

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER MAY 2012

DEGREE/ DIPLOMA AND

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

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING 11

COURSE CODE : AC212/ AC312/ IDE AC311 (M) MAY 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.

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

SPECIAL REQUIREMENTS: CALCULATOR

**QUESTION 1**

Beth Products has a head office in Mbabane and a branch in Manzini. The following information has been extracted from the head office books of account as at 31 March 2012:

**Information relating to the branch**

	<b>Opening</b>	<b>Closing</b>
	<b>E000</b>	<b>E000</b>
Balance bank account (positive balance)	3	12
Branch accounts receivable	66	81
Branch inventory (at transfer price)	75	90
		<b>E000</b>
Bad debts		15
Branch general expenses (paid from Branch bank a/c)		42
Cash received from credit customers and banked		390
Cash sales banked		120
Cash transferred from branch to head office bank a/c		459
Credit sales		437
Discount allowed to credit customers		9
Goods returned by credit customers		8
Goods returned from branch (at transfer price from Head Office)		30
Goods sent to branch (at transfer price from head office)		600

**Information relating to head office**

<b>Balances</b>	<b>Opening</b>	<b>Closing</b>
	<b>E000</b>	<b>E000</b>
Inventory	180	220
		<b>E000</b>
Bad debts written off		24
Cash sales		1,500
Credit sales		2,000
Discount allowed to credit customers		29
General expenses		410
Goods returned by credit customers		40
Purchases		2,780

**Additional information:**

- Most of the accounting records relating to the branch are kept by the head office in its own books of account.
- All purchases are made by the head office, and goods are invoiced to the branch at selling price, that is, at cost price plus 50%.

**Required:**

- a) Write up the following ledger accounts for the year to 31 March 2012, being careful to bring down any balances as at that date:
- I. Branch inventory account; (4 Marks)
  - II. Goods sent to branch; ( $1\frac{1}{2}$  Marks)
  - III. Branch inventory adjustment account; (3 Marks)
  - IV. Branch accounts receivable account; and ( $3\frac{1}{2}$  Marks)
  - V. Branch bank account (3 Marks)
- b) Compile Beth Products' statement of comprehensive income for the year ending 31 March 2012 (Note: Separate statement of comprehensive income for the head office and the branch are Not required). (10 Marks)
- c)

**Total: (25 Marks)**

**QUESTION 2**

On 1 January 2009, Cervin Bought a machine costing E20,000 on hire purchase. He paid a deposit of E6,000 on 1 January 2009 and he also agreed to pay two annual instalments of E5,828 on 31 December in each year, and a final instalment of E5,831 on 31 December 2011.

The implied rate of interest in the agreement was 12%. This rate of interest is to be applied to the amount outstanding in the hire purchase loan account as at the beginning of the year.

The machine is to be depreciated on a straight line basis over five years on the assumption that the machine will have no residual value at the end of that time.

**Required:**

- a) Write up the following accounts for each of the three years to 31 December 2009, 2010 and 2011 respectively:
  - I. Machine at cost; (1 Mark)
  - II. Accumulated depreciation on the machine; (4 Marks)
  - III. Cervin Loan a/c (12 Marks)
  
- b) Show the statement of financial position extracts for the year as at 31 December 2009, 2010, 2011 respectively for the following items:
  - I. Machine at cost; (1½ Marks)
  - II. Accumulated depreciation on the machine; (1½ Marks)
  - III. Non-current liabilities: obligations under hire purchase contract; and (2 Marks)
  - IV. Current liabilities: obligations under hire purchase contract; (3 Marks)

**Total: (25 Marks)**

**QUESTION 3**

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 2011:**

	<b>SONY LIMITED</b>		<b>EMERITA LTD</b>
	<b>E000</b>	<b>E000</b>	<b>E000</b>
Sales		2,500	
<b>Less: cost of goods sold</b>			
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	
<b>Less: Expenses</b>			
Wages and salaries	180		130
Directors' remuneration	70		120
Other expenses	14		10
		<u>264</u>	
		166	
Dividend paid	140		112
Transfer to general reserve	30		30
		<u>170</u>	
		(4)	
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 2011:**

	SONY LIMITED		EMERITA LTD	
	E000	E000	E000	E000
<b>Non current assets</b>				
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
<b>Current assets</b>				
Inventory	220		160	
Accounts receivable	104		29	
Bank	75		10	
	399		199	
<b>Less: Current liabilities</b>				
Accounts payable	(189)		(38)	
Working capital		210		161
Net assets		368		223
<b>Capital and reserves</b>				
Issued share capital		200		100
General reserve		68		35
Retained profits		100		88
Total equity		368		223

**Notes:**

Sony Limited paid a dividend of E140,000 during the year and transferred E30,000 to a general reserve of the year end. Emerita 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: Sony Limited E104,000; Emerita Ltd E60,000.

**Required:**

- a) Calculate the following ratios for both Sony Limited and Emerita Ltd:
- Gross profit as a percentage of sales;
  - Net profit as a percentage of sales;
  - Inventory turnover;
  - Current ratio;
  - Acid test ratio;
  - Accounts receivable days;
  - Accounts payable days;
  - 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 4**

- (a) In the times of Swaziland dated 21<sup>st</sup> July 2011, they covered a few uses of a business plan. List six (6) of these uses. (12 Marks)
- (b) Please state three conditions for the recognition of a provision in accordance with IAS 37. (6 Marks)
- (c) Define a contingent liability in accordance with IAS 37. (4 Marks)
- (d) Discuss three functions of a financial budget . (3 Marks)

**Total: (25 Marks)**