UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2006

DEGREE / DIPLOMA AND YEAR OF STUDY	:	DIPLOMA IN COMMERCE 111
TITLE OF THE PAPER	:	FINANCIAL ACCOUNTING 11
COURSE CODE	:	AC 301 (M) 2006 (full time) IDE AC 301 – 1 & 2 (M) 2006 (part time)
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are four (4) questions, answer all.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for a question are indicated at the end of each question.
	4	Show your necessary workings.

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 layout and presentation of your answer.

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

SPECIAL REQUREMENT: NONE

QUESTION 1:

John, Keith and Len are in partnership sharing profits in the ratio of 3:2:1 respectively.

A balance sheet for the partnership as at 31 March 2005 is shown below:

		E			E
Fixed assets			Capital accounts		
Premises		100,000	John		100,000
Plant		52,000	Keith		80,000
Office furniture		27,000	Len		40,000
		179,000			220,000
Current assets			Current accounts		
Stock		29,500	John	6,450	
Debtors		51,500	Keith	14,978	
Cash		10,412	Len	(2,636)	
					18,792
			Trade creditors		31,620
		270,412			270,412

Len retired on 31 March 2005, and John and Keith formed a company, Jake Ltd, to take over the business on that date.
Details of the changes agreed were as follows:

(a) The assets of the business, other than cash, were to be taken over by the company at a valuation of E284,000, but the tangible assets were to be recorded in the books of Jake Ltd at the same book value as in the partnership books. Trade creditors were to be paid by the partnership.

(b) The authorised capital of Jake Ltd was
135,000 ordinary shares of E1 each
65,000 12% preference shares of E1 each.

(c) The company raised a 16% debenture loan of E70,000 from a merchant bank.

(d) Jake Ltd paid for its acquisition as follows:
(i) 135,000 ordinary shares issued to John and Keith to satisfy their capital accounts;
(ii) 16% debentures issued to John, Keith and Len to repay their current accounts;
(iii) the balance in cash.

(e) The profit / loss on realisation is to be transferred to the current accounts.

(Question 1 – continued)

You are required:

(A)	to prepare the realisation account.	**(4 marks)**
(B)	to prepare the current accounts of the partners.	**(5 marks)**
(C)	to prepare the cash account of the partnership.	**(4 marks)**
(D)	to prepare new company's (Jake Ltd) account.	**(3 marks)**
(E)	to prepare a balance sheet for Jake Ltd as at 1 April 2005.	**(12 marks)**

(Total 28 marks)

QUESTION 2:

The Fruit Company (Swaziland) Ltd purchased three motor lorries from Mbabane Motors Ltd on a hire purchase agreement dated 1st July 2003, providing for twelve yearly instalments of E2,000 each commencing 31st December 2003. The cash price of the lorries is E19,910, interest being computed at 6% with half-yearly rests. The purchasers make up their accounts to 30th June, depreciation on the lorries being provided on the straight-line basis at one-fifth per annum of cost.

Required:

(A) Prepare the following accounts as they would appear in the ledger of Fruit Company (Swaziland) Ltd for the two years period ended 30th June 2005, instalments being paid on the due date:

(i)	Mbabane Motors Ltd.	**(10 marks)**
(ii)	Motor lorries.	**(2 marks)**
(iii)	Provision for depreciation of motor lorries.	**(6 marks)**

(B) Show how the above matters would appear in the balance sheet of Fruit Company (Swaziland) Ltd at 30th June 2005. **(2 marks)**

(Total 20 marks)

QUESTION 3:

The following trial balance has been extracted from the books of Baganza plc as at 30 September 2005:

	E000	E000
Administrative expenses	400	
Called up share capital (1,200,000 ordinary shares of E1 each)		1,200
Cash at bank and in hand	60	
Corporation tax (overpayment for the year to 30 September 2004)		20
Deferred taxation (at 1 October 2004)		460
Distribution costs	600	
Dividends received (on 31 March 2005)		249
Extraordinary item (net of tax)		1,500
Freehold property:		
at cost	2,700	
accumulated depreciation (at 1 October 2004)		260
Interim dividends (paid on June 2005)	36	
Investments in other companies	2,000	
Plant and machinery:		
at cost	5,200	
accumulated depreciation (at 1 October 2004)		3,600
Profit and loss account (at 1 October 2004)		2,022
Purchases	16,000	
Research expenditure	75	
Stock (at 1 October 2004)	2,300	
Tax on extraordinary item		360
Trade creditors		2,900
Trade debtors	2,700	
Turnover		19,500
	E32,071	E32,071

Additional information:

(a) The stock at 30 September 2005 was valued at E3,600,000.

(b) Depreciation for the year to 30 September 2005 is to be charged on the historic cost of the fixed assets using straight-line method as follows:

Freehold property: 5 per cent
Plant and machinery: 15 per cent

(Question 3 – continued)

(c) The basic rate of income tax is assumed to be 27 per cent.
(d) The directors propose a final dividend of 60c per share.
(e) The company was incorporated in 1998.
(f) Corporation tax based on the profits for the year at a rate of 35 per cent is estimated to be E850,000.
(g) A transfer of E40,000 is to be made to the deferred taxation account.

Required: In accordance with the Companies Act 1912, prepare:
(a) a profit and loss account for publication for the year to 30 September 2005; and **(15 marks)**
(b) a balance sheet as at 30 September 2005. **(13 marks)**

Note: Formal notes to the accounts are NOT required, but detailed workings should be submitted with your answer, which should include your calculation of earnings per share.

(Total 28 marks)

QUESTION 4:

On 15th January 2005, Collins consigned to his agent, Frank, 1,000 ashtrays which cost E1 each. Insurance and freight amounted to E50. Frank is entitled to a commission of 10% of gross sales.

Frank immediately returned 100 ashtrays which were slightly chipped, and paid return freight and insurance amounting to E10.
Collins, whose financial year ended 30th June 2005, received from Frank an account of sales made up to that date, in which he showed that he had sold 600 ashtrays for E1,200, and had paid warehouse charges of E25 on the whole of the consignment and carriage of E15 on the ashtrays sold. Frank sent a sight draft in settlement of the balance due, on which Collins incurred bank charges of E5.
Frank sold the remaining ashtrays for E400, incurring expenses of E10. He sent Collins a second account of sales made up to 30th September 2005, accompanied by a sight draft for the balance due, on which Collins paid bank charges of E3.
In the books of Collins, all purchases are debited to trading account.

Required: Prepare the following accounts as they would appear in the books of Collins:
(a) Goods sent on consignment **(2 marks)**
(b) Consignment to Frank **(12 marks)**
(c) Consignee **(10 marks)**

(Total 24 marks)

END