

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2010

DEGREE/ DIPLOMA AND

YEAR OF STUDY : DIPLOMA IN COMMERCE 111

TITLE OF PAPER : FINANCIAL ACCOUNTING 11

COURSE CODE : AC301 (M) MAY 2010 (Full-time)
IDE AC301-1&2 (M) MAY 2010 (PART-TIME)

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are four (4) questions, answer all.
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show the necessary working.
 - 5 Calculations are to be made to two decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Nadine Stores has its head office and main store in Mbabane, and a branch store in Manzini. All goods are purchased by the head office. Goods are invoiced to the branch at cost price plus a profit loading of 20%. The following trial balances have been extracted from the books of account of both the head office and the branch as at 31 December 2009:

	Head office books		Branch books	
	Dr	Cr	Dr	Cr
	E000	E000	E000	E000
Administrative expenses	380		30	
Distribution costs	157		172	
Capital (1 January 2009)		550		
Cash at bank	25		2	
Creditors and accruals		176		20
Current accounts	255			180
Debtors	130		76	
Motor vehicles at cost	470		230	
Accumulated depreciation at 31 Dec.2009		280		120
Plant and equipment at cost	250		80	
Accumulated depreciation at 31 Dec.2009		120		30
Proprietor's drawings during the year	64			
Provision for unrealised profit on branch stocks		5		
Purchases	880			
Sales		1200		570
Stocks at cost/ Invoiced amount at 1 January 2009	80		30	
Transfer of Goods to the branch/ from the head office		360	300	
	<u>2691</u>	<u>2691</u>	<u>920</u>	<u>920</u>

Additional information:

- The stocks in hand at 31 December 2009 were estimated to be as follows:

	E000
At head office (at cost)	95
At the branch (at Invoiced price)	60

 In addition, E60,000 of stocks at invoiced price had been dispatched to the branch on 28 December 2009. These goods had not been received by the branch until 5 January 2010 and so they had not been included in the branch books of account.
- On 31 December 2009, the branch had transferred E15,000 of cash to the head office bank, but this was not received in Mbabane until 2 January 2010.
- A provision for doubtful debts is to be made at 5% of outstanding debtors.

Required:

- (a) Prepare in adjacent columns the head office and the branch trading and profit and loss accounts for the year ended 31 December 2009 (Note: a combined profit and loss account is not required) (10 Marks)
- (b) Prepare in the vertical format, Nadine Stores' balance sheet as at 31 December 2009 (Note: Separate balance sheets for the head office and the branch are not required). (15 Marks)

Total: 25 Marks

QUESTION 2

On 31 March 2007, Kenneth Porter, who prepares his financial statements to 31 March, bought a lorry on hire purchase from Truck Fleet Ltd. The cash price of the lorry was E61,620. Under the terms of the hire purchase agreement, Kenneth Porter paid a deposit of E20,000 on 31 March 2007, and two annual instalments of E23,981 on 31 March 2008 and 2009. The hire purchase vendor charged interest at 10% per annum on the balance outstanding on 1 April each year. All payments were made on the due dates.

Kenneth Porter maintained the motor lorry account at cost and accumulated the annual provision for depreciation, at 40% on the reducing balance method, in a separate account. A full year's depreciation is charged in the year of purchase, irrespective of the date acquired.

Required

- (a) Prepare the following accounts as they would appear in the ledger of Kenneth Porter for the period of the contract:
- (i) Motor Lorry account. (1 Mark)
 - (ii) Truck Fleet Ltd. (10 Marks)
 - (iii) Provision for depreciation of motor lorry. (6 Marks)
 - (iv) Hire purchase interest payable. (2 Marks)
- (b) Show how the above matters would appear in the balance sheet extract of Kenneth Porter at 31 March 2007, 2008 and 2009. (6 Marks)

Total: 25 Marks

QUESTION 3

Xolani, Yolanda and Zeus have been in partnership for several years, sharing profits and losses in the ratio 3:2:1. Their last balance sheet which was prepared on 31 October 2009 is as follows:

Balance sheet of Xolani, Yolanda and Zeus as at 31 October 2009

Non current assets	E	E	E
At cost			20,000
Less Depreciation			<u>-6,000</u>
			14,000
Current assets			
Inventory		5,000	
Accounts receivable		<u>21,000</u>	
		26,000	
Current liabilities			
Bank overdraft	13000		
Accounts payable	<u>17000</u>		
		<u>30000</u>	
			<u>-4,000</u>
			<u>10,000</u>
Capitals			
Xolani			4,000
Yolanda			4,000
Zeus			<u>2,000</u>
			<u>10,000</u>

Despite making good profits during recent years, they have become increasingly dependent on one credit customer, Simon, and in order to retain his custom they had gradually increased his credit limit until he owed the partnership E18,000. It has now been discovered that Simon is insolvent and that he is unlikely to repay any of the money owed by him to the partnership. Reluctantly Xolani, Yolanda and Zeus have agreed to dissolve the partnership on the following terms:

- The inventory is to be sold to Tayorex Ltd for E4,000.
- The non current assets will be sold for E8,000 except for certain items with a book value of E5,000 which will be taken over by Xolani at an agreed valuation of E7,000.
- The debtors, except for Simon, are expected to pay their accounts in full.
- The costs of dissolution will be E800 and discounts received from creditors will be E500. Zeus is unable to meet his liability to the partnership out of his personal funds.

Required:

- (a) The realization account; (12 Marks)
- (b) The capital accounts of the partnership recording the dissolution of the partnership. (11 Marks)
- (c) Discuss the Garner versus Murray rule as applied to partnerships. (2 Marks)

Total: 25 Marks

Question 4

(a)

From the following information, prepare a manufacturing account and income statement for the year ending 31 December 2009 and a balance sheet as at 31 December 2009 for the firm of JJ Hanson Limited (23 Marks)

	E	E
Purchases of raw materials	258,000	
Fuel and light	21,000	
Administration salaries	17,000	
Factory wages	59,000	
Carriage outwards	4,000	
Rent and business rates	21,000	
Sales		482,000
Returns inwards	7,000	
General office expenses	9,000	
Repairs to plant and machinery	9,000	
Inventory at 1 January 2009:		
Raw materials	21,000	
Work in progress	14,000	
Finished goods	23,000	
Sundry accounts payable		37,000
Capital account		457,000
Freehold premises	410,000	
Plant and machinery	80,000	
Accounts receivable	20,000	
Accumulated provision for depreciation on plant and machinery		8,000
Cash in hand	11,000	
	984,000	984,000

Make provision for the following:

1. Inventory in hand at 31 December 2009:
 Raw materials E25,000
 Work in progress E11,000
 Finished goods E26,000.
2. Depreciation of 10% on plant and machinery using the straight line method.
3. 80% of fuel and light and 75% of rent and rates to be charged to manufacturing.
4. Allowance for doubtful debts: 5% of sundry accounts receivable
5. E4,000 outstanding for fuel and light
6. Rent and business rates paid in advance : E5,000.
7. Market value of goods completed: E382,000.

(b) Explain the concept of prime cost as it relates to manufacturing (2 Marks)

Total: 25 Marks