UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION PAPER 2008

DEPARTMENT OF ACCOUNTING

COURSE TITLE : FINANCIAL ACCOUNTING III

COURSE CODE : AC 401/ IDE401

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: How will you treat the following items in the books of accounts, as per the International Accounting Standards?

a) Materials costing E 50 000 was purchased by a manufacturer for a special order of a customer on June 6, 2008. After the purchase of the material, the cost price has gone down to E 40 000.
[1 Mark]

b) On 30th November, 2006, deferred tax account balance was E 7 500. This was in respect of the difference between depreciation and capital allowance. During the year ended30th November, 2006, the company charged E 9 000 for depreciation, and claimed E 10 400 in capital allowances. The company tax charge for the year is E 2 350. Income tax rate is 30%. Your working should be in the form a note on deferred taxation. **[4 Marks]**

c) Cost of an asset was E 10 000, its expected useful life is 10 years. The purchaser intended to use for 6 years. Expected residual value is E 40 000 (at current prices). Expected residual value after 6 years, if inflation is taken into account is E 55 000. What will be the amount of depreciation charged per annum for 6 years? **[4 Marks]**

d) On January 1, 2008, X Company leased an asset from Y Company Ltd. The terms of lease are that X company pays four annual rental payments of E 10 000 each. The first payment is to be made on 31 December, 2008. 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, and the finance charges implicit in the lease is 10% per cent per annum. Compute the amount of lease obligation to be shown at the end of each year in the balance sheet. **[4 Marks]**

e) On October 1, 2008, a company received total subscription in advance of E 288 000 for 12 monthly publications of a magazine. At the end of the year, the company has produced and despatched only 3 of the 12 publications. The total cost of producing one issue of magazine is estimated at
E 2 000.How should the company treat the subscriptions received for the year ended 31 December?
[4 Marks]

f) A company issued 200 000 shares at full market price (E 3.00) on July 1, 2008.
Relevant information is given below:

	2007	**2008**
Ordinary profits attributable to ordinary shareholders for the year ended 31 December	E 550 000	460 000
Number of Ordinary shares	1 000 000	800 000

Compute the earnings per share for the years 2007 and 2008.
[4 Marks]

g) List **four** conditions that must be met in order to qualify as development cost.
[4 Marks]
[Total 25 Marks]

QUESTION 2: The Balance Sheets of H Ltd and S Ltd as at 31 December 2007, 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, 2000, when the Profit and Loss balance of S Ltd. stood at E 25 000.

2. During the year to 31 December 2008 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, 2008, 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 2008.

[25 Marks]

QUESTION 3:

(i) Why is there a need for International Accounting Standards ?

[4 Marks]

(ii) How would you treat the " non-purchased" goodwill and "purchased" goodwill in the accounts?

[4 Marks]

(iii) Define and explain the two classifications of research and development expenditure.

[4 Marks]

(iv) Discuss at least four conditions that must be met for development costs to be capitalized.

[4 Marks]

(v) What is a "post-balance sheet event". Describe the way in which such events should be treated in a set of accounts ?

[4 Marks]

(vi) Define the term "contingency" .

[1 Mark]

viii) Which of the following are investment properties:

1. A field of land purchased for investment potential.

2. A building acquired under finance lease for its investment potential.

3. A Building occupied by a business as its head office, whose capital value is rapidly increasing.

4. A business complex which is surplus to requirements and is for sale.

[4 Marks]

[Total 25 Marks]

QUESTION 4: How will you treat the following items in the Bank's balance sheet, as in accordance with Financial Institutions Order, 1975 and Swaziland Accounting Standard 5?

1. Letters of credit and guarantees on behalf of clients.

2. Interim dividend declared during the year.

3. Indebted to and by fellow subsidiaries.

4. Investment in Government securities

5. Money at call and short notice

[25 Marks]