

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2012

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM 11/ DIPLOMA IN COMMERCE 111

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING 1

COURSE CODE : AC211/AC311/IDE AC311 (S) JULY 2012

TOTAL MARKS : 100 MARKS

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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Abel, Betty and Celiwe are partners sharing profits and losses in the ratio 2:2:1. The statement of financial position of the partnership as at 30 September 2011 was as follows:

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011:

	E	E
Freehold premises		18,000
Equipment and machinery		12,000
Cars		3,000
		<u>33,000</u>
Current assets		
Inventory	11,000	
Accounts receivable	14,000	
Bank	9,000	
		<u>34,000</u>
Current liabilities		
Accounts payable	10,000	
Working capital		24,000
		<u>57,000</u>
Capital accounts		
Abel		22,000
Betty		18,000
Celiwe		10,000
		<u>50,000</u>
Non current assets		
Loan account - Abel		7,000
		<u>57,000</u>

The partners agreed to dispose of the business to Tonado Limited with effect from 1 October 2011 under the following conditions and terms:

- i. Tonado Limited will acquire the goodwill, all non-current assets and the inventory for the purchase consideration of E58,000. This consideration will include a payment of E10,000 in cash and the issue of 12,000 10% preference shares of E1 each at par, and the balance by the issue of E1 ordinary shares at E1.25 per share.
- ii. The partnership business will settle amounts owing to creditors.
- iii. Tonado Limited will collect the debts on behalf of the vendors.

Purchase consideration payments and allotments of shares were made on 1 October 2011. The partnership accounts payable were paid off by 31 October 2011 after the taking of cash discounts of E190.

Tonado Limited collected and paid over all partnership debts by 30 November 2011 except for bad debts amounting to E800. Discounts allowed to debtors amounted to E400.

Required:

- a) Prepare the liquidation/ realization accounts to close off the partnership accounts as at 1 October 2011.
- b) Prepare the bank account of the partners to close off the partnership books.
- c) Prepare the Statement of financial position of Tonado Limited with effect from 1 October 2011.

Total: (25 Marks)

QUESTION 2

J. Smith owns a small business making and selling children's toys. The following trial balance was extracted from her books on 31 December 2010

	DR E	CR E
Capital		15,000
Drawings	2,000	
Sales		90,000
Inventory at 1 January 2009:		
Raw materials	3,400	
Finished goods	6,100	
Purchases of raw materials	18,000	
Carriage inwards	800	
Factory wages	18,500	
Office salaries	16,900	
J. Smith: salaries and expenses	10,400	
General factory expenses:		
Factory	1,200	
Office	750	
Lighting	2,500	
Rent	3,750	
Insurance	950	
Advertising	1,400	
Bad debts	650	
Discount received		1,600
Carriage outwards	375	
Plant and machinery, at cost less depreciation	9,100	
Car, at cost less depreciation	4,200	
Bank	3,600	
Cash in hand	325	
Accounts receivable and accounts payable	7,700	6,000
	<u>112,600</u>	<u>112,600</u>

You are given the following additional information.

- Inventory at 31 December 2010

Raw materials	E2,900
Finished goods	E8,200

There was no work in progress.

2. Depreciation for the year is to be charged as follows:

Plant and machinery	E1,500
Car	E500
3. At 31 December 2010 insurance paid in advance was E150 and office general expenses unpaid were E75.
4. Lighting and rent are to be apportioned: $\frac{4}{5}$ factory, $\frac{1}{5}$ Office
5. Insurance is to be apportioned: $\frac{3}{4}$ factory, $\frac{1}{4}$ office.
6. J. Smith is the business's salesperson and her salary and expenses are to be treated as a selling expense. She has sole use of the business's car.

Required:

- a) Manufacturing account for the year ended 31 December 2010.
- b) Statement of comprehensive income for the year ended 31 December 2010.
- c) Statement of financial position as at 31 December 2010

NB: Expenses in the statement of comprehensive income should be classified as administration expenses, selling and distribution expenses and or financial charges.

Total: (25 Marks)

QUESTION 3

Lwazi and Debby formed a joint venture to sell fish and chips at the International Trade Fair where there were national soccer games and they shared profits and losses equally. Their record of income and expenses are presented below:

Lwazi's record:	E	
25 October 2011	purchases of potatoes	2,800
25 October 2011	Transport of potatoes	400
25 October 2011	Transfer from Debby	3,000
26 October 2011	Cooking oil	250
26 October 2011	Salaries of casuals	1,500
26 October 2011	Purchases of fish	1,500
31 October 2011	Sales of fish and chips	10,500

Debby's record of income and expenses:

25 October 2011	Transfer to Lwazi	3,000
25 October 2011	Purchases of fish	1,500
26 October 2011	Purchases of spices	300
26 October 2011	Sales of fish and chips	7,500
31 October 2011	extra fish taken over by Debby	3,500

On the last day of the national soccer games which was on 31 October 2011, they settled their accounts to each other and went their separate ways.

Required:

- (a) A statement to show the net profit or loss of the joint venture.
- (b) The accounts for the joint venture in the books of Lwazi and Debby.

Total: (25 Marks)

QUESTION 4

- a) 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 three possible reasons to justify your selected answer? (6 Marks)
- b) In your own opinion, what do you think motivates the formation of partnerships? Briefly discuss six reasons. (6 Marks)
- c) Discuss the concept of veil of incorporation as it applies to companies? (4 Marks)
- d) Discuss two types of events after the reporting period and give two examples of each to illustrate your answer? (6 Marks)
- e) The accounting policies that are being applied by an entity in producing its financial information that complies with certain characteristics. Discuss three of these characteristics? (3 Marks)

Total: (25 Marks)