

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2008

DEGREE / DIPLOMA AND YEAR OF STUDY : **DIPLOMA IN COMMERCE 111**

TITLE OF THE PAPER : **FINANCIAL ACCOUNTING 11**

COURSE CODE : **AC 301 (M) MAY 2008 (full time)**
IDE AC 301-2 (M) MAY 2008 (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.**
- 5 **Calculations are to be made to two decimal places of accuracy, unless otherwise instructed.**

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:

Nelisiwe is a retail outlet operating from a head office in Mbabane and a branch in Manzini. The following trial balances have been extracted from the books of account as at 31 October 2007.

	Head Office Books		Branch Books	
	E Dr	E Cr	E Dr	E Cr
Drawings	40,000			
Fixed assets at cost	350,000		100,000	100,000
Acc. depr. at 01.11.2006		140,000		30,000
Stock at 01.11.2006	8,000		20,000	
Prov. of unrealised profit		4,000		
Purchases	914,000			
Goods sent to branch at invoice value		380,000	375,000	
Sales		850,000		437,000
Prov for doubtful debts		9,000		2,500
Head Office/branch current account	175,000			120,000
Distribution expenses	80,500		5,000	
Administrative expenses	200,000		16,500	
Trade debtors	60,000		60,000	
Trade creditors		50,000		
Cash and bank balances	15,500		13,000	
Capital		410,000		
	<u>1,843,000</u>	<u>1,843,000</u>	<u>589,500</u>	<u>589,500</u>

Additional information:

1. All goods are purchased by the head office. Those goods sent to the branch are invoiced at cost plus 25%.
2. Stock were valued at 31 October 2007 as being at head office, E12,000; and at the branch, E15,000 at their invoice price.
3. Depreciation is to be provided for the year on the fixed assets at a rate of 10% on the historic cost.
4. The provision for doubtful debts is to be maintained at a rate of 5% of outstanding trade debtors as at the end of the financial year.
5. As at 31 October 2007, there were E50,000 cash in transit from the branch to the head office; this cash was received in Mbabane on 3 November 2007. There was also E5,000 of goods in transit at invoice price from the head office to the branch; the branch received these goods on 10 November 2007.

Required:

Prepare in adjacent columns, the trading and profit and loss account for the year to 31 October 2007 of:

- (a) The head office trading and profit and loss account for the year to 31 October 2007 **(10 marks)**
 (b) The branch trading and profit and loss account for the year to 31 October 2007 **(10 marks)**
 (c) A combined balance sheet for Nelisiwe as at that date. **(5 marks)**

Note a combined trading and profit and loss account is NOT required; and separate balance sheet for the head office and the branch are also NOT required.

(Total = 25 marks)

QUESTION 2:

Upp and Downe are in partnership. The following trial balance has been extracted from their books of account as at 31 March 2007. After their trading, and profit and loss account has been prepared, but before any consequence adjustment have been made to the partner's respective capital accounts.

	Dr E	Cr E
Capital account:		
Upp		60,000
Downe		40,000
Cash	6,600	
Creditors		29,250
Debtors	201,000	
Downe: goods withdrawn	400	
Drawings:		
Upp	20,000	
Downe	15,000	
Fixed assets at cost	200,000	
Accumulated depreciation		90,000
Accrued interest on Upp's Loan account		10,000
Loan account: Upp		50,000
Net profit for the year to 31 March 2007		179,750
Salary: Downe	12,000	
Stock	3,500	
Upp: private expenses paid	500	
	<u>459,000</u>	<u>459,000</u>

Additional information:

1. The partnership agreement contains the following provisions:
 - Profit and losses are to be shared equally
 - Current accounts are not to be kept
 - The partners will be entitled to interest on their capital account balances as at 1 April in each year at a rate of 15% per annum
 - The partners will be charged interest on any cash drawings made during the year at a rate of interest of 10% per annum
 - Downe is to be allowed a salary of E16,000 per annum
 - A specific loan made by any partner is to bear interest at a rate of 20% per annum
 - Upon the retirement of a partner, the partnership assets and liabilities are to be revalued at their market value as at the date of retirement of the partner
2. Upp decided to retire at 31 March 2007. In accordance with the partnership agreement, the assets and liabilities were revalued as follows:

	E
Car	10,000
Remaining fixed assets taken over by the new partnership	50,000
Stock	5,000
Debtors	180,000
Creditors	35,000
Goodwill	40,000
Legal and other expenses connected with the partnership change	4,750

3. Following Upp's decision to retire, Downe invited Side to join him in partnership as from 1 April 2007. Side agreed to pay E75,000 into the new partnership as at that date as his capital contribution. Profit and losses are to be shared in the proportion Downe 75% and Side 25%. Goodwill is not to be retained in the books of the partnership.
4. Upp agreed to leave half of the total amount owing to him on his retirement as a long term loan in the new partnership, the other half being paid to him in cash.
5. It may be assumed that all of the transactions relating to the changes in the respective partnership take place on 1 April 2007. The legal and other expenses connected with the partnership changes were due for payment on 30 April 2007.

Required:

- (a) Prepare Upp and Downe's profit and loss appropriation account for the year to 31 March 2007. **(4 marks)**
- (b) Upp, Downe's respective capital accounts sufficient to reflect all of the above transactions. **(9 marks)**
- (c) Downe and Side's respective capital accounts sufficient to reflect all of the above transactions. **(3 marks)**
- (d) Revaluation account **(4 marks)**
- (e) Loan– Upp account **(2 marks)**
- (f) Goodwill account **(1 marks)**
- (g) Cash account **(2 marks)**

(Total = 25 marks)

QUESTION 3:

A limited has a nominal capital of E200,000 divided into 200,000 ordinary shares of E1 each. The whole of the capital was issued at par on the following terms:

	Per share
Payable on application	E0.15
Payable on allotment	E0.20
First call	E0.30
Second call	E0.35

Applications were received for 250,000 shares and it was decided to allot the shares on the basis of four for every five for which applications had been made. The balance of application monies was applied to the allotment, no cash being refunded. The balance of allotment monies was paid by the members.

The calls were made and paid in full by the members, with the exception of one member who failed to pay the first and second calls on the 1,000 shares allotted to him. A resolution was passed by the directors to forfeit the shares. The forfeited shares were later issued to D. Regan at E0.80 each.

Required:

Show the following recording all the above transactions:

1. Bank account **(5 marks)**
2. D. Regan's account **(2 marks)**
3. Application and allotment account **(2 marks)**
4. Ordinary share capital account **(5 marks)**
5. First call account **(2 marks)**
6. Second call account **(2 marks)**
7. Forfeited shares account **(5 marks)**
8. A balance sheet after all the transactions had been completed **(2 marks)**

(Total = 25 marks)

QUESTION 4:

Gravel Extractors Ltd acquired the rights to remove gravel deposits from land owned by A. Farmer. The agreement provided for:

- The payment of a royalty of E0.40 per tonne of gravel removed
- A minimum payment of E2,000 per annum
- Recoupment rights (for shortworkings) to be extinguished at the end of year 3.
- During the first four years of the contract the following quantities of gravel were removed:

- Year 1 4,000 tonnes
- Year 2 4,800 tonnes
- Year 3 5,400 tonnes
- Year 4 5,600 tonnes

The company's accounting year ends 31 December and payment to A. Farmer is made on 1st February following.

Required:

Prepare the following accounts in Gravel Extractors Ltd's ledger for each of the four years:

- (a) Royalties payable account **(4 marks)**
- (b) A Farmer account **(14 marks)**
- (c) Shortworkings account **(7 marks)**

(Total 25 marks)