UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY 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

Intense Sports Ltd was formed on 2 January 2008. The following information is available for the year ended 31 December 2009.

	DR	CR
Ordinary share capital		100,000
Preference Share Capital (6%)		100,000
Share premium		200,000
Accumulated profit		105,000
Loan from bank - 15%		80,000
Debentures - 12%		100,000
Land and buildings	510,000	
Furniture and fittings	100,000	
Accumulated depreciation		
-Furniture and fittings		40,000
Inventory	70,000	
Accounts receivables	154,000	
Bank	360,000	
Accounts payables		121,000
Taxation	54,000	
Sales		1,860,000
Cost of Sales	930,000	
Administration expenses	72,000	
Marketing expenses	63,000	
Directors Salaries	180,000	
Telephone expenses	18,000	
Salaries	334,000	
Light and water expenses	25,000	
Depreciation	20,000	
Disposal of fixed assets		210,000
Preference dividends	6,000	
Ordinary dividends	20,000	
	2,916,000	**2,916,000**

Additional Information

1. The preference shares are non redeemable.
2. The debentures were issued on 2 January 2009 at par.
3. Intense Sports Ltd borrowed E80 000 from the bank on 2 July 2009 at an interest rate of 15% pa.
4. The directors' salaries for the year are E200 000.
5. Land and buildings which originally cost E150 000 were sold for E210 000. The directors wish to transfer the gain on sale to a non distributable reserve.
6. The taxation expense for the year is E72 000.
7. An interim dividend of E20 000 was declared at the end of June 2009 and paid during July 2009. The final dividend proposed by the directors on 24 December 2009 is E50 000.

Required:

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

(i) the published Statement of Comprehensive Income for 2009 using the nature of expense method. ***(10marks)***

(ii) Statement of Financial Position for the 2009 financial year and ***(11marks)***

(iii) a Statement of Changes in Equity for the year ending 31 December 2009. ***(4marks)***

QUESTION 2

(a) What is the accounting treatment for positive and negative goodwill arising on acquisition of a subsidiary according to IAS 27 *Consolidated and Separate Financial Statements*? ***(5marks)***

(b) On 1 July 2006, Big acquired 70% of the ordinary share capital of Small for E140,000. At that date Small had accumulated profits of E50, 000.

The following Statements of Financial Position have been prepared at 30 June 2010.

	Big	**Small**
ASSETS		
Non current Assets		
Tangible	190,000	170,000
Investment: shares in Small	140,000	
	330,000	
Current Assets	270000	186000
Total Assets	**600,000**	**356,000**
EQUITY AND LIABILITIES		
Share capital and reserves		
Ordinary shares of E1 each	200,000	130,000
Accumulated Retained Earnings	175,000	89,000
	375,000	219,000
Current Liabilities	225000	137000
Total Equity and Liabilities	**600,000**	**356,000**

Required

Prepare the consolidated Statement of Financial Position of Big and its subsidiary as at 30 June 2010 in a form which complies with IAS27 and other relevant IFRSs: Goodwill is amortised over five years on the straight line basis. ***(20marks)***

QUESTION 3

Rocket and its Subsidiaries Statement of Financial Positions as at 31 December 2008 and 2009 and its Statement of Comprehensive Income for the year ended 31 December 2009 are shown below. Rocket issued no new ordinary shares during the year. During 2009 Rocket spent E87 000 on fixed assets additions. There were no fixed assets disposals during 2009.

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

	2009	2008
Non Current Assets	**E'000**	**E'000**
Intangible	42	48
Tangible	769	778
	811	**826**
Current assets		
Stocks	45	53
Debtors	172	160
Prepayments	17	21
Cash and bank	7	3
	241	**237**
Total assets	**1052**	**1063**
Capital and reserves		
Share capital	260	260
Share premium	52	52
Revaluation reserve	90	90
Retained Earnings	256	160
Long-term liabilities		
Debenture	195	325
	853	**887**
Current liabilities		
Overdraft	11	10
Creditors	39	51
Accruals	24	20
Dividends	78	65
Taxation	47	30
	199	**176**
Total Equity and Liabilities	**1052**	**1063**

Statement of Comprehensive Income account of Rocket and its subsidiaries for the year ended 31 December 2009

	Figures in E'000	
Turnover	**810**	
Cost of sales	(459)	
Gross profit	**351**	
Distribution and administrative costs	(131)	
	220	
Other operating income	17	
Operating profit	**237**	
Interest receivable	18	
	255	
Interest payable	(34)	
Profit before tax	**221**	
Tax on profit on ordinary activities	(47)	
Profit on ordinary activities after tax	**174**	
Retained profit 1 January 2009	**160**	
	334	
Proposed dividends	(78)	
Retained profit 31 December 2009	**256**	

Required:

Using the information from Rocket 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 2009, in a format that complies with IAS 7.

QUESTION 4

You are provided with the following information:

Statement of Comprehensive Income for the year ended 31 March 2008

Sales		180 000	
Less Cost of sales			
Opening Stock	14 000		
Purchases	130 000		
Less closing stock	24 000	120 000	
Gross profit		**60 000**	
Less- operating expenses:			
Administration	24 000		
Interest on Loan	1 000		
Selling and Distribution	16 000	41 000	
Net Profit before Tax		19 000	
Taxation		6 000	
Net profit after tax		13 000	
Dividends – Preference (paid)	2 000		
- Ordinary (proposed)	5 000	7 000	
Net profit for the year		6 000	
Retained profit brought forward		12 000	
Retained profit for the year		18 000	

Statement of Financial Position as at 31 December 2008

Non Current Assets			
Land and Buildings		60 000	
Motor Vehicles		26 000	**86 000**
Current Assets			
Stock		24 000	
Trade Debtors		60 000	
Bank		1 000	
		85 000	
Less Current Liabilities			
Trade Creditors		62 000	
Proposed dividend		5 000	
Taxation		6 000	
		73 000	**12000**
			98 000
Equity and Long Term Liabilities			
E1 Ordinary shareholders			40 000
Preference Shareholders			20 000
Retained profit for the year			18 000
5% Debenture stock			20 000
			98 000

Additional information

a. Purchases and sales are made evenly throughout the year.
b. All purchases and sales are made on credit terms.
c. Assume that price levels are stable
d. The company only sells one product: It sold 60 000 units in the year under review.
e. There were no sales of fixed assets during the year.
f. The market value of the ordinary shares was estimated to be worth E1.8 per share at 31 March 2008.

Required:

(i) Calculate the following ratios:

Profitability ratios
(a) Return on capital employed
(b) Gross profit ratio
(c) Profit Mark up
(d) Net profit ratio

Liquidity ratios
(e) Current asset ratio
(f) Acid Test ratio

Efficiency ratios
(g) Stock turnover
(h) Fixed Assets turnover
(i) Trade Debtor collection period
(j) Trade creditor payment

Investment Ratios
(k) Dividend per share
(l) Dividend Yield
(m) Dividend Cover
(n) Earnings per share
(o) Price / Earnings ratio (P/E ratio)
(p) Capital Gearing ***(16 marks)***

(ii) Comment on each category of ratios (i.e. Profitability, Liquidity, Efficiency and Investment Ratios). ***(9 marks)***

End of question paper