UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2008

DEGREE / DIPLOMA AND YEAR OF STUDY	:	**B. COM V**
TITLE OF THE PAPER	:	**FINANCIAL ACCOUNTING IV**
COURSE CODE	:	**AC 501 (M) May 2008 (full time)** **IDE AC 501 (M) May 2008 (part time)**
TIME ALLOWED	:	**THREE (3) HOURS**
MAXIMUM MARKS	:	**100**

INSTRUCTIONS:

- **There are four (4) questions on this paper.**
- **Answer all four (4) 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:

The profit and loss account and balance sheets of Duduzile Ltd and its foreign subsidiary, Dzeliwe Ltd, appear below.

DRAFT BALANCE SHEET AS AT 31 DECEMBER 2001

	Duduzile Ltd		Dzeliwe Ltd	
	£	£	$	$
Fixed assets				
Plant at cost	600		500	
Less depreciation	250		200	
		350		300
100 $1 shares in Docks		25		-
		375		300
Current assets				
Stocks	225		200	
Debtors	150		100	
	375		300	
Current liabilities	100		110	
Net current assets		275		190
		650		490
Loans		50		110
		600		380
Capital and reserves				
Ordinary capital £1/$1 shares		300		300
Retained profit		300		280
		600		380

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2001

	Darius Ltd	Docks Inc
	£	$
Profit before tax	200	160
Tax	100	80
Profit after tax, retained	100	80

The following further information is given.

(a) Darius Ltd has had its interest in Docks Inc since the incorporation of the company.
(b) Depreciation is 8% per annum on cost.
(c) There have been no loan repayments or movements in fixed assets during the year. The opening stock of Docks Inc was $120. Assume that stock turnover times are very short.

(d) Exchange rates:
- \$4 to £1 when Docks Inc was incorporated
- \$2.5 to £1 when Docks Inc acquired its fixed assets
- \$2 to £1 on 31 December 2000
- \$1.6 to £1 average rate of exchange year ending 31 December 2001
- \$1 to £1 on 31 December 2001

Required:

Prepare the summarized consolidated financial statements of Darius Ltd using the temporal method.

(Total = 25 marks)

QUESTION 2:

A lessee enters a leasing agreement on 1 January 2006 for a piece of equipment costing E47,460. The lease requires the payment of an annual rental of E13,610 payable in advance. The primary period of the lease is for four years. After the end of the primary period, the lessee has the right to extend the lease indefinitely on payment f a nominal annual rental. The lessee believes that the equipment has a useful life of four years and will have a scrap value at the end of that period. The lessee depreciates assets of this type using the straight line basis. Both the lessor and the lessee have accounting periods ending 31 December. The rate of interest implicit in the contract is 10%.

Required:

(a) Prepare the lease payment schedule showing interest, repayment and the capital amount outstanding end of each financial year end **(10 marks)**
(b) Profit and loss extracts for the period of the lease **(7 marks)**
(c) Balance sheet extract for the period of the lease **(8 marks)**

(Total = 25 marks)

QUESTION 3:

Apple Ltd made an offer of E270,000 for the whole of the share capital of Berry Ltd and it was accepted. Payment was made in cash. The fair value placed on the tangible fixed assets of Berry Ltd for the purpose of the merger was E148,000. The balance sheet of the two companies immediately before the merger on 31 December 2006 were:

	Apple Ltd		Berry Ltd	
Tangible fixed assets		400,000		120,000
Current assets	450,000		200,000	
Less current liabilities	130,000	320,000	90,000	110,000
		720,000		230,000
Ordinary shares E1/share		500,000		150,000
Revenue reserves		220,000		80,000
		720,000		230,000

Required:
Using the acquisition method, prepare summarised balance sheet for Apple Ltd immediately after combination for:

(a) Apple Ltd the company **(8 marks)**
(b) Apple's consolidated **(12 marks)**
(c) List 4 advantages of the merger accounting method **(5 marks)**

(Total = 25 marks)

QUESTION 4:

On 1 January 2001, John Ltd acquired 75,000 ordinary shares of E1 per share in Peter Ltd. At the date of acquisition, the accumulated profits of Peter Ltd amounted to E11,000. The summarized balance sheets of the two companies at 31 December 2006 were as follows:

	John	Peter
Non-current assets	431,100	159,350
Investment in Peter Ltd	93,100	------
Stock	143,070	71,120
Debtors	89,200	36,230
Bank	19,300	17,150
	775,770	283,850
Ordinary shares of E1	350,000	100,000
Accumulated profit	348,420	132,700
Current liabilities	77,350	51,150
	775,770	283,850

Goodwill should be amortized over ten years.

Required:

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

(Total = 25 marks)