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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

Following your recent success in your accounting examination, you have been appointed to a listed company. The Chairman of the Board of Directors of the listed company is an independent non-executive director (which implies that he does not work full-time at the company and that he has no connection with the company other than in his capacity as a director.) He is a man who is known for his short temper and dislike of 'waffle'. He has specifically asked you to write him a succinct (brief) memorandum answering two questions that have been troubling him.

His first question arises from his irritation with all the IFRS standards that have been published in recent years. He wants to know why there have been so many and what the advantages and disadvantages of adopting IFRS.

Required:

Prepare a memorandum to the Chairman answering the two questions that have been posed.

(a) Why there have been so many IFRS that have been published. ***(5marks)***

(b) The advantages and disadvantages of adopting IFRS. ***(20marks)***

QUESTION 2

The following represents the abridged financial statements of P Ltd and its subsidiary S Ltd:

Statements of financial position as at 30 June 2010

	P Ltd	S Ltd
ASSETS:	**E**	**E**
Property, plant and equipment	240 000	450 000
At cost	400 000	600 000
Accumulated depreciation	(160 000)	(150 000)
Investment in S Ltd (192 000 shares)	330 000	
Loan to S Ltd	150 000	
Trade receivables	255 000	105 000
Inventories	80 000	165 000
Bank	55 000	
Total assets	**E1 110 000**	**E 720 000**
EQUITY AND LIABILITIES:		
Share capital (issued at E1 each)	300 000	240 000
Retained earnings	375 000	240 000
Long-term borrowings	225 000	
Loan from P Ltd		150 000
Trade and other payables	210 000	50 000
Bank overdraft		40 000
Total equity and liabilities	**E 1 110 000**	**E 720 000**

Statements of comprehensive income for the year ended 30 June 2010

	P Ltd	S Ltd
	E	E
Sales	945 000	1 500 000
Cost of sales	(472 500)	(750 000)
Gross profit	472 500	750 000
Other expenses (including interest expense to P Ltd)	(202 500)	(450 000)
Interest received on loan from S Ltd	4 000	
Dividend received from S Ltd	96 000	
Profit before tax	370 000	300 000
Income tax expense	(112 000)	(120 000)
Profit for the year	258 000	180 000
Total comprehensive income	**E 258 000**	**E 180 000**

Extracts from statements of changes in equity for the year ended 30 June 20x10

	P Ltd	S Ltd
Retained earnings:	E	E
Balance at 1 July 20x9	225 000	180 000
Total comprehensive income	258 000	180 000
Ordinary dividend	(108 000)	(120 000)
Balance at 30 June 20x10	**E 375 000**	**E 240 000**

Additional information:

P Ltd acquired the controlling interest in S Ltd on 1 January 2007, when the equity of S Ltd consisted of share capital of E240 000 (issued at E1 each) and retained earnings amounted to E135 000. Accumulated depreciation for S Ltd amounted to E50 000 at the acquisition date.

The carrying amounts of the identifiable assets acquired and liabilities assumed at the acquisition date were shown at their acquisition-date fair values, as determined in terms of IFRS 3, *Business Combinations.* It is the entity's policy to measure any non-controlling interest at its proportionate share of the acquiree's identifiable net assets.
Ignore tax implications.

Required:

1. Prepare all the pro forma journal entries necessary to prepare the consolidated financial statements (Statements of financial position & Statements of comprehensive income) of P Ltd and its subsidiary at 30 June 2010.
2. Prepare the consolidated financial statements of P Ltd and its subsidiary for the year ended 30 June 2010, in a form which complies with IAS1 and other relevant IFRSs.

Show all your workings, including an analysis of the equity of the subsidiary ***(25 marks)***

QUESTION 3

(a) XYZ Company reported the following regarding the year ended December 31, 2011:

Number of shares	
Common shares outstanding on January 1, 2011	300,000
Shares issued for cash on August 1, 2011	60,000
Shares retired for cash on November 1, 2011	75,000

Required

Calculate the weighted number of shares outstanding *(5 marks)*

(b) The following is the information for NN Corporation for the year ended December 31, 2011:

9 percent convertible Bonds (issued at E1000 par)	E1,800,000
Common stock, 180,000 shares issued and outstanding, E50 par	9,000,000

Additional information

1.Each E1,000 convertible bond can be converted into 80 shares of common stock.
2.On September 1, 2011, one-third of the convertible debt was converted into common stock.
3.NN reported net income of E1,550,000 in 2011. The tax rate was 30 percent.
4. No other stock transactions took place during 2011.

Required

(i) Compute basic earnings per share for 2011.

(ii) Compute diluted earnings per share for 2011.

(20 marks)

QUESTION 4

The following two years' financial statements related to Gotech Limited, a listed company in Swaziland. Its major business is selling computer parts to business customers.

Statement of Comprehensive Income:

	2011	2010
	Emillion	**Emillion**
Turnover	**1,290**	**1,250**
Cost of sales	453	824
Gross profit	**837**	**426**
Administrative expenses	110	110
Other operating expenses	532	524
Finance cost	85	86
Profit before tax	**110**	**104**
Taxation	10	9
Profit after tax	**100**	**95**
Dividend paid	100	60
Retained Profit	**0**	**35**

Statement of Financial Position:

	2011		**2010**	
ASSETS	**Emillion**	**Emillion**	**Emillion**	**Emillion**
Non-current assets				
Fixtures and fittings		200		130
Total Non-current assets		**200**		**130**
Current assets				
Inventories	200		251	
Trade receivables	183		210	
Cash and cash equivalents	5	**388**	2	**463**
Total Assets		**588**		**598**
Current liabilities				
Trade payables	120		120	
Dividend payable	10		10	
Bank overdraft	10	(140)	15	(145)
Net current assets		**248**		**318**
NET ASSETS		**448**		**448**
Capital and reserves				
Issued capital (E1 par value each)		150		150
Reserves				
Share premium		120		120
Accumulated profits b/f		178		143
Net profit for the year		0		35
Total Capital and reserves		**448**		**448**
Stock price (E per share)		E2.00		E1.50

Additional information

1. Assume all sales and purchases are on credit.
2. No preference shares are issued.
3. Assume 365 days in a year

Required:

(a) Calculate the following financial ratio for the year 2010 and 2011:
   (i) Current ratio
   (ii) Quick ratio
   (iii) Gross profit margin
   (iv) Trading profit margin
   (v) Return (before tax & finance charges) on total assets
   (vi) Return (before tax) on shareholders' capital
   (vii) Net assets turnover (times)
   (viii) Total assets turnover (times)
   (ix) Inventory turnover period (days)
   (x) Receivable collection period (days)

(20 marks)

(b) Based on the results in (a), prepare a brief report to comment on the financial performance of the company in 2011 and 2010 with particular reference to liquidity, profitability, management efficiency. ***(5 marks)***

End of question paper