

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY 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 (S) 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:

L R, a trader, commenced business on 1 January 2005, 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 2005:

Trial Balance		
	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 2005, E1,000.

When the balances shown below were extracted from the branch books at 31 December 2005, 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 2005:

	E
Fixed assets	6,000
General expenses	6,070
Debtors	7,040
Creditors (excluding head office)	1,630
Sales	51,700
Balance at bank	1,520

(Question 1 – continued)

When stock was taken on 31 December 2005, 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:

- (A) Prepare a trading and profit and loss account for head office. (7 marks)
 - (B) Prepare a trading and profit and loss account for the branch. (7 marks)
 - (C) Prepare a balance sheet of the whole business as on 31 December 2005. (24 marks)
- (Total 38 marks)**

QUESTION 2:

Xhomo Manufacturer's financial statements are shown below:

**Xhomo Manufacturer's Balance Sheet as at 31 December 2005
(In Thousands of Emalangen)**

	E		E
Cash	135	Accounts payable	135
Marketable securities	99	Notes payable	135
Accounts receivable	198	Accruals	<u>63</u>
Inventories	<u>477</u>	Total current liabilities	333
Total current assets	909	Long-term liabilities	<u>72</u>
		Total liabilities	405
Gross fixed assets	675	Ordinary shares	342
Less Acc. Depreciation	<u>234</u>	Retained earnings	<u>603</u>
Net fixed assets	441	Total shareholders equity	949
	<u>1350</u>		<u>1350</u>
	<u><u>1350</u></u>		<u><u>1350</u></u>

(Question 2 – continued)

Xhomo Manufacturer
Income Statement for the year ended 31 December 2005
(In Thousands of Emalangen)

	E
Net sales	2385.00
Cost of goods sold	<u>1980.00</u>
Gross profit	405.00
Selling expenses	220.50
Depreciation expenses	<u>36.00</u>
Income before interest and taxation	148.50
Interest expense	<u>13.50</u>
Income before taxation	135.00
Tax @ 40%	<u>54.00</u>
Net income	<u><u>81.00</u></u>

Required:

Calculate and briefly **define** each of the following ratios:

(assume that all sales are on a credit sales and the year is 364 days)

- (A) Liquidity ratios, that is, current ratio and quick ratio. (6 marks)
 - (B) Assets management ratios, that is, inventory turnover ratio, fixed assets turnover ratio, total assets turnover ratio, and days sales outstanding ratio. (12 marks)
 - (C) Debt management ratios, that is, debt ratio and times-interest-earned ratio. (6 marks)
 - (D) Profitability ratios, that is, profit margin on sales ratio, return on total assets ratio, return on equity ratio, and basic earning power of assets ratio. (12 marks)
- (Total 36 marks)**

QUESTION 3:

- (A) State advantages and limitations of a cash flow statement. (16 marks)
- (B) Give brief explanations each of the following accounting terms:
 - (i) Authorised share capital (2.5 marks)
 - (ii) Issued share capital (2.5 marks)
 - (iii) Paid up capital (2.5 marks)
 - (iv) Called-up capital (2.5 marks)

(Total 26 marks)

END