

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
SUPPLEMENTARY EXAMINATION PAPER JULY 2010

DEGREE/ DIPLOMA AND  
YEAR OF STUDY : DIPLOMA IN COMMERCE 111

TITLE OF PAPER : FINANCIAL ACCOUNTING 11

COURSE CODE : AC301 (S) JULY 2010 (Full-time)  
IDE AC301-1&2 (S) JULY 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

TN is a retail outlet operating from a head office in Manzini and operates a branch in Piggs Peak. The following trial balances have been extracted from the books of account as at 31 December 2009

	TN –Manzini		Piggs Peak Branch	
	Debit E000	Credit E000	Debit E000	Credit E000
Drawings	80			
Plant and equipment	700		200	
Acc. Depreciation at 01.01.09		280		60
Stock at 1 January 2009	16		40	
Provision for unrealised profit		8		
Purchases	1600		20	
Goods sent to branch at Invoiced value		700	650	
Sales		1512		774
Provision for doubtful debts		18		5
Head office/ branch current accounts	330			240
Distribution expenses	161		10	
Administrative expenses	400		33	
Trade debtors	120		120	
Trade creditors		100		
Bank balances	31		6	
Capital		820		
	<u>3438</u>	<u>3438</u>	<u>1079</u>	<u>1079</u>

Additional information:

- All goods are purchased by the head office. Those goods sent to the branch are invoiced at cost plus 25%.
- The opening stock at the branch was all sent by head office.
- Stock were valued at 31 December as being Head office E24,000; and at the branch E30,000 at their invoiced price.
- Depreciation is to be provided for the year on the fixed assets at a rate of 10% on the historic cost.
- The provision for doubtful debts is to be maintained at a rate of 10% of outstanding trade debtors at the end of the financial year.
- As at 31 December 2009, there was E40,000 cash in transit from Piggs Peak to TN Manzini; this was received in Manzini on 3 January 2010. There was also E50,000 of goods in transit at Invoice price from TN-Manzini to Piggs Peak; The branch received this goods on 10 January 2010.

**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) (12 Marks)
- (b) Prepare in the vertical format, TN's balance sheet as at 31 December 2009 (Note: Separate balance sheets for the head office and the branch are not required). (13 Marks)

Total: 25 Marks

**QUESTION 2**

(a)

Khabo Dlamini bought a sewing machine on hire purchase from Tonado Investments which had a cash cost of E7,710 and paid an immediate deposit of E2,000 on 1 January 2006 and with the balance being settled in four equal instalments of E2,000 commencing on 31 December 2006. The rate of interest implicit on the agreement is 15% per annum calculated on the balance of the loan outstanding on 1 January each year. All payments were made on the due dates. Depreciation on the sewing machine is to be provided for at the rate of 25% per annum on a straight line basis assuming a residual value of nil.

**Required:**

To show the following accounts in the books of Khabo Dlamini for the year ending 31 December 2006, 2007, 2008 and 2009.

1. Machine Account ( $\frac{1}{2}$  mark)
  2. Tonado Investments Loan account (7  $\frac{1}{2}$  marks)
  3. Hire purchase interest (4 marks)
  4. Provision for depreciation account (5 marks)
  5. Balance sheet extract (6 marks)
- (b) Explain the concept of 'substance over form' for assets bought on hire purchase (2 marks)

Total: 25 Marks

QUESTION 3

Gibson and Henry are in partnership sharing profits and losses in the ratio 3 to 2. The following information relates to the year to 31 December 2008:

	Dr E000	Cr E000
Capital accounts (at 1 January 2008):		
Gibson		300
Henry		100
Cash at bank	5	
Accounts payable and accruals		25
Accounts receivable and prepayments	18	
Drawings during the year:		
Gibson (All at 30 June 2008)	40	
Henry (All at 31 March 2008)	40	
Non current assets: at cost	300	
Accumulated depreciation at 31 December 2008		100
Henry - Salary	10	
Net Profit (for the year to 31 December 2008)		60
Inventory at cost (at 31 December 2008)	90	
Trade accounts payable		141
Trade accounts receivable	223	
	223	
	726	726

Additional information:

1. The partnership agreement allows for Henry to be paid a salary of E20,000 per annum, and for interest of 5% per annum to be paid on the partners' capital account balances as at 1 January each year. Interest at a rate of 10% per annum is charged on the partners' drawings.
2. The partners decide to dissolve the partnership as at 31 December 2008, and the business was then sold to Valencia Limited. The purchase consideration was to be 400,000 E1 ordinary shares in Valencia at a premium of 25 cents per share. The shares were to be issued to the partners on 31 December 2008, and they were to be shared between them in their profit-sharing ratio. The sale agreement allowed Gibson to take over one of the business cars at an agreed valuation of E10,000. Apart from the car and the cash and bank balances, the company took over all the other partnership assets and liabilities at their book values as at 31 December 2008.
3. Matters relating to the appropriation of profit for the year to 31 December 2008 are to be dealt with in the partners' capital accounts, including any arrears of salary owing to Henry.

Required:

- (a) Write up the following accounts for the year to 31 December 2008:
- I. The profit and loss appropriation account; (4 marks)
  - II. Gibson's and Henry's capital accounts; and (8<sup>1</sup>/<sub>2</sub> marks)

III. The realization account. (5<sup>1</sup>/<sub>2</sub> marks)

- (b) Prepare Valencia's balance sheet as at 1 January 2009 immediately after the acquisition of the partnership and assuming that no further transactions have taken place in the meantime. (7 marks)

Total: 25 Marks

QUESTION 4

You are required to draw up a statement of cash flows for K. Taylor for the year ending 30 June 2009 from the following information applying IAS 7 (25 Marks).

**Income statement for the year ending 30 June 2009**

	E	E
Gross profit		155,030
Add: Reduction in allowance for doubtful debts		<u>200</u>
		155,230
Less expenses		
Wages and salaries	61,400	
General trading expenses	15,200	
Equipment running costs	8,140	
Motor vehicle running expenses	6,390	
Depreciation: Motor vehicles	5,200	
Equipment	6,300	
Loss on sale of equipment	<u>1,600</u>	
		<u>104,230</u>
Net profit		<u><u>51,000</u></u>

	2008		2009	
	E	E	E	E
<b>Non current assets</b>				
Equipment at cost	40,400		30,800	
Less: Depreciation to date	<u>-24,600</u>		<u>-20,600</u>	
		15,800		10,200
Motor vehicle at cost	28,300		28,300	
Less: Depreciation to date	<u>-9,200</u>		<u>-14,400</u>	
		19,100		13,900
		<u>34,900</u>		<u>24,100</u>
<b>Current assets</b>				
Stock	41,700		44,600	
Accounts receivable less allowance *	21,200		19,800	
Bank	<u>12,600</u>		<u>28,100</u>	
		75,500		92,500
		<u>110,400</u>		<u>116,600</u>
<b>Current liabilities</b>				
Accounts payable	14,300		17,500	
<b>Non current liability</b>				

Loan for M. Evry	<u>20,000</u>	<u>10,000</u>
	34,300	27,500
	<u>76,100</u>	<u>89,100</u>
<b>Owner's equity</b>		
Capital	65,600	76,100
Add: Net profit	<u>42,500</u>	<u>51,000</u>
	108,100	127,100
Drawings	<u>-32,000</u>	<u>-38,000</u>
	<u>76,100</u>	<u>89,100</u>

\* Accounts receivable 2008 E22,100-allowance E900.  
 Accounts receivable 2009 E20,500-allowance E700.

Note: Equipment was sold for E15,800. Equipment costing E18,100 was purchased during the year.

Total: 25 Marks