UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER, JULY 2012

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING 1V
COURSE CODE	:	AC501 (S) JULY 2012 (Full-time) IDE AC501 (S) JULY 2012 (PART-TIME)
TIME ALLOWED	:	THREE (3) HOURS
TOTAL MARKS	:	100
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 January 2005 Moffet Co entered into a lease agreement to rent an asset for a 6 year period at which point it will be returned to the lessor and scrapped with annual lease payments of E18,420 made in advance. The market price of the asset on the same date was E86,000. The present value of the minimum lease payments amounts to E84,000, discounted at the implicit interest rate shown in the lease agreement of 12.5%.

Moffet Co expects to sell goods produced by the asset during the first five years of the lease term but has leased the asset for six years as this is the requirement for the lessor, and in case this expectation changes.

Required

i. In accordance with IAS 17, explain how the above lease would be accounted for in the year ending 31 December 2005 including producing relevant extracts from the income statement and statement of financial position. **Note:** you are not required to prepare the notes to the financial statements (10 Marks)

ii. Discuss the criteria that one would have to use to decide whether an asset is to be accounted for as a finance lease or an operating lease. (8 Marks)

iii. Discuss the arguments in favour of the capitalization of leases that the proponents of this view brought forward. (2 Marks)

QUESTION 2

Petty Co acquired 75% of the ordinary shares of Seth Co on 1 January 2011. At that date the fair value of Seth Co' s non-current assets was E23,000 greater than their net book value, and the balance of retained earnings was E21,000. The statements of financial positions of both companies at 31 December 2011 are given below. Seth Co has not incorporated any revaluation in its books of account. Non-controlling interest is valued at full fair value which was deemed to be E18,000 at the acquisition date.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

ASSETS	**PETTY CO**	**SETH CO**
Non current assets	**E**	**E**
Property, plant and equipment	63,000	28,000
Investement in Seth Co	51,000	
	114,000	28,000
Current assets	82,000	43,000
	196,000	71,000
Equity and liabilities		
Ordinary shares of E1 each	80,000	20,000
Retained earnings	96,000	41,000
	176,000	61,000
Current liabilities	20,000	10,000
	196,000	71,000

If Seth Co had revalued its non-current assets at 1 January 2011, an addition of E3,000 would have been made to the depreciation charged for charged for the year ending 31 December 2011.

Required:
Prepare Petty Co's consolidated statement of financial position as at 31 December 2011 complying with fair values as outlined in IFRS 3 for the acquisition of Seth Co.

Total: (25 Marks)

QUESTION 3

The following information has been extracted from the recently published accounts of Elson Co.

EXTRACTS FROM THE INCOME STATEMENTS TO 30 APRIL

	2010	2011
	E000	E000
Sales	9,750	11,200
Cost of sales	6,825	8,460
Gross profit	2,925	2,740
Expenses		
Depreciation	280	360
Audit fees	10	12
Other expenses	2,246	1,808
Total operating expenses	2,536	2,180
Operating profit before interest	389	560
Loan note interest	60	80
Interest on bank overdraft	9	15
Net profit after interest before tax	320	465

STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL

	2010 E000	2011 E000
Non-current assets		
Property, plant and equipment	1,430	1,850
Current assets		
Inventory	490	640
Accounts receivable	1,080	1,230
Bank	120	80
	1,690	1,950
Total assets	3,120	3,800
Equity and liabilities		
Ordinary share capital	800	800
Retained earnings	930	1,310
	1,730	2,110
Non-current liabilities		
10% Loan stock	600	800
Current liabilities		
Bank overdraft	80	110
Accounts payable	690	750
Taxation	20	30
	790	890
Total equity and liabilities	3,120	3,800

The following ratios are those calculated for Elson co, based on its published accounts for the previous year and also the latest industry average ratios:

	30-Apr-10	Industry Average
ROCE (Capital employed=equity and debentures)	16.30%	18.50%
Profit/sales	3.90%	4.73%
Asset turnover	4.18x	3.91x
Current ratio	2.10	1.90
Quick ratio	1.52	1.27
Gross profit margin	30%	35.23%
Accounts receivable collection period	40 days	52 days
Accounts payable payment period	37 days	49 days
Inventory turnover (times)	13.9x	18.30x
Gearing	25.75%	32.71%

Required:

(a) Calculate comparable ratios (to two decimal places where appropriate) for Elson Co for the year ended 30 April 2011. All calculations must be clearly shown.

(10 Marks).

(b) Write a report to the Board of directors analyzing the performance of Elson Co, comparing the results against the previous year and against the industry average. (15 Marks)

Total: (25 Marks)

QUESTION 4

a) The following information relates to Carlson Co:

i. The net book value of property, plant and equipment at 30 June 2011 in the statement of financial position of Carlson Co is E1,185,000.

ii. The tax written down value of property, plant and equipment at 1 July 2010 was E405,000.

iii. During the year ended 30 June 2011, the company bought plant and equipment of E290,000, which is eligible for a full year's wear and tear allowance.

iv. Carlson Co bought its freehold property in 1 August 2010 for E600,000. It was revalued in the 2011 accounts to E1,500,000. Ignore depreciation on buildings. No tax allowances were available to Carlson Co on the buildings.

Required:
Draft the note for the statement of financial position at 30 June 2011 omitting comparatives, in respect of deferred tax. The applicable tax rate for Carlson Co is the current income tax rate for companies in Swaziland of 30%. Wear and tear allowance is at the rate of 25% per annum on a reducing balance basis. **Note:** Your answer must be supported by your workings. (15 Marks)

b) Discuss the importance of recognizing deferred taxation in the financial statements? (5 Marks)

c) For the year ended 30 June 2011 Mafutseni Trading Co made taxable trading profits of E1,200,000 on which tax is payable at 30%.

i. A transfer of E20,000 will be made to the deferred tax account. The balance on this account was E100,000 before making any adjustments for items listed in this paragraph.

ii. The estimated tax on profits for the year ended 30 June 2010 was E80,000 but now tax has been agreed at E84,000 and fully paid.

iii. Tax on profits for the year to 30 June 2011 is payable on 1 May 2012.

iv. 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:
Calculate the tax charge for the year to 30 June 2011 to be reflected on the statement of comprehensive income. Note: your workings must be shown and marks will be awarded for them. (5 Marks)

Total: (25 Marks)