

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2010

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM V

TITLE OF PAPER : FINANCIAL ACCOUNTING 1V

COURSE CODE : AC501 (S) JULY 2010 (Full-time)
IDE AC501 (S) JULY 2010 (PART-TIME)

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are four (4) questions on this paper.
 - 2 Answer all four (4) questions.
 - 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.

SPECIAL REQUIREMENTS: CALCULATOR

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

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QUESTION 1

Pretty Limited acquired 80% of the ordinary share capital of Seth Limited for E150,000 and 50% of the issued 10% cumulative preference shares for E10,000, both purchases being effected on 1 May 2007. There have been no changes in the issued share capital of Seth Limited since that date. The following balances are taken from the books of the two companies at 30 April 2008:

	Pretty Ltd	Seth Ltd
	E000	E000
Ordinary share capital (E1 shares)	300	100
10% cumulative preference shares (50 cents)	-	20
Share premium account	20	10
General reserve	68	15
Profit and loss account	50	35
Trade creditors	35	22
Taxation	50	30
Proposed dividends	15	10
Accumulated depreciation - Freehold property	40	15
-Plant and Machinery	100	48
	<u>678</u>	<u>305</u>

Freehold property at cost	86	55
Plant and Machinery at cost	272	168
Investments in Seth Limited	160	-
Stocks	111	65
Debtors	30	15
Cash	19	2

678 305

The following additional information is available:

- Stocks of Seth Ltd include goods purchased from Pretty Ltd for E20,000. Pretty Ltd charged out these goods at cost plus 25%.
- Proposed dividends of Seth Limited includes a full year's preference dividend. No interim dividends were paid by either company.
- Creditors of Seth Limited include E6,000 payable to Pretty Ltd in respect of stock purchases. Debtors of Pretty Plc include E10,000 due from Seth Limited. The subsidiary company sent a cheque of E4,000 to its parent on 29 April 2008 which was not received by Pretty Limited until May 2008.
- At 1 May 2007 the balances on the reserves of Seth Pty Limited were as follows:
 - Share premium E10,000
 - General reserve E20,000

- c. Profit and loss account E30,000
- 5. Goodwill is not amortised.
- 6. Dividends receivable by the parent are included in debtors.

Required:

- a. Computation of cost of control (4 marks)
- b. Computation of minority interest (4 marks)
- c. Consolidated profit and loss account (2 marks)
- d. Computation of debtors (3 Marks)
- e. Prepare a consolidated balance sheet for Pretty Limited and its subsidiary Seth Limited at 31 December 2008 (17 Marks)

Total: 30 Marks

QUESTION 2

- (a) Clare Freeland who relocated to Swaziland from Scotland in January 2005 negotiated for Finance with Nedbank Swaziland and she purchased two vehicles for her new business venture. She signed a finance lease agreement to purchase the cars with Nedbank on 1 January 2006 and because of the risk of dealing with individuals, Nedbank provided the finance at an interest rate of 11% per annum (Prime 10% plus 1%). Details of the cars that were purchased are shown below:

Details	Toyota Fortuner SD696YL	Toyota Landcruiser SD697YL
Date of purchase	1 January 2006	1 January 2006
Cost price	E310,000	E274,000
Cash deposit	10% of cost price	10% of cost price
Lease period	3 years	3 years
Repayment terms	Annually	Annually
Economic useful life	4 years	4 years

In 31 December 2007, the Toyota Land cruiser was involved in an accident and she claimed from the insurance (SRIC). The insurers paid E165,000 in settlement of the claim. Nedbank Swaziland accepted E95,000 in final settlement and agreed to cancel the lease in respect of this car. Clare Freeland makes her accounts to 31 December each year. The residual value of the vehicles for purposes of depreciation is nil. Clare uses the straight line method to depreciate the vehicles. Finance charges are calculated on the balance outstanding on 1 January each year.

Required:

Show the following accounts in the books of Clare Freeland for the years ended 31 December 2006, 2007 and 2008 and the balance sheet extract for each year;

- Motor vehicle account; (2 Marks)
 - Lessor's account / Nedbank Swaziland; (7¹/₂ Marks)
 - Motor vehicle disposal account; (2 Marks)
 - Income statement extract for each of the years; (3¹/₂ Marks)
 - Balance sheet extract (2¹/₂ Marks)
- (b) Discuss the arguments in favour of leasing and the arguments against the capitalization of leases? (2¹/₂ Marks).

Total: 20 Marks

QUESTION 3

- (a) Sebe Limited, a Swazi tourist company, bought 16 Cartwheels to use in the construction of a replica of a seventh century ox-wagon. The cartwheels were imported from a specialist in Great Britain for a total of £20,000. The cartwheels were ordered from the British Specialist on 25 March 2008, were shipped on 15 July 2008 (free on board) and arrived in Swaziland on 25 July 2008.

The ox-wagons are to be used to transport tourists on a local Swazi game reserve. The ox-wagons were completed on 31 July 2008 (at a further cost of E55,000), were available for use on 1 September 2008, but were first brought into use on 1 October 2008.

Sebe Limited had agreed to pay the Specialist in Great Britain in two equal installments. The first installment was due a month after the ox-wagons were completed and the second installment 3 months later.

The ox-wagon have a residual value of E30,000 and a useful life of 10 years.

Exchange rates moved as follows:

Date	Spot rate
	£: E
25 March 2008	£1: E9.00
15 July 2008	£1: E9.25
25 July 2008	£1: E9.60
31 July 2008	£1: E9.70
31 August 2008	£1: E9.90
1 September 2008	£1: E10.00
1 October 2008	£1: E10.10
31 October 2008	£1: E10.50
30 November 2008	£1: E10.25
31 December 2008	£1: E10.20

Required:

Show all related journal entries in the books of Sebe Limited for the year ended 31 December 2008.

Total: 20 marks

QUESTION 4

- (a) Discuss five (5) advantages of merger accounting to a group? (10 Marks)
- (b) A Swazi based company, Tonado Investments Ltd, set up a foreign subsidiary on 30 June 2008. Tonado subscribed US\$36,000 for share capital when the exchange rate was US\$1=E7.50. The Subsidiary, Max Ltd, borrowed US\$108,000 and bought a non monetary asset for US\$144,000. Tonado prepared its accounts on 31 December 2008 and by that time the exchange rate had moved to US\$1=E7.30. As a result of highly unusual circumstances, Max Ltd sold its asset early in 2009 for US\$144,000. It repaid its loan and was liquidated. Tonado's capital of US\$36,000 was repaid in February 2009 when the exchange rate was US\$1=E7.30

Required:

Account for the above transactions as if the entity has a different functional currency from the parent. (10 Marks)

- (c) Ratio analysis is a useful tool in analysing the financial performance of a company. Discuss five (5) benefits to be achieved in using ratio analysis? However, there are also certain limitations that one should be aware of when using ratio analysis to analyse the financial performance of a company. Discuss five (5) of these limitations. (10 Marks)

Total: 30 Marks