UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2011

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING 1V
COURSE CODE	:	AC501 (M) MAY 2011 (Full-time) IDE AC501 (M) MAY 2011 (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 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.

SPECIAL REQUIREMENTS: CALCULATOR

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

QUESTION 1

On 1 April 2005, Mic limited bought 80% of the ordinary share capital of CJ Limited. On 1 April 2008, Mic Limited was itself taken over by Susan Limited who purchased 75% of the ordinary shares in Mic Limited.

The statement of financial position of the three companies at 31 October 2010 prepared for internal use showed the following positions:

	Susan Limited		**Mic Limited**		**CJ Limited**	
	E	E	E	E	E	E
Non current assets						
Freehold land at cost		89,000		30,000		65,000
Buildings at cost	100,000		120,000		40,000	
Accumulated depreciation	(36,000)		(40,000)		(16,400)	
		64,000		80,000		23,600
Plant and equipment at cost	102,900		170,000		92,000	
Accumulated depreciation	(69,900)		(86,000)		(48,200)	
		33,000		84,000		43,800
		186,000		194,000		132,400
Investments						
Shares in Mic at cost		120,000				
Shares in CJ at cost				128,000		
Current assets						
Stocks	108,500		75,500		68,400	
Debtors	196,700		124,800		83,500	
Cash at bank	40,200		-		25,400	
		345,400		200,300		177,300
		651,400		522,300		309,700
Current liabilities						
Creditors	240,000		200,700		71,200	
Bank overdraft	-		69,400		-	
Corporation tax	57,400		47,200		24,500	
		297,400		317,300		95,700
		354,000		205,000		214,000
Capital and reserves						
Ordinary shares		200,000		120,000		100,000
10% Preference shares		-		-		40,000
Revenue reserves		154,000		85,000		74,000
		354,000		205,000		214,000

Additional Information:

a) All ordinary shares are E1 each, fully paid,

b) Preference shares in CJ Limited are 50 Cents each fully paid.

c) All creditors are payable within one year.

d) Items purchased by Mic Limited from CJ Limited and remaining in stock at 31 October 2010 amounted to E25,000. The profit element is 20% of selling price for CJ Limited.

e) Depreciation policy of the group is to provide for:
   (i) Buildings at the rate of 2% on cost each year;
   (ii) Plant and equipment – at the rate of 10% on cost each year including full provision in the year of acquisition.

   These policies are applied by all members of the group.
   Included in the plant and equipment of CJ Ltd is a machine purchased from the manufacturers, Mic Ltd, on 1 January 2009 for E10,000. Mic Ltd recorded a profit of E2,000 on the sale of the machine.

h) Intra-group balances are included in debtors and creditors respectively are as follows:

Susan Ltd	Creditors – Mic Ltd	E45,600
	- CJ Ltd	E28,900
Mic Ltd	Debtors – Susan Ltd	E56,900
CJ Ltd	Debtors – Susan Ltd	E28,900

i) A cheque drawn by Susan Ltd for E11,300 on 28 October 2010 was received by Mic Ltd on 3 November 2010.

j) At 1 April 2005, reserves in Mic Limited were E28,000 and in CJ Ltd E20,000. At 1 April 2008 the figures were E40,000 and E60,000 respectively.

Required
Prepare a group statement of financial position at 31 October 2010 for Susan Ltd and its subsidiaries complying, so far as the information will allow, with the accounting requirements of the International Financial Reporting Standards (IFRS) (15 Marks).

NB: Marks will be awarded for the following workings:

1. Cost of control ($3^1/_2$ Marks)
2. Minority interest (4 Marks)
3. profit and loss account ($5^1/_2$ Marks)
4. Debtors (2 Marks)

Total: 30 Marks

QUESTION 2

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing and shoes; each company has a single store in the same 10 year old custom- built shopping complex located on the central City of Mbabane.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

		Rita Ltd E000s	E000s	Tedy Ltd E000s	E000s
Sales			2,000		1,400
Less cost of goods sold					
	Opening inventory	440		144	
	Add: Purchases	1,550		996	
		1,990		1,140	
	Less: closing inventory	(490)		(240)	
			1,500		900
			500		500
Less: Expenses					
	Depreciation	27		14	
	Wages and salaries	180		160	
	Directors' remuneration	210		210	
	Other expenses	23		16	
			440		400
Net profit			60		100

Note: The Statement of changes in Equity shows that retained profits at the start of the year were E60,000 (Rita Ltd) and E20,000 (Tedy Ltd); that dividends paid during the year were E50,000 (Rita Ltd) and E40,000 (Tedy Ltd); and that both companies made transfers from retained to general reserve at the end of the year: E20,000 (Rita Ltd) and E20,000 (Tedy Ltd).

