UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER MAY 2007

DEPARTMENT OF ACCOUNTING

COURSE TITLE	:		**FINANCIAL ACCOUNTING III**
COURSE CODE	:		**AC 401 + IDE-AC401**
DEGREE	:		**B COM. IV**
TIME ALLOWED	:		**THREE (3) HOURS**
INSTRUCTIONS	:	**1.**	**TOTAL NUMBER OF QUESTIONS IN THE PAPER: FOUR (4)**
		2.	**ANSWER ALL QUESTIONS.**
		3.	**THE MARKS AWARDED FOR A QUESTION/ PART OF A QUESTION ARE INDICATED AT THE END OF EACH QUESTION.**
		4.	**WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN.**
		5.	**CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI UNLESS OTHERWISE INSTRUCTED.**
SPECIAL REQUIREMENTS:			**CALCULATOR**

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF THE ACCURACY OF LANGUAGE, THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

THIS QUESTION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1: On January 2, 2007, Swazi Glass Company Ltd issued 300 000 ordinary shares of E 1 each, at E 1.20 per share payable as follows:

On application	0.70 cents
On allotment (10.2.2007)	0.30 cents (including premium)
On first call (1.5. 2007)	0.20 cents

The lists were closed on January 30, 2007 and by that date applications for 400 000 shares were received and it was decided to deal with as follows:

A. To return cheques for 40 000 shares;
B. To accept in full applications for 120 000 shares;
C. To allot the remaining applicants on a pro rata basis;
D. To utilize the surplus received on applications in part payment of the amounts due on allotment, and if necessary, on calls.

The balance due on allotment and first calls were received except from Mr. A and B, as follows:

The balance due on allotment was received in February, 2007, with the exception of Mr. A, an allottee of 6 000 shares (who was allotted on pro rata basis). These shares were declared forfeited on February 28 and were re-issued to Mr. X on the same day as fully paid at E 1.10 per share.

B, an applicant whom 4 000 shares had been allotted on a full allotment basis failed to pay the amount due on the first and final call. His shares were declared forfeited on May 1, 2007. These were re-issued to Mr. Y on May 5 as fully paid at E 0.90 per share.

REQUIRED:

1. Share Application Account
2. Share Allotment Account
3. Share First Call Account
4. Forfeited Shares Account
5. Re-issue Account
6. Bank Account

No Journal entries are required .

[25 Marks]

QUESTION 2: The Balance Sheets of H Ltd and S Ltd as at 31 December 2006, were as follows:

	H Ltd	S Ltd
Ordinary Shares Capital E 1	E 250 000	E 100 000
Preference Shares (10%) E 1	-	50 000
Profit and Loss	120 000	50 000
Proposed Dividends:		
Ordinary Shares	30 000	10 000
Preference Shares	-	5 000
Total	E 400 000	E 215 000
Fixed Assets	200 000	150 000
Investment in S Ltd.	130 000	-
Current Assets less Current Liabilities	70 000	65 000
Total	E 400 000	E 215 000

ADDITIONAL INFORMATION:

1.H Ltd. acquired the shares in the S Ltd as follows:

80 000 ordinary shares at a cost of E 120 000
20 000 preference shares at a cost of E 10 000

All these shares were acquired on March 1, 2003, when the Profit and Loss balance of S Ltd. stood at E 25 000.

2. During the year to 31 December 2006 H Ltd purchased goods from S Ltd for E 12 000. S Ltd invoiced these goods at cost plus 50%. Half of these goods were in stock at the year- end.

3. H Ltd has not yet accounted for dividends receivable from S Ltd.

4. During the year ended 31 December, 2006, H Ltd. purchased a fixed asset for E 6 000 from S Ltd. on which S Ltd made a profit of E 2 000. Depreciation on fixed assets had already been provided by H Ltd at 20% on cost.

5. Any goodwill/capital reserve on acquisition is to be taken to reserves.

REQUIRED: Consolidated Balance Sheet of the Group as at 31 December 2006.

[25 Marks]

QUESTION 3:

The following balances relate to Reliable General Insurance Company Ltd. for the year ending 31 December, 2006.

