

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2013

DEGREE/ DIPLOMA AND

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

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING 1

COURSE CODE : AC211/ IDE AC311 (S) JULY 2013

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

A, B, and C are partners sharing profits and losses in the ratio 2:2:1. The balance sheet of the partnership as at 30 September 2012 was as follows:

Non current assets	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>
Less Current liabilities	
Accounts payable	10,000
Less Non current liabilities	
Loan account - A	7,000
Net assets	<u><u>50,000</u></u>
Capital accounts	
A	22,000
B	18,000
C	10,000
	<u>50,000</u>

The partners agreed to dispose of the business to CNO Limited with effect from 1 October 2012 under the following conditions and terms:

- i. CNO 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 will settle the amounts owing to creditors.
- iii. CNO Limited will collect the debts on behalf of the vendors.

Purchase consideration payments and allotments of shares were made on 1 October 2007. The partnership accounts payable were paid off by 31 October 2012 after the taking of cash discounts of E190.

CNO Limited collected and paid over all partnership debts by 30 November 2012 except for bad debts amounting to E800. Discounts allowed to debtors amounted to E400.

Required:

- a) Prepare the following accounts for the partnership as at 30 September 2012:
 - i. Realisation/ Liquidation account. (8 Marks)
 - ii. Capital accounts (7¹/₂ Marks)
 - iii. Bank account (4 Marks)
- b) Prepare the statement of financial position for CNO Limited as at 1 October 2012. (5¹/₂ Marks)

QUESTION 2**Gerald Stow****Statement of financial position as at 31 December**

	2010	2011
	E	E
Non current assets		
Buildings	50,000	50,000
Fixtures less depreciation	1,800	2,000
Van less depreciation	3,920	7,400
	<u>55,720</u>	<u>59,400</u>
Current assets		
Inventory	5,600	12,400
Trade accounts receivable	6,400	8,200
Bank	900	-
Cash	220	200
	<u>13,120</u>	<u>20,800</u>
Current liabilities		
Accounts payable	6,300	3,006
Bank overdraft	-	94
	<u>6,300</u>	<u>3,100</u>
Non current liabilities		
Loan (repayable in 10 years' time)	10,000	15,000
	<u>10,000</u>	<u>15,000</u>
Net assets	<u>52,540</u>	<u>62,100</u>
Capital account:		
Balance at 1 January	37,040	52,540
Add Net profit for the year	35,200	21,160
Cash introduced	-	10,000
	<u>72,240</u>	<u>83,700</u>
Less Drawings	<u>(19,700)</u>	<u>(21,600)</u>
	<u>52,540</u>	<u>62,100</u>

Required

Draw up a statement of cash flows for Gerald Stow for the year ending 31 December 2011 using the IAS 7 layout. You are told that fixtures bought in 2011 cost E400, whilst a van was bought for E5,500. (25 Marks)

QUESTION 3**Trial balance for JJ Limited as at 31 December 2011:**

	E	E
Purchase of raw materials	258,000	
Fuel and light	21,000	
Administration salaries	17,000	
Factory wages	59,000	
Carriage outwards	4,000	
Rent and business rates	21,000	
Sales		482,000
Returns inward	7,000	
General office expenses	9,000	
Repairs to plant and machinery	9,000	
Inventory at 1 January 2011:		
Raw materials	21,000	
Work in progress	14,000	
Finished goods	23,000	
Sundry accounts payable		37,000
Capital account		457,000
Freehold premises	410,000	
Plant and machinery	80,000	
Accounts receivable	20,000	
Accumulated provision for depreciation on plant and machinery		8,000
Cash in hand	11,000	
	<u>984,000</u>	<u>984,000</u>

Make provision for the following:

- i. Inventory in hand at 31 December 2011:

Raw materials	E25,000
Work in progress	E11,000
Finished goods	E26,000
- ii. Depreciation of 10% on plant and machinery using the straight line method.
- iii. 80% of fuel and light and 75% of rent and rates to be charged to manufacturing.
- iv. Allowance for doubtful debts: 5% of sundry accounts receivable.
- v. E4,000 outstanding for fuel and light.
- vi. Rent and business rates paid in advance: E5,000.
- vii. Market value of finished goods: E382,000.

Required:

- a) Prepare the following for JJ Limited for the year ending at 31 December 2011:
 - i. A manufacturing account (6 Marks)
 - ii. A statement of comprehensive income (6 Marks)
- b) Prepare the statement of financial position of JJ Limited as at 31 December 2011 (13 Marks)

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)