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Rita Ltd		Tedy Ltd	
	E000s	**E000s**	**E000s**	**E000s**
Non current assets				
Buildings at cost	300		100	
Less: depreciation to date	(150)		(50)	
		150		50
Equipment at cost	60		30	
Less: Depreciation to date	(40)		(20)	
		20		10
Motor vans	40		35	
Less: Depreciation to date	(16)		(14)	
		24		21
		194		81
Current assets				
Stock	490		240	
Accounts receivable	680		320	
Bank	80		127	
	1,250		687	
Less: Current liabilities				
Accounts payable	(324)		(90)	
Working capital		926		597
		1,120		678
Equity and reserves				
Issued share capital		1,000		500
Reserves				
General reserve		70		120
Retained profits		50		58
		1,120		678

Required:

(a) Calculate the following ratios for each of Rita Ltd and Tedy Ltd:

i. Gross profit as a percentage of sales; (1 Mark)
ii. Net profit as a percentage of sales; (1 Mark)
iii. Inventory turnover; (1 Mark)
iv. Return on capital employed (ROCE) (For the purpose of this question only take capital as being total of share capitals + reserves at the balance sheet date); (1 Mark)
v. Current ratio; (1 Mark)
vi. Acid test ratio; (1 Mark)
vii. Accounts receivable collection period; (1 Mark)
viii. Accounts payable days; (1 Mark)

(b) Comment briefly on the comparison of each ratio as between the two companies. State which company appears to be the more efficient, giving what you consider to be possible reasons? (10 Marks)

(c) When using accounting ratios, one should be aware of the limitations of using them. Discuss five (5) of these limitations. (7 Marks)

Total: (25 Marks)

QUESTION 3

(a) Jones Limted buys equipment for E50,000 on 1 January 2006 and depreciates it on a straight line basis over its expected useful life of five years. For tax purposes, the equipment is depreciated at 25% on a straight line basis. Tax losses may be carried back against taxable of the previous five years. In year 2005, the entity's taxable profit was E25,000. The tax rate is 40%.

Required:
Assuming nil profits/ losses after depreciation in years 2006 to 2010 show the current and deferred tax impact in years 2006 to 2010 of the acquisition of the equipment. (10 Marks)

(b) In 2010, Noty Co had taxable profits of E120,000. In the previous year (2009) income tax on 2009 profits had been estimated as E30,000.

Required:
Calculate tax payable and the charge for 2010 assuming a tax rate of 30% and further that if the tax due on 2009 profits was subsequently agreed with the tax authorities as:

1. E35,000; or (3 Marks)
2. E25,000. (3 Marks)

Any under or over payments are not settled until the following year's tax payment is due.

(C) For the year ended 30 June 2009 Nadine Co made taxable trading profits of E1,200,000 on which income tax is payable at 30%.

1. A transfer of E20,000 will be made to the deffered tax account. The balance on this account was E100,000 before making any adjustments for items listed in this paragraph.
2. The estimated tax on profits for the year ended 30 June 2008 was E80,000, but now tax has been agreed at E84,000 and fully paid.
3. Tax on profits for the year to 30 June 2009 is payable on 1 May 2010.
4. In the year to 30 June 2009 the company made a capital gain of E60,000 on the sale of some property . This gain is taxable at a rate of 30%.

Required:

i. Calculate the tax charge for the year to 30 June 2009 to be reflected on the statement of comprehensive income and marks will be awarded for working (6 Marks)
ii. Calculate the tax liabilities in the statement of financial position of Nadex Co as at 30 June 2009. (3 Marks)

Total: 25 Marks

QUESTION 4

a) Distinguish between a Finance lease and an operating lease and discuss the disclosure requirements as outlined in IAS 17 for each type of lease. (4 Marks)

b) Discuss the arguments in favour of capitalization of leases and the arguments against the capitalization of leases? (8 Marks)

c) Define impairment loss in accordance with IAS 36 and discuss the circumstances that may indicate that an asset could be impaired? (5 Marks).

d) Define a contingent liability in line with IAS 37 and discuss its disclosure requirements? (3 Marks)

Total: 20 Marks