	E
Depreciation	105 000
Interest and dividend received	42 900
Fire Fund as on Jan 1, 2006	750 000
Marine Fund as on Jan 1, 2006	2 460 000
Bad debts (fire)	15 000
Bad debts (marine)	36 000
Management fee	18 600
Share transfer fee	2 400
Claims paid during the year (marine)	800 000
Claims outstanding end of the year (marine)	460 000
Claims outstanding beginning of the year (marine)	120 000
Claims outstanding beginning of the year (fire)	150 000
Claims outstanding end of the year (fire)	320 000
Claims paid during the year (fire)	400 000
Commission paid (fire)	270 000
Commission paid (marine)	324 000
Additional reserve (fire) on Jan 1, 2006	150 000
Miscellaneous receipts	15 000
Fire premiums less re-insurance	1 800 000
Marine premium less re-insurance	3 240 000
Management expenses (marine)	1 200 000
Management expenses (fire)	435 000
Commission earned on re-insurance ceded (fire)	90 000
Commission earned on re-insurance ceded (marine)	180 000

Additional Information:

1. The Company has two departments:
   (a) Fire Department, and
   (b) Marine Department :

2. The usual reserves for fire department are 50% of premiums, and for marine department 100% of premium.
3. In addition to the usual reserves, an additional reserve of 5 % of net premiums is to be increased for fire department only.

REQUIRED:

(a) Revenue Account of Fire Department and Marine Department
(b) Profit and Loss Account for the year ending December 31, 2006.

[25 Marks]

QUESTION 4: There are sub-sections in this question, (i) to (viii). Attempt all the sections

(i) X has sold a building to Z, an investing company for 1 million, when the current market value was 2 million. X can re-purchase the property at any time within the next three years for the original selling price (E 1 million) plus a sum, added, quarterly based on the bank base lending rate + 2%.

How should X account for this transaction?

[4 Marks]

(ii) How should the following maters be dealt with?:

(a) When drafting the financial statements, a company's accountant includes a figure of E 2 000 as the market value of damaged items of inventory. The cost of these items was E 3 000, and the normal selling price would be E 4 000. Between the balance sheet date and the approval of the financial statements, the items are sold for E 3 100.

[3 Marks]

(iii) A company engaged in the construction of a factory for sale. The estimated value on completion is E 200 000. Costs to date are: E 80 000 and at the balance sheet date expect further costs to completion were E 90 000.

After the balance sheet date serious defects (which must have existed unnoticed for some time) are discovered in the foundation of the building, necessitated the partial demolition and re-building at an estimated cost of E 70 000 (in addition to the estimated further costs to completion of E 90 000).

How should this matter be dealt with?

[3 Marks]

(iv) P Ltd entered into a five year lease on January 1, 2006, for machinery with fair value of E 20 000. Rentals are E 5 200 per month payable in advance and the residual value at the end of the lease is calculated as E 4 200, which will be returned to P Ltd.

P Ltd is responsible for insurance and maintenance costs. The rate of interest implicit in the lease is 15.15%.

Show the allocation of the finance charges over the lease term on an actuarial basis.
Calculate the non-current liability for finance lease on 31 December, 2006.

[3 Marks]

(v) A Company issued 200 000 shares at full market price (E 3.00) on 1st July, 2007.

Relevant information:

	2007	2006
Profit attributable to the ordinary shareholders for the year ending 31 December	E 550 000	460 000
Number of ordinary shares in issue 31 December	1 000 000	800 000

Calculate the Earning per shares, as per IAS 33.

[3 Marks]

(vi) An enterprise opens a new factory at Matsapha. It receives a grant from government of E 30 000 in respect of capital equipment costing E 200 000. It depreciates plant and machinery at 20% at straight line method.

Show the balance sheet extracts in respect of the grant in the first year under two methods, as per IAS 20.

[3 Marks]

(vii)What are adjusting events as defined under IAS-10? [3 Marks]

(viii) Distinguish between Finance Lease and Operating Lease (I A S-17) [3 Marks]

[Total 25 Marks]