	90
Profit and loss account	140	80
	-----	-----
	600	470
	-----	-----

Long term liabilities

Long term loan	100	-
Deferred taxation	80	60
	-----	-----
	180	60
	-----	-----

Current liabilities

Trade creditors	122	108
Bank overdraft	88	105
Taxation	120	110
Dividends proposed	100	80
	-----	-----
	430	403
	-----	-----
Total liabilities	1,210	933
	=====	=====

Additional information:

1. During the year interest of E75,000 was paid, and interest of E25,000 was received.

2. The following information relates to tangible fixed assets.

	2004	2003
At 31 December	E000	E000
Cost	740	615
Accumulated depreciation	340	290
	----	----
Net book value	400	325
	----	----

3. The proceeds of the sale of fixed assets investments were E30,000.

4. Plant, with an original cost of E90,000 and a net book value of E50,000, was sold for E37,000.

5. Tax paid to the Inland revenue during 2004 amounted to E110,000.

Total (40 marks)

QUESTIN 2

On 30 September 2002 W. Smith, who prepares final accounts annually to 30 September, bought a motor lorry on hire purchase from the vehicles and finance Co. Ltd. The cash price of the lorry was E3,081. Under the terms of the hire purchase agreement, W. Smith 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.

W. Smith 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 W. Smith for the period of the contract:
 - (i) Vehicles and Finance Co Limited
 - (ii) Motor lorry on hire purchase
 - (iii) Provision for depreciation of motor lorry
 - (iv) Hire purchase interest payable
- (b) Show how the above matters would appear in the balance sheet of W. Smith at 30 September 2003.

The Vehicles and Finance Co Limited prepares final accounts annually to 30 September, on which date it charges W. Smith with the interest due.

Make calculations to the nearest E.

Total (30 marks)

QUESTION 3

Zethu Limited, a trader, commenced business on 1 January 2004, with a head office and one branch. All goods were purchased by the head office and goods sent to the branch were invoiced at a fixed selling price of 25 per cent above cost. All sales, both by the head office and the branch, were made at the fixed selling price.

The following trial balance was extracted from the books at the head office at 31 December 2004.

Trial balance as at 31 December 2004:

	E	E
Capital		52,000
Drawings	1,740	
Purchases	123,380	
Sales		83,550
Goods sent to branch (at selling price)		56,250
Branch current account	24,550	
Fixed assets	33,000	
Debtors and creditors	7,980	11,060
General expenses	8,470	
Balance at bank	3,740	
	-----	-----
	202,860	202,860
	=====	=====

No entries had been made in the head office books for cash in transit from the branch to head office at 31 December 2004, E1,000.

When the balances shown below were extracted from the branch books at 31 December 2004, no entries had been made in the books of the branch for goods in transit on that date from head office to branch, E920 (selling price).

In addition to the balances which can be deducted from the information given above, the following balances appeared in the branch books on 31 December 2004.

Fixed assets	6,000
General expenses	6,070
Debtors	7,070
Creditors (excluding head office)	1,630
Sales	51,700
Balance at bank	1,520

When stock was taken on 31 December 2004, it was found that there was no shortage at the head office, but at the branch there were shortages amounting to E300, at selling price.

Required:

Prepare the trading and profit and loss accounts (a) for head office and (b) for the branch, as they would have appeared if goods sent to the branch had been invoiced at cost and a balance sheet for the whole business as on 31 December 2004.

Head office and branch stocks are to be valued at cost. Ignore depreciation of fixed assets.

Total (30 marks)

QUESTION 4

- (a) Discuss the benefits and drawbacks of using ratio analysis as a tool in analysing the financial performance of a company. (15 Marks).

- (b) Distinguish between an operating lease and a finance lease and state clearly the characteristics of each type of lease as well as the accounting treatment to be adopted in respect of each type of lease by both the lessor and the lessee. (15 Marks).