

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER 2007

**DEGREE / DIPLOMA AND
YEAR OF STUDY** : B. COM V

TITLE OF THE PAPER : FINANCIAL ACCOUNTING IV

COURSE CODE : AC 501 (M) 2007 (full time)
IDE AC 501 (M) 2007 (part time)

TIME ALLOWED : TWO (2) HOURS

MAXIMUM MARKS : 50

INSTRUCTIONS:

- There are three (3) questions on this paper.
- Answer all three (3) questions.
- The marks awarded for a question/part are indicated at the end of each question/part of question.
- Where applicable, all workings are to be shown.
- Calculations are to be made to two decimal places of accuracy, unless otherwise instructed

SPECIAL REQUIREMENTS : CALCULATOR

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of the language, the general quality of expression, together with the layout and presentation of your answer.

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

QUESTION 1

Hinge Ltd acquired 80% of the ordinary shares of Singe Ltd on 1 April 2006. On 31 December 2005 Singe Ltd's accounts showed a share premium account of E4,000, and revenue reserves of E15,000. The balance sheets of the two companies at 31 December 2006 are set out below. Neither company has paid or proposed any dividend during the year.

Note: Goodwill is to be amortised over 25 years. A full year's amortisation is charged in the year of acquisition.

Hinge Limited Balance sheet as at 31 December 2006

Fixed Assets	32,000
16,000 ordinary shares of 50c each in Singe Ltd	<u>50,000</u>
Net current assets	<u>65,000</u>
	<u>147,000</u>
Capital and reserves	
Ordinary shares of E1 each	100,000
Share premium account	7,000
Revenue reserves	<u>40,000</u>
	<u>147,000</u>

Singe Limited Balance sheet as at 31 December 2006

Tangible fixed assets	30,000
Net current assets	<u>23,000</u>
	<u>53,000</u>
Capital and reserves	
20,000 ordinary shares of 50c	10,000
Share premium account	4,000
Revenue reserves	<u>39,000</u>
	<u>53,000</u>

Required:

To prepare the consolidated balance sheet of Hinge Ltd at 31 December 2006.

(Total = 20 marks)

QUESTION 2

Tswana Ltd (a Botswana based company), whose year end is 31 December, buys some goods from Swatini Ltd of Swaziland on 30 September. The invoice value is Emalangeni E40,000 and is due for settlement in equal installments on 30 November and 31 January. The exchange rate moved as follows between the Lilangeni and Pula:

30 September	E1.60 = P1.00
30 November	E1.80 = P1.00
31 December	E1.90 = P1.00
31 January	E1.85 = P1.00

Required: Show the accounting journal entries in the books of Tswana Ltd. Show all your workings.

(Total = 10 marks)

QUESTION 3

Black Limited (lessee) and West Limited (lessor) entered into a finance lease agreement, conditions of which are given below:

The non-cancellable lease became effective on 2 January 2001.

- The lease is to last for 5 years
- Annual lease payment of E15,000 per annum
- Maintenance and insurance are to be paid by the lease

Additional information:

- The fair market value at 2 January 2001 was E65,640
- The estimated economic life of the machinery is 10 years
- Black Limited depreciates its machinery on the straight-line method to zero residual values
- The interest rate implicit in the lease is 10%
- Annual lease payment of E15,000 per annum are payable in advance on 2 January. Ownership of the leased asset transfers to the lessee on 2 January 2006 when the final compulsory purchase payment of E4,980 is made to acquire the asset.

Required:

1. Prepare the lease payment schedule showing interest, repayment and the capital amount outstanding to 31 December 2004 (15 marks)
2. Show the non-current assets (only) disclosures for inclusion in Black Limited's 31 December 2003 balance sheet (5 marks)

(Total = 20 marks)