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UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION QUESTION PAPER

DEGREE	:	BACHELOR OF COMMERCE
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, LANGUAGE, THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENT: CALCULATOR

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

The following is the trial balance of Manzini Metro Ltd as at 31 December 2010:

	DR	CR
Ordinary share capital		75,000
Debtors and Creditors	28,560	22,472
Stock 31 December 2009	41,415	
Bank	16,255	
Motor Vehicles at cost	28,000	
Machinery at cost	45,000	
Depreciation provisions at 31/12/2009		
-Machinery		18,000
-Motor Vehicles		12,600
Sales		97,500
Purchases	51,380	
Motor expenses	8,144	
Repairs to machinery	2,308	
Sundry expenses	1,076	
Directors remuneration	6,200	
Wages and salaries	11,372	
Retained Earnings 31/12/2009		6,138
General Reserve		8,000
	239,710	**239,710**

You are given the following additional Information at 31 December 2010

(a) Authorised share capital E100,000 in ordinary shares of E1.

(b) Stock at 31 December 2010: E54,300

(c) Motor expenses owing: E445

(d) Ordinary dividend proposed of 20%

(e) Transfer E2,000 to general reserve.

(f) Provide for depreciation of all non-current assets at 20% using the reducing balance method.

Required:

Prepare, in a form suitable for publication and which complies with IAS1 and other relevant IFRSs:

(i) The Statement of Comprehensive Income for 2010. ***(15marks)***

(ii) Statement of Financial Position for the 2010 financial year ***(10marks)***

QUESTION 2

Hawson Ltd. decided with three other parties to form a company, Stanford Ltd. The shareholder's agreement stipulates that the 4 shareholders will exercise joint control and that each one will have an equal share in the newly formed company.

On 1 January 2010 Hawson Ltd. made a loan to Stanford of E100,000 which is repayable after 10 years. Interest is payable annually in arrears at 15% per annum.

The summarised financial statements are as follows:

Statement of Financial Position as at 31 December 2010

	Hawson	**Stanford**
ASSETS		
Non current Assets		
Property Plant and Equipment	900,000	150,000
Investment in Joint Venture	50,000	
Loan to Joint Venture	100,000	
	1,050,000	**150,000**
Current Assets	450,000	200,000
Total Assets	**1,500,000**	**350,000**
EQUITY AND LIABILITIES		
Share capital	1,000,000	200,000
Retained Earnings	500,000	50,000
	1,500,000	**250,000**
Non Current Liabilities		
Interest bearing borrowings	-	100,000
Total Equity and Liabilities	**1,500,000**	**350,000**

Statement of Comprehensive Income for the year ended 31 December 2010

	Hawson	**Stanford**
Profit before interest and tax	485000	60000
Interest received/(paid)	15000	-15000
Profit for the period	500000	45000

Statement of changes in Equity for the year ended 31 December 2010

	Hawson	Stanford
Retained Earnings		
Balance at 31 December 2009	100,000	20,000
Profit for the period	500,000	45,000
Dividends	(100,000)	(15,000)
Balance at 31 December 2010	500,000	50,000

Required

Prepare:

(a) the consolidated Statement of Financial Position

(b) Statement of Comprehensive Income and

(c) Statement of Changes in Equity of Hawson Ltd. as at 30 December 2010 in a form which complies with IAS31 *Interests in Joint Ventures* and other relevant IFRSs. ***(25marks)***

QUESTION 3

The following information has been extracted from the draft financial information of ABC Ltd and its subsidiaries:

Consolidated Statement of Financial Position of ABC Ltd and its subsidiaries as at 31 December:

	2010	2009
	E'000	E'000
Non Current Assets (see below)	**1,145**	**957**
Current assets		
Stocks	19	16
Debtors	38	29
Recoverable advance corporate tax	7	5
Cash and bank	19	32
	83	**82**
	1,228	**1,039**
Equity and Liabilities		
Share capital	182	152
Share premium	141	80
Revaluation reserve	170	-
Retained Earnings	553	389
Long-term loans	70	320

Current liabilities		
Creditors	12	17
Tax payable	79	66
Proposed Dividend	21	15
Total Equity and Liabilities	**1228**	**1039**

Non Current Assets

	Land &Buildings	Machinery	Furniture & Fittings	Total
Non Current Assets				
Cost or valuation				
at 31 December 2009	830	470	197	1497
Additions		43	55	98
Disposals		-18		-18
Adjustment on revaluation	70			70
Balance at 31/12/10	**900**	**495**	**252**	**1647**
Depreciation:				
at 31 December 2009	-90	-270	-180	-540
Charge for year	-10	-56	-8	-74
Disposals		12		12
Adjustment on revaluation	100			100
Balance at 31/12/ 2010	0	-314	-188	-502
Net book value:				
at 31 December 2010	900	181	64	1145
at 31 December 2009	740	200	17	957

