

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	:	IDE AC 301 – 2 (M) 2006 (part time)
TIME ALLOWED	:	TWO (2) HOURS
INSTRUCTIONS	1	There are three (3) 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 REQUIREMENT: NONE

QUESTION 1:

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 1 – 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 **(24 marks)**
- (b) a balance sheet as at 30 September 2005. **(20 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 44 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. **(16 marks)**
 - (ii) Motor lorries. **(2 marks)**
 - (iii) Provision for depreciation of motor lorries. **(12 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 32 marks)

QUESTION 3:

- (A) Why do you think an investor might purchase preference shares rather than ordinary shares in a company? **(8 marks)**
- (B) It has been suggested that the management of long-term profitability is more important than short-term cash flow. Explain why this might be so. **(8 marks)**
- (C) What about bad debts? Should you make similar adjustments in the cash flow statement for them? Why / why not? **(8 marks)**

(Total 24 marks)

END