

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION QUESTION PAPER

DEGREE/YEAR OF STUDY : B COMM V  
TITLE OF PAPER : FINANCIAL ACCOUNTING 111  
COURSE CODE : AC 401  
TIME ALLOWED : THREE (3) HOURS  
INSTRUCTIONS

1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)
2. ANSWER ALL QUESTIONS
3. WHERE APPLICABLE ALL WORKINGS SHOULD BE SHOWN
4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.

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 THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENT: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATER.

**QUESTION 1**

The following information has been extracted from the books of account of Rust plc for the year to 31 March 2009.

	DR	CR
	E'000	E'000
Administrative expenses	194	
Deferred taxation		48
Depreciation of office machinery (for the year to 31 March 2009)	16	
Depreciation on delivery vans (for the year to 31 March 2009)	38	
Distribution costs	66	
Dividends received (from a South African company on 31 July 2008)		28
Factory closure expenses (closed on 1 April 2008)	24	
Interest payable on bank overdraft (repayable within 5 years)	12	
Interim dividend (paid on 30 September 2008)	42	
Interest receivable		50
Purchases	802	
Retained profit at 31 March 2008		320
Sales (net of tax)		1 284
Stock at 1 April 2008	120	

**Additional information**

(a) Administrative expenses include the following items

	E'000
Auditors remuneration	40
Directors emoluments	90
Travelling expenses	2
Research expenditure	22
Hire of plant and machinery	24

- (b) It is assumed that the following tax rates are applicable for the year to 31 March 2009. Corporate tax 50%; Sales tax/Vat 30%
- (c) There was an overprovision for corporate tax of E6000 relating to the year to 31/3/09.
- (d) Corporate tax payable for the year to 31 March 2008 (based on the profits for that year) is estimated to be E76 000. The company, in addition, intends to transfer a further E18 000 to its deferred taxation account.
- (e) A final dividend of E84 000 for the year to 31 March 2008 is expected to be paid on 2 June 2008.
- (f) Stock on 31 March 2008 was valued at E142 000.
- (g) As a result of change in accounting policy, a prior period charge of E30 000 (net of tax) is to be made.
- (h) The company's share capital consists of 840 000 ordinary shares of E1 each. There are no preference shares, and no change had been made to the company's issued share capital for some years.

**Required**

Prepare the company's published profit and loss account for the year to 31 March 2009 in accordance with the Companies Act and with related accounting standards. Your notes to the accounts must show charges to arrive at the operating profit, tax, and dividends calculation. (25marks)

**QUESTION 2**

XX Ltd acquired 80 percent of the ordinary share capital of XY plc on 1 January 2008 for E 300 000.00. The lists of balances of the two companies at 31 December 2008 were as follows:

	XX E'000	XY E'000
<b>Called-up share capital</b>		
400 000 ordinary shares of E1 each, fully paid	400	
300 000 ordinary shares of E1 each, fully paid		150
Reserves as at 1 January 2008	220	90
Retained profits for 2008	20	18
Trade creditors	130	80
Taxation	30	14
Proposed final dividend	20	10
Depreciation provisions:		
Freehold property	12	6
Plant and machinery	40	12
Current Account		14
	<b>872</b>	<b>394</b>
<b>Tangible Fixed assets</b>		
Freehold property	120	160
Plant and machinery	183	62
Investment in Y plc	300	
Stocks	80	70
Debtors	160	90
Bank	10	12
Current Account	19	
	<b>872</b>	<b>394</b>

**Additional information:**

- (a) A remittance of E2000 from XY to XX In December 2008 was not received by XX plc until January 2009.
- (b) Goods with an invoice value of E3000.00 were despatched by XX in December 2008, but not received by XY plc until January 2009. The profit element of this amount was E400.
- (c) Included in the stock of XY plc at 31 December 2008 were goods purchased from XX plc for E10 000. The profit element included in this amount was E2 000.00
- (d) It is group policy to exclude all profit on any intra company transactions.
- (e) No interim dividend was paid in 2008 by either company.
- (f) Goodwill is to be written off against reserves.

**Required:**

Prepare a consolidated balance sheet for XX plc and its subsidiary as at 31 December 2008. (25marks)

**QUESTION 3**

The following information has been extracted from the consolidated financial statements of H for the year ended 31 December 2008:

**Group income statement**

	E'000	E'000
Operating profit		734
Share of profit of associate		122
Tax on profit:		
Income tax expense	(324)	
Share of tax of associate	<u>(54)</u>	<u>(378)</u>
Profit after tax		<u>478</u>

**Group balance sheet**

	E'000	E'000
Investments in associates		
Share of net assets	466	456
Loan to associate	380	300
Current assets		
Receivables	260	190

Included in the group receivables are the following amounts:

Dividend receivable from associate	48	29
Current Account with associate	40	70

**Required:**

Show the relevant figures to be included in the group cashflow statement for the year ended 31 December 2008.

NB:

1. Extracts to be prepared from the cashflow should have appropriate headings.
2. Show all workings for determining the dividend received from associate.

**(25marks)**

**QUESTION 4**

The directors of L Ltd appointed a new sales manager towards the end of 2007. This manager devised a plan to increase sales and profit by means of a reduction in selling price and extend credit terms to customers. This involved considerable investment in new machinery early in 2008 in order to meet the demand which the change in sales policy had created. The financial statements for the years ended 31 December 2007 and 2008 are shown below. The sales manager has argued that the new policy has been a resounding success because sales and more importantly, profits have increased dramatically.

<b>Profit and Loss Accounts</b>		
	<b>2007</b>	<b>2008</b>
	E'000	E'000
Sales	900	2800
Cost of sales	(360)	(1680)
Gross profit	540	1120
Selling expenses	(150)	(270)
Bad debts	(18)	(140)
Depreciation	(58)	(208)
Interest	(12)	(192)
Net profit	302	310
Balance b/fwd	327	629
	<b>629</b>	<b>939</b>

<b>Balance sheets</b>			
		<b>2007</b>	<b>2008</b>
<b>Non current Assets</b>			
Factory		450	441
Machinery		490	1791
		<b>940</b>	<b>2232</b>
<b>Current Assets</b>			
Stock	30		238
Debtors	83		583
Bank	12	125	821
		<b>1065</b>	<b>3053</b>
<b>Equity and Liabilities</b>			
Ordinary share capital		300	328
Long term Loan		100	1600
Profit and Loss		629	939
<b>Current Liabilities</b>			
Creditors	36		175
Bank	0	36	11
		<b>1065</b>	<b>3053</b>

**You are required to explain**

- (a) Whether you believe that the performance for the year ended 31 December 2008 and the financial position at that date have improved as a result of the new policies adopted by the company.
- (b) You should support your answer with appropriate ratios under the following categories
  - (i) Profitability
  - (ii) Solvency
  - (iii) Gearing

**(25marks)**

**End of Question Paper**