UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2013

DEGREE/ DIPLOMA AND YEAR OF STUDY : B. COM III/ B.COM IV

TITLE OF PAPER	:	FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	AC323/ AC412 (M) MAY 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

Applications were invited by the directors of Groening Ltd for 150,000 of its E1 Ordinary shares at E1.15 per share payable as follows:

	Per share
On application on 1 April 2013	E0.75
On allotment on 30 April 2013 (including the premium of E0.15 per share)	E0.20
On first and final call on 31 May 2013	E0.20

Applications were received for 180,000 shares and it was decided to deal with these as follows:

1. To refuse allotment to applicants for 8,000 shares.
2. To give full allotment to applicants for 22,000 shares.
3. To allot the remainder of the available shares pro rata among the applicants.
4. To utilize the surplus received on application in part payment of amounts due on allotment.

An applicant, to whom 400 shares has been allotted, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 July 2013. These were reissued on 3 September 2012 as fully paid at E0.90 per share.

Required:
Show how the above transactions would be recorded in the company's books.

Total: (25 Marks)

QUESTION 2

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 3

Chiara Co was awarded a contract to build an office block in Mbabane and work commenced at the site on 1 May 2012.

During the period to 28 February 2013, the expenditure on the contract was as follows:

	E
Materials issued from stores	9,411
Materials purchased	28,070
Direct expenses	6,149
Wages	18,493
Charge made by the company for administration expenses	2,146
Plant and machinery purchased on 1 May 2012, for use at site	12,180

On 28 February 2013, the materials at the site amounted to E2,164 and there were amounts outstanding for wages E366 and direct expenses E49.

Cantilever Ltd has received on account the sum of E64,170 which represents the amount of Certificate No.1 issued by the architects in respect of work completed to 28 February 2013, after deducting 10% retention money.

The following relevant information is also available:

a) The plant and machinery have an effective life of five years, with no residual value; and
b) The company only takes credit for two thirds of the profit on work certified.

Required:
Prepare a contract account for the period to 28 February 2013; and

NB: Show your calculations of the profit to be taken to profit and loss in respect of the work covered by Certificate No.1

Total: 25 Marks

QUESTION 4

A statement showing the retained profit of Pius Co for the year ended 31 December 2012 is set out below:

	E	E
Profit before tax		2,530,000
Less: Income tax expense		(1,127,000)
		1,403,000
Transfer to reserves		(230,000)
Dividends:		
Paid preference interim dividdend	138,000	
Paid ordinary interim dividend	184,000	
Declared preference final dividend	138,000	
Declared ordinary final dividend	230,000	
		(690,000)
Retained		483,000

On 1 January 2012 the issued share capital of Pius Co was 4,600,000 6% preference shares of E1 each and 4,120,000 ordinary shares of E1 each.

Required:
Calculate the earnings per share (on basic and diluted basis) in respect of the year ended 31 December 2012 for each of the following circumstances. (Each of these circumstances (a) to (c) is to be dealt with separately):

(a) On the basis that there was no change in the issued share capital of the company during the year ended 31 December 2012.

(b) On the basis that the company made a rights issue of E1 ordinary shares on 1 October 2012 in the proportion of 1 for every 5 shares held, at a price of E1.20. The market price of the shares at close of trade on the last day of quotation cum rights was E1.78 per share.

(c) On the basis that the company made no new issue of shares during the year ended 31 December 2012 but on that date it had in issue E1,500,000 10% convertible loan stock 2016 – 2019. This is loan stock will be convertible into ordinary E1 shares as follows:

2016 90 E1 shares for E100 nominal value loan stock.
2017 85 E1 shares for E100 nominal value loan stock.
2018 80 E1 shares for E100 nominal value loan stock.
2019 75 E1 shares for E100 nominal value loan stock.

Assume where appropriate that the income tax rate is 30%.

Total: 25 Marks