

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2011

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

TITLE OF PAPER : FINANCIAL ACCOUNTING 11

COURSE CODE : AC301 (M) MAY 2011 (Full-time)
IDE AC301-1&2 (M) MAY 2011 (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 zero 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

Gerald and Henry are in partnership sharing profits and losses in the ratio 3 to 2. The following information relates to the year ended 30 June 2010:

	DR E000	CR E000
Capital accounts (at 1 July 2009):		
Gerald		300
Henry		100
Cash at bank	5	
Accounts payable and accruals		25
Accounts receivable and prepayments	18	
Drawings during the year:		
Gerald (all at 30 June December 2009)	40	
Henry (all at 30 September 2009)	40	
Non current assets: at cost	300	
Accumulated depreciation (at 30 June 2010)		100
Henry - Salary	10	
Net profit (for the year to 31 December 2010)		60
Inventory at cost (at 30 June 2010)	90	
Trade accounts payable		141
Trade accounts receivable	223	
	726	726

Additional information:

1. The partnership agreements allows for Henry to be paid a salary of E20,000 per annum, and for interest of 5 per cent per annum to be paid on the partners' capital account balances as at 1 July in each year. Interest at a rate of 10 per cent per annum is charged on the partners' drawings.
2. The partners decide to dissolve the partnership as at 30 June 2010, and the business was then sold to Noziswe Limited. The purchase consideration was to be 400,000 E1 ordinary shares in Nozizwe at a premium of 25 cents per share. The shares were to be issued to the partners on 30 June 2010, and were to be shared between them in their profit sharing ratio.

The sale agreement allowed Gerald 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 30 June 2010.

3. Matters relating to the appropriation of profit for the year to 30 June 2010 are to be dealt in the partners' capital accounts, including any arrears of salary owing to Henry.

Required:

- a) Write up the following accounts for the year to 30 June 2010:
 - i. The profit and loss appropriation account; (4 Marks)
 - ii. Gerald's and Henry's capital accounts; and (9¹/₂ Marks)
 - iii. The realization account. (5¹/₂ Marks)
- b) Prepare Noziswe's Statement of financial position as at 1 July 2010 immediately after the acquisition of the partnership and assuming that no further transactions have taken place in the meantime. (6 Marks)

Total: (25 Marks)

QUESTION 2

Betty (Pty) Limited with to expand their transport fleet and have purchased three heavy lorries with a list price of E18,000 each. Betty who is the Managing Director has negotiated hire purchase finance to fund this expansion, and the company has entered into a hire purchase agreement with Granites Ltd on 1 January 2007. The agreement states that Betty (Pty) Limited will pay a deposit of E9,000 on 1 January 2007, and two annual instalments of E24,000 on 31 December 2007, 2008 and a final instalment of E20,391 on 31 December 2009.

Interest is to be calculated at 25% on the balance outstanding on 1 January each year and paid on 31 December each year.

The depreciation policy of Betty (Pty) Limited is to write off the vehicles over a four year period using the straight line method and assuming a scrap value of E1,333 for each vehicle at the end of its useful life.

The cost of the vehicles to Granites Ltd is E14,400 each.

Required:

- a) Account for the above transactions in the books of Granites Ltd (Seller) for the year 2007,2008 and 2009 for each of the following:
 - i. Betty (Pty) Ltd (6 Marks)
 - ii. HP interest account (3 Marks)
 - iii. Hire purchase trading account and (5¹/₂ Marks)
 - iv. HP deferred account (3¹/₂ Marks)
- b) Distinguish between a finance lease and operating lease and discuss the disclosure requirements in accordance with IAS 17. (4 Marks)
- c) Discuss two possible methods for allocating profits on hire purchase transactions and indicate which of the methods is preferred and why? (3 Marks)

Total: (25 Marks)

QUESTION 3

- a) Discuss two advantages that result with the formation of companies as opposed to partnerships? (2 Marks)
- b) Why do you think an investor might purchase preference shares rather than ordinary shares? (2 Marks)
- c) When the financial statements of a company are published neither the directors nor the auditors ever say that 'The financial statements are correct'. Discuss and give four examples to illustrate your answer? (3 Marks)
- d) For MJ Pty Ltd whilst doing stock take at year end, it was ascertained that the physical stock counted was lower when compared to the theoretical stock on the computer system (records). State possible reasons to account for the differences between physical stock and theoretical stock? (3 Marks)

