UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2008

DEGREE / DIPLOMA AND YEAR OF STUDY	:	**B. COM V**
TITLE OF THE PAPER	:	**FINANCIAL ACCOUNTING IV**
COURSE CODE	:	**AC 501 (S) July 2008 (full time)** **IDE AC 501 (S) July 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:

Bhekinkhosi L Bhekinkosi Limited, a newly formed company took over the assets and liabilities of Asakhane Limited for a purchase price of E32,000. The purchase price was paid in 32,000 ordinary Bhekinkhosi Limited shares of El each (issued at their par value). Asakhane Limited's assets are worth their carrying amount, except land and building, which are valued at E20,000. Liquidation Liquidation expenses amounted to E800 and were paid by Asakhane Limited. Immediately after Bhekinkhosi Limited acquired the net assets of Asakhane Limited, Asakhane Limited was liquidated.

The balance sheet of Asakhane Limited immediately before liquidation was as follows:

Assets		E
Non-current assets:		
Land and building		16,000
Preliminary expenses		1,000
		17,000
Current assets:		
Inventory	24,000	
Cash and bank	1,000	25,000
		42.000
Equity and liabilities		
Authorized and issued share capital		
(20,000 Ordinary shares of El each)		20,000
Accumulated profit		2,000
Issued share capital and reserves		22,000
Current liabilities - creditors		20,000
		42.000

Required:

To prepare the following ledger accounts in the accounting records of Asakhane Limited, giving effect to the above arrangements;

a. Liquidation account	**(10 marks)**
b. Sundry shareholders' account	**(8 marks)**
c. Bhekinkhosi Limited's account	**(2 marks)**
d. Cash on hand account	**(3 marks)**
e. Shares in Bhekinkhosi Limited account	**(2 marks)**

(Total = 25 marks)

QUESTION 2:

The summarised balance sheet of Red Ltd and Purple Ltd immediately prior to their combination were summarised as shown below:

	Red Ltd	Purple Ltd
Fixed assets	8,000	3,000
Net current assets	4,000	2,000
	12,000	5,000
Ordinary shares (E1 per share)	10,000	4,000
Revenue reserves	2,000	1,000
	12,000	5,000

Red acquired the entire share capital of Purple by the issue of one new ordinary share for one share in Purple. Red paid E400 in cash and the balance of the consideration comprises 3,600 shares in Red for the shares in Purple. The fair value of the consideration was E5,600, this being the market value of Purple's shares E1.40 per share. The fair value of Purple's separable net assets was E5,000.

Required:
In a column format prepare summarised balance sheets of Red Ltd immediately after combination for Red Ltd and Red Group using:

(a) the acquisition method, and
(b) the merger method

(Total = 25 marks)

QUESTION 3:

The summarized draft balance sheet of a group at 31 December 2006 were:

	Paul	Simon
	E	E
Sundry Assets	106,000	34,500
Investment in Simon (shares at cost)	27,000	--------
	133,000	34,500
Share capital (E1 ord.)	100,000	20,000
Acc. Profit	22,000	6,500
Creditors	11,000	8,000
	133,000	34,500

Required:

Prepare the consolidated balance sheet at 31 December 2006 for each of the following alternatives, amortizing goodwill in all cases over 5 years.

(a) Paul acquired all the shares in Simon on 1 January 2006, when Simon had accumulated profits of E6, 000.

(b) Facts as in (a) above, except that only 16,000 ordinary shares in Simon were purchased for E27, 000.

(c) Facts as in (a) above, except that only 16,000 ordinary sharer in Simon were purchased for E27, 000 on 1 January 2006. Property which was not depreciated was estimated by the directors of Paul to be under valued by E5, 000 on 1 January 2006. No adjustment has been made in the books of Simon.

(Total = 25 marks)

QUESTION 4:

Journalise the following transactions of the Black and White Company (a New York corporation) arising from its foreign operations in June:

- June 1: Purchased merchandise from an Edinburgh, Scotland, manufacturer at an invoice cost of £1,000. On this date the exchange rate for pounds was $1.80.
- June 5: Purchase merchandise from Glasgow, Scotland, manufacturer. The billing is rendered for $2,000. The exchange rate for pounds is $1.82.
- June 7: Sold merchandise to a Toronto wholesaler. Billing price is $4,000 (Canadian dollars), and the exchange rate for Canadian dollars is $1.02.
- June 15: Paid £500 on account to the Edinburgh manufacturer. The exchange rate is $1.75.
- June 20: Paid the amount due to the Glasgow manufacturer. The exchange rate is $1.75.
- June 25: Returned merchandise to the Edinburgh manufacturer and received credit for £100. The exchange rate is $1.75.
- June 28: Received full payment on account from the Toronto wholesaler. The exchange rate is $0.98.
- June 30: Remitted final payment to the Edinburgh manufacturer. The exchange rate is $1.76.

(Total = 25 marks)