Statement of Consolidated Comprehensive Income account of ABC Ltd and its subsidiaries for the year ended 31 December 2010

	Figures in E'000
Turnover	**490**
Raw materials consumed	49
Staff costs	37
Depreciation	74
Loss on disposal	4
Earnings before interest and tax	**326**
Interest payable	23
Profit before tax	303
Provision for tax	87
Profit after tax	216
Proposed dividends	52
Profit retained for the year	164
Balance brought forward	389
	553

Required:

(a) Using the information from ABC Ltd and its subsidiaries Statement of Comprehensive Income and Statement of Financial Position prepare a Statement of Cash flows and its supporting schedules for the year ended 31 December 2010, in a format that complies with IAS 7. ***(18 marks)***
(b) In point form and briefly, comment on the company's cash flow situation as revealed by the cash flow statement in (a) above ***(3marks)***
(c) It has been suggested that management of long term profitability is more important than short term cash flow. Explain why this might be so. ***(4marks)***

QUESTION 4

Towards the end of 2010, Sam assumed the position of Managing Director of LX Products Ltd., following the death of Peter Lewis, the last of the original founders of the firm. Neither Lewis nor his co-owner Solomon Xaba had a son or daughter who was interested in taking over the firm's management. A key concern of the owners was the lack of financial planning and general crisis to crisis pattern of management which had characterised the firms operation in recent years. The financial condition of the firm had deteriorated during the final years of Lewis' control; however, the firm's owners felt that the company's prospects were good if a capable manager could be found to take over the leadership. Hence Sam's appointment. One of the first actions of the new MD was to hire a company accountant, Pamela June, who took over her duties on December 1st 2010. Her past experience in budgetary procedures was viewed with particular favour by Sam in light of LX's recent financial problems.

Pamela's first task was to undertake a complete analysis of the firm's financial condition. Specifically, Sam had requested a statement of the firm's financial condition including an enumeration of specific strengths and weaknesses.

Statement of Financial Position as at 31 December

	2009	2010
Non Current Assets		
Plant and equipment	1,200,000	1,480,000
Less: Accumulated depreciation	-500,000	-560,000
Net Non current assets	**700,000**	**920,000**
Current Assets		
Cash	50,000	10,000
Trade Debtors	100,000	120,000
Inventory	150,000	150,000
Total Current Assets	300,000	280,000
Total Assets	**1,000,000**	**1,200,000**

Equity and Liabilities		
E1 Ordinary shareholders	200,000	200,000
Retained profit for the year	490,000	510,000
Total Shareholders funds	**690,000**	**710,000**
Long Term Debt	200,000	200,000
	890,000	**910,000**
Current Liabilities		
Trade Creditors	58,000	63,000
Accrued expenses	2,000	3,000
Short-term loans	50,000	224,000
	110,000	**290,000**
Total equity and Liabilities	**1,000,000**	**1,200,000**

Statement of Comprehensive Income for the year ended 31 December 2010

	2009	**2010**
Sales	1080000	1200000
Cost of sales	842000	900000
Gross profit	**238000**	**300000**
Operating expenses	104000	114000
Depreciation	32000	60000
Net Profit before Interest & Tax	**102000**	**126000**
Interest on Loan	23000	39600
Net Profit before Tax	**79000**	**86400**
Taxation	23700	25920
Net profit after tax	**55300**	**60480**

Standard Industry ratios:

	2010
Gross profit margin	27%
Net profit margin	8.4%
Return on total assets (before interest and tax)	18%
Return on equity	14%
Total asset turnover	1.25
Average collection period	1.43
Days payables	50
Inventory days	30
Debt to equity ratio	50%
Times interest earned	4
Current ratio	3.5
Acid - test ratio	1.5

Required:

(a) Categorise the above ratios into profitability, asset management, leverage and liquidity ratios ***(4 marks)***

(b) **In tabular form** calculate and present the same ratios for LX Products Ltd. following your categories in (a) above.
- (i) Profitability
- (ii) Asset management
- (iii) Leverage and
- (iv) Liquidity ratios for 2009 and 2010

NB: Display your results to include a column for the standard industry ratios. ***(13 marks)***

(c) Using the ratios computed in (b) above, comment on the following areas of the business: Profitability, Asset management leverage and liquidity. ***(8 marks)***

End of question paper