UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY 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 INVIGILATOR.

QUESTION 1

From the following selected balances of RR plc as at 31 December 2008 draw up a trading profit and loss account for published accounts.

Profit & Loss Account as at 31 December 2007		30 600
Stock 1 Jan 2008		115 000
Purchases		328 000
Sales		576 000
Returns inwards		23 000
Returns outwards		4 000
Carriage inwards		2 600
Wages & Salaries		16 800
Rent & rates		12 500
General administrative expenses		9 720
Discounts allowed		6 640
Bad debts		7 880
Debenture interest		1 140
Motor expenses		4 800
Interest received on bank deposit		14 400
Income from shares in undertakings in which the company has a participating interest		1 320
Motor vehicles at cost	- Administrative	28 000
	- Distribution	52 000
Equipment at cost	- Administration	11 000
	- Distribution	7 000
Royalties receivable		3 600

Notes

1. Stock as at 31 December 2008 was E128 000
2. Wages and salaries are to be apportioned: Distribution 1/3, Administrative 2/3
3. Rent and rates are to be apportioned: Distribution costs 60% Administration 40%.
4. Apportion motor expenses equally between distribution costs administration costs.
5. Depreciate motor vehicles 25% and equipment 20% on cost.
6. Accrue auditors remuneration of E500.00
7. Accrue corporation tax for the year on ordinary activity profits E30 700.00
8. A sum of E8 000.00 is to be transferred to general reserve.
9. An ordinary dividend of E30 000.00 is to be proposed. ***(25marks)***

QUESTION 2

On 1 January 2007 PP acquired the following shareholdings in DD. At the date of both acquisitions, the accumulated profits of DD amounted to E20 000.

	Number of shares	Cost of investment (E)
E1 Ordinary shares	37 500	58 000
E1 Preference shares	16 000	15 000
		73000

The balance sheets of the two companies at 31 December 2008 were as follows:

	PP	DD
Non current Assets	210 000	110 600
Current Assets	113 100	43 400
Investment in Dixie	73 000	-
	396 100	**154 000**
Ordinary share capital	200 000	50 000
7% Preference Share capital	-	40 000
Accumulated profits	120 000	38 000
Trade & other payables	56 100	22 100
Proposed dividends - Ordinary	20 000	2 500
- Preference	-	1 400
	396 100	**154 000**

You further ascertain that:

1. The current assets of PP includes E42 000 of goods acquired originally from DD. DD invoiced these goods at cost plus 20%.
2. All dividends were declared during December 2008. PP has not accounted for the dividends receivable from DD. The group amortises goodwill over four years with a full years charge in the year of acquisition.

You are required to prepare the consolidated balance sheet of PP Ltd. and its subsidiary as at 31 December 2008. ***(25marks)***

QUESTION 3

The financial statements of Big Ltd. and its subsidiaries for the year ended 30 June 2008 were as follows:

Consolidated Income statement for the year ended 31/06/2008		
		E
Gross revenue		22,505,000
Operating profit		818,515
Interest received		1,780
Profit from ordinary activities before tax		**820,295**
Taxation - Current	-380,825	
- Deferred	14,425	-366,400
Profit from ordinary activities after tax		**453,895**
Share of associates earnings		
Dividends received	1,000	
Share of retained earnings	10,045	11,045
		464,940
Minority Interest		-27,340
Consolidated net profit for the year		**437,600**

Consolidated balance sheet as at 30 June		
	2007	**2008**
Assets	E	E
Non current Assets		
Land and Buildings	1,000,000	1,250,000
Machinery and plant	375,000	440,000
	1,375,000	1,690,000
Investment in Associates	85,585	95,630
Current Assets		
Stock	500,000	575,000
Debtors	249,440	234,065
Cash at Bank	415,045	391,805
	2,625,070	**2,986,500**
Equity and Liabilities		
Ordinary share capital	500,000	500,000
Preference share capital	100,000	150,000
	600,000	**650,000**
Share premium		25,000
Non distributable reserve		260,045
Retained profit		68,955
Accumulated Loss	-175,000	-
	425,000	**1,004,000**
Minority shareholders interest	340,855	368,195
Long term loans	1,335,000	1,055,555
Deferred Taxation	117,500	103,075
	2,218,355	**2,530,825**

Current Liabilities		
Creditors	286,715	103,080
Accrued taxation	-	230,095
Short term loan	120,000	122,500
	2,625,070	**2,986,500**

Additional information

1. 50 000 preference shares of E1 each were issued during the year at a premium of 50cents each.
2. The land and buildings have been revalued at E1.25m by a professional valuer.
3. Plant and machinery with a net book value of E125 000 was sold for E200 000
4. The operating profit was calculated after taking the following into account:
   Interest paid E 175 500
   Depreciation E 81 500
5. The cost of goods sold constituted 50% of gross revenue.

Required:

Draw up the consolidated Cash flow Statement of Big Ltd. and its subsidiaries for the year ended 30 June 2008 using the direct method.

(25marks)

QUESTION 4

The following five year summary relates to Wonderfood Products, and is based on the financial statements prepared under the historical cost convention.

		2008	2007	2006	2005	2004
Financial ratios						
Profitability ratios						
Margin	Trading profit / Sales revenue	7.8	7.5	7.0	7.2	7.3
Return on assets	Trading profit / Net Operating assets	16.3	17.6	16.2	18.2	18.3
Interest and Dividend Cover Cover						
Interest cover (times)	Trading profit / Net finance charges	2.9	4.8	5.1	6.5	3.6
Dividend Cover (times)	Earnings per ordinary share / Dividend per ordinary share	2.7	2.6	2.1	2.5	3.1
Debt to Equity ratios						
Net borrowings / Shareholders funds	%	65.9	61.3	48.3	10.8	36.5
Net borrowings / Shareholders funds plus minority interest	%	59.3	55.5	44.0	10.1	33.9
Liquidity ratios						
Quick ratio (%)	Current assets less inventory / Current liabilities	65.9	61.3	48.3	10.8	36.5
Current ratio (%)	Current assets less inventory / Current liabilities	133.6	130.3	142.2	178.9	174.7
Asset ratios						
Sales revenue / Net operating assets	times	2.10	2.40	2.30	2.50	2.50
Sales revenue / Working capital	Times	8.60	8.00	7.00	7.40	6.20
Per share						
Earnings (cents)	pre-tax basis	23.62	21.25	17.96	17.72	15.06
	net basis	15.65	13.60	10.98	11.32	12.18
Dividends (cents)	per share	5.90	5.40	4.90	4.60	4.10
Net Assets (cents)	per share	102.10	89.22	85.95	85.79	78.11

Net operating assets include tangible non current assets, inventory, receivables, and payables. They exclude borrowings, taxation and dividends

You are required to prepare a report on the company, clearly interpreting and evaluating the information given under the following headings:

(a) Profitability
(b) Interest and dividend cover
(c) Debt and equity ratios
(d) Liquidity ratios
(e) Asset ratios and per share information

Include comments on possible effect of price changes which may limit the quality of the report. ***(25 marks)***

End of Question Paper