UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2013

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B. COM 111/ B.COM IV
TITLE OF PAPER	:	FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	AC323/ AC412 (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

During the year to 30 September 2013, Ketty Plc made a new offer of shares. The details of the offer were as follows:

1. 100,000 ordinary shares of E1 each were issued payable in installments as follows:

	Per share
	E
On application at 1 November 2012	0.65
On allotment (including the share premium of E0.50 per share) on 1 December 2012	0.55
On First and final call on 1 June 2013	<u>0.30</u>
	<u>1.50</u>

2. Applications for 200,000 shares were received, and it was decided to deal with them as follows:
   a) To return cheques for 75,000 shares;
   b) To accept in full applications for 25,000 shares; and
   c) To allot the remaining shares on the basis of three for every four shares applied for.
3. On the first and final call, one applicant who had been allotted 5,000 shares failed to pay the due amount, and his shares were duly declared forfeited. They were then reissued to Andile Ltd on 1 September 2013 at a price of E0.80 per share fully paid.

   Note: Ketty's issued share capital on 1 October 2012 consisted of 500,000 ordinary shares of E1each.

   Required:
   Record the above transactions in the following ledger accounts:
   a) Ordinary share capital;
   b) Share premium;
   c) Application and allotment;
   d) First and final call;
   e) Forfeited shares; and
   f) Andile Ltd's account

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

Stannard and Sykes Ltd are contractors for the construction of a pier for the Seafront Development Corporation. The value of the contract is E300,000, and payment is by engineer's certificate subject to a retention of 10% of the amount certified; this is to held by the Seafront Development Corporation for six months after the completion of the contract.

The following information is extracted from the records of Stannard and Sykes Ltd.

	E
Wages on site	41,260
Materials delivered to site by supplier	58,966
Materials delivered to site from store	10,180
Hire of plant	21,030
Expenses charged to contract	3,065
Overheads charged to contract	8,330
Materials on site at 30 November 2014	11,660
Work certified	150,000
Payment received	135,000
Work in progress at cost (not the subject of a certificate to date)	12,613
Wages accrued to 30 November 2014	2,826

Required:
Prepare the Pier Contract Account to 30 November 2014, and suggest a method by which profit could be prudently estimated.

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