UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2013

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM 5 (IDE LEVEL 5)
TITLE OF PAPER	:	FINANCIAL ACCOUNTING III
COURSE CODE	:	AC401 (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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Pius PLC acquired 80% of the ordinary share capital of Seth PLC for E150,000 and 50% of the issued 10% cumulative preference shares for E10,000 both purchases being effected on 1 May 2011. There have been no changes in the issued share capital of Seth PLC since that date. The following balances are taken from the books of the two companies at 30 April 2012:

	Pius PLC	SETH PLC
	E000	E000
Ordinary share capital (E1 shares)	300	100
10% Commulative preference shares (50 cents shares)	-	20
Share premium account	20	10
General reserve	68	15
Retained profits	65	45
Trade accounts payable	35	22
Taxation	50	30
Depreciation		
Freehold property	40	15
Plant and machinery	100	48
	678	305
Freehold property at cost	86	55
Plant and machinery at cost	272	168
Investment in Seth PLC	160	-
Inventory	111	65
Accounts receivable	30	15
Cash	19	2
	678	305

The following additional information is available:

(a) Inventory of Pius PLC includes goods purchased from Seth PLC for E20,000. Seth PLC charged out this inventory at cost plus 25%.

(b) A proposed dividend of E10,000 by Seth PLC includes a full year's preference dividend. No interim dividends were paid during the year by either company.

(c) Creditors of Pius PLC include E6,000 payable to Seth PLC in respect of inventory purchases. Debtors of Seth PLC include E10,000 due from Pius PLC. The parent (Pius PLC) sent a cheque for E4,000 to its subsidiary on 29 April 2012 which was not received by Seth Plc until May 2012.

(d) On 1 May 2011 the balances on the reserves of Seth PLC were as follows:

	E000
Share premium	10
General reserve	20
Retained profits	30

Required:

i. Prepare a consolidated statement of financial position for Pius PLC and its subsidiary S PLC at 30th April 2012 (14 Marks)

ii. Cost of control account ($3^1/_2$ Marks)

iii. Minority interest account (6 Marks)

iv. Consolidated profit and loss account ($1^1/_2$ Marks)

Total: (25 Marks)

QUESTION 2

The following has been extracted from the books of Zeus Limited for the year to 31 December 2012:

STATEMENT OF COMPREHENSIVE INCOME EXTRACT FOR THE YEAR ENDING 31 DECEMBER

	2012	2011
	E000	**E000**
Profit before taxation	20,400	9,500
Taxation	(5,200)	(3,200)
Profit for the year	15,200	6,300

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	2012	2011
	E000	**E000**
Non current assets		
Plant, machinery and equipment, at cost	23,900	17,600
Less: Accumulated depreciation	-10,750	-9,500
	13,150	8,100
Current assets		
Inventory	9,000	2,000
Trade accounts receivable	26,700	8,600
Prepayments	400	300
Cash at bank and in hand	-	600
	36,100	11,500
Total assets	49,250	19,600
Current liabilities		
Bank overdraft	16,200	-
Trade accounts payable	10,000	6,000
Accruals	1,000	800
Taxation	5,200	3,200
	32,400	10,000
Non current liabilities		
15% Debentures	750	600
Total liabilities	33,150	10,600
Net assets	16,100	9,000
Equity		
Ordinary shares of E1 each	5,000	5,000
10% Preference shares of E1 each	1,000	1,000
Retained profits	10,100	3,000
	16,100	9,000

Additional information:

1. The directors are extremely concerned about the large bank overdraft as at 31 December 2012 and they attribute this mainly to the increase in trade accounts receivable as a result of alleged poor credit control.
2. During the year to 31 December 2012, non-current assets originally costing E5,500,000 were sold for E1,000,000. The accumulated depreciation on these assets as at 31 December E3,800,000.

Required:
Prepare a statement of cash flows using the IAS 7 indirect method for the year to 31 December 2012 (25 Marks).

QUESTION 3

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing and shoes; each company has a single store in the same 10 year old custom- built shopping complex located in the central City of Mbabane.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Rita Ltd		Tedy Ltd	
	E000s	E000s	E000s	E000s
Sales		2,000		1,400
Less cost of goods sold				
Opening inventory	440		144	
Add: Purchases	1,550		996	
	1,990		1,140	
Less: closing inventory	(490)		(240)	
		1,500		900
		500		500
Less: Expenses				
Depreciation	27		14	
Wages and salaries	180		160	
Directors' remuneration	210		210	
Other expenses	23		16	
		440		400
Net profit		60		100

Note: The Statement of changes in Equity shows that retained profits at the start of the year were E60,000 (Rita Ltd) and E20,000 (Tedy Ltd); that dividends paid during the year were E50,000 (Rita Ltd) and E40,000 (Tedy Ltd); and that both companies made transfers from retained to general reserve at the end of the year: E20,000 (Rita Ltd) and E20,000 (Tedy Ltd).

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Rita Ltd		Tedy Ltd	
	E000s	E000s	E000s	E000s
Non current assets				
Buildings at cost	300		100	
Less: depreciation to date	(150)		(50)	
		150		50
Equipment at cost	60		30	
Less: Depreciation to date	(40)		(20)	
		20		10
Motor vans	40		35	
Less: Depreciation to date	(16)		(14)	
		24		21
		194		81
Current assets				
Stock	490		240	
Accounts receivable	680		320	
Bank	80		127	
	1,250		687	
Less: Current liabilities				
Accounts payable	(324)		(90)	
Working capital		926		597
		1,120		678
Equity and reserves				
Issued share capital		1,000		500
Reserves				
General reserve		70		120
Retained profits		50		58
		1,120		678

Required:

(a) Calculate the following ratios for each of Rita Ltd and Tedy Ltd:

i. Gross profit as a percentage of sales; ($1^1/_2$ Mark)

ii. Net profit as a percentage of sales; ($1^1/_2$ Mark)

iii. Inventory turnover; ($1^1/_2$ Mark)

iv. Return on capital employed (ROCE) (For the purpose of this question only take capital as being total of share capitals + reserves at the balance sheet date); ($1^1/_2$ Mark)

v. Current ratio; ($1^1/_2$ Mark)

vi. Acid test ratio; (($1^1/_2$ Mark)

vii. Accounts receivable collection period; (1 Mark)

viii. Accounts payable days; (1 Mark)

(b) When using accounting ratios, one should be aware of their limitations. Discuss seven (7) of these limitations. (14 Marks)

Total: (25 Marks)

QUESTION 4

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	0.30
	1.50

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 E1 each.

Required:

Record the above transactions in the following ledger accounts:

a) Ordinary share capital; (8 Marks)
b) Share premium; (3 Marks)
c) Application and allotment; (6 Marks)
d) First and final call; (3Marks)
e) Forfeited shares; and (2 Marks)
f) Andile Ltd's account (3 Marks)