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	:	**AC 301 (S) 2006 (full time)** **IDE AC 301 – 1 & 2 (S) 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:

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

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. **(4 marks)**
(B) Prepare a trading and profit and loss account for the branch. **(4 marks)**
(C) Prepare a balance sheet of the whole business as on 31 December 2005. **(16 marks)**
(Total 24 marks)

QUESTION 2:

Trilby and Bowler entered into a joint venture agreement for the purchase and sale of hats on 1 June 2005. Transactions were as follows:

2005	
1 June	Trilby purchased hats for E6,000. To finance the purchase he took out a loan of E2,000 with Cromby and paid the balance in cash.
15 June	Trilby sent to Bowler hats costing E2,400 and paid carriage charges of E280 in that connection.
25 July	Bowler sold all his hats for E5,000 and paid Cromby E2,030 in full settlement of the latter's loan with Trilby.
31 July	Trilby paid insurance of E600. Bowler paid E40 for rent of a garage for storing the hats.
3 August	Bowler paid E1,000 to Trilby.
6 August	Trilby sold part of the hats in his possession for E8,000. He agreed to take over the remaining hats personally at a cost of E1,800.

Each party is entitled to a commission of 5% on his own gross sales. The balance of profits is to be shared, Trilby seven-tenths, Bowler three-tenths. Final cash settlement between the partners was made on 31 August 2005.

Required:

(A) Show the joint venture account in the books of Trilby and Bowler. **(15 marks)**
(B) Show the memorandum joint venture account. **(10 marks)**
(Total 25 marks)

QUESTION 3:

The financial year end of Mendip Ltd is 30 June. At 30 June 2005, the following balances are available:

		E
Freehold Land and Buildings at cost		143,000
Plant an machinery at cost		105,000
Accumulated depreciation on plant and machinery		23,000
Purchase of raw materials		130,100
Sales		317,500
Factory rates		3,000
Factory heat and light		6,500
Debtors		37,200
Creditors		30,900
Wages (including E15,700 for supervision)		63,000
Direct factory expenses		9,100
Selling expenses		11,000
Office salaries and general expenses		43,000
Bank		24,500
General reserve		30,000
Profit and loss account		18,000 (credit)
Stocks 1 July 2004:	Raw materials	20,000
	Finished goods	38,000
Dividends paid:	Preference shares	840
	Ordinary shares	20,000

Additional information for the year ended 30 June 2005:

(i) The stocks at 30 June 2005 were : Raw materials E22,000
Finished goods E35,600
(ii) Salaries include E6,700 for directors' fees.
(iii) Depreciation is to be charged at 10% on cost of plant and machinery, using straight-line method.

Required: For the year ended 30 June 2005 prepare
(A) a manufacturing account. And **(14 marks)**
(B) a trading and profit & loss account. **(13 marks)**
(Total 27 marks)

QUESTION 4:

Xhomo Manufacturer's financial statements are shown below:

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

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

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

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

(Question 4 – continued)

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. **(4 marks)**

(B) Assets management ratios, that is, inventory turnover ratio, fixed assets turnover ratio, total assets turnover ratio, and days sales outstanding ratio. **(8 marks)**

(C) Debt management ratios, that is, debt ratio and times-interest-earned ratio. **(4 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. **(8 marks)**

(Total 24 marks)

END