Total: (10 Marks)

QUESTION 4

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing. The values are shown in E000.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009:

	SOPHIE LIMITED		ELVIS LTD
	E000	E000	E000
Sales		2,500	
Less: cost of goods sold			
Opening inventory	190		110
Add: Purchases	2,100		1,220
	<u>2,290</u>		<u>1,330</u>
Less closing inventory	<u>(220)</u>		<u>(160)</u>
		<u>2,070</u>	
Gross profit		430	
Less: Expenses			
Wages and salaries	180		130
Directors' remuneration	70		120
Other expenses	14		10
	<u>264</u>		<u>260</u>
		<u>166</u>	
Dividend paid	140		112
Transfer to general reserve	<u>30</u>		<u>30</u>
		<u>170</u>	
		<u>(4)</u>	
Retained profits at start of year		<u>104</u>	
Retained profits at end of year		<u><u>100</u></u>	

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009:

	SOPHIE LIMITED		ELVIS LTD	
	E000	E000	E000	E000
Non current assets				
Equipment at cost	200		50	
Less: Depreciation to date	(80)		(20)	
		120		30
Vans	64		48	
Less: depreciation to date	(26)		(16)	
		38		32
		158		62
Current assets				
Inventory	220		160	
Accounts receivable	104		29	
Bank	75		10	
	399		199	
Less: Current liabilities				
Accounts payable	(189)		(38)	
Working capital		210		161
Net assets		368		223
Capital and reserves				
Issued share capital		200		100
General reserve		68		35
Retained profits		100		88
Total equity		368		223

Notes:

Sophie Limited paid a dividend of E140,000 during the year and transferred E30,000 to a general reserve of the year end. Elvis Ltd paid a dividend of E112,000 during the year and transferred E30,000 to a general reserve of the year end. The retained profits brought forward at the start of the year were: Sophie Limited E104,000; Elvis Ltd E60,000.

Required:

- a) Calculate the following ratios for both Sophie Limited and Elvis Ltd:
 - i. Gross profit as a percentage of sales;
 - ii. Net profit as a percentage of sales;
 - iii. Inventory turnover;
 - iv. Current ratio;
 - v. Acid test ratio;
 - vi. Accounts receivable days;
 - vii. Accounts payable days;
 - viii. Return on shareholders' funds

8 marks (1 Mark each)

- b) Comment briefly on the comparison of each ratio as between the two companies. State which company appears to be the most efficient, giving what you consider to be possible reasons? (17 Marks)

Total: (25 Marks)

QUESTION 5

**KENNETH MAZIYA
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 30 JUNE 2010**

	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 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>

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

	2010	E	2009	E
Non-current assets				
Equipment at cost		30,800		40,400
Less: Depreciation to date		<u>(20,600)</u>		<u>(24,600)</u>
	10,200		15,800	
Motor vehicles at cost		28,300		28,300
Less: Depreciation to date		<u>(14,400)</u>		<u>(9,200)</u>
	<u>13,900</u>		<u>19,100</u>	
	24,100		34,900	
Current assets				
Inventory		44,600		41,700
Accounts receivable less allowance*		19,800		21,200
Bank		<u>28,100</u>		<u>12,600</u>
		92,500		75,500
Less: Current liabilities				
Accounts payable		<u>17,500</u>		<u>14,300</u>
	<u>75,000</u>		<u>61,200</u>	
	99,100		96,100	
Non-current liabilities				
Loan from Terry Dlamini		<u>(10,000)</u>		<u>(20,000)</u>
	<u>89,100</u>		<u>76,100</u>	
Owner's equity				
Opening balance		76,100		65,600
Add: Net profit		<u>51,000</u>		<u>42,500</u>
		127,100		108,100
Drawings		<u>(38,000)</u>		<u>(32,000)</u>
	<u>89,100</u>		<u>76,100</u>	

Additional information:

- a) Accounts receivable 2009 E22,100 – allowance E900.
- b) Accounts receivable 2010 E20,500 – allowance E700.
- c) Equipment was sold for E15,800. Equipment costing E18,100 was purchased during the year.

Required:

Draw up a statement of cash flows for Kenneth Maziya for the year ending 30 June 2010 using the IAS 7 layout. (15 Marks)