UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION PAPER MAY 2007

DEPARTMENT OF ACCOUNTING

COURSE TITLE	:	**FINANCIAL ACCOUNTING III**
COURSE CODE	:	**AC 401**
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	:	**SILENT 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:

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

(a) Fire Department, and
(b) Marine Department :

	E
Depreciation	50 000
Interest and dividend received	20 000
Difference in exchange (Cr)	1 000
Fire Fund as on Jan 1, 2004	375 000
Marine Fund as on Jan 1, 2004	1 250 000
Bad debts (fire)	40 000
Bad debts (marine)	18 000
Auditor's fee	2 000
Directors' fee	10 000
Share transfer fee	1 500
Claims paid during the year (marine)	400 000
Claims outstanding end of the year (marine)	230 000
Claims outstanding beginning of the year (marine)	60 000
Claims outstanding beginning of the year (fire)	75 000
Claims outstanding end of the year (fire)	160 000
Claims paid during the year (fire)	200 000
Commission paid (fire)	140 000
Commission paid (marine)	160 000
Additional reserve (fire) on Jan 1, 2004	75 000
Miscellaneous receipts	7 500
Fire premiums less re-insurance	900 000
Marine premium less re-insurance	1 600 000
Management expenses (marine)	600 000
Management expenses (fire)	210 000
Commission on re-insurance ceded (fire)	45 000
Commission earned on re-insurance ceded (marine)	90 000

Additional Information:

1. The usual reserves for fire department are 50% of premiums, and for marine department 100% of premium.

2. 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 2: Applications were invited by the directors of Swazi Textiles Company Ltd for 400 000 ordinary shares of E 1 each, issued at E 1.20 per share, payable as follows:

a. On January 1	-	on application (including premium)	0.70 c per share
b. On January 30	-	on allotment	0.30 c
c. On April 1	-	on first and final call	0.20 c

Applications for 540 000 shares were received and it was decided to deal with them as follows:

a. To return cheques for 20 000 shares

b. To accept in full applications for 160 000 shares

c. To allot the remaining shares pro rata among the other applicants

d. To utilize the surplus received on applications in part payment of amount due on allotment, and if necessary, on calls.

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

1. Balance due on allotment were received on January 30, with the exception of A, an allottee of 2 400 shares (who was allotted on pro rata basis). These shares were declared forfeited on February 28, and were re-issue to Mr Y as fully paid on the same date at E 1.10 per share.

2. B, an applicant, to whom 1 600 shares had been allotted on a full allotment basis failed to pay the amount due to the first and final call. His shares were declared forfeited on May 1. These shares were re- issued to Mr. Z on May 5 as fully paid at E 0.90 per share.

REQUIRED:

1. Share Application Account
2. Share Allotment Account
3. Share First and Final Call Account
4. Forfeited Shares Account
5. Reissue Account
6. Share Premium Account
7. Share Capital Account

[25 Marks]

QUESTION 3: 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	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		**400 000**	**215 000**
Fixed Assets		200 000	150 000
Investment in S. Ltd.		130 000	-
Current Assets less Current Liabilities		70 000	65 000
Total		**400 000**	**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, 2000, when the Profit and Loss balance of S Ltd. stood at E 25 000.

2. During the year to 31 December 2006, H Ltd sold goods costing E 200 000 to S Ltd. These goods had been invoiced by H Ltd at cost + 50 %. E 60 000 worth of these goods remained in stock at the year end. (Inter-Group profits or losses are to be dealt with as per IAS).

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

4. During the year ended 31 December, 2006, H Ltd had sold fixed assets, which cost it E 80 000 to S Ltd for E 100 000. S Ltd has written off 20% as depreciation during the year.

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.
The following workings must be shown :

1. Cost of Control
2. Stock of H & S Ltd.
3. Dividends of S Ltd.
4. Fixed assets of H and S Ltd.
5. Consolidated Profit and Loss Account
6. Minority Interest
7. Consolidated Balance sheet.

[25 Marks]

QUESTION 4:

A. Value the following two items of inventory, as per IAS-2:

(i) Material costing E 12 000 bought for processing for a profitable special order. Since buying these items, the cost price has fallen to E 10,000.

(ii) An equipment was constructed for a client at an agreed price of E 18 000. This has recently been completed at a cost of E 16 800. It has now been discovered that, in order to meet certain environmental regulations, conversion with an extra cost of E 4 200 will be required. The customer has accepted partial responsibility and agreed to meet half the extra cost.

[2 Marks]

B. On January 1, 2004, A Company Ltd leases an equipment from B Company Ltd. The terms of lease are that A Company pays four (4) annual rental payments of E 10 000 each. The first payment is to be made on 31 December 2004. After the period of four years, the equipment can be rented indefinitely for a nominal sum of E 1 per year.

The cost of the new equipment would be E 28 550. The finance cost implicit in the lease is 10% per annum.

REQUIRED: Compute the amount of lease obligation to be shown at the end of each year in the Balance Sheet.

[4 Marks]

C. How would you record the financial and operating leases in the books of the lessee, as per to IAS 16?

[3 Marks]

D. What is meant by " events after balance sheet date"? Describe the ways in which such events should be treated in a set of accounts as per International Accounting Standard 10 ?

[4 Marks]

E. What is "non-purchased" goodwill ? How would you treat such goodwill in the accounts ?

[2 Marks]

F. What conditions must be satisfied before development expense may be capitalized under IAS 38?

[4 marks]

G: The chief accountant of a company is in the process of drafting the annual report for the year ended 2006. He is currently preparing a note in respect of deferred tax.

The deferred taxation had a credit balance of E 15 000 at 31 October, 2003. All these amounts arose in respect of difference between deprecation and capital allowances.

During the year ended 31 October, 2006, the Company charged E 18 000 in deprecation and claimed E 20 800 in capital allowances.

The current tax charge for the year is E 4 700.

Assume an income tax rate of 30% throughout.

REQUIRED: Prepare note in respect of deferred taxation for the Company for the year ended 31 October, 2006. The notes should be in the form suitable for publication.

[6 Marks]

[Total 25 Marks]