UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2013

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

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Barcelona acquired 60% of Madrid's ordinary share capital on 30 June 2006 and paid E159 Million. The balance of Madrid's retained earnings at that date was E104m and the general reserve stood at E11m.

Their respective statements of financial position as at 30 September 2011 are as follows:

	BARCELONA	MADRID
	Em	Em
Non current assets:		
Property, plant & equipt	2,848	354
Patents	45	-
Investment in Madrid	159	-
	3,052	354
Current assets		
Inventories	895	225
Trade and other receivables	1,348	251
Cash and cash equivalents	212	34
	2,455	510
	5,507	864
Equity		
Share capital (20 cents ordinary shares)	920	50
General reserve	775	46
Retained earnings	2,086	394
	3,781	490
Non current liabilities		
Long term borrowings	558	168
Current liabilities		
Trade and other payables	1,168	183
Current portion of long term borrowings	-	23
	1,168	206
	5,507	864

Additional information:

1. Annual impairment tests have revealed cumulative impairment losses relating to recognised goodwill of E17 million to date. Put differently goodwill of E17 million is to be written off to the profit and loss as it was found to be valueless.
2. During the year Barcelona sold goods to Madrid for E10 million and these goods had cost Barcelona E8 million. Three quarters of these goods had not been sold by Madrid at year end.
3. Accounts receivable of Barcelona include amounts due from Madrid of E50 Million. In the statement of financial position of Madrid amounts owed to Barcelona was E30 Million. A cheque of E20 million was sent by Madrid to Barcelona on the 28 September 2011 which was received by Barcelona on the 4th of October 2011.

Required:
Prepare the consolidated statement of financial position for the Barcelona Group as at 30 September 2011. It is the group's policy to value minority interest at its proportionate share of the fair value of the subsidiary's identifiable net assets. [25 Marks)

QUESTION 2

The following trial balance has been extracted from the books of account of Lorna Plc as at 31 March 2013

	Dr	Cr
	E000	E000
Administrative expenses	210	
Called up share capital (Ordinary shares of E1 each fully paid)		600
Accounts receivable	470	
Cash at bank and in hand	40	
Corporation tax (Overprovision in 2012)		25
Deferred taxation (at 1 April 2012)		180
Distribution costs	420	
Gain on sale of non current asset		60
Non current asset investment	560	
Investment income		72
Plant and machinery: at cost	750	
Accumulated depreciation (at 31 March 2013)		220
Retained profits (at 1 April 2012)		182
Purchases	960	
Inventory (at 1 April 2012)	140	
Trade accounts payable		261
Revenue		1,950
	3,550	3,550

Additional information:

1. Inventory at 31 March 2013 was valued at E150,000.
2. The following items are already included in the balances listed in the above trial balance:

	Distribution costs	Admin. Expenses
	E000	E000
Depreciation (for the year to 31/03/13)	27	5
Hire of plant and machinery	20	15
Auditors' remuneration	-	30
Directors' emoluments	-	45

3. Corporation tax is at 35%.
4. The corporation tax charge based on the profits for the year is estimated to be E52,000.
5. A transfer of E16,000 is to be made to the credit of the deferred taxation account.
6. The gain made on the disposal of a non-current asset related to a factory in Belgium following the closure of the company's entire operations in that country.
7. The company's authorized share capital consists of 1,000,000 ordinary shares of E1 each.

8. A final ordinary payment of 50 cents per share is proposed.
9. There were no purchases or disposals of non-current assets during the year.
10. The market value of the non-current assets investments as at 31 March 2013 was E580,000. There were no purchases or sales of such investments during the year.

Required:
In so far as the information permits, prepare the company's published statement of comprehensive income for the year ending 31 March 2013 and a statement of financial position as at that date in accordance with the Companies Act and with related accounting standards. (25 Marks)

Note: Relevant notes to the statement of comprehensive income and statement of financial position are not required, but detailed workings should be submitted with your answer, and a statement of the company's accounting policies is not required.

QUESTION 3

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 E1each.

   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; (3 Marks)
   e) Forfeited shares; and (2 Marks)
   f) Andile Ltd's account (3 Marks)

QUESTION 4

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. (20 Marks)

(b) When using accounting ratios, one should be aware of the limitations of using them. Discuss five (5) of these limitations. (5 Marks)

Total: (25 Marks)