

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 11

COURSE CODE : AC212/ IDE AC312 (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.

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

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Pine stores have its head office and main store in Mbabane, and a branch store in Manzini. All goods are purchased by the Head office. Goods are invoiced to the branch at cost price plus a profit loading of 20%. The following trial balances have been extracted from the books of account of both the head office and the branch as at 31 December 2011.

	Head office books		Branch books	
	Dr	Cr	Dr	Cr
Administrative expenses	380		30	
Distribution costs	157		172	
Capital (at 1 January 2011)		550		
Cash at bank	25		2	
Accounts payable and accruals		176		20
Current accounts	255			180
Accounts receivable and prepayments	130		76	
Motor vehicles : at cost	470		230	
Accumulated depreciation at 31 Dec. 2011		280		120
Plant and equipment: at cost	250		80	
Accumulated depreciation at 31 Dec. 2011		120		30
Proprietor's drawings during the year	64			
Provision for unrealised profit on branch inventory at 1 January 2011		5		
Purchases	880			
Sales		1200		570
Inventory at cost/ invoiced amount at 1 January 2011	80		30	
Transfer of goods to the branch/ from the head office		360	300	
	<u>2691</u>	<u>2691</u>	<u>920</u>	<u>920</u>

Additional information:

- The inventories in hand at 31 December 2011 were estimated to be as follows:

At head office (at cost)	E100
At the branch (at invoiced price)	48

In addition, E60, 000 of inventory at invoiced price had been dispatched to the branch on 28 December 2011. These goods had not been received by the branch until 5 January 2012 and so they had not been included in the branch books of account.

- On 31 December 2011, the branch had transferred E15, 000 of cash to the head office bank, but this was not received in Mbabane until, the branch had transferred E15, 000 of cash to the head office bank, but this was not received in Mbabane until 2 January 2012.

Required:

- a) Prepare in adjacent columns: (i) the head office, and (ii) the branch statement of comprehensive income for the year ending 31 December 2010 (A combined statement of comprehensive income is not required); and (10 Marks)
- b) Prepare in vertical format, Pine stores' statement of financial position as at 31 December 2010 (note: separate statement of financial positions for the head office and the branch are not required) (15 Marks)

Total: (25 Marks)

QUESTION 2

Darrel Limited purchased a machine under a hire purchase agreement on 1 January 2009. The agreement provided for an immediate payment of E2, 000 followed by five equal installments of E3, 056, each installment to be paid on 30 June and 31 December respectively.

The cash price of the machine was E10, 000. Darrel estimated that it would have a useful economic life of five years, and its residual value would then be E1, 000.

In apportioning interest to respective accounting periods, the company uses the sum of the digits method.

Required:

- a) Write up the following ledger accounts for each of the three years to 31 December 2009, 2010 and 2011 respectively:
 - i. Machine hire purchase loan account; and (14 Marks)
 - ii. Machine hire purchase interest account. (3 Marks)
- b) Show the following statement of financial position extract extracts relating to the machine as at 31 December 2009, 2010 and 2011 respectively:
 - i. Non-current assets: machine at net book value; (3 Marks)
 - ii. Current liabilities: accounts payable – obligation under hire purchase contract; and (2 Marks)
 - iii. Non-current liabilities: accounts payable – obligations under hire purchase contract. (2 Marks)

QUESTION 3

You are to study the following financial statements for two furniture stores and then answer the questions which follow.

FINANCIAL STATEMENTS**Statement of comprehensive income for the year ended 31 December 2011**

	X E	Y E
Sales	555,000	750,000
Less: Cost of goods sold		
Opening inventory	100,000	80,000
Add: Purchases	<u>200,000</u>	<u>320,000</u>
	300,000	400,000
Less: Closing inventory	<u>(60,000)</u>	<u>(70,000)</u>
	<u>240,000</u>	<u>330,000</u>
Gross profit	315,000	420,000
Less: Depreciation	5,000	15,000
Wages, salaries and commission	165,000	220,000
Other expenses	<u>45,000</u>	<u>35,000</u>
	<u>215,000</u>	<u>270,000</u>
Net profit	<u>100,000</u>	<u>150,000</u>

	X E	Y E
Non current assets		
Equipment at cost	50,000	100,000
Less: depreciation to date	<u>(40,000)</u>	<u>(30,000)</u>
	10,000	70,000
Current assets		
Inventory	60,000	70,000
Accounts receivable	125,000	100,000
Bank	<u>25,000</u>	<u>12,500</u>
	<u>210,000</u>	<u>182,500</u>
Total assets	<u><u>220,000</u></u>	<u><u>252,500</u></u>
Current liabilities		
Accounts payable	<u>(104,000)</u>	<u>(100,500)</u>
Net assets	<u><u>126,000</u></u>	<u><u>222,000</u></u>
Financed by:		
Capitals		
Balance at start of year	76,000	72,000
Add: net profit	<u>100,000</u>	<u>150,000</u>
	176,000	222,000
Less: Drawings	<u>(60,000)</u>	<u>(70,000)</u>
	<u><u>116,000</u></u>	<u><u>152,000</u></u>

Required:

- (a) Calculate the following ratios for each business (2 Marks each):
- i. Gross profit as a percentage of sales;
 - ii. Net profit as a percentage of sales;
 - iii. Inventory turnover;
 - iv. Current ratio;
 - v. Acid test ratio;
 - vi. Accounts receivable days;
 - vii. Accounts payable days;
- (b) Drawings upon your knowledge of accounting, comment on the differences and similarities of the accounting ratios for companies X and Y. Which business seems to be the most efficient? Give possible reasons. (11 Marks)

QUESTION 4

- (a) Bicon Pty Ltd had an item of land in their books at E130, 000. Two years ago a slump in land values led the company to reduce the carrying value from E150, 000. This was taken as an expense in the income statement. There has been a surge in land prices in the current year, however, and the land is now worth E165, 000.

Required:

Account for the revaluation in the current year. (5 Marks)

- (b) Betty Ltd acquired an item of PPE on 1 Jan.2002 for E80, 000. It had no residual value and a total useful life of 10 years. On 1 Jan.2005 the total useful life was reviewed and revised to 7 years.
What will be the depreciation charge for 2005? (5 Marks)
- (c) What are the three conditions to be met for the recognition of a provision in the financial statements in accordance with IAS 37? (6 Marks)
- (d) State how research expenditure should be treated in the financial statements as per IAS 38. (4 Marks)
- (e) Define a contingent liability in accordance with IAS 37. (5 